

An Asia Society Policy Institute Publication



# The Avoidable War

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The Decade of Living Dangerously:  
Navigating the Shoals of U.S.-China Relations

BY THE HONORABLE KEVIN RUDD

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# The Avoidable War

The Decade of Living Dangerously:  
Navigating the Shoals of  
U.S.-China Relations

**A COLLECTION OF MAJOR SPEECHES  
AND PUBLICATIONS FROM 2020**

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PRESIDENT AND CEO, ASIA SOCIETY  
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COVER (LEFT): A member of the U.S. Capitol police wears a mask during a press conference from Republican House leadership about the House response to COVID-19 outside the U.S. Capitol in Washington, DC. SAUL LOEB. AFP. Getty Images. April 22, 2020; COVER (RIGHT): Chinese security officers wear protective masks as they close the gates after the closing session of the National People's Congress at the Great Hall of the People in Beijing, China. Kevin Frayer. Getty Images. May 28, 2020.

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## FOREWORD

**THE YEAR 2020 WAS UNPRECEDENTED** for the United States, China, and the world at large. The COVID-19 pandemic has disrupted life on a scale not seen in generations and has exacted a terrible human toll. The economic, social, and political consequences of the pandemic are still unfolding, even as the arrival of successful vaccines signals the beginning of a recovery.

From an economic perspective, the United States was thrown into recession along with virtually every other developed nation, as it voluntarily shut down much of its economy in the first half of the year. At the same time, China emerged as the only major economy to achieve growth in 2020, narrowing the gap between the world's two largest economies and increasing the need for productive collaboration between them.

It was also a year of profound transformation in terms of how the world does business, with remote video calls replacing in-person meetings, accelerated growth of the digital economy, and supply and demand shocks interrupting global supply chains. I've had a front-row seat in the financial sector to observe these and many other pandemic-driven developments, and I expect their impact to last for years to come.

Finally, this was a year of heightened intensity in the political sphere. In the United States, a heated election resulted in a transfer of power to a new presidential administration. In China, President Xi Jinping navigated the crisis by marshaling the full capabilities of his government. The year 2021 will be an especially consequential one in Beijing, as it marks the centenary of the foundation of the Chinese Communist Party, and will bring major political preparations for the 20th Party Congress in 2022.

President Xi describes the present moment as “the world undergoing changes unseen in a century”—he may be right. The foundations of U.S.-China relations have been tested over the past few years, as intense trade negotiations demonstrated how enmeshed our two countries' economic activity has become. Unfortunately, the pandemic also exacerbated bilateral tensions in other areas to a level unseen since diplomatic normalization more than four decades ago.

The events of the past year have demonstrated the critical importance of understanding the forces reshaping U.S.-China relations and the future of the global political and economic order. In today's world, more than ever before, that means understanding China and its place in Asia and the world.

Few people are better positioned to provide that understanding than Kevin Rudd, former prime minister of Australia and president of the Asia Society and its think tank, the Asia Society Policy Institute—as well as a lifelong Sinologist. It has also been my privilege to get to know Kevin over the past decade during his tenure as a member of the Board of Directors for the Schwarzman Scholars program, an international fellowship I founded at Tsinghua University in Beijing to bring together the world's future leaders to study in China and train to become effective links between China and the rest of the world. Kevin's insights have been invaluable as we have built the program.

The collection of Kevin's speeches, articles, and interviews comprising this volume presents insight into some of the key developments of 2020 and what they mean for the U.S.-China relationship and

the wider world. It includes reflections on the arrival of COVID-19 and its impact on the United States, China, and the world order; the ensuing changes within China and their implications for policymakers, business leaders, and investors alike; escalating tensions between the United States and China as the two countries attempt to navigate Thucydides' trap; and, finally, how this challenge can be managed as we enter what Kevin calls the "decade of living dangerously."

As a strong proponent of open dialogue between China and the West, I believe this volume provides an invaluable source of clarity as we seek a return to a greater level of strategic stability and renewed global prosperity in the decade ahead.

**Stephen A. Schwarzman**

Chairman, CEO, and Co-Founder of Blackstone  
Founding Trustee of Schwarzman Scholars  
Trustee of the Asia Society

## INTRODUCTION

**THE YEAR 2020 WAS A DEVASTATING ONE, A YEAR OF PLAGUE, TURMOIL, AND LOSS.** It was also a year of great change and transformation, as the world adapted with difficulty to meet challenges largely unprecedented in living memory, and the trends of global power appeared to shift beneath our feet. Whether from fear or dark humor, it has even been described as the year of the *apocalypse*. This may be more accurate than most consider: the word *apocalypse*, after all, means “revelation,” stemming from a Greek word literally meaning to pull the lid off something, uncovering what lies beneath.

The year 2020 was like this in more ways than one. It pulled the lid off the true extent and meaning of our globalized, interconnected world; it revealed the dysfunction present in our institutions of national and international governance; and it unmasked the real level of structural resentment, rivalry, and risk present in the world’s most critical great power relationship—that between the United States and China.

The year 2020 may well go down in history as a great global inflection point. For that reason alone, it’s worth looking back to examine what happened and why, and to reflect on where we may be headed in the decade ahead—in what I describe as the “Decade of Living Dangerously.” The purpose of this third volume of the annual “Avoidable War” series is to do precisely that. It contains selected essays, articles, and speeches that provide a series of snapshots as events unfolded over the course of the year—from the pandemic, through multilateral implosion, to the impact on China’s domestic political economy, concluding with reflections on a possible framework for U.S.-China relations.

The first essay, “**COVID-19 Trumps Nationalism**” from March 2020, reflects on the deficiency of early responses to the COVID-19 outbreak by the Trump administration and other governments around the world, as nationalistic instincts replaced productive cooperation. What could have been an ideal opportunity to put human solidarity above politics and multilateral leadership over unilateral anarchy was lost. A palpable crisis of confidence around the world, due in part to a loss of public confidence in national and global leadership, was the result.

Similarly, “**America, China, and Saving the WHO**” discusses the tragedy that much of the COVID-19 crisis was avoidable. The essential international machinery to handle global public health and economic responses was already in place but was not mobilized in time. The reasons for these failings are many, but key among them were China’s authoritarian political model, which discouraged transparency, and America’s chronic underfunding of the World Health Organization (WHO), as well as a broader, long-running assault on the legitimacy of multilateral institutions by nationalistic governments around the world. It warns that a new administration in Washington will need to marshal the domestic political will to reconvince a skeptical American public that national interests are enhanced, not undermined, by Washington resuming leadership of an effective multilateral system.

With effective global governance having proven elusive, “**The Coming Post-COVID Anarchy**” argues that despite the best efforts of ideological warriors in Beijing and Washington, neither country is likely to emerge from the pandemic in a strong position to provide global leadership after the mismanagement of the COVID-19 pandemic. Instead, global trust in both powers has been significantly wounded, and neither a new *Pax Sinica* nor a renewed *Pax Americana* is likely to rise from the ruins. The result will instead be a

continued drift toward international anarchy across everything from public health to trade and economic management, to international security. And amid this dysfunctional and chaotic world, strategic rivalry is likely to increasingly define the entire spectrum of the U.S.-China relationship—unless both countries have the will to find a new architecture of détente that can constrain competition, and long enough for a new coalition to perform the institutional triage necessary to preserve the essential multilateral institutions of the current system until there is a return to geopolitical stability.

With this international anarchy in mind, “**Beware the Guns of August—in Asia**” warns of the danger presented by a U.S.-China relationship pushed toward collapse in the last months of the Trump administration. As the COVID-19 pandemic helped drive more strident, uncompromising, and seemingly unending saber rattling from both Beijing and Washington, the relationship has lurched from crisis to crisis. Unmoored from the strategic assumptions of the previous 50 years, but without the anchor of any mutually agreed-upon framework to replace them, the U.S.-China relationship has found itself at the most dangerous point since the Taiwan Strait crises of the 1950s. The list of points of friction between the two powers is long, from the South China Sea and Taiwan to cyber war and the weaponization of the dollar. The core lesson of the events leading to World War I was that even relatively minor crises could escalate into a war between great powers in a matter of weeks. A clear fact must therefore be kept firmly in mind: the once unthinkable outcome—actual armed conflict between the United States and China—now appears possible for the first time since the end of the Korean War.

The United States should not panic and overstate the economic challenge posed by China either, however. In “**China Backslides on Economic Reform**,” the Rhodium Group’s Daniel Rosen and I examine the truth about the direction of Chinese economic reform and the sustainability of China’s economic performance. Utilizing data gathered by the China Dashboard, a joint project of Rhodium Group and the Asia Society Policy Institute that has closely tracked economic policy measures in China since 2017, we find that an honest look at the forces behind China’s growth shows a doubling down on state-managed solutions, not real reform. State-owned entities have driven China’s investment-led recovery. Not only are China’s economic norms diverging from, rather than converging with, the West’s, but Xi Jinping has largely reversed course on his own reform pledges made early in his first term. This raises real questions about the durability of China’s economic edge vis-à-vis the West as the world emerges from COVID-19.

In “**How the G20 Can Overcome COVID-19**,” Susilo Bambang Yudhoyono, the former president of Indonesia, and I write that in truth no country, whether China or the United States, will be able to drive a global economic recovery from the COVID-19 crisis alone. Without a coordinated macroeconomic and public health response, the world is likely to continue to flounder. Rather, a much better approach to consider would be for the Biden administration to urgently convene the G20 for joint action, including

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a globally coordinated economic stimulus. No other institution brings together 90 percent of the global economy, 80 percent of global trade, two-thirds of the world's population, and representation from every major region of the world. The G20 proved pivotal at the height of the global financial crisis in 2008, and it can be again.

Meanwhile, in my Asia Society speech **“China Has Politics Too,”** I try to provide a deep dive into Xi Jinping's momentous 2020, including the crucial Fifth Plenum meeting of the Chinese Communist Party (CCP) Central Committee in November, which will likely go down in history as a major turning point for China and the world. What started out as a terrible year for Xi, mired in mismanagement of the COVID-19 outbreak in Wuhan and real internal doubts about his ability to lead, ended with Xi in a stronger political position than ever before, lauded as China's new “Great Helmsman”—a term last used for Mao—and vastly encouraged by China's perceived success relative to the West. Armed with a new economic strategy to transform China's massive domestic market into a “huge gravitational field” to capture global imports and pull other countries into its political orbit, Xi set new goals to create a technologically “self-sufficient,” fully modernized Chinese economy of at least double its current size by 2035—achieving his personal vision 15 years ahead of schedule. Believing history is on his side, Xi is growing more bold, not less.

**“The New Geopolitics of China's Climate Leadership”** looks at how that boldness has translated into a new determination by Xi Jinping for China to make a bid for true global leadership for the first time—on climate change. Xi's announcement in September 2020 that China will aim to achieve carbon neutrality before 2060 marked an important new milestone, signaling that it was not just willing to be a participant in the international fight against climate change but now aspired to replace the United States in global climate leadership. This was made possible because of Trump's four years of climate denialism at home, and his withdrawal from the Paris Agreement abroad. Deng Xiaoping's 30-year-old dictum of “hide your strength, bide your time, never take the lead” is well and truly over. This marks an important new era for the geopolitics of China's leadership but also one in which Beijing must understand that it will be judged more sharply than ever before, including by its developing country compatriots. And with President Biden having taken office in the United States with a wide-ranging and ambitious program to tackle climate change both domestically and internationally, climate also looms as a test case for whether a new balance of cooperation and competition between Beijing and Washington is possible.

In **“The Decade of Living Dangerously,”** that key question of finding a new balance takes on renewed urgency with a blunt warning: the contest between the United States and China will enter a decisive phase in the 2020s. No matter what strategies the two sides pursue or what events unfold, the tension between the United States and China will grow, and competition will intensify; it is inevitable. The Chinese Communist Party is increasingly confident that by the decade's end, China's economy will finally and unambiguously surpass that of the United States as the world's largest. This will turbocharge Beijing's self-confidence, assertiveness, and leverage. And Beijing now also intends to complete its military modernization program by 2027, with the goal of achieving a decisive edge against the United States in any military confrontation over Taiwan—the forced reunification of Taiwan with the mainland would complete Xi Jinping's dream of achieving a legacy on a par with that of Mao Zedong himself in the Communist pantheon. This will indeed be the decade of living dangerously for us all. War, however, is not inevitable. It remains possible for the two countries to put in place guardrails that can prevent a catastrophe: a joint framework for what I call

“managed strategic competition” that would reduce the risk of competition escalating into open conflict. This essay is an effort to make that case.

Finally, in a special appendix, “**Future Directions for Australia-China Relations**,” a speech originally delivered in Parliament House, Canberra, in late 2019, reflects on my 40-plus years studying China and explores what my native Australia’s place is in this wider geopolitical arena of U.S.-China relations. Foreshadowing the deep tensions that came to characterize Australia-China relations in 2020, it warns of the immediate need to better understand the truth about how Beijing views the world, noting that every liberal democracy in the world, sooner or later, will experience similar challenges as China becomes more powerful, confident, and assertive in the prosecution of its national interests and authoritarian values. It argues that Australia’s national China strategy should be anchored in three core understandings: first, that China respects strength and consistency and is contemptuous of weakness and prevarication; second, that China has net strengths and weaknesses that must be accurately assessed and considered; and third, that Australia must be equally aware of its own strengths, weaknesses, and vulnerabilities. In addition, it points out the critical difference between operational and declaratory strategies—or, translating that into Australian, the tendency of some governments to shoot their mouth off about everything and believe that this somehow adds up to a strategy. Others around the world may find lessons in the Australian experience.

For the dangerous decade ahead, several major themes emerge from this apocalyptic 2020:

- The descent of the U.S.-China relationship into Thucydidean rivalry as the balance of power continues to close militarily, economically, and technologically, and with Taiwan and the South China Sea still looming as the most likely clash points;
- The urgent need to find a new framework to manage these dangers, while providing room for full strategic competition as well as sufficient political space for continued strategic collaboration on climate, pandemics, and global financial stability; and
- The continued absence of global leadership as the great powers turned inward and against one another, leaving a vacuum waiting to be filled, as reflected in the failure of multilateral and international institutions at a time when they were needed most.

Fortunately, there are positive signs on these fronts. In Washington, the newly arrived Biden administration has moved quickly to make effective multilateralism a key pillar of its foreign policy. In Beijing, Xi’s commitments on climate change and investing in a “sustainable recovery” from the global COVID-19 recession are welcome developments. But much, much work remains to be done.

As we enter 2021, the world has many reasons to be hopeful that with effort it can forge a better path forward in the year ahead.

**The Honorable Kevin Rudd AC**

President and CEO, Asia Society

President, Asia Society Policy Institute

# 1. COVID-19 Trumps Nationalism

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An essay published in *Project Syndicate*

March 6, 2020



World Health Organization Director-General Tedros Adhanom Ghebreyesus looks on during a press conference following emergency talks over the new SARS-like virus spreading in China and other nations in Geneva. PIERRE ALBOUY. AFP. Getty Images. January 22, 2020.

**NEW YORK—I WAS RECENTLY WALKING ALONG EAST 29TH STREET IN MANHATTAN,** after visiting a friend at Bellevue Hospital, when I was roused from my thoughts by a middle-aged white male screaming at an old Chinese man, “Get the f\*ck out of my country, you piece of Chinese sh\*t!” The old man was stunned. So was I, before I bellowed back (deploying the full range of my native Australian vocabulary), “F\*ck off and leave him alone, you white racist piece of sh\*t!”

The pedestrian traffic stopped. A young white guy with dark hair came storming toward me. As a non-pugilist by instinct and training, I braced for what was coming. He stopped just short of me and said, “Thank you for standing up for him. That’s why I fought in Iraq, so that people like him could be free.”

Leaving aside the troubled history of the Iraq War, COVID-19 is a stark reminder that global pandemics, like climate change, do not respect political borders. China’s experience with the virus in January and February is likely to be repeated in much of the rest of the world in March and April. There will be variations on the numbers of infections, depending on imponderable factors such as the temperature, the relative robustness of public health testing and treatment systems, and differing levels of financial and economic resilience. We should be preparing intelligently for these contingencies, not succumbing to irrational panic—let alone pandering to racist stereotypes.

This virus reminds us afresh that no person or country is an island unto itself. Yet political leaders have often failed to rein in the thinly veiled racism inherent in some of the popular response to the outbreak so far. In buses and trains and on streets around the world, Asians, particularly Chinese, have been subjected to the kind of abuse I witnessed. Now that the virus has struck Italy, are Italians next?

It has been stunning to witness the general absence of solidarity, empathy, and compassion for the Chinese people, particularly those in Wuhan, who have stoically endured a living hell. How would (or will) Manhattan, London, Sydney, Toronto, Berlin, Paris, or Delhi fare under the same circumstances? Indifference to the suffering of others gets us absolutely nowhere in marshaling an effective global response to what is demonstrably a global crisis.

**China’s experience with the virus in January and February is likely to be repeated in much of the rest of the world in March and April.**

The United States could easily have reached out to the Chinese leadership to establish a top-level joint coronavirus task force early on, underpinned with a very public expression of human solidarity above politics. Instead, the administration has issued statements attacking China’s authoritarian political system and urging American investors and supply chain managers to take refuge in the United States. Yes, over the past three years the United States and China have been on a strategic collision course, and normal political hostilities will be resumed once the immediate crisis is over. But right now, belligerence is not a policy. It’s just an attitude, and it doesn’t help fix the problem.

On a more positive note, institutional and professional collaboration is underway beneath the surface. Whatever failings the World Health Organization (WHO) may have, it is the formal instrument of global governance on pandemics. Those who have attacked WHO Director-General Tedros Adhanom Ghebreyesus over his organization’s effectiveness should look long at the international statutes that determine its powers. The WHO is limited to providing international advisory notices on the movement of the virus, clinical

and technical advice to national governments on how to deal with it, and emergency triage in places where no health infrastructure exists. That last duty may become necessary if the virus reaches the poorest parts of the world, as with the 2013–16 Ebola crisis in West Africa.

The WHO is also constrained by collapsing funding levels. In its attack on “globalism,” the political right sees defunding United Nations humanitarian institutions as a badge of honor, a potent symbol of smashing the “lefties.” But when essential institutions are defunded, their effectiveness is undermined. Just ask the World Food Program, UNICEF, and the UN Refugee Agency, all of which are scrambling to make ends meet. In the WHO’s case, it’s become reliant on contributions from philanthropies like the Gates Foundation and voluntary pledges. Meanwhile, in the midst of the current crisis, the Trump administration proposed slashing the U.S. government’s core contribution to the WHO from \$123 million now to just \$58 million next year.

In addition to the WHO, we must be thankful for the U.S. Centers for Disease Control and Prevention and its network of sister institutions around the world (including in China). Health professionals in these organizations have been collaborating to analyze the virus, anticipate possible mutations, and develop a vaccine—all despite the toxic political environment. We also should be thankful for the international

(including American) medical, pharmaceutical, and other companies that have been quietly sourcing masks, gloves, gowns, ventilators, and other critical supplies for China.

At present there is a palpable crisis of confidence around the world, in part because of a loss of confidence in national and global leadership.

Despite these efforts, at present there is a palpable crisis of confidence around the world, in part because of a loss of confidence in national and global leadership. This is reflected in public panic and financial markets’ heightened volatility. Why doesn’t the United States

convene an emergency G20 meeting of health and finance ministers and heads of government? Such a gathering wouldn’t have to be held in person; it could be conducted virtually, in partnership with the UN and the WHO.

This could rapidly produce an agreed-upon policy framework—and serious financial commitments—for responding to the unfolding pandemic. Representing 20 of the world’s largest economies (and many of the countries with more than 100 COVID-19 cases), the G20 is also best positioned to devise a financial and economic strategy for preventing global recession.

Global confidence will recover only when both the public and the markets see that governments collectively have stepped into the breach. That is what happened in April 2009, when the London G20 summit arrested the panic from the 2008 financial crisis, established a basis for coordination, and created a policy and fiscal framework for eventual recovery. Without multilateral efforts, individual countries will simply continue to forge their own paths, thereby prolonging the recovery.

In times of international crisis, playing the nationalist card is the easiest and crudest form of domestic politics. But in the cold light of day, it doesn’t fix a single problem. Only effective global coordination can do that.

## 2. America, China, and Saving the WHO

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An essay published in *The Economist*  
April 15, 2020



The flag of the World Health Organisation (WHO) flies at half mast in front of the WHO headquarters in Geneva. Fabrice Coffrini. AFP. Getty Images. May 22, 2006.

**THE THING ABOUT A CRISIS—A REAL ONE, RATHER THAN A CONFECTED ONE—IS THAT IT EXPOSES REALITIES FOR WHAT THEY ARE**, as opposed to how the political class would wish to present them, either to their own people or to the world at large. The uncomfortable truth about the current coronavirus crisis is that much of the complex web of national and global institutions established to deal with global pandemics and economic implosions has failed.

To be fair to those in leadership today, not since the Spanish flu or the Second World War has the world had to contend with semi-synchronous public health and economic crises, including the physical working arrangements of those having to manage it.

Even so, national and global economic responses have been late, often tepid, and disjointed. Governments have scrambled to limit mass unemployment, but the same attention has not been paid to the global dimensions of the crisis. It took France, not America, to convene a G7 summit. It took Saudi Arabia, not America, to summon the G20. Neither produced a coordinated, global economic stimulus strategy. Nor did either impose a moratorium on protectionist measures despite the fact that a tariff explosion to “protect” critical national supply lines is likely to prolong and deepen the recession. Despite the pandemic’s self-evident threat to international peace and security, the UN could not agree even to convene an emergency session of the Security Council until early April.

The uncomfortable truth about the current coronavirus crisis is that much of the complex web of national and global institutions established to deal with global pandemics and economic implosions has failed.

The tragedy is that much of the current crisis was avoidable. The key machinery to handle global public health and economic responses was already in place.

But for various reasons, it was not mobilized—or not mobilized early enough to remain ahead of the curve. A partial reason is that China’s authoritarian political model, however effective in eventually locking down the country, discouraged the early and transparent recognition of the threat, despite the “fail-safe” reporting systems put in place after the SARS pandemic. Also, the World Health Organization (WHO) has been underfunded for decades as America and others put their resources elsewhere and ignored repeated warnings to strengthen its powers. Now, under Donald Trump, America has turned the WHO into a convenient scapegoat for its own domestic failings.

More broadly, nationalist movements worldwide have found it convenient to bludgeon the legitimacy of multilateral institutions. Mr. Trump, with his “America First” battle cry, in effect abandoned America’s global leadership role for the first time since 1945. Normally, America would have teamed up with China to manage the crisis through a joint task force established under the Strategic and Economic Dialogue. But that machinery has also fallen into disuse. Instead, the administration began kicking China when it was down. Normally America, however imperfectly, would also have mobilized the world. This time, in America’s absence, nobody did. Welcome to Ian Bremmer’s brave new world of G-Zero.

So what will change once this crisis is finally over? For America, if President Trump is reelected, it is difficult to see any improvement. A victory would further entrench his nativist, screw-the-rest-of-

the-world approach where it's everyone for themselves—a new international law of the jungle. National borders would become tighter. Protectionism would become the global norm rather than the exception, oblivious to the lessons of the 1930s. Global output could actually continue to shrink.

Moreover, America would increasingly withdraw from the multilateral institutions that it created in the 1940s at Bretton Woods and San Francisco, or else render them impotent. That would turn the UN, the World Trade Organization (WTO), and the World Bank (although probably not the International Monetary Fund) into Potemkin villages—a bit like the League of Nations' curious decision to continue meeting after the German invasion of Poland, then France, and then Russia.

If the Democrats win, they would need to marshal the domestic political will to sustain a new, pragmatic, Rooseveltian internationalism. They would need to reconvince the American public of the enduring lessons of Versailles and Pearl Harbor: that national interests are enhanced, not undermined, by leading an effective multilateral system.

This would need to be accompanied by major, substantive reform and reinvestment to create a more effective multilateral system. It cannot simply be a return to the failed practices of the past with the continued triumph of process over outcome. Where logjams occur, President Biden should fully harness the G20 (which came into its own in 2008, under George W. Bush, a Republican) to smash through on pandemic management, climate change, trade reform, and global macroeconomic management: 2020 represents the “Last Chance Saloon” for American global leadership.

**China will continue tactically exploiting any political vacuum left by the Americans.**

China, too, is divided between nationalists and globalists. Some Chinese officials have crudely sought to blame the American military for the outbreak in Wuhan. Others have tried to keep open the lines of global collaboration. Beijing's hardheads know the coronavirus has compounded the damage to China's economy from earlier domestic policy settings hostile to the private sector, and from the trade war with America. The virus will result in China's worst economic performance since the Cultural Revolution of 1966–76.

China's global standing has also taken a big hit. The idea that China could step into the breach left by Mr. Trump by comprehensively providing the global public goods now needed (such as global economic and financial leadership, reform of the WTO, enhanced WHO independence, or radical climate change action) remains fanciful. China will continue tactically exploiting any political vacuum left by the Americans. But it is simply inconsistent with Beijing's political playbook, as well as China's perception of its still-limited national capabilities, for it to assume sweeping global leadership or drive an effective multilateral order that was not simply a direct expression of China's own national interests and hierarchical values. And that leaves to one side the likely reactions from the rest of the world, both developed and developing, against any direct assertion of Chinese global leadership.

Given that Sino-American relations are beyond the control of any of us, what can the rest of the world do? A core group of constructive powers among the G20 should act to reform, fund, and politically defend the central institutions of global governance for the post-COVID era. These include the WHO, the

World Food Program and the Food and Agricultural Organization (given uncertainty around the global food supply), the UN High Commissioner for Refugees (given the as yet unknown impact on population movements), and the WTO.

This effort should be led by Germany, France, the European Union, Japan, Canada, and possibly Britain (assuming Boris Johnson genuinely believes in a “global Britain”). Others, such as Singapore, can commit to maintaining an effective multilateral order as a global public good in its own right, rather than as a vehicle for the realization of narrow national interests. They could start by issuing an immediate joint statement that together they will now fill the funding gap left by the lunatic decision by Mr. Trump to axe America’s financial contributions to the WHO. They should also stipulate that this funding is contingent on the implementation of a post-crisis reform program to enhance the WHO’s regulatory powers and statutory independence. However flawed the WHO may be, under international treaty it is the only global entity

**A core group of constructive powers among the G20 should act to reform, fund, and politically defend the central institutions of global governance for the post-COVID era.**

empowered to build immediate public health capacity in poor countries in the event of a pandemic. And that’s where the virus is headed next.

Let’s call these constructive powers, at least to start with, the Multilateral 7 or the “M7.” They should become the collective intellectual, policy, and political secretariat of this multilateral rescue mission—if you like, its combined planning and operations staff. They should pool the diplomatic and financial resources necessary to advance unapologetically an agenda of keeping as much of the current multilateral system as functional as possible for as long as possible, until global geopolitics achieves a new equilibrium. Indeed, they could become the thin blue line that, for the interim at least, protects us against an increasingly anarchic world.

A large, glowing sphere of fire and orange flames dominates the upper half of the image. Below it, a display of various solar panels is visible, including a large blue panel with a grid pattern. In the foreground on the right, the silhouette of a person's head and shoulder is visible, looking towards the sphere. The background is a dark, industrial-looking space.

# 3. The Coming Post-COVID Anarchy: The Pandemic Bodes Ill for Both American and Chinese Power—and for the Global Order

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An essay published in *Foreign Affairs*  
May 6, 2020

A visitor looks at a sphere featuring flames displayed at the pavillion of India during the COP23 United Nations Climate Change Conference in Bonn, Germany. Patrick Stollarz. AFP. Getty Images. November 8, 2017.

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**IN JANUARY AND FEBRUARY OF 2020, THE POPPING OF CHAMPAGNE** corks was audible in certain quarters of the U.S. foreign policy establishment. What some observers had long seen as this era's giant geopolitical bubble had finally begun to deflate. China's Communist Party leadership, the thinking went, was at last coming apart, a result of its obsession with official secrecy, its initial missteps in responding to the novel coronavirus outbreak, and the unfolding economic carnage across the country.

Then, as China began to recover and the virus migrated to the West in March and April, irrational jubilation turned to irrational despair. The commentariat greeted with outrage any possibility that the pandemic might in fact help China emerge triumphant in the ongoing geopolitical contest with the

United States. This concern was a product of China's seemingly cunning remolding of the narrative on the origins of the virus, the brutal efficiency of the Chinese authoritarian model in containing it, and Beijing's global COVID aid campaign. China's own nationalist commentariat happily piled on, delighting in the U.S. distress and noting the supposed contrast between Chinese largesse and American indifference: the "people's war" against COVID-19 had been won, and the virtues of China's political model had been vindicated.

Yet despite the best efforts of ideological warriors in Beijing and Washington, the uncomfortable truth is that China and the United States are both likely to emerge from this crisis significantly diminished. Neither a new *Pax Sinica* nor a renewed *Pax Americana* will rise from the ruins. Rather, both powers will be weakened, at home and abroad. And

The uncomfortable truth is that China and the United States are both likely to emerge from this crisis significantly diminished. Neither a new *Pax Sinica* nor a renewed *Pax Americana* will rise from the ruins. Rather, both powers will be weakened, at home and abroad. And the result will be a continued slow but steady drift toward international anarchy.

the result will be a continued slow but steady drift toward international anarchy across everything from international security to trade to pandemic management. With nobody directing traffic, various forms of rampant nationalism are taking the place of order and cooperation. The chaotic nature of national and global responses to the pandemic thus stands as a warning of what could come on an even broader scale.

## OF POWER AND PERCEPTION

As with other historical inflection points, three factors will shape the future of the global order: changes in the relative military and economic strength of the great powers, how those changes are perceived around the world, and what strategies the great powers deploy. Based on all three factors, China and the United States have reason to worry about their global influence in the post-pandemic world.

Contrary to the common trope, China's national power has taken a hit from this crisis on multiple levels. The outbreak has opened up significant political dissension within the Chinese Communist Party, even prompting thinly veiled criticism of President Xi Jinping's highly centralized leadership style. This has been reflected in a number of semiofficial commentaries that have mysteriously found their way into the

public domain during April. Xi's draconian lockdown of half the country for months to suppress the virus has been widely hailed, but he has not emerged unscathed. Internal debate rages on the precise number of the dead and the infected, on the risks of second-wave effects as the country slowly reopens, and on the future direction of economic and foreign policy.

The economic damage has been massive. Despite China's published return-to-work rates, no amount of domestic stimulus in the second half of 2020 will make up for the loss in economic activity in the first and second quarters. Drastic economic retrenchment among China's principal trading partners will further impede economic recovery plans, given that pre-crisis, the traded sector of the economy represented 38 percent of GDP. Overall, 2020 growth is likely to be near zero—the worst performance since the Cultural Revolution five decades ago. China's debt-to-GDP ratio already stands at around 310 percent, acting as a drag on other Chinese spending priorities, including education, technology, defense, and foreign aid. And all of this comes on the eve of the party's centenary celebrations in 2021, by which point the leadership had committed to double China's GDP over a decade.

As for U.S. power, the Trump administration's chaotic management has left an indelible impression around the world of a country incapable of handling its own crises, let alone anybody else's. More important, the United States seems set to emerge from this period as a more divided polity rather than a more united one, as would normally be the case following a national crisis of this magnitude; this continued fracturing of the American political establishment adds a further constraint on U.S. global leadership.

Meanwhile, conservative estimates see the U.S. economy shrinking by between 6 percent and 14 percent in 2020, the largest single contraction since the demobilization at the end of World War II. Washington's fiscal interventions meant to arrest the slide already amount to 10 percent of GDP, pushing the U.S. ratio of public debt to GDP toward 100 percent—near the wartime record of 106 percent. The U.S. dollar's global reserve currency status enables the government to continue selling U.S. treasuries to fund the deficit. Nonetheless, large-scale debt sooner or later will constrain post-recovery spending, including on the military. And there's also risk that the current economic crisis will metastasize into a broader financial crisis, although the Federal Reserve, other G20 central banks, and the International Monetary Fund have so far managed to mitigate that risk.

Chinese leaders have a simple Leninist view of U.S. power. It rests on two fundamentals: the U.S. military and the U.S. dollar (including the depth and liquidity of the U.S. financial markets that underpin it). Everything else is detail.

All states are mindful of what Leninists call “objective power” and the willingness of the great powers to deploy it. But the perception of power is equally important. China is now working overtime to repair the enormous damage to its global standing that resulted from the geographical origin of the virus and Beijing's failure to contain the epidemic in the critical early months. Whatever China's new generation of “wolf-warrior” diplomats may report back to Beijing, the reality is that China's standing has taken a huge

Whatever China's new generation of “wolf-warrior” diplomats may report back to Beijing, the reality is that China's standing has taken a huge hit.

hit (the irony is that these wolf-warriors are adding to this damage, not ameliorating it). Anti-Chinese reaction over the spread of the virus, often racially charged, has been seen in countries as disparate as India, Indonesia, and Iran. Chinese soft power runs the risk of being shredded.

For different reasons, the United States does not come out of the crisis much better. The world has watched in horror as an American president acts not as the leader of the free world but as a quack apothecary recommending unproven “treatments.” It has seen what “America first” means in practice: don’t look to the United States for help in a genuine global crisis, because it can’t even look after itself. Once there was the United States of the Berlin airlift. Now there is the image of the *USS Theodore Roosevelt* crippled by the virus, reports of the administration trying to take exclusive control of a vaccine being developed in Germany, and federal intervention to stop the commercial sale of personal protective equipment to Canada. The world has been turned on its head.

## AFTER ENGAGEMENT

The crisis also appears to have shredded much of what was left of the U.S.-China relationship. In Washington, any return to a pre-2017 world of “strategic engagement” with Beijing is no longer politically tenable. A second Trump term will mean greater decoupling and possibly attempted containment, driven by Trump’s base and widespread national anger over the origins of the virus, although this strategy will be rendered incoherent at times by the president’s personal interventions. In a Biden administration, strategic competition (and decoupling in some areas) will continue, likely to be executed on a more systematic basis and leaving some scope for cooperation in defined areas, such as climate, pandemics, and global financial stability. On balance, Beijing would prefer Trump’s reelection to the alternative, because it sees value in his tendency to fracture traditional alliances, to withdraw from multilateral leadership, and episodically to derail the U.S. strategy toward China. Either way, the U.S. relationship with Beijing will become more confrontational.

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In Beijing, China’s response to the ever-hardening U.S. posture is now under intense review. This process began in 2018, during the first full year of the U.S.-China trade war. It has now been intensified, because of the pandemic and its international consequences. The review is part of a broader internal debate in Beijing about whether China’s national strategy, at this stage of its economic and military development, has in recent years become insufficiently reformist at home and excessively assertive abroad.

Prior to Xi, the strategy was to wait until the correlation of economic and military forces shifted in China’s favor before seeking any major adjustments to the regional and international order—including on Taiwan, the South China Sea, and the U.S. presence in Asia. Under Xi, Beijing has become significantly more assertive, taking calculated—and so far successful—risks to bring about changes on the ground, as demonstrated by island reclamation in the South China Sea and the Belt and Road Initiative (BRI). The U.S. reaction to this approach has been deemed manageable, but that calculation could change in a

post-trade war, post-pandemic world. Xi could seek to ameliorate tensions with the United States until the pandemic is lost to political memory or facing internal challenges, he could take a more nationalist approach abroad. Both of these tendencies will likely appear in Chinese policy behavior until China's internal policy review process concludes, which may not happen until shortly before the 20th Communist Party Congress in 2022. But if Xi's style thus far is any indication, he is likely to double down in the face of any internal dissent.

That would mean hardening China's posture toward the United States, including on issues such as Taiwan, the single most destabilizing element in the U.S.-China relationship. Beijing is likely to sharpen its strategy of shrinking Taiwan's international space, even as U.S. efforts to secure Taiwan's readmission to the World Health Organization intensify. Given that this comes on the heels of other recent U.S. efforts to upgrade official-level engagement between Washington and Taipei, the understandings of the "One China policy" that underpinned the normalization of U.S.-China relations in 1979 could begin to unravel. If these understandings collapse, the prospect of some form of military confrontation over Taiwan, even as the inadvertent result of failed crisis management, suddenly moves from abstraction to reality.

## A NEW COLD WAR?

Prior to the current crisis, the postwar liberal international order was already beginning to fragment. The U.S. military and economic power, the geopolitical fulcrum on which the order rested, was being challenged by China, first regionally and more recently globally. The Trump administration was adding to the order's problems by weakening the U.S. alliance structure (which in conventional strategic logic would have been central to maintaining a balance of power against Beijing) and systematically delegitimizing multilateral institutions (effectively creating a political and diplomatic vacuum for China to fill). The result has been an increasingly dysfunctional and chaotic world.

The current crisis is likely to reinforce such trends. Strategic rivalry will now define the entire spectrum of the U.S.-China relationship—military, economic, financial, technological, ideological—and increasingly shape Beijing's and Washington's relationships with third countries. Until the current crisis, the notion that the world had entered a new Cold War, or Cold War 2.0, seemed premature at best; the two countries' financial systems were so intertwined that true decoupling was unlikely, and there seemed to be little prospect of geopolitical or ideological proxy wars in third countries, a defining feature of the U.S.-Soviet rivalry.

But the new threats that both sides are making as COVID-related tensions grow could change all that. A decision in Washington to end U.S. pension-fund investments in China, restrict future Chinese holdings of U.S. Treasury bonds, or start a new currency war (exacerbated by the recent launch of China's new digital currency) would quickly remove the financial glue that has held the two economies together; a decision in Beijing to increasingly militarize the BRI would raise the risk of proxy wars. Moreover, as

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U.S.-China confrontation grows, the multilateral system and the norms and institutions underpinning it are beginning to falter. Many institutions are themselves becoming arenas for rivalry. And with a damaged United States and a damaged China, there is no “system manager,” to borrow Joseph Nye’s phrase, to keep the international system in functioning order. It may not yet be Cold War 2.0, but it is starting to look like Cold War 1.5.

There are better alternatives to this scenario. They depend, however, on significant political and policy change in Washington; a reformist and internationalist readjustment in Beijing; the development of a new architecture of détente between the United States and China (drawing on the U.S.-Soviet experience), which places clear parameters around competition to avoid military disaster; and efforts by other countries to pool political and financial resources to preserve the essential multilateral institutions of the current system as a form of institutional triage until there is a return to geopolitical stability. History is not predetermined. But none of this will come about unless political leaders in multiple capitals decide to change course. With the wrong decisions, the 2020s will look like a mindless rerun of the 1930s; the right decisions, however, could pull us back from the abyss.

# 4. Beware the Guns of August—in Asia

An essay published in *Foreign Affairs*  
August 3, 2020



Chinese J-15 fighter jets on the deck of the Liaoning aircraft carrier during military drills in the Yellow Sea, off China's east coast. AFP. STR. China OUT. December 23, 2016.

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**IN JUST A FEW SHORT MONTHS, THE U.S.-CHINA RELATIONSHIP** seems to have returned to an earlier, more primal age. In China, Mao Zedong is once again celebrated for having boldly gone to war against the Americans in Korea, fighting them to a truce. In the United States, Richard Nixon is denounced for creating a global Frankenstein by introducing Communist China to the wider world. It is as if the previous half century of U.S.-China relations never happened.

The saber rattling from both Beijing and Washington has become strident, uncompromising, and seemingly unending. The relationship lurches from crisis to crisis—from the closures of consulates to the most recent feats of Chinese “wolf-warrior” diplomacy to calls by U.S. officials for the overthrow of the Chinese Communist Party (CCP). The speed and intensity of it all has desensitized even seasoned

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observers to the scale and significance of change in the high politics of the U.S.-China relationship. Unmoored from the strategic assumptions of the previous 50 years but without the anchor of any mutually agreed-upon framework to replace them, the world now finds itself at the most dangerous moment in the relationship since the Taiwan Strait crises of the 1950s.

The question now being asked, quietly but nervously, in capitals around the world is, where will this end? The once unthinkable outcome—actual armed conflict

between the United States and China—now appears possible for the first time since the end of the Korean War. In other words, we are confronting the prospect of not just a new Cold War, but a hot one as well.

The risks will be especially high over the few critical months between August and the November U.S. presidential election, as both U.S. President Donald Trump and Chinese President Xi Jinping confront, and exploit, the messy intersection of domestic politics, national security imperatives, and crisis management. Domestic political opinion in both countries has turned toxic. The list of friction points is long, from cyber espionage and the weaponization of the dollar to Hong Kong and the South China Sea. The channels for high-level political and military dialogue have atrophied when they are needed most. And both presidents face internal political pressures that could tempt them to pull the nationalist lever.

In this environment, both Beijing and Washington should reflect on the admonition “be careful what you wish for.” If they fail to do so, the next three months could all too easily torpedo the prospects of international peace and stability for the next 30 years. Wars between great powers, including inadvertent ones, rarely end well—for anyone.

## POWER SHIFTS

Multiple factors have brought the relationship to its current precarious state. Some are structural, others more immediate. The most fundamental is the changing balance of military and economic power between the United States and China. Thanks to the uneven pattern of U.S. military and economic growth, the sustained strategic distraction of the United States in the Middle East, and the cumulative effects of the 2008–09 financial crisis, Beijing has concluded it has much more freedom to maneuver in prosecuting

its interests. This tendency has accelerated under Xi, who since coming to power in 2013 has shifted the politics and economics of his country to the left; pushed nationalism to the right; and adopted a much more assertive strategy abroad, both regionally and globally.

The United States has responded to this changing Chinese posture with increasing levels of aggression. Its declaratory policy has made plain that 35 years of strategic engagement are over and that a new, and as yet not fully defined, era of strategic competition has begun. Diplomatically, it has unleashed a human rights offensive over Hong Kong, Taiwan, and Xinjiang. It has launched a trade, technology, and talent war, and the beginnings of a finance war as well. And the two country's armed forces have been engaged in an increasingly aggressive game of push and shove on the high seas, in the air, and in cyberspace.

While Xi's strategy has been clear, Trump's has been as chaotic as the rest of his presidency. But the net effect is a relationship stripped of the political, economic, and diplomatic insulation carefully nurtured over the past half century and reduced to its rawest form: an unconstrained struggle for bilateral, regional, and global dominance.

In the current political season, domestic pressures at work in both Beijing and Washington make crisis management even more difficult. In China, an already slowing economy, the ongoing impact of the trade war, and now the COVID-19 crisis have placed Xi's leadership under its greatest internal pressure yet. Many in the CCP resent his brutal anticorruption campaign, which has been used in part to eliminate political enemies. His massive military reorganization has encountered resistance from the hundreds of thousands of veterans who lost out. The degree of opposition he faces is reflected in the large number of major personnel changes he has engineered in the party's intelligence, security, and military hierarchies. And that was before the "party rectification campaign" that he launched in July to sideline opponents and further consolidate his power.

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China's political leadership has once again decamped to the coastal resort town of Beidaihe for the CCP's annual August retreat. There, party veterans may well challenge Xi's handling of the economy, foreign policy, and public health. Xi, however, is a master politician, steeped in the dark arts of his Machiavellian craft. Any significant challenge to his authority is likely to be met with preemptive force—hence the party rectification campaign. But under these circumstances, Xi will also be tempted to take an ever-harder line abroad, particularly against the United States.

Domestic politics are driving U.S. policy as well. With American voters heading to the polls in three months, China has become central to the race like never before. It now frames presidential politics across

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nearly all major campaign issues, including the origins of COVID-19 and the disastrous U.S. response, which, as of mid-2020, has left more than 150,000 Americans dead, an economic crisis marked by 14.7 percent unemployment, a 43 percent rise in bankruptcies, and eye-watering public debt, not to mention the future of American global leadership.

In its first three years, the Trump administration was divided over China, with Trump himself regularly intervening to frustrate the full implementation of the hard-line policy laid out by his former national security adviser H. R. McMaster and articulated in the National Security Strategy released in December 2017. But since March, prompted by collapsing support in national polls, Trump has blamed China for the full range of his domestic political, economic, and public health calamities. His heated rhetoric has been matched by actions on the ground: U.S. military forces, for example, have begun responding more

forcefully to Chinese actions in the South China Sea and the Taiwan Strait. Meanwhile, Trump's opponent, former Vice-President Joe Biden, is determined not to be outflanked by Trump on China, making for a uniquely combustible political environment. That leaves little room for foreign policy nuance, let alone military compromise, should any crisis arise.

When added to the deeper changes underway in the relationship, all this makes for a dangerous political and strategic cocktail: a weakened Trump, an uncompromising Biden, and an under-pressure Xi ready to pull the nationalist lever. Both sides, therefore, should consider carefully the crises that could arise over the next several months (in particular, over Hong Kong, Taiwan, and the South China Sea) and how any one of

Are Beijing and Washington seriously prepared to escalate a crisis to protect their domestic positions, conscious of the political price each system faces for being seen as weak? Or are they institutionally equipped and politically willing to de-escalate to avoid disaster?

these could spiral into something much worse. Are Beijing and Washington seriously prepared to escalate a crisis to protect their domestic positions, conscious of the political price each system faces for being seen as weak? Or are they institutionally equipped and politically willing to de-escalate to avoid disaster?

## ONE COUNTRY, ONE SYSTEM

On July 1, 2020, China implemented its draconian Hong Kong national security law, which criminalizes “secessionist,” “seditious,” and “terrorist” activity, as well as any collaboration in such activities with “foreign powers.” Using the 2019 Hong Kong Human Rights and Democracy Act, U.S. Secretary of State Mike Pompeo had already judged that Hong Kong no longer enjoyed a “high degree of autonomy” as provided under the “one country, two systems” principle. This determination was followed on July 14 by Trump signing the Hong Kong Autonomy Act. Over the next 12 months, the new law will result in “the imposition of sanctions on foreign persons who materially contribute to the undermining of Hong Kong’s autonomy by the Government of the People’s Republic of China, and foreign financial institutions who engage in significant transactions with such foreign persons.” For individuals, those sanctions will involve travel and transaction bans; for financial institutions dealing with listed individuals, a range of damaging punitive measures will follow, potentially risking their ability to operate within American jurisdictions.

It is not yet clear which Chinese officials will be listed under the law; however, given that the decision on the national security law involved the Politburo Standing Committee, the top CCP decision-making body, all seven members (including Xi) are potentially vulnerable. Similarly, Chinese financial institutions that service Chinese leaders may be barred from operating in the United States or other cooperating jurisdictions. There is also a risk of institutions being barred from the dollar-denominated international trading system (although this continues to be debated between senior Treasury Department and White House officials). Chinese officials are now openly considering how to reduce their country's vulnerability to a global financial system that remains overwhelmingly dependent on the greenback. They have begun highlighting to foreign interlocutors “financial redlines” that, if crossed, could precipitate a major crisis.

If Hong Kong radically deteriorates in the months ahead—bringing the incarceration of democratic leaders such as Joshua Wong, the suppression of remaining free media, or even large-scale violence—the United States is likely to respond with dramatic diplomatic and economic sanctions and push its allies to do the same. But Hong Kong itself is unlikely to result in a full-blown crisis; the United Kingdom, not the United States, is the external treaty power on the question of Hong Kong's political status; so no matter how bad the situation becomes, there would be no international legal basis for any form of U.S. intervention. Still, a deterioration and a U.S. response would render the U.S.-China relationship even more brittle than it currently is, making other crises in the bilateral relationship more difficult to manage, including in the security domain.

## ONE CHINA—OR TWO?

Taiwan has long been the single biggest challenge in the U.S.-China relationship. From the CCP's perspective, one grounded in both ideology and nationalism, the “return of Taiwan to the motherland's tender embrace,” as party veterans would put it, would complete the revolution of 1949. But for Taiwan, the evolution of a separate identity over the past several hundred years, the progressive democratization of the island over the past 30, and the continued electoral success of the pro-independence Democratic Progressive Party (DPP) have made the prospects of a peaceful reunification increasingly remote.

Taiwanese President Tsai Ing-wen has continued to reject China's version of what is called the “1992 consensus”—an agreement that there is only “One China,” even if both parties disagree about what the term “China” actually means. Beijing, in turn, holds that the DPP's refusal to accept this consensus rules out any negotiation on the specific form of one country, two systems that could apply to Taiwan in the future. China's perceived trashing of the one country, two systems principle in Hong Kong has already played a major part in Tsai's reelection this past November. It has also contributed to the general hardening of Taiwanese sentiment to any form of reunification with the mainland; recent opinion polls indicate that a record 90 percent of people in Taiwan now self-identify as Taiwanese rather than as Chinese.

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In the U.S.-China relationship, the Taiwan issue has been managed under the terms of three communiqués negotiated between 1972 and 1982 over the course of the opening and normalization process, along with the Taiwan Relations Act (TRA) of 1979. The TRA states that “the United States will make available to Taiwan such defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability.” It also states that the United States will “consider any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to the United States.” And it requires Congress “to maintain the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people on Taiwan.” Although the TRA is not a mutual-defense treaty, successive U.S. administrations have relied on the “strategic ambiguity” embedded within it to deter any Chinese consideration of reunification by military means.

The Trump administration has increased the scale and frequency of arms sales to Taiwan, including expanding the island’s Patriot missile defense system and offering new offensive capabilities such as the F-16V aircraft. It has also begun changing the relationship’s formal nomenclature—for the first time referring officially to Tsai with the honorific “president”—and increasing public contact between U.S. and Taiwanese officials. And Washington has released provocative video footage of previously undeclared U.S.-Taiwanese military exercises.

It is increasingly plain from the impatience in Xi’s language that he wishes to see Taiwan return to Chinese sovereignty within his own political term.

Beijing argues that Washington is getting dangerously close to crossing Chinese redlines on Taiwan’s international status, thereby jeopardizing the basis for the entire U.S.-China relationship. In turn, and reinforced by China’s general displeasure with the current Taiwanese leadership, Beijing has increased diplomatic, economic, and military pressure on Taipei. People’s Liberation Army exercises, maneuvers, and deployments around the island and its airspace have become both more intense and more intrusive. China also has begun reducing mainland tourism to Taiwan to increase pressure on the economy, in direct retaliation for Tsai’s policies.

It is increasingly plain from the impatience in Xi’s language that he wishes to see Taiwan return to Chinese sovereignty within his own political term. Whether or not he can do so is a separate question. If Xi were to succeed, he would match, and perhaps even surpass, Mao’s place in party and national history. (Of course, this raises the question of just how long Xi’s term will be: he reaches the two-term limit adhered to by his predecessors in 2022, but a decision at the 19th Party Congress in 2017 abolished term limits, and Xi currently appears poised to remain until the mid-2030s, when he would be in his early 80s.)

Although both Chinese and American war-gaming exercises suggest that China would prevail in any major conflict in the Taiwan Strait, Beijing remains cautious, seeking to avoid unnecessary political or strategic risk. After all, to fail in such an attempt, or to succeed at great cost, would potentially end Xi’s leadership and undermine the party’s legitimacy. Accordingly, any Chinese military push against Taiwan is more likely to come later in the 2020s, when Beijing thinks the military balance will have shifted even

further in its favor—enough to effectively deter the United States and perhaps cause Taiwan to capitulate without a fight.

For now, all three parties—Beijing, Taipei, and Washington—have chosen to remain just within the broad parameters of permissible conduct. And while the DPP administration in Taipei is bold, it is not reckless. Still, in the current political environment, the Trump administration could choose to escalate—by, say, allowing a U.S. naval visit to a Taiwanese port. The incendiary effect of such an action would be politically impossible for the Chinese leadership to ignore. It is conceivable that China could retaliate by starting a “low-intensity” conflict centered on Taiwan’s offshore islands, such as the Dongsha Islands or Taiping Island (both in the South China Sea) or Wuqiu Island (just off the coast of the mainland).

## NO MORE NINE-DASH LINE

The South China Sea presents a far greater risk of military mishap in the months immediately ahead. Seven countries claim various overlapping terrestrial and maritime segments of it: Brunei, China, Indonesia, Malaysia, the Philippines, Taiwan, and Vietnam. In 2016, the Permanent Court of Arbitration ruled on a case brought by the Philippines that comprehensively rejected the legal and historical basis of China’s sovereignty claim (the “nine-dash line”) over much of the South China Sea. Although it angrily rejected the ruling, Beijing simultaneously embarked on a political and economic charm offensive (particularly with the new Philippine government of Rodrigo Duterte) while sustaining naval, coast guard, and fishing activities in disputed areas. The sea has become a case study in China’s “gray zone” strategy: using coast guard and fisheries operations to establish de facto territorial and maritime claims while avoiding the direct deployment of naval assets unless absolutely necessary. China has thereby entrenched its claims over time without risking open military conflict with its neighbors.

Until 2016, the United States took negligible military action in response to China’s island reclamation projects in the South China Sea. (Beijing constructed seven artificial islands between 2013 and 2015 and subsequently militarized some of these outposts, contrary to Xi’s assurances to U.S. President Barack Obama.) Since then, the U.S. Navy has ramped up its semi-regular freedom-of-navigation operations in the area, going from two in 2015 to nine in 2019. The United States has also continued air reconnaissance flights along the Chinese coast and across the South China Sea.

As the coronavirus crisis unfolded in 2020, both Chinese and American postures in the South China Sea started to harden further.

As the coronavirus crisis unfolded in 2020, both Chinese and American postures in the South China Sea started to harden further. In April, China announced the establishment of two additional administrative units—consistent with its general strategy of combining gray zone paramilitary operations to assert de facto sovereignty claims with de jure assertions of legal and administrative control. More significantly, the tempo and intensity of U.S. naval and air reconnaissance missions increased markedly: Washington deployed two aircraft carriers to the South China Sea, and allied naval units from both Australia and Japan joined them. China, in turn, deployed an additional squadron of fighter-attack aircraft to the Paracel Islands in the northern reaches of the South China Sea.

Then, on July 13, Washington announced a major change in its position on the legal status of China's long-standing nine-dash-line claim to sovereignty in the South China Sea. In the past, Washington—not having ratified the UN Convention for the Law of the Sea—had remained neutral on the legality of individual claims. Now, for the first time, Washington was formally rejecting the international legal validity of all Chinese maritime claims. (Australia followed suit 10 days later, with a formal statement to the United Nations.) This change aligns the United States with the Southeast Asian states that have challenged China's extensive maritime claims; previously, the United States had acted only in defense of freedom of navigation in the South China Sea, not on the legitimacy of individual claims.

This set of U.S. moves has further raised the temperature between the U.S. and Chinese militaries. China retaliated in late July: an administrative amendment to long-standing shipping regulations changed the designation of an extensive area of the South China Sea from “offshore” to “coastal,” and the Chinese air force began deploying long-range bombers for aerial surveillance flights over these disputed areas.

Given the highly charged public sentiment in both countries and the high political stakes in play for each country's leader, there is little reason to be sanguine about the possibilities for restraint.

The existing memorandum of understanding on agreed protocols for avoiding and managing collisions in the air and at sea was negotiated during the Obama administration, before the nearly complete collapse in trust between Beijing and Washington. It is far from certain that these protocols will be effective with the rapid increase in air, naval, and other military assets in the area, where there is already a history of near misses between U.S. and Chinese military ships and planes.

The South China Sea has thus become a tense, volatile, and potentially explosive theater at a time when accumulated grievances have driven the underlying bilateral political relationship to its lowest point in a half century. The sheer quantity of naval and air force hardware deployed by both sides makes an unintended (or even intended) collision increasingly probable. Standard operating procedures and rules of engagement for both the Chinese and U.S. militaries are typically highly classified documents. The general pattern of near misses in the past has shown U.S. aircraft or naval vessels swerving and changing course at the last minute to avoid collisions. It is not clear, however, whether these procedures, or those of the Chinese navy and air force, have now been adjusted to a more offensive posture.

The question for both U.S. and Chinese leaders is, what happens now in the event of a significant collision? If an aircraft is downed, or a naval vessel sunk or disabled, what next steps have been agreed upon to avoid immediate military escalation? A Chinese interlocutor recalls a recent desktop exercise hosted by an independent think tank that brought together retired Chinese and American policymakers and military officers to consider such a scenario. The results were disturbing. Although the military officers from both sides could agree on a protocol to extract a damaged naval vessel safely, the nonmilitary participants, more attentive to the political interests of their governments, failed miserably in this task. One set of practitioners managed to de-escalate; the other set did precisely the reverse.

In a real-world scenario, beyond the clinical environment of a desktop exercise, the prevailing domestic political circumstances in Beijing and Washington could all too easily drive both sides to escalate. Political advisers might argue that a localized military escalation could be “contained” within defined parameters. Nonetheless, given the highly charged public sentiment in both countries and the high political stakes in play for each country’s leader, there is little reason to be sanguine about the possibilities for restraint.

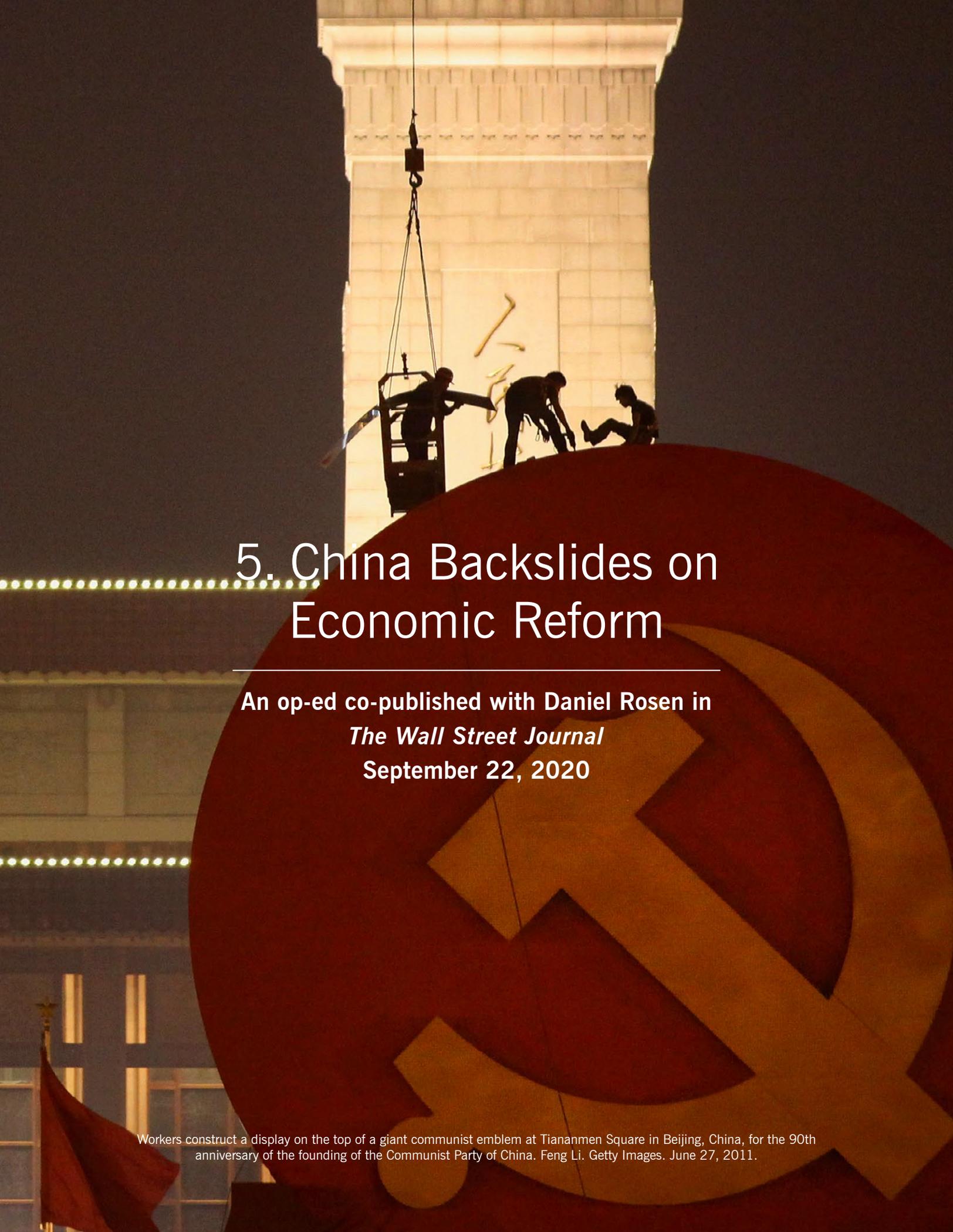
## TWENTY-FIRST-CENTURY SLEEPWALKERS

We are often enjoined to remember the lessons of history. The truth is history rarely repeats itself in precisely the same form. But for the nationalists in both Beijing and Washington who may not realize how serious the stakes have become, a good weekend read would be my compatriot Christopher Clark’s book on the failures of crisis management and diplomacy in 1914, evocatively titled *The Sleepwalkers*.

The core lesson in the events leading to World War I is that a relatively minor incident (the assassination of an Austrian archduke in Sarajevo in late June 1914) can escalate into a war between great powers in a matter of weeks. Clark’s graphic account is one of relentless escalation, inadequate diplomacy, and crude nationalism, along with disbelief by populations and leaders alike that actual conflict was even possible—until the “guns of August” grimly proved otherwise.

For the United States, the China challenge is real and demands a coherent, long-term strategy across all policy domains and in coordination with allies. It also requires a new framework for the U.S.-China relationship, one based on the principles of “managed” strategic competition: political, economic, technological, and ideological competition with mutually understood redlines, open lines of high-level communication to avoid an accidental escalation, and defined areas of global cooperation where it is mutually advantageous (such as on pandemics and climate change). But the foremost task now is to safely navigate the next several months, to avoid stumbling into conflict in the midst of a presidential campaign in the United States and a period of contested internal politics in China. Leaders on both sides should remember that nationalistic jingoism tends to become more muted after the shooting starts.

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# 5. China Backslides on Economic Reform

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An op-ed co-published with Daniel Rosen in  
*The Wall Street Journal*  
September 22, 2020

Workers construct a display on the top of a giant communist emblem at Tiananmen Square in Beijing, China, for the 90th anniversary of the founding of the Communist Party of China. Feng Li. Getty Images. June 27, 2011.

**CHINA IS THE ONLY MAJOR WORLD ECONOMY TODAY** reporting any economic growth. It went first into COVID-19 and was first out, grinding out 3.2 percent growth in the most recent quarter while the U.S. economy shrank 9.5 percent and other advanced economies endured double-digit declines. High-tech monitoring, comprehensive testing, and aggressive top-down containment measures enabled China to get the virus under control while others struggled. The Middle Kingdom may even deliver a modest year-over-year economic expansion in 2020.

This rebound is real; however, behind the short-term numbers, the economic restart is dubious. China's growth spurt isn't the beginning of a robust recovery but an uneven bounce fueled by infrastructure construction. Second-quarter data showed the same imbalance other nations are wrestling with: investment contributed 5 percentage points to growth, while consumption fell, subtracting 2.3 points.

Since 2017, the China Dashboard, a joint project of Rhodium Group and the Asia Society Policy Institute, has tracked economic policy in China closely for signs of progress. Despite repeated commitments from Chinese authorities to open up and address the country's overreliance on debt, the China Dashboard has observed delayed attempts and even backtracking on reforms. The COVID-19 outbreak offered an opportunity for Beijing to shift course and deliver on market reforms. Signals from leaders this spring hinted at fixing defunct market mechanisms. But notably, the long list of reforms promised in May was almost the same as previous lists—such as separating capital management from business management at state firms and opening up to foreign investment while increasing the “quality” of outbound investment—that were adopted by the Third Plenum in 2013. In other words, promised recent reforms didn't happen, and nothing in the new pronouncements explains why or how this time will be different.

An honest look at the forces behind China's growth this year shows a doubling down on state-managed solutions, not real reform. State-owned entities (SOEs) drove China's investment-led recovery. In the first half of 2020, according to China's National Bureau of Statistics, fixed-asset investment grew by 2.1 percent among SOEs and decreased by 7.3 percent in the private sector. Finished product inventory for domestic private firms rose sharply in the same period—a sign of sales difficulty—while SOE inventory decreased slightly, showing the uneven nature of China's growth.

Perhaps the most significant demonstration of mistrust in markets is the “internal circulation” program first floated by President Xi Jinping in May. On the surface, this new initiative is supposed to expand domestic demand to complement, but not replace, external demand. But Beijing is trying to boost home consumption by making it a political priority. With household demand still shrinking, expect more subsidies to producers and other government interventions, rather than measures that empower buyers. Dictating to markets and decreeing that consumption will rise aren't the hallmarks of an advanced economy.

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The pandemic has forced every country to put short-term stability above future concerns, but no other country has looming burdens like China's. In June, the State Council ordered banks to "give up" 1.5 trillion yuan (around \$220 billion) in profit, the only lever of control authorities have to reduce debt costs and support growth. In August, China's economic planning agency ordered six banks to set aside a quota to fund infrastructure construction with long-term loans at below-market rates. These temporary solutions threaten the financial stability of a system that is already overleveraged, pointing to more bank defaults and restructurings ahead.

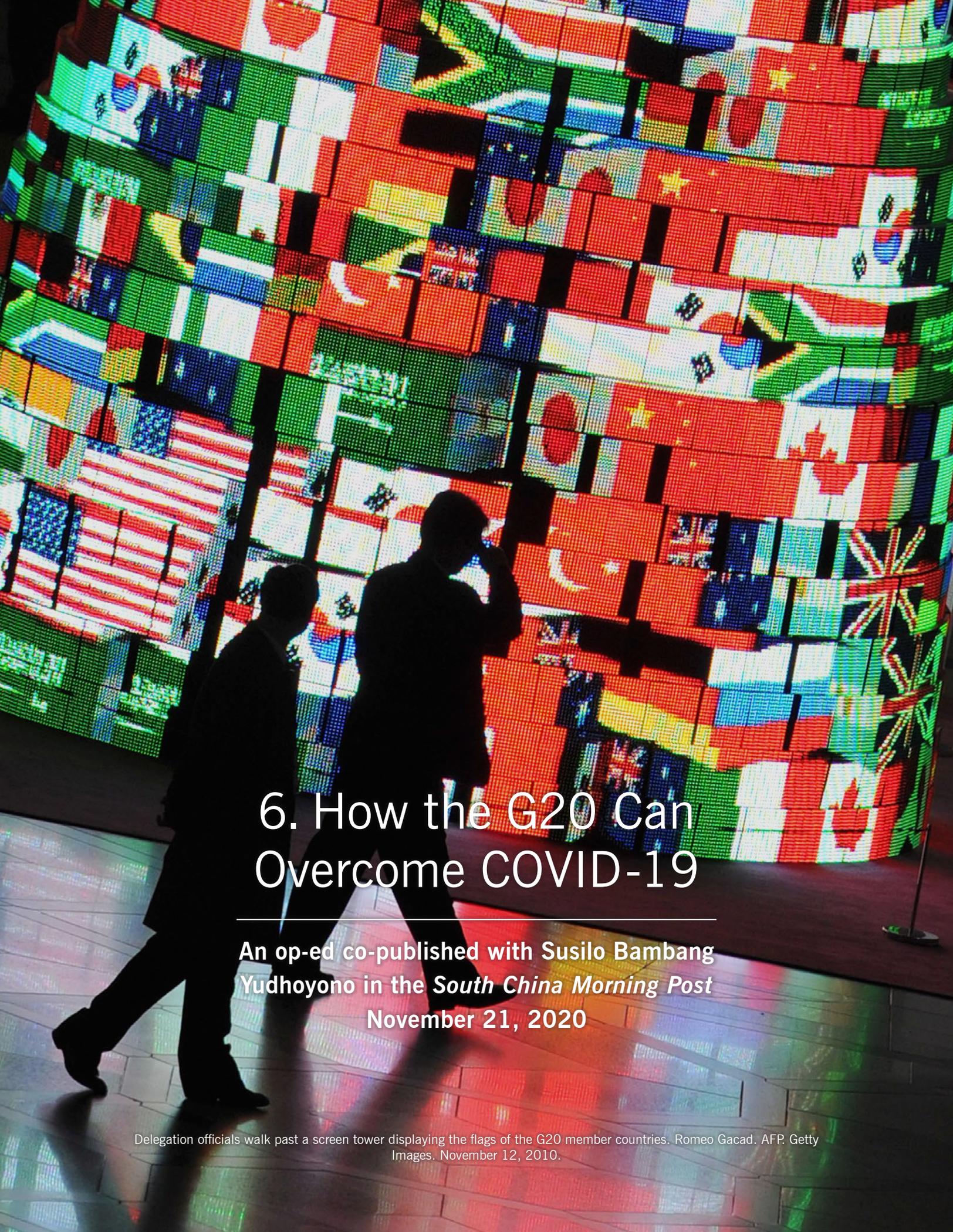
China's economic norms are diverging from, rather than converging with, the West's. Long-promised changes detailed at the beginning of the Xi era haven't materialized.

China also faces mounting costs abroad. By pumping up production over the past six months, as domestic demand stagnated, Beijing has ballooned its trade surplus, fueling an international backlash against state-driven capitalism that goes far beyond Washington. The United States has pulled the plug on some channels for immigration, financial flows, and technology engagement. Without naming China, a European Commission policy paper in June took aim at "subsidies granted by non-EU governments to companies in the EU." Governments and industry groups in Germany, the Netherlands, France, and Italy are also pushing China to change.

Misgivings about Beijing's direction are evident even among foreign firms that have invested trillions of dollars in China in recent decades. A July 2020 UBS Evidence Lab survey of more than 1,000 chief financial officers across sectors in the United States, China, and North Asia found that 75 percent of respondents are considering moving some production out of China or have already done so. Nearly half the American executives with plans to leave said they would relocate more than 60 percent of their firms' China-based production. Earlier this year, Beijing floated economic reforms intended to forestall an exodus of foreign companies, but nothing has come of it.

For years, the world has watched and waited for China to become more like a free-market economy, thereby reducing American security concerns. At a time of profound stress worldwide, the multiple gauges of reform we have been monitoring through the China Dashboard point in the opposite direction. China's economic norms are diverging from, rather than converging with, the West's. Long-promised changes detailed at the beginning of the Xi era haven't materialized.

Though Beijing talks about "market allocation" efficiency, it isn't guided by what mainstream economists would call market principles. The Chinese economy is instead a system of state capitalism in which the arbiter is an uncontestable political authority. That may or may not work for China, but it isn't what liberal democracies thought they would get when they invited China to take a leading role in the world economy.



## 6. How the G20 Can Overcome COVID-19

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An op-ed co-published with Susilo Bambang  
Yudhoyono in the *South China Morning Post*  
November 21, 2020

**AS TWO OF THE REGION'S LEADERS** around the G20 decision-making table during the height of the last global recession in 2008 and 2009, we understand the power of the institution in a crisis.

But after four years of the not-so-subtle degradation of the multilateral order under U.S. President Donald Trump, and especially given his proclivity to see G7 and G20 summits as photo shoots for an “America first” foreign policy in action, it is easy to understand why many are ready to give up on the institution—including for having seemingly been missing in action during the current crisis.

No other institution brings together  
90 percent of the global economy,  
80 percent of global trade,  
and two-thirds of the world's  
population and has a balance  
of developed and developing  
countries, with representation from  
every major region of the world.

This ignores a simple reality. Just as growth in the Asia-Pacific made the G20 indispensable a decade ago for the global economic recovery, this is likely to be the case again today. And just as it was then, this will be more important for America's economic recovery than it will be for any other country.

This is something President George W. Bush could see when he first convened us in Washington in November 2008. It was something President

Barack Obama also recognized when he brought us to Pittsburgh less than a year later. And it is something that President Joe Biden will hopefully embrace, including as a key global pillar for his twin goals of dealing with the health and economic challenges posed by COVID-19.

To this day, no other institution brings together 90 percent of the global economy, 80 percent of global trade, and two-thirds of the world's population and has a balance of developed and developing countries, with representation from every major region of the world. To put that in context, the G7 represents only around 40 percent of the global economy and remains at its heart a transatlantic gathering with only one representative from Asia.

Biden's election provides new hope for the region in terms of the future of the G20, and especially its capacity to deal with the current crisis. But for the G20 to be able to reach its full potential in helping usher the world toward a post-COVID-19 world, four things must happen.

First, once Biden takes office, the incoming Italian presidency should consider urgently convening G20 leaders early in 2021 on the global health crisis. The only thing worse than the lack of a globally coordinated economic strategy in recent months has been the lack of a globally coordinated health strategy to respond to the COVID-19 crisis.

Back in March, it took Saudi Arabia—not the United States—to convene the G20 on the crisis. But the absence of genuine engagement by the White House made Riyadh's efforts nigh impossible. As a vaccine hopefully nears, this becomes all the more important to avoid a breakout of intense vaccine nationalism. With many of the world's major economies—including that of the United States—still experiencing a growth in cases, they also have much to learn from the G20 members that have fared much better, all of whom are from Asia. This includes Australia, South Korea, Japan, and China.

Second, any attempt by the Biden administration to kick-start an American economic recovery in earnest is likely to fall short without an equal appreciation of the need for a globally coordinated stimulus strategy that only the G20 can provide.

A decade ago, it was the growth in Asian markets that did the heaviest lifting in terms of the global recovery, and the International Monetary Fund's (IMF's) latest projections indicate this is likely to be the case again today. Whether the United States is able to harness this regional growth for its own recovery will therefore be a key question.

Third, the G20 needs to be willing to begin discussing wider economic governance reform. Undeniably, the Bretton Woods era has left the Asia-Pacific with the short end of the stick in terms of its voice in economic institutions—something that is only becoming more glaring by the day.

At the very least, the G20 should invite the host of the Asia-Pacific Economic Cooperation forum to also be a permanent observer among a long list of positions held by Europeans and Americans. More significantly, it might return to the question of how the IMF's quotas could be better aligned with today's global economic makeup.

In this regard, the IMF recently stated that the poor are getting poorer during the pandemic and the economic gap is widening not only between countries but also within countries. We therefore hope that in the G20's efforts to protect and revive the world economy, social justice will not be forgotten. The G20 should commit itself to strong, balanced, and inclusive economic growth.

Finally, the G20 must urgently reestablish its credentials to also combat the emerging crisis of climate change. This is especially important for the Asia-Pacific where the new economic normal is decarbonization, following recent announcements by China, Japan, and South Korea.

Currently, less than a third of global stimulus is directed toward ensuring a green recovery. For the world to emerge in a stronger position to tackle the longer-term challenge posed by climate change, that share must at least double. Another first step would be for the G20 to finally deliver on the commitment to phase out fossil fuel subsidies, particularly given the crucial signal this would send to the private sector.

The G20 has already taken important steps to support the most vulnerable, including suspending and then extending all debt repayments to June 2021. It will also need to step up its support in other areas, such as through addressing the pledge developed countries made in 2009 at the Copenhagen climate conference to deliver \$100 billion a year in climate finance by 2020, which is not only falling short but is a drop in the ocean of what is ultimately required.

The G20 represents the one forum of global economic governance where the Asia-Pacific's voice stands strong. For this reason alone, the G20 remains indispensable to the region itself. But for the rest of the world, it is the Asia-Pacific's experience dealing with COVID-19 and projected economic growth that makes it even more indispensable as the world navigates its way through this "COVID New (Ab)Normal."



# 7. China Has Politics Too: The Impact of Chinese Domestic Politics and Economic Policy on the Future of U.S.-China Relations

A speech delivered to the Asia Society New York  
December 9, 2020



Chinese President Xi Jinping (C) delivers a speech during a ceremony to honor people who fought against the COVID-19 coronavirus pandemic, at the Great Hall of the People in Beijing. Nicolas Asfour. AFP. Getty Images. September 8, 2020.

**WHILE BOTH AMERICA AND THE WORLD WERE TRANSFIXED** by the U.S. presidential election on the third of November, very few people would have noticed that just five days before, China concluded a major meeting of the Central Committee of the Chinese Communist Party (CCP) that outlined the core elements of Chinese political and economic strategy for the next 15 years.

The truism is true: our Chinese friends do think in the long term. We in the West find ourselves captured by a combination of the electoral cycle and the news cycle. This highlights one critical difference between China, the United States, and the West: notably, the difference between what is tactical as opposed to what is strategic.

It is, of course, natural that the world would focus on who would become the 46th president of the United States. This is not just because of the political theater that U.S. presidential elections represent. It's because U.S. domestic politics drives U.S. foreign policy, international economic policy, and strategic postures across the Asia-Pacific region and the world.

And if anyone thought that somehow domestic policy and foreign policy were clinically separate domains, I offer as "Exhibit A" the experience of Donald Trump as the classic counterproof. Trump's politics and personality radically impacted American policy toward the world at large.

We in the democratic world need to radically lift our understanding of what makes the Chinese Communist Party tick.

But just as American domestic politics matter, so too do Chinese domestic politics. The political systems may be radically different. But the truth is that the internal politics of the Chinese Communist Party also radically impact the course of Chinese economic policy, foreign policy, and national security policy. And should anyone doubt this proposition, I offer "Exhibit B" as the counterproof: the impact of Xi Jinping on China's international posture over the past seven years.

Despite this fact, there is a predisposition, both in the United States and elsewhere in the world, to simply take Chinese politics as some sort of "given." This is a wrong conclusion. Chinese politics has never been static. It is constantly changing, although the patterns of change may be less evident to the untrained eye.

We in the democratic world need to radically lift our understanding of what makes the Chinese Communist Party tick. Perhaps it's because we are so obsessed with our own politics that we just don't care. Or we assume that the CCP is monolithic, notwithstanding the fact it now has 92 million members and a multiplicity of factions. Or perhaps it is thought that Chinese statecraft is somehow eternal, somehow detached from the series of bloodbaths and political reversals that have colored the history of the Chinese Communist Party since its founding in 1921. Or maybe we just think it's all too hard to make sense of Chinese internal politics, that it's all too impenetrable and even inscrutable.

This mind-set must change. China is on course to become the largest economy in the world this decade and is already a peer competitor with the United States militarily in East Asia. And what China now does with its economy, environment, and climate will also deeply shape the world for decades to come.

And all of the above are deeply influenced by the worldview of one man: Xi Jinping.

## 2020: THE YEAR THAT WAS

Xi Jinping, like China itself, has had a tumultuous year.

By the middle of the year, with the world also rounding on China for having “exported” the virus to them, Xi Jinping found himself under considerable domestic pressure. But, if a week is a long time in politics, 12 months is an eternity.

For Xi, the year began appallingly with the outbreak of the COVID-19 pandemic in Wuhan and its rapid spread to other parts of the country and then the world. Xi’s domestic political position came under increasing challenge. He was criticized internally for the failure of the initial efforts to contain the virus on the grounds that local officials were too hesitant to report the truth to central party officials under

Xi for fear that they would be punished for being the deliverers of bad news. This was despite the fact that a supposedly “failsafe” system had been established after the SARS pandemic of 2003. This system was meant to immediately report any future coronavirus outbreaks to the center—just like the center had supposedly directed the closure of all Chinese wet markets following the SARS outbreak 17 years ago.

having brought on the trade war with the United States, which had also begun to slow domestic growth, as well as a range of other domestic economic policy settings after 2015 that had gradually eroded private sector confidence, contributing to collapsing private fixed capital investment, and slowing growth.

Xi Jinping was also under pressure for a slowing economy, not only because of the impact of the virus, which ground most of the economy to a halt in the first quarter of 2020, followed by a creeping recovery during the second quarter. Xi was also criticized for

By the middle of the year, with the world also rounding on China for having “exported” the virus to them, Xi Jinping found himself under considerable domestic pressure. But, if a week is a long time in politics, 12 months is an eternity. Now, fully a year following the outbreak in Wuhan last November or December, the virus has by and large been brought under control across China.

Furthermore, China’s economy in the second half of the year has been recovering rapidly, with annual economic growth likely to be somewhere between 1.5 and 2 percent, compared with the ongoing global recession offshore. China is now distributing its vaccines to countries across the developing world at a time when the United States still finds itself in comprehensive COVID disarray.

Indeed, from Beijing, America’s political system has been seen as dysfunctional, its economic recovery questionable, and its overall international standing undermined as a consequence of its comprehensive mishandling of the pandemic.

The net effect of all the above is that Xi Jinping, whose domestic political position was in considerable difficulty earlier this year, now finds his position strengthened. And Donald Trump is no longer with us. Well, almost no longer with us.

Xi Jinping's continued political ascendancy was underlined by the Fifth Plenum Meeting of the Central Chinese Committee, which concluded on the 29th of October. Judging by the Plenum's outcome, Xi's political ambition to remain in power for the next 15 years looks increasingly secure.

China also looks to be in a better position to surpass the American economy over the course of the 2020s, accelerated by the rapid pace of the Chinese recovery.

And the 2020s increasingly appear to be the decade when Xi Jinping will want to see the realization of reunification with Taiwan. Indeed, a little noticed op-ed by a senior party official in early November stated, "It may be difficult to achieve the goal of cross-strait unification without using military force." No one has used that sort of language about Taiwan at senior levels in Chinese politics for more than 40 years.

For these reasons, this decade, the 2020s, looms as the make-or-break decade for the future of Chinese and/or American power. Whatever each country may publicly declare as being its strategic objectives in relation to the other, the reality is that deep strategic competition between Washington and Beijing is already well underway.

And the prize at stake is who gets to write the rules of the international order for the rest of the twenty-first century—not just in the rarefied world of foreign policy, and not just for the international institutions that form the current rules-based system, but also who gets to set the standards for the new technologies that will drive and, in some cases, dominate our lives for decades to come.

The 2020s therefore will be very much the decade of living dangerously for us all.

## CHINESE POLITICS DURING 2020

The Fifth Plenum of the 19th Central Committee in October 2020 was ostensibly about economics. It was to approve the party's formal recommendations for the content of the 14th Five-Year Plan, which will be formally considered by the National People's Congress in March 2021. And while the economic content of the next Five-Year Plan is important (as I will elaborate later in my remarks), the primary significance of the Plenum was politics. It laid the foundation for the 20th Party Conference in November 2022, which will formally determine whether Xi Jinping will become, in effect, leader for life.

What the text of the Plenum communiqué reveals is that Xi Jinping's political position has become even further entrenched. The adulatory language used at the Plenum about Xi Jinping was deeply reminiscent of that used for Mao. Xi was referred to as China's "core navigator and helmsman." The last time the word "helmsman" was used to describe a Chinese political leader was in reference to the great helmsman (*Weida de Duoshou*) Mao Zedong himself at the height of the Cultural Revolution.

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Central Committee members also showered Xi Jinping with praise, including Xi's "major strategic achievement" in the handling of the COVID-19 pandemic.

Most important, however, beyond the public sycophancy toward Xi, was the fact that the Plenum did not nominate a successor. In recent decades, it had become "normal" practice for China's leaders to use the Fifth Plenum of the Central Committee during their second term in office to indicate who was most likely to succeed them. For example, under the previous party General Secretary Hu Jintao, at the Fifth Plenum of the 17th Committee in 2010, Xi Jinping was appointed vice chairman of the Central Military Commission, thereby making it plain to all that he would be inheriting Hu Jintao's mantle.

No comparable appointments were made during the Fifth Plenum in 2020. It is, therefore, the most formal indication so far that Xi Jinping will seek to remain in office for a third term and probably beyond,

thereby finally breaching the convention laid down by Deng Xiaoping that party leaders should only remain in office for two terms, thereby avoiding the problem that arose with Mao in the last 20 years of his career.

Xi Jinping has also spent a large part of 2020 eliminating any real or imagined political opponents.

Xi Jinping had already paved the way for this change back in 2018 when the National People's Congress formally amended the constitution to allow the Chinese president to exceed a two-term limit. However, the decision by this Plenum not to appoint a successor to Xi Jinping provides the final formal proof that this is now his clear intention.

Lest there be any doubt on this question, Xi Jinping has also spent a large part of 2020 eliminating any real or imagined political opponents. There have already been a range of purges, imprisonments, arrests, removals, or demotions of individuals who have been critical (or at least seen to be critical) of Xi Jinping's policy course.

Most spectacular among these was the investigation of Vice President Wang Qishan's former chief of staff, Dong Hong, who had worked closely with Wang for 20 years between 1998 and 2017. This has been a remarkable development. Wang Qishan and Xi Jinping had previously been regarded as close, with Xi entrusting Wang with the leadership of the party's anticorruption campaign between 2013 and 2018. Indeed, Dong Hong worked for Wang in this capacity. Dong's arrest is a shot across the bow for any potential political challenger to Xi's authority, including those closest to him.

In June 2020, Xi also launched a new "Party Education and Rectification Campaign" targeting the Party's legal and security apparatus in particular. Chen Yixin, the secretary-general of the party's Political and Legal Affairs Commission—which oversees China's law enforcement bodies—was more explicit. In his words, the goal of the campaign was "pointing the blade inward, to completely remove the cancerous tumors, remove the evil members of the group, and ensure that the political and legal team is absolutely loyal."

In October, Chen said that the "three month pilot program" of the rectification campaign was ending, but only to consolidate so that a "nation-wide rectification can begin next year." He highlighted that, so

far, 373 officials had been put under formal investigation and 1,040 others disciplined. “Rectification of political and legal teams has entered a critical period of investigation and correction,” he said.

Therefore, in 2021, the year during which preparations for the critical Party Congress of 2022 will be most intense, the party’s internal security apparatus is about to be reminded that Xi Jinping means business.

The series of purges that have occurred across these security-related institutions over the past seven years reflect the fact that Xi Jinping has never believed that this central part of the Chinese Communist Party’s internal machinery was fully under his control. Indeed, in Beijing, it was widely believed that these institutions had been the last redoubt of former General Secretary Jiang Zemin, despite Jiang having left office in 2002. One of Xi Jinping’s political hallmarks is that he never leaves anything to chance.

As soon as Xi Jinping took power, he conducted widespread purges of the senior leadership of the People’s Liberation Army with the anticorruption campaign, replacing them with his own appointments of people he believed to be “absolutely loyal” to his command. Xi had earlier also brought the People’s Armed Police (China’s massive paramilitary force) under the direct control of the CCP, removing it from the control of the State Council, where it had long enjoyed a level of institutional autonomy.

The opportunity for any form of policy, let alone political dissent, outside the internal organs of the party has now.

Finally, Xi Jinping succeeded at the most recent Plenum in promoting six new members of the Central Committee. All six are very much Xi Jinping’s men. These are the party’s secretaries in Hubei, Zhejiang, Shaanxi, and Liaoning and the governors of Shanghai and Shandong. The promotion of “Xi’s people” has been unfolding rapidly in the six weeks since the Fifth Plenum.

These actions build on a range of measures already implemented by Xi Jinping in his first seven years in office that consolidated more and more political power in his own hands. Xi has been described as “the chairman of everything.” He is personally chairman of all the major leading groups of the party that in any way deal with significant policy questions. He has also relegated the status of Premier Li Keqiang and the State Council (China’s cabinet) to a secondary and sometimes peripheral role. Under Xi, power has been relocated to the center.

This is also consistent with Xi Jinping’s more general assertion of the centrality of the party’s political and ideological rule over the country, the economy, and society at large. The opportunity for any form of policy, let alone political dissent, outside the internal organs of the party has now been severely circumscribed. This now also extends to the universities, civil society, the media, and even international organizations (e.g., the investigation of the most recent president of Interpol, Meng Hongwei).

## NATIONAL SECURITY PRIORITIZED

A further innovation of the recently concluded Party Plenum, and the recommendations for the 14th Five-Year Plan that the communiqué outlines, has been the large-scale expansion of the party’s security control

machinery. The communiqué states: “We will improve the centralized, unified, efficient and authoritative national security leadership system...improve national security legislation...and strengthen national security law enforcement.” Tellingly, the communiqué also explains that the party now sees security as the key factor in China’s future development. As it states: “We’ve become increasingly aware that security is the premise of development and development is the guarantee of security.”

This was also visible when Xi hosted a November meeting on crafting new national security directives, when Xi stressed the necessity of achieving “security” in every facet of China’s existence, including “economic security, political security, cultural security, social security, and ecological security.”

Minister of Public Security Zhao Kezhi gave a much more detailed explanation in a long *People’s Daily* op-ed published on November 12. “The public security organ,” he said, is the most “important tool of the people’s democratic dictatorship and a ‘knife handle’ in the hands of the party and the people. Politics is the first attribute and politics is the first requirement.” It was their job to “firmly grasp the eternal root and

soul of loyalty to the party” and to “focus on building and mastering public security organs politically, and to earnestly implement absolute loyalty, absolute purity, and absolute reliability as the only thorough and unconditional political requirements” along with being “absolutely loyal to the CCP Central Committee with Comrade Xi Jinping as the core.” Zhao concluded that would require giving “full play to the role of ‘knife handle’” to “resolutely defend the long-term ruling status of the Communist Party of China.”

For Xi Jinping, the reality of geopolitical tension with the United States has both fortified and, to some extent, helped justify domestically his preexisting determination to assert maximum control over Chinese politics, media, business, academia, and society.

Xi Jinping’s determination to extend security control across most aspects of Chinese life has also been reinforced by rising geopolitical tensions with the United States. Guo Shengkun, the Politburo member who heads the party’s Central Political and Legal

Affairs Commission, drew an explicit link between the party’s internal and external security challenges in another article in November 2020. He stated that “we must firmly safeguard the state’s political safety, regime safety, and ideological safety” and “we must defend against and strike hard on sabotage, subversion, and splitism by hostile forces.”

For Xi Jinping, the reality of geopolitical tension with the United States has both fortified and, to some extent, helped justify domestically his preexisting determination to assert maximum control over Chinese politics, media, business, academia, and society.

It is important to note that no previous Chinese Five-Year Plan document has ever included a section dedicated specifically to national security. That has now changed. Of itself, this underlines China’s worsening external environment; the threat (in Beijing’s mind) now posed to China’s future national development; and the justification, therefore, for the securitization of everything.

## A MAJOR TURNING POINT

As noted, the Fifth Plenum is remarkable for what it says about both Chinese politics and economics.

The Plenum celebrates the fact that China has now achieved the first of its twin centenary goals—that is, for China to become “a moderately prosperous society” by the centenary of the establishment of the Chinese Communist Party in 1921. The second of the centenary goals, scheduled for 2049 on the centenary of the People’s Republic itself, is for China to achieve the status of a fully developed economy.

Over the past year or two, however, Xi Jinping has been advancing a new intermediary goal for 2035. And for the first time, in the October Plenum document, Xi outlined his blueprint for turning China into a “great modern socialist nation” over the course of the next 15 years. These 2035 goals are defined as follows:

- “Modernization to be achieved” in industrialization, agriculture, urbanization, and data;
- Per capita GDP to reach “the level of other moderately developed countries”;
- China’s economic, scientific, and technological strength, as well as overall national strength to see a “sharp rise”; and
- Major breakthroughs in key core technologies to be achieved, with China “entering the forefront of innovative countries.”

The plenum document indicates that Xi now intends to accelerate China’s second centenary goal—making China into “a modern socialist country that is prosperous, strong, democratic, culturally advanced and harmonious” by the end of 2049—to at least majority completion by 2035.

This was underlined a week before the Plenum by Li Junru, former vice president of the Central Party School of the Communist Party, who said that Xi believed China’s economic success “allows us to now have a very good foundation for the basic realization of modernization proposed by Deng Xiaoping 15 years ahead of schedule.” He also indicated that the Fifth Plenum would be “a major turning point” for China’s path to modernization.

In 2035, Xi will be 82. This is the same age as Mao at his death. Therefore, it seems Xi is aiming to see his vision realized before his own passing—and quite possibly before the end of his own time in power.

Finally, Xi Jinping’s campaign to continue in office for another three 5-year terms, his expansion of party control across Chinese politics and society, as well as his broadening of the powers of the party’s national security apparatus have been reinforced by a parallel campaign to ramp up popular nationalism.

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In a strikingly fiery speech on October 23, Xi used the commemoration of China's entry into the Korean War to harness Chinese nationalist sentiments against future external threats:

- Xi quotes Mao calling China's "victory" in the Korean War against the United States as "a declaration that the Chinese people had stood firm in the East, and an important milestone in the Chinese nation's march toward the great rejuvenation."
- Xi states that the correct lesson from the Korean War was that "Seventy years ago, the imperialist invaders fired upon the doorstep of a new China ... that Chinese people understood that you must use the language that invaders can understand—to fight war with war and to stop an invasion with force, earning peace and respect through victory and that the Chinese people will not create trouble, but nor are we afraid of trouble, and no matter the difficulties or challenges we face, our legs will not shake and our backs will not bend."
- Xi added for effect that "Once provoked, things will get ugly," and that China will "never allow any person or any force to violate and split the motherland's sacred territory ... for once such severe circumstances occur, the Chinese people shall deliver a head-on blow."
- And finally, in a pointed jab at the United States, he declared that "Any country and any army, no matter how powerful they used to be" would see their actions "battered" by international sentiment if they stood against China.

Earlier, on September 3, Xi had spoken at a ceremony commemorating the 75th anniversary of the end of the war against Japan, where he declared the five things the CCP could "never allow":

- For anyone to "smear" the party or its history;
- For anyone to "deny and vilify" the party's achievements;
- For anyone to "impose their will on China through bullying, or change China's direction of progress";
- Any obstruction of China's "right to development"; and, most importantly,
- Any attempt to "separate the CCP from the Chinese people."

In a new book of previously unpublished Xi speeches released on September 6, titled *Discourses on Preventing Risks and Challenges and Responding to Emergencies*, Xi also warns of "the treacherous international situation" that China faces, and "an intensifying contest of two ideologies," with the United States desperate to Westernize and split China as the global balance of power shifts in China's favor.

To conclude, Chinese domestic politics over the course of 2020 has gone through its own radical cycle: from a leadership that was, in many respects, reeling from the impact of COVID-19 and economic implosion in the first part of the year to a leadership that by year's end was committed to the further consolidation of Xi Jinping's power, and the strengthening of the overall control of the party.

This does not mean that internal opponents to Xi Jinping's political, economic, social, and foreign policy measures have disappeared. They have not. But they have been placed in check by Xi Jinping's

superior political craft. As I've written many times before, within the brutal politics of the Chinese Communist Party, Xi Jinping is both a master politician and a master Machiavellian. His ability to identify where the next political challenge will come from, and how to prevent it and/or outflank it, has proven to be formidable.

## ECONOMIC POLICY

So, what about the economy? China's continued economic performance, measured by rising living standards, has been the core determinant of the party's political legitimacy in the 44 years since the end of the Cultural Revolution. By 1976, the year that Mao died, the "Gang of Four" was purged and the Cultural Revolution ended, the party's credibility had been shattered, and the country was on the verge of bankruptcy.

The centrality of economic growth has been fundamental to the political calculus of Deng Xiaoping, Jiang Zemin, and Hu Jintao. Indeed, it was Deng who warned the party in his famous phrase "only development is the hard truth" (*fazhan caishi yingdaoli*) that it was time to stop focusing on politics and ideology and start doing the pragmatic economic work necessary to improve the people's livelihoods since the "very essence of socialism was the liberation and development of the productive systems." "Most of all," he warned, "we must be concerned about left-wing deviations" from this pragmatic path.

Since 2015, and particularly since the 19th Party Congress in 2017, Xi Jinping has embarked on a different direction. Xi has reaffirmed the centrality of politics, Marxist-Leninist ideology, and party control.

This profound change in course was reflected in the turgid ideological clauses buried in the communiqué of the 19th Party Congress in 2017, reflected in the party's formal redefinition (deploying arcane Marxist-Leninist phraseology) of the party's "central contradiction." Equality, not just unrestrained economic development, was now Xi Jinping's new mantra.

Prior to the COVID-19 crisis, China's economic growth trajectory was already under pressure across a number of fronts. Xi Jinping's domestic economic policy settings had become less market oriented, less private sector friendly, and more embracing of the traditional powers of China's previously embattled state-owned enterprise sector. Over the course of 2016, 2017, and 2018, these changes had begun to generate a negative effect on private business confidence. Indeed, private fixed capital investment growth began to fall for the first time in decades. This in turn flowed through to a softening in China's overall economic growth numbers.

There was also the additional impact of the trade war on the Chinese economy, particularly on China's manufacturing exporters, who had grown dependent on the American consumer market. In addition, the

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interruption of China's global supply chains once the trade war began started to morph into the "tech war" during 2019 and 2020.

Third, there was the impact of the COVID-19 crisis itself on China's domestic economic growth, compounded by the COVID-induced global recession that further impacted Chinese exports.

## RESTORING ECONOMIC GROWTH

The challenge for Xi Jinping and his senior economic leadership in 2020, therefore, was to craft a strategy for dealing with the immediate economic crisis they faced, while developing a long-term approach for China's economic development through the 2020s and into the 2030s.

On the immediate challenge to restore growth, sustain employment, and support China's traumatized small business sector, the party resorted to a combination of fiscal and monetary policy stimulus. Here, the balancing act has been difficult—between providing sufficient stimulus to sustain growth, while not repeating the mistakes of the previous stimulus strategy adopted during the 2008 global financial crisis, which created a series of asset bubbles, adding to private and public sector debt levels and compounding systemic financial risks to the economy as a whole.

The jury is still out as to whether China has gotten this balance right in 2020. Superficially, China's positive economic growth of 1.5 to 2 percent for 2020 points to policy success, compared with the negative growth performance of most of the rest of the developed and developing world. But on closer examination of the numbers, particularly China's national accounts data that analyze the internal drivers of growth, it's clear China's 2020 economic recovery has been built on public investment (based on borrowing) rather than a rejuvenated private sector.

In the medium-to-long term, this may prove to be problematic given that, pre-crisis, 60 percent of China's GDP was generated by the private sector—not to mention all of China's employment growth. Furthermore, with China's pre-COVID debt-to-GDP ratio already standing at a staggering 310 percent, the continuing challenge of systemic financial risk looms large for China's economic and financial policy establishment.

Much more problematic, however, for the medium-to-long term future of the Chinese economy has been the stalled nature of China's economic reform program over the past seven years. With the exception of some elements of financial system reform, most of the other components of the much-trumpeted 2013 market reform blueprint have not been implemented. This has been particularly problematic in the area of competition policy and the continued privileged position of Chinese state-owned enterprises against domestic or foreign private firms.

## XI JINPING'S "DUAL CIRCULATION ECONOMY"

This is the background to the party Plenum's consideration of China's economic policy settings for the upcoming Five-Year Plan, encompassing the period between 2021 and 2025.

The Plenum's major economic policy "innovation" has been the formal confirmation of Xi Jinping's so-called "Dual Circulation Economy." In essence, this strategy calls for increasing China's economic

reliance on its own massive domestic market by ramping up consumer demand (internal circulation), while rebalancing China's global economic engagement from a mass export-orientated model to a model prioritizing imports and only high-value chain exports (external circulation). It is, in part, a reversal of the "great international circulation" strategy adopted by Deng Xiaoping in the 1990s to power China's rise under the general strategy of "reform and opening.

Xi's Dual Circulation strategy is fundamentally a bid to make China's economy more resilient to external shocks brought on by geostrategic turmoil as the "world undergoes profound changes unseen in a century" (*shijie chuyu bainian wei you zhi da bianju*)—an assessment Xi first made in 2018 and now regularly uses to describe the global situation.

The Fifth Plenum communiqué directly echoed this belief, stating, "today's world is experiencing a great change not seen in a hundred years," and that "the balance of international power has been profoundly adjusted."

In July, Xi warned his Politburo colleagues that China's overall economic situation was "complex and severe," and that "the many problems we face" were like "fighting a protracted war." Winning this protracted war would require "the formation of a new development pattern" based on Dual Circulation. The Plenum echoed this language and called on the party to "maintain strategic resolve" during a "protracted battle."

The next Five-Year Plan, therefore, reflects the strategic conclusions of Xi and senior leadership about a difficult and increasingly hostile global environment for China, accelerated by the COVID-19 pandemic and China's response to it. While Dual Circulation is in part a slogan reiterating some long-standing Chinese intentions on economic reform—rebalancing the economy toward consumer demand, improving market efficiency and progressing with measured financial opening, encouraging "indigenous innovation" and entrepreneurship—it is also an acceleration of those commitments based on a shifting geopolitical calculus.

Most importantly, Dual Circulation reflects Beijing's conclusions about the future of a U.S.-China relationship it views as now potentially in a state of terminal collapse—where strategic competition is now "hard-baked."

With the United States now determined, in Beijing's view, to do whatever it takes to hold China down and maintain American economic, technological, and military hegemony, the Dual Circulation model attempts to adapt China to a new world where U.S.-China decoupling now seems (at least in part) inevitable.

In this world, China's vast internal market can, in Xi's vision, not only drive "self-sufficient" economic growth but also become what he has called a "huge gravitational field attracting international commodity

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and factor resources” that force the rest of the world to engage with China on Beijing’s own terms, or else fall behind commercially.

This means that Dual Circulation isn’t exactly a plan to close China’s doors or end reform and opening altogether, as China remains as eager for foreign money as ever. Liu He, China’s economic and finance czar, who has led the drafting of the 14th Five-Year Plan for Xi, has been careful not to scare off foreign investors.

On November 25, Liu wrote an op-ed in the *People’s Daily* pledging that Beijing was “by no means trying to close itself up or to achieve total self-sufficiency” through its Dual Circulation strategy, although China would, at the same time, rely on its large domestic market to attract “global commodity and resource” inflows, which it would use to forge new “competitive advantages” internationally. Indeed, in recent months China has taken significant steps to further open the financial sector to full foreign ownership among a series of reforms designed to continue attracting foreign firms into China.

China is also increasingly confident in the international trade environment. Feeling emboldened by the long-awaited signing of the Regional Comprehensive Economic Partnership (RCEP), Xi Jinping is already sharing his thoughts about next steps on trade. In his recent speech at the China International Import Expo in Shanghai, Xi said that China will “speed up negotiations on a China-EU investment treaty and a China-Japan-ROK free trade agreement,” as well as “take an active part in WTO reform.”

On November 20, Xi Jinping also addressed the Asia-Pacific Economic Cooperation (APEC),

celebrating the signing of the RCEP agreement and then making a surprise announcement that China would consider joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) as well.

Notwithstanding Xi Jinping’s assurances that his new concept of a Dual Circulation Economy does not mean de-globalization, the end of opening and reform, or a new form of protectionism, the bottom line is that permeating each and every one of the Plenum documents, including a series of authoritative statements both prior to and subsequent to the party conference, the political message of national self-reliance remains dominant.

Here the hand of Xi Jinping seems clear in the drafting. Xi is concerned about a future Chinese economy that is too exposed to the global economy (and the fluctuations in global demand that come from that), too exposed to the possibility of future trade wars (stung by the humiliation he suffered at America’s

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hands in the conclusion of the “Phase One” trade deal in January 2020), too exposed to the political interruption of China’s global supply chains (brought home acutely by the American-led bans on Huawei and future threats on semiconductors and artificial intelligence), and too exposed to the long-term risk of U.S. dollar–denominated financial sanctions.

The United States and the West need to understand fully that this Plenum communiqué represents a potential policy watershed for the future. “National self-reliance” does in fact run the real risk of becoming a new form of protectionism. Just as the concept of a Dual Circulation Economy may well come to mean globalization with increasingly Chinese characteristics.

## NATIONAL TECHNOLOGY POLICY

Xi Jinping’s political and psychological predisposition to move increasingly toward national self-reliance is best reflected in the Plenum’s enunciation of technology policy.

The ongoing U.S.-China “tech war” has revealed a number of areas in which China faces critical shortcomings in its supply chains, technological know-how, and manufacturing capacities—such as semiconductors—that Xi is now determined to overcome. In a national effort to fill in these shortcomings (*duan ban*) in the Chinese system, and indeed to attain a world-leading position in key technologies and global technology standards, Xi’s 15-year plan adopted at the Plenum makes China’s self-reliance in technology into a national strategic pillar.

The substance of this goal was laid out in greater detail in a major science and technology plan released just ahead of the Plenum that includes incredibly ambitious targets for 2035. The “strategic emerging industries” plan identifies eight areas in which to pour investment: 5G network applications, biotech and vaccine development, high-end manufacturing, new materials for aerospace and chip making, new energy technologies, green technologies and equipment, smart and new energy vehicles, and creative digital businesses. The strategy aims to build “10 strategic emerging industrial bases with global influence, 100 strategic emerging industrial clusters with international competitiveness, and 1,000 strategic emerging industrial ecosystems with unique advantages.”

Without using the name, the plan is a clear update to “Made in China 2025” but is now even more detailed and targeted, identifying not only the general areas to be invested in but also naming specific products that China must develop, such as semiconductors, industrial robots, and advanced machine tools. In all of this, China’s state-owned enterprises are given a leading role. The plan is a bid to make full use of what Xi calls China’s “new-type national system” (*xinxing juguo tizhi*), which channels China’s state-backed technological development capabilities to boost economic performance and comprehensive national power, along with social stability.

Whatever hopes U.S. trade negotiators had for some sort of “Phase Two” deal with China on the impact of state subsidies on Chinese corporations in both the national and international marketplaces, China’s new technology policy sounds the death knell to that.

Therefore, whatever hopes U.S. trade negotiators had for some sort of “Phase Two” deal with China on the impact of state subsidies on Chinese corporations in both the national and international marketplaces, China’s new technology policy sounds the death knell to that.

In fact, we’ve undergone something of a 360-degree evolution in the past several years. American and European attacks on the “Made in China 2025” strategy in 2018 caused the Chinese leadership to remove all reference to the strategy from Chinese government websites. It was then, presumably, to be the subject of Phase Two negotiations between the Chinese and the Americans following the signing of the Phase One deal at the White House in January 2020. Now, however, the listing of Huawei, as well as a number of other Chinese high-technology companies, has caused the Chinese to come full circle and to re-embrace with a vengeance their preexisting state technology strategy.

## CHINA’S CURRENCY STRATEGY

Although not dealt with in detail in the Plenum communiqué, China’s new approach to national self-reliance also extends to its currency strategy. China’s interest on this score, as noted previously, is to reduce its exposure to the risk of U.S.-denominated financial sanctions in the future. This, Beijing has concluded, is a growing risk given the structural deterioration in the U.S.-China geopolitical relationship.

We have seen an increasingly concerted effort to advance the internationalization of the RMB, with the People’s Bank of China (PBOC) Governor Yi Gang pledging ahead of the Plenum that promoting broader use of the RMB will continue hand-in-hand with the opening of markets.

This has included Beijing allowing the currency to strengthen to its highest level against the dollar in decades as the emphasis on the centrality of exports to China’s economy declines.

Beijing has also accelerated efforts to develop and implement a pilot digital currency, backed by the PBOC, with the goal of deploying that digital yuan for cross-border field-testing by the 2022 Winter Olympics.

Both efforts reflect not just a return of confidence in China’s economic performance coming out of the pandemic but also a willingness to challenge, over time, the U.S. dollar’s long-dominant status as the world’s reserve currency. Given China’s growing dominance of the global digital commerce market, the deployment of the digital RMB is likely to also grow. This is particularly the case across the developing world. Chinese officials are privately discussing the desirability of the digital RMB becoming the reserve currency of choice among emerging economies by the end of the decade.

It will, nonetheless, be some time yet before the Chinese government will be prepared to cross the financial Rubicon by fully floating the yuan and liberalizing China’s capital account. And until that happens, China’s efforts to circumvent the dollar will remain limited. The key question for China will be at what stage the sheer size of Chinese capital markets will be enough to outweigh the residual fears of Chinese leaders that currency market liberalization could be manipulated for geopolitical purposes.

## IMPACT ON THE CHINESE PRIVATE SECTOR

As already noted in these remarks, a range of economic policy measures under Xi Jinping's administration over several years have cast a pall over business confidence levels for the Chinese private sector. Beyond pure economic policy, there has also been a clear political agenda on Xi's part to bring China's rambunctious private sector under greater party control.

In the past, this has been reflected in the administration of a national credit policy (which by and large preferences the state-owned sector) competition policy effectively protecting state-owned enterprises (SOEs); the enhanced role of party secretaries in the management structure of private firms; and more recently, Xi Jinping's much vaunted "mixed economy model," code language for SOEs taking equity in private firms, or private firms being required to purchase or take equity in nonperforming SOEs.

## A TURNING POINT IN CHINESE ECONOMIC REFORM

With the formal endorsement of Xi Jinping's Dual Circulation Economy model, the full-throated embrace of national self-reliance, the launching of China's "new type national system" in technology development, as well as the recent unhappy experience of Ant Financial, the question arises as to whether 2020 represents a deep turning point in China's overall economic policy settings since the launch of reform and opening 42 years ago.

The jury is still out. The political assurances from China's leadership have come thick and fast that this is not the case. Indeed, the leadership had promised further liberalization of the Chinese financial sector (Ant aside, it seems) and that the market, rather than the state, would play the dominant role in China's economic future. Skepticism, however, is mounting. Analysts will be awaiting fresh evidence during the course of 2021 to establish the economic reality on the ground.

## CONCLUSION

This speech did not set out to address China's likely overall strategy toward the Biden administration, although it has dealt with that in one small part. Nor have I set out to deal with the Biden administration's likely strategy toward China, including what would, in my judgment, be its most desirable content and form. Nor have I, at this stage, sought to address the implications of all of the above on third countries like Japan, the Republic of Korea, member countries of ASEAN, India, Australia, Canada, Europe—and the developing world more generally.

These are critical subjects to be addressed on a different occasion, although many fine scholars, analysts, and former officials have already addressed these questions in recent weeks. Instead, what I've sought to do in these remarks is deal with the domestic political and economic drivers of Chinese international policy.

I believe that it's critical that we are clearheaded about these factors. Because, if we are not, it is likely to distort our analysis on the broader strategic questions arising from U.S.-China relations and their impact on the future international order.

The conclusion I have reached to date, based on the evidence that has emerged during the course of 2020, is that Xi Jinping's China continues to move toward the left on politics, partially to the left on the economy, while also becoming progressively more nationalistic.

That does not mean that it will therefore be impossible for the rest of the world to have a productive relationship with such a China in the future. What it does mean, however, is that the China of the future is increasingly different from the China of the pre–Xi Jinping past.

On the core question of whether Xi Jinping's core domestic political and economic strategy will succeed or fail, unfortunately, I've left my crystal ball back in our home in New York. And I won't be able to retrieve it until I return to Gotham City, though I hope that will be soon.

Xi Jinping well may prevail, particularly if U.S. strategy continues to fail.

Alternatively, many factors are still at work within China itself that could cause Xi's domestic strategy to unravel: a radical polarization of domestic political opposition as a result of the harshness of the party rectification campaign to be unleashed in 2021; a Chinese private sector that embarks on a private investment strike in response to diminished business confidence; a large-scale, system-wide financial crisis,

The critical variable for the future is what the Biden administration and its friends, partners, and allies around the world now do. The recent record of U.S. policy has been less than impressive.

driven by excessive indebtedness and bank and corporate balance sheets that are no longer able to cope; further natural disasters, including a possible repeat coronavirus pandemic, given that these have occurred periodically in China's recent past; or an unanticipated national security crisis with the United States that erupts into a premature conflict or even war.

Xi Jinping, however, believes that history is on his side. Xi is a Marxist determinist who believes in the twin disciplines of dialectical and historical materialism. For these reasons, he believes that China's continued rise is inevitable, just as the relative decline of the United States and the West is equally inevitable.

The critical variable for the future is what the Biden administration and its friends, partners, and allies around the world now do. The recent record of U.S. policy has been less than impressive.

But the president-elect has assembled a formidable domestic, economic, and international policy team. They certainly have the intellectual capacity to grasp the complexity of the interrelated challenges (both foreign and domestic) that they face.

The question is whether, as De Tocqueville observed in a previous century, the politics of this curious American democracy, and its permanent predilection for divided government, will accommodate the strategic clarity and resolve that will be necessary for America to prevail.

# 8. The New Geopolitics of China's Climate Leadership

An essay published by China Dialogue and *FT Chinese*

December 11, 2020



Chinese President Xi Jinping delivers his speech during a joint ratification of the Paris climate change agreement with U.S. President Barack Obama (not pictured) ahead of the G20 Summit at the West lake State Guest House in Hangzhou, China. How Hwee Young. AFP. Getty Images. September 3, 2016.

**SINCE 2014, CHINA HAS EMBARKED ON A NEW ERA** of confident, independent international policy activism under President Xi Jinping—the origins of which can be traced back to the Chinese Communist Party’s 2014 Central Conference on Work Relating to Foreign Affairs. That conference marked the end of Deng Xiaoping’s 30-year-old dictum of “hide your strength, bide your time, never take the lead.”

The origins of China’s newfound desire to play a leadership role in the global fight against climate change can also be traced back to 2014. This includes Xi’s landmark joint announcement on climate change with President Barack Obama less than three weeks before the party’s Central Work Conference.

China has shown a steady determination to demonstrate its own climate credentials, which increasingly has become a bright spot in China’s position on the world stage.

Since then, China has shown a steady determination to demonstrate its own climate credentials, which increasingly has become a bright spot in China’s position on the world stage. Yet, Xi’s announcement this September that China will aim to achieve carbon neutrality before 2060 marked an important new milestone. For the first time, China has signaled it is not just willing to be a participant in the international

fight against climate change but that climate leadership has crossed the geopolitical Rubicon in Beijing’s eyes. In other words, it has become a central priority for China irrespective of the steps taken by other countries, including the United States.

This marks an important new era for the geopolitics of China’s climate leadership but also one in which Beijing must understand that it will be judged more sharply than ever before, including by its developing country compatriots. This is especially the case as President-elect Joe Biden takes office in the United States with a wide-ranging and ambitious program to tackle climate change both at home and abroad.

To best navigate these newfound expectations and responsibilities, China will need to significantly bolster its short-term efforts to reduce emissions through its 2030 Nationally Determined Contribution (NDC) under the Paris Agreement, especially with regard to its future use of coal. Piecemeal steps forward in the short term will be insufficient in the eyes of the international community. At the same time, China must demonstrate a propensity to achieve Xi’s vision of carbon neutrality as close to 2050 as possible and start to seriously reorient its support for carbon-intensive infrastructure overseas through its Belt and Road Initiative (BRI).

Without these steps, any goodwill generated by Xi’s recent announcement risks quickly becoming a thorn in China’s side because of the geopolitical benchmarks it has now set for itself.

## ECOLOGICAL CIVILIZATION

While it was President Hu Jintao who first used the phrase “ecological civilization” in 2007 to describe China’s own brand of environmentalism, it is Xi who has made it part of the party’s lexicon and a key pillar for the country’s development.

In doing so, Xi has deliberately sought to differentiate China's approach from traditional Western notions of liberal environmentalism. This includes by underscoring the economic importance of environmental action, as evidenced by his regular pronouncement that "clear waters and green mountains are as valuable as mountains of gold and silver," a phrase Xi first used in 2005 when he was party secretary in Zhejiang province.

Until now, domestic imperatives have been driving China's creeping environmentalism. The single greatest inspiration for the change in behavior between the China the world grappled with at the UN Climate Conference in Copenhagen in 2009 and the China that was instrumental in the securing of the Paris Agreement in 2015 was rising concerns among the Chinese population about the level of air pollution in their cities. Declaring a "war on pollution" during the opening of the 18th National Party Congress in March 2014 underscored this.

However, that same year, Xi's rhetoric also started to emphasize the international imperatives of climate action. This included his declaration that "addressing climate change and implementation of sustainable development is not what we are asked to do, but what we really want to do and we will do well." Nevertheless, China remained cautious, as demonstrated by Xi's decision not to attend a climate summit convened by former UN Secretary-General Ban Ki-moon in September 2014, which was billed as the most important moment in the lead-up to Paris.

Xi's rhetoric started to emphasize the international imperatives of climate action. This included his declaration that "addressing climate change and implementation of sustainable development is not what we are asked to do, but what we really want to do and we will do well."

Nevertheless, in 2015 and 2016, Xi embarked on an intensive environmental reform effort within the party, including through embedding the concept of "ecological civilization" in the 13th Five-Year Plan and pitting it alongside the concepts of "The Chinese Dream" and "The Two Centenary Goals," including doubling China's GDP by 2020. China's vision of ecological civilization was also a central concept in the 2015 NDC it tabled as its first commitment under the Paris Agreement.

This helps demonstrate why, by January 2017, just days before the inauguration of President Donald Trump who was elected on a platform of withdrawing the United States from the Paris Agreement, Xi was prepared to use an address to the World Economic Forum in Davos to signal China would nevertheless stay the course with the agreement. The significance of Xi's statement at the time should not be underestimated. If China had chosen to use Trump's formal confirmation in June of that year of his intention to withdraw from the agreement as an opportunity to obfuscate on its obligations—or worse to also seek to withdraw from the agreement altogether—it is unlikely that the agreement would remain intact today. For that, the world owes China a debt of gratitude.

## A NEW ERA

Xi's announcement this September that China will achieve carbon neutrality before 2060 marks an important new era for the geopolitics of China's climate leadership. Xi's announcement was his most

important speech on climate change since his January 2017 address in Davos and his November 2014 joint announcement with Obama.

For most of the Trump era, China's approach to the international fight against climate change had been akin to that of a substitute teacher. Beijing had never signaled a desire to do more than simply cover the field in Washington's absence. Important initiatives such as the establishment of the Ministerial on Climate Action (MoCA) alongside the EU and Canada were more at the behest of Brussels than Beijing. And for Beijing, this was an easy win until the breakdown in relations with Ottawa beginning with the arrest of Huawei's Meng Wanzhou in late 2018, which made the optics of cochairing this forum difficult.

However, September's announcement demonstrated that China's diplomatic calculation has now changed. With a deadline looming next year for countries to respond to the Paris Agreement's invitation to develop long-term decarbonization strategies for mid-century, and to enhance their short-term climate targets (NDCs), few expected China to make any serious pronouncements on either before the outcome of November's U.S. presidential election was clear. And in the event of a Biden victory, Beijing would still have a sweet spot between November and January to make announcements to head off future pressure

from a Democratic administration in Washington. The fact Xi decided China should nevertheless be prepared to adopt—for the first time—a clear pathway to decarbonize its economy was therefore hugely significant.

The fact that Xi's announcement also made no reference to China's traditionally hard-held bifurcation between developed and developing countries' responsibilities, or indeed linked China's actions in any way to the actions of others, was also

China will now be judged on an increasingly level playing field with the United States, the European Union, and regional powers like Japan, rather than simply rewarded for coming to the table.

very significant. Xi's dismissal of the Europeans' attempts to extract such an announcement just a week earlier during a virtual EU-China leaders' meeting underscores that he clearly now sees greater geopolitical value in China's preparedness to signal its desire to act alone compared with the domestic value of being seen to use minor steps by China as a lever for extracting stronger commitments from the developed world in return.

## NEW GEOPOLITICAL BENCHMARKS

The challenge for China now is to live up to the new geopolitical benchmarks it has set for itself in the eyes of the international community. This includes among its G77 developing country compatriots, including the many island nations whose very existence hinges more than anything else now on the actions of developing countries such as China, as well as India (with Xi's announcement, India is now clearly forecast—for the first time—to become the world's largest emitter). In other words, China will now be judged on an increasingly level playing field with the United States, the European Union, and regional powers like Japan, rather than simply rewarded for coming to the table.

At the same time, China will need to be conscious that with President-elect Biden's inauguration in January, any goodwill it has built up in recent years for staying the course with the Paris Agreement will

quickly be eclipsed by the weight of Biden's own ambitions. This includes his determination to achieve net-zero emissions by 2050, aggressively ramp up U.S. short-term action through a new 2030 emissions reduction target, and completely decarbonize the domestic energy system by 2035.

China would be wise not to cut against this, given the troubles with the wider bilateral relationship. It is in both countries' interests to rebuild the cooperative relationship on climate change they established under the Obama administration, and which Biden—and his appointed Special Presidential Envoy John Kerry—played a key role in creating. From Biden's perspective, any attempt to address climate change without China doing more will inherently remain limited.

From Beijing's perspective, a cooperative relationship will help take the heat out of U.S. attempts to extract additional efforts by China, including with regard to its domestic use of coal and the Belt and Road Initiative—as well as potentially the implementation of carbon border tax adjustment policies and the like. Through a new framework of managed strategic competition, this can also be achieved while the overall relationship remains difficult. Indeed, climate change can be the topic that protects against the “decoupling” narrative across the board, and which builds a cooperative bridge to the United States and the broader West.

This will require a sophisticated approach by China, including overcoming its traditionally tin-eared response to the views of the international community on its climate credentials, and instead to demonstrate a willingness to understand genuine areas of geopolitical weaknesses on climate and to seek to overcome them.

## MID-CENTURY AMBITION

First, China would be well advised to confirm that Xi's September announcement will cover all greenhouse gas emissions and not just carbon dioxide. According to modeling by Xie Zhenhua's Institute of Climate Change and Sustainable Development at Tsinghua University, and a separate study by the Asia Society Policy Institute and Climate Analytics, this would put the goal squarely in-line with the global temperature limits set by the Paris Agreement, especially if coupled with deeper cuts in the short term to avoid higher cumulative emissions over time.

Ideally, China would also join the Biden administration and the European Union, plus every other G7 economy, including Japan (and now also South Korea), in committing to reach this goal closer to 2050. Few governments have as strong a propensity for effective and centralized long-term planning as does China. The celebration of the 100-year anniversary of the founding of the People's Republic of China in 2049 provides a ripe milestone for Beijing to have in mind.

The five-year anniversary of the Paris Agreement provides the perfect opportunity for Xi to further clarify China's position, ameliorating criticism from some quarters of his September announcement while

Indeed, climate change can be the topic that protects against the “decoupling” narrative across the board, and which builds a cooperative bridge to the United States and the broader West.

cementing a second wave of praise for what is at its heart a very bold step. At the very least, China could use this as an opportunity to formally deposit its long-term decarbonization strategy with the UN Framework Convention on Climate Change in line with Xi's September announcement—but unless this is met with at least some indication of a genuine attempt to build on this deadline over time, it risks merely being met with an increased level of skepticism by the international community.

## SHORT-TERM AMBITION

At the same time, China must be prepared to do much more to reduce emissions in the short term, including through depositing a new NDC next year in the lead-up to COP26 in Glasgow. While President-elect Biden will begin the process of rejoining the Paris Agreement on his first day in office, the United States is unlikely to be able to produce a 2030 NDC before the northern summer. And once it has, this is likely to

represent a significant first restorative step, potentially by elevating the Obama administration's pledge to reduce emissions by 26 percent to 28 percent by 2025 (on 2005 levels) to somewhere between a 38 percent and 54 percent cut in emissions by 2030.

China would therefore do well to heed that timeline and not seek to simply make piecemeal advancements to its own NDC before the end of 2020. While the literalists in China's diplomatic corps will be conscious of the Paris Agreement's original deadline of 2020 for the updating of NDCs (prior to the impact of COVID-19 and the delaying of COP26), the reality is that the international community will judge the country more harshly for hastily delivering an

What is already clear is that Xi's other announcement in September that China will now aim to peak emissions "before"—as opposed to "around"—2030 will simply not cut it in the eyes of the international community that will be looking for China to reach this milestone by 2025.

insufficient NDC. And what is already clear is that Xi's other announcement in September that China will now aim to peak emissions "before"—as opposed to "around"—2030 will simply not cut it in the eyes of the international community that will be looking for China to reach this milestone by 2025, while also taking action to address the three other quantitative targets contained in its existing NDC.

Notwithstanding the flexibility provided by the likely timing of the Biden administration's own NDC, it is also in China's own interests to wait to table a new 2030 NDC until the main elements of the 14th Five-Year Plan (2021–25) have been finalized in the first quarter of next year. By all accounts, this is likely to include improvements to China's carbon intensity and energy efficiency measures, as well as the domestic use of coal.

But to be credible, China must use the Five-Year Plan process, including the production of a "Special Plan for Combating Climate Change and the CO<sub>2</sub> Peaking Action Plan," as well as the "Plan for Energy Development and the Plan for Electricity Development," to commit to a cap of 10 billion tons of carbon dioxide emissions by 2025, and to control non-carbon dioxide emissions at 2 billion tons. This would require China to also commit to limiting total coal power capacity to no more than 1,150 gigawatts in 2025 and work toward a complete phaseout of all domestic coal generation by 2040. This would mean

China would also cross the symbolically important threshold of reducing the share of coal in total energy consumption to below 50 percent before the end of 2025.

The Five-Year Plan also allows China to ground the NDC in a government-wide process, rather than simply an effort by the Ministry of Ecology and Environment (MEE). In other words, waiting for the Five-Year Plan would provide for a stronger NDC and one with more domestic buy-in to deliver it. It would also mean the NDC could help reinforce, rather than be seen to detract from, Xi's vision of carbon neutrality.

However, much of this will rest even more immediately on the decisions China continues to take as part of its economic response to COVID-19. The approval of a large number of new coal-fired power plants this year does not augur well for ensuring there is a green economic recovery, even with Beijing's investment in so-called "new infrastructure" such as electric vehicle charging stations and rail upgrades. Indeed, the total capacity of coal-fired power generation now under development in China is larger than the remaining operating fleet in the United States.

## THE BELT AND ROAD INITIATIVE

A third area that will require a sophisticated reset by Beijing concerns the Belt and Road Initiative, and especially China's support for large amounts of carbon-intensive infrastructure around the world, including coal-fired power stations. By some estimates, China is currently involved in the construction of more than 100 gigawatts of coal-fired power stations around the world, including in South East Asia, Africa, and even Eastern Europe.

While some would counter that China's support of coal actually extends far less than that of Japan or South Korea, this is not the case when considering foreign direct investment alongside development financing and the exporting of equipment and personnel. In fact, most estimates would put the ledger at least two-thirds in the direction of China, and only likely to get worse with Japan announcing in July that it would not finance any new coal projects abroad. South Korea's parliament is also looking to put in place a ban on its own financing, including after the state-owned utility Kepco announced it would scrap two coal projects in the Philippines and South Africa.

Beijing should be careful not to underestimate the extent to which this has the potential to significantly impinge on the BRI—the jewel in the crown of Xi's foreign policy—in the years ahead. Already moods are shifting in many recipient countries. The awarding of the prestigious environmental Goldman Prize to Chibeze Ezekiel for organizing his fellow Ghanaians against plans for a Chinese-supported coal plant in that African nation provided a powerful example of this. And this attitudinal shift will only accelerate once additional and more accessible sources of clean energy financing become available.

President-elect Biden has not only pledged on the campaign trail to shine an uncomfortable light on China's offshoring of emissions through the BRI, but his commitment to massively ramp up America's

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overseas clean energy investments also has the potential to result in a sophisticated diplomatic squeeze on China. If China does not want to be seen to be moving only at the behest of U.S. pressure, it would be well advised to begin to make these reforms earnestly.

While the recent effort ostensibly overseen by MEE to establish a “traffic light” system for new BRI projects is welcome, it will require more teeth to be effective. Ultimately, the most powerful thing China could do would be to follow Japan’s and South Korea’s lead and halt its overseas support for coal entirely. The economic hard heads in China will find that difficult, especially as the country winds down its domestic coal sector and seeks to redeploy its human and financial capital in the sector elsewhere. But the extent to which China can at least extend many of the laws and regulations it has put in place domestically in recent years to equally apply to its overseas projects will be an important first step.

Xi’s announcement in September marked a new era for the geopolitics of China’s climate leadership. Gone are the days when China would be lauded for simply coming to the table, or for holding the table together in the absence of the United States. The decisions that China takes now as the world’s largest emitter will be judged increasingly on the same playing field as those that the United States is prepared to take, as well as the rest of the international community.

Whether China’s leaders understand this new geopolitical paradigm remains to be seen. The decisions they take in the period ahead with regard to China’s 2030 NDC and toward Xi’s vision of reaching carbon neutrality will be the clearest indicators of this, as will the reforms they are prepared to put in place around the BRI. Piecemeal steps forward will no longer cut it, including in the eyes of their developing country compatriots.

Xi’s legacy as a climate leader in China may be assured. But his legacy as a climate leader internationally is not yet guaranteed. This is a key international opportunity for China and a key international opportunity for Xi. It is also one that aligns with the country’s domestic interests of upgrading its economy, cleaning up its environment, and shoring up its energy security.

# 9. The Decade of Living Dangerously: The Case for “Managed Strategic Competition” Between Washington and Beijing in the 2020s

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An essay originally published in *Foreign Affairs* as “Short of War: How to Keep U.S.-Chinese Confrontation From Ending in Calamity”

February 2021



China's aircraft carrier, the Liaoning, is seen in Hong Kong waters. Anthony Wallace. AFP. Getty Images. July 7, 2017.

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**OFFICIALS IN WASHINGTON AND BEIJING DON'T AGREE ON MUCH THESE DAYS, BUT THERE IS ONE THING ON WHICH THEY SEE EYE TO EYE:** the contest between their two countries will enter a decisive phase in the 2020s. This will be the decade of living dangerously. No matter what strategies the two sides pursue or what events unfold, the tension between the United States and China will grow, and competition will intensify; it is inevitable. War, however, is not. It remains possible for the two countries to put in place guardrails that would prevent a catastrophe: a joint framework for what I call “managed strategic competition” would reduce the risk of competition escalating into open conflict.

The Chinese Communist Party (CCP) is increasingly confident that by the decade's end, China's economy will finally surpass that of the United States as the world's largest in terms of GDP at market exchange rates. Western elites may dismiss the significance of that milestone; the CCP's Politburo does not. For China, size always matters. Taking the number one slot will turbocharge Beijing's confidence, assertiveness, and leverage in its dealings with Washington, and it will make China's central bank more likely to float the yuan, open its capital account, and challenge the U.S. dollar as the main global reserve currency. Meanwhile, China continues to advance on other fronts as well. A new policy plan, announced last fall, aims to allow China to dominate in all new technology domains, including artificial intelligence, by

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2035. And Beijing now intends to complete its military modernization program by 2027 (seven years ahead of the previous schedule), with the main goal of giving China a decisive edge in all conceivable scenarios for a conflict with the United States over Taiwan. A victory in such a conflict would allow President Xi Jinping to carry out a forced reunification with Taiwan before leaving power—an achievement that would put him on the same level within the CCP pantheon as Mao Zedong.

Washington must decide how to respond to Beijing's assertive agenda—and quickly. If it were to opt for economic decoupling and open confrontation, every country in the world would be forced to take

sides, and the risk of escalation would only grow. Among policymakers and experts, there is understandable skepticism as to whether Washington and Beijing can avoid such an outcome. Many doubt that U.S. and Chinese leaders can find their way to a framework to manage their diplomatic relations, military operations, and activities in cyberspace within agreed-upon parameters that would maximize stability, avoid accidental escalation, and make room for both competitive and collaborative forces in the relationship. The two countries need to consider something akin to the procedures and mechanisms that the United States and the Soviet Union put in place to govern their relations after the Cuban missile crisis—but in this case, without first going through the near-death experience of a barely avoided war.

Managed strategic competition would involve establishing certain hard limits on each country's security policies and conduct but would allow for full and open competition in the diplomatic, economic, and ideological realms. It would also make it possible for Washington and Beijing to cooperate in certain areas, through bilateral arrangements and also multilateral forums. Although such a framework would be difficult to construct, doing so is still possible—and the alternatives are likely to be catastrophic.

## BEIJING'S LONG VIEW

In the United States, few have paid much attention to the domestic political and economic drivers of Chinese grand strategy, the content of that strategy, or the ways in which China has been operationalizing it in recent decades. The conversation in Washington has been all about what the United States ought to do, without much reflection on whether any given course of action might result in real changes to China's strategic course. A prime example of this type of foreign policy myopia was an address that then Secretary of State Mike Pompeo delivered last July, in which he effectively called for the overthrow of the CCP. "We, the freedom-loving nations of the world, must induce China to change," he declared, including by "empower[ing] the Chinese people."

The only thing that could lead the Chinese people to rise up against the party-state, however, is their own frustration with the CCP's poor performance on addressing unemployment, its radical mismanagement of a natural disaster (such as a pandemic), or its massive extension of what is already intense political repression. Outside encouragement of such discontent, especially from the United States, is unlikely to help and quite likely to hinder any change. Besides, U.S. allies would never support such an approach; regime change has not exactly been a winning strategy in recent decades. Finally, bombastic statements such as Pompeo's are utterly counterproductive, because they strengthen Xi's hand at home, allowing him to point to the threat of foreign subversion to justify ever-tighter domestic security measures, thereby making it easier for him to rally disgruntled CCP elites in solidarity against an external threat.

That last factor is particularly important for Xi, because one of his main goals is to remain in power until 2035, by which time he will be 82, the age at which Mao passed away. Xi's determination to do so is reflected in the party's abolition of term limits, its recent announcement of an economic plan that extends all the way to 2035, and the fact that Xi has not even hinted at who might succeed him even though only two years remain in his official term. Xi experienced some difficulty in the early part of 2020, owing to a slowing economy and the COVID-19 pandemic, whose Chinese origins put the CCP on the defensive. But by the year's end, official Chinese media were hailing him as the party's new "great navigator and helmsman" who had prevailed in a heroic "people's war" against the novel coronavirus. Indeed, Xi's standing has been aided greatly by the shambolic management of the pandemic in the United States and a number of other Western countries, which the CCP has highlighted as evidence of the inherent superiority of the Chinese authoritarian system. And just in case any ambitious party officials harbor thoughts about an alternative candidate to lead the party after Xi's term is supposed to end in 2022, Xi recently launched a major purge—a "rectification campaign," as the CCP calls it—of members deemed insufficiently loyal.

Meanwhile, Xi has carried out a massive crackdown on China's Uighur minority in the region of Xinjiang; launched campaigns of repression in Hong Kong, Inner Mongolia, and Tibet; and stifled dissent

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among intellectuals, lawyers, artists, and religious organizations across China. Xi has come to believe that China should no longer fear any sanctions that the United States might impose on his country, or on individual Chinese officials, in response to violations of human rights. In his view, China's economy is now strong enough to weather such sanctions, and the party can protect officials from any fallout as well. Furthermore, unilateral U.S. sanctions are unlikely to be adopted by other countries, for fear of Chinese retaliation. Nonetheless, the CCP remains sensitive to the damage that can be done to China's global brand by continuing revelations about its treatment of minorities. That is why Beijing has become more active in international forums, including the UN Human Rights Council, where it has rallied support

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for its campaign to push back against long-established universal norms on human rights, while also regularly attacking the United States for its own alleged abuses of those very norms.

Xi is also intent on achieving Chinese self-sufficiency to head off any effort by Washington to decouple the U.S. economy from that of China or to use U.S. control of the global financial system to

block China's rise. This push lies at the heart of what Xi describes as China's "Dual Circulation Economy": its shift away from export dependency and toward domestic consumption as the long-term driver of economic growth and its plan to rely on the gravitational pull of the world's biggest consumer market to attract foreign investors and suppliers to China on Beijing's terms. Xi also recently announced a new strategy for technology R&D and manufacturing to reduce China's dependence on imports of certain core technologies, such as semiconductors.

The trouble with this approach is that it prioritizes party control and state-owned enterprises over China's hard-working, innovative, and entrepreneurial private sector, which has been primarily responsible for the country's remarkable economic success over the past two decades. To deal with a perceived external economic threat from Washington and an internal political threat from private entrepreneurs whose long-term influence threatens the power of the CCP, Xi faces a dilemma familiar to all authoritarian regimes: how to tighten central political control without extinguishing business confidence and dynamism.

Xi faces a similar dilemma when it comes to what is perhaps his paramount goal: securing control over Taiwan. Xi appears to have concluded that China and Taiwan are now further away from peaceful reunification than at any time in the past 70 years. This is probably correct. But China often ignores its own role in widening the gulf. Many of those who believed that China would gradually liberalize its political system as it opened up its economic system and became more connected with the rest of the world also hoped that that process would eventually allow Taiwan to become more comfortable with some form of reunification. Instead, China has become more authoritarian under Xi, and the promise of reunification under a "one country, two systems" formula has evaporated as the Taiwanese look to Hong Kong, where China has imposed a harsh new national security law, arrested opposition politicians, and restricted media freedom.

With peaceful reunification off the table, Xi's strategy now is clear: to vastly increase the level of military power that China can exert in the Taiwan Strait, to the extent that the United States would become unwilling

to fight a battle that Washington itself judged it would probably lose. Without U.S. backing, Xi believes, Taiwan would either capitulate or fight on its own and lose. This approach, however, radically underestimates three factors: the difficulty of occupying an island that is the size of the Netherlands, has the terrain of Norway, and boasts a well-armed population of 25 million; the irreparable damage to China's international political legitimacy that would arise from such a brutal use of military force; and the deep unpredictability of U.S. domestic politics, which would determine the nature of the U.S. response if and when such a crisis arose. Beijing, in projecting its own deep strategic realism onto Washington, has concluded that the United States would never fight a war it could not win, because to do so would be terminal for the future of American power, prestige, and global standing. What China does not include in this calculus is the reverse possibility: that the failure to fight for a fellow democracy that the United States has supported for the entire postwar period would also be catastrophic for Washington, particularly in terms of the perception of U.S. allies in Asia, who might conclude that the American security guarantees they have long relied on are worthless—and then seek their own arrangements with China.

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As for China's maritime and territorial claims in the East China and the South China Seas, Xi will not concede an inch. Beijing will continue to sustain pressure on its Southeast Asian neighbors in the South China Sea, actively contesting freedom-of-navigation operations, probing for any weakening of individual or collective resolve—but stopping short of a provocation that might trigger a direct military confrontation with Washington—at this stage, China is not fully confident it would win. In the meantime, Beijing will seek to cast itself in as reasonable a light as possible in its ongoing negotiations with Southeast Asian claimant states on the joint use of energy resources and fisheries in the South China Sea. Here, as elsewhere, China will fully deploy its economic leverage in the hope of securing the region's neutrality in the event of a military incident or crisis involving the United States or its allies. In the East China Sea, China will continue to increase its military pressure on Japan around the disputed Diaoyu/Senkaku Islands; however, as in Southeast Asia, here, too, Beijing is unlikely to risk an armed conflict, particularly given the unequivocal nature of the U.S. security guarantee to Japan. Any risk, however small, of China losing such as conflict would be politically unsustainable in Beijing and would have massive domestic political consequences for Xi.

## AMERICA THROUGH XI'S EYES

Underneath all these strategic choices lies Xi's belief, reflected in official Chinese pronouncements and CCP literature, that the United States is experiencing a steady, irreversible structural decline. This belief is now grounded in a considerable body of evidence. A divided U.S. government failed to craft a national strategy for long-term investment in infrastructure, education, and basic scientific and technological research. The Trump administration damaged U.S. alliances, abandoned trade liberalization, withdrew the United States from its leadership of the postwar international order, and crippled U.S. diplomatic capacity. The Republican Party has been hijacked by the far right, and the American political class and electorate are so deeply polarized that it will prove difficult for any president to win support for a long-term bipartisan strategy on China. Washington, Xi believes, is highly unlikely to recover its credibility and confidence as a

regional and global leader. And he is betting that as the decade progresses, other world leaders will come to share this view and begin to adjust their strategic postures accordingly, gradually shifting from balancing with Washington against Beijing, to hedging between the two powers, to “bandwagoning” with China.

But China worries about the possibility of Washington lashing out at Beijing in the years before U.S. power finally dissipates. Xi’s concern is not just a potential military conflict but also any rapid and radical economic decoupling. Moreover, the CCP’s diplomatic establishment fears that the Biden administration, realizing that the United States will soon be unable to match Chinese power on its own, might form an effective coalition of countries across the democratic capitalist world with the express aim of counterbalancing China collectively. In particular, CCP leaders fear that President Joe Biden’s proposal to hold a summit of the world’s major democracies represents a first step on that path, which is why China acted rapidly to secure new trade and investment agreements in Asia and Europe before the new administration came into office.

Mindful of this combination of near-term risks and China’s long-term strengths, Xi’s general diplomatic strategy toward the Biden administration will be to de-escalate immediate tensions, stabilize the bilateral relationship as early as possible, and do everything possible to prevent security crises.

Mindful of this combination of near-term risks and China’s long-term strengths, Xi’s general diplomatic strategy toward the Biden administration will be to de-escalate immediate tensions, stabilize the bilateral relationship as early as possible, and do everything possible to prevent security crises. To this end, Beijing will look to fully reopen the lines of high-level military communication with Washington that were largely cut off during the Trump administration. Xi might seek to convene a regular, high-level political dialogue as well, although Washington will not be interested in reestablishing the U.S.-China Strategic and Economic Dialogue, which served as the main channel between

the two countries until its collapse amid the trade war of 2018–19. Finally, Beijing may moderate its military activity in the immediate period ahead in areas where the People’s Liberation Army rubs up directly against U.S. forces, particularly in the South China Sea and around Taiwan—assuming that the Biden administration discontinues the high-level political visits to Taipei that became a defining feature of the final year of the Trump administration. For Beijing, however, these are changes in tactics, not in strategy.

As Xi tries to ratchet down tensions in the near term, he will have to decide whether to continue pursuing his hard-line strategy against Australia, Canada, and India, which are friends and allies of the United States. This has involved a combination of a deep diplomatic freeze and economic coercion—and, in the case of India, direct military confrontation. Xi will wait for any clear signal from Washington that part of the price for stabilizing the U.S.-China relationship would be an end to such coercive measures against U.S. partners. If no such signal is forthcoming—there was none under President Donald Trump—then Beijing will resume business as usual.

Meanwhile, Xi will seek to work with Biden on climate change. Xi understands this is in China’s interests because of the country’s increasing vulnerability to extreme weather events. He also realizes that

Biden has an opportunity to gain international prestige if Beijing cooperates with Washington on climate change, given the weight of Biden's own climate commitments and that Biden will want to be able to demonstrate that his engagement with Beijing led to reductions in Chinese carbon emissions. As China sees it, these factors will deliver Xi some leverage in his overall dealings with Biden. And Xi hopes that greater collaboration on climate will help stabilize the U.S.-China relationship more generally.

Adjustments in Chinese policy along these lines, however, are still likely to be tactical rather than strategic. Indeed, there has been remarkable continuity in Chinese strategy toward the United States since Xi came to power in 2013, and Beijing has been surprised by the relatively limited degree to which Washington has pushed back, at least until recently. Xi, driven by a sense of Marxist-Leninist determinism, also believes that history is on his side. As Mao was before him, Xi has become a formidable strategic competitor for the United States.

## UNDER NEW MANAGEMENT

On balance, the Chinese leadership would have preferred the reelection of Trump in last year's U.S. presidential election. That is not to say that Xi saw strategic value in every element of Trump's foreign policy; he didn't. The CCP found the Trump administration's trade war humiliating, its moves toward decoupling worrying, its criticism of China's human rights record insulting, and its formal declaration of China as a "strategic competitor" sobering. But most in the CCP's foreign policy establishment view the recent shift in U.S. sentiment toward China as structural—an inevitable byproduct of the changing balance of power between the two countries. In fact, a number have been quietly relieved that open strategic competition has replaced the pretense of bilateral cooperation. With Washington having removed the mask, this thinking goes, China could now move more rapidly—and, in some cases, openly—toward realizing its strategic goals, while also claiming to be the aggrieved party in the face of U.S. belligerence.

But by far the greatest gift that Trump delivered to Beijing was the sheer havoc his presidency unleashed within the United States and between Washington and its allies. China was able to exploit the many cracks that developed between liberal democracies as they tried to navigate Trump's protectionism, climate change denialism, nationalism, and contempt for all forms of multilateralism. During the Trump years, Beijing benefited not because of what it offered the world but because of what Washington ceased to offer. The result was that China achieved victories such as the massive Asia-Pacific free trade deal known as the Regional Comprehensive Economic Partnership and the EU-China Comprehensive Agreement on Investment, which will enmesh the Chinese and European economies to a far greater degree than Washington would like.

China is wary of the Biden administration's ability to help the United States recover from those self-inflicted wounds. Beijing has seen Washington bounce back from political, economic, and security disasters

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before. Nonetheless, the CCP remains confident that the inherently divisive nature of U.S. politics will make it impossible for the new administration to solidify support for any coherent China strategy it might devise.

Biden intends to prove Beijing wrong in its assessment that the United States is now in irreversible decline. He will seek to use his extensive experience on Capitol Hill to forge a domestic economic strategy to rebuild the foundations of U.S. power in the post-pandemic world. He is also likely to continue to strengthen the capabilities of the U.S. military and to do what it takes to sustain American global technological leadership. He has assembled a team of economic, foreign policy, and national security advisers who are experienced professionals and well versed in China—in stark contrast to their predecessors,

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who, with a couple of mid-rank exceptions, had little grasp of China and even less grasp of how to make Washington work. Biden's advisers also understand that to restore U.S. power abroad, they must rebuild the U.S. economy at home in ways that will reduce the country's staggering inequality and increase economic opportunities for all Americans. Doing so will help Biden maintain the political leverage he'll need to craft a durable China strategy with bipartisan support—no mean feat when opportunistic opponents such as Pompeo will have ample incentive to disparage any plan he puts forward as little more than appeasement.

intense budgetary constraints, as well as pressure from some factions within the Democratic Party to reduce military spending to boost social welfare programs. For Biden's strategy to be seen as credible in Beijing, his administration will need to hold the line on the aggregate defense budget and cover increased expenses in the Indo-Pacific region by redirecting military resources away from less pressing theaters, such as Europe.

To lend his strategy credibility, Biden will have to make sure the U.S. military stays several steps ahead of China's increasingly sophisticated array of military capabilities. This task will be made more difficult by

As China becomes richer and stronger, the largest and closest allies of the United States will become ever more crucial to Washington. For the first time in many decades, the United States will soon require the combined heft of its allies to maintain an overall balance of power against an adversary. China will keep trying to peel countries away from the United States—such as Australia, Canada, France, Germany, Japan, South Korea, and the United Kingdom—using a combination of economic carrots and sticks. To prevent that from happening, the Biden administration needs to commit itself to fully opening the U.S. economy to its major strategic partners. The United States prides itself on having one of the most open economies in the world. But even before Trump's pivot to protectionism, that was not the case. Washington has long burdened even its closest allies with formidable tariff and non-tariff barriers to trade, investment, capital, technology, and talent. If the United States wishes to remain the center of what until recently was called “the free world,” then it must create a seamless economy across the national boundaries of its major Asian, European, and

North American partners and allies. To do so, Biden must overcome the protectionist impulses that Trump exploited and build support for new trade agreements anchored around open markets. To allay the fears of a skeptical electorate, he will need to show Americans that such agreements will ultimately lead to lower prices, better wages, more opportunities for U.S. industry, and stronger environmental protection and assure them that the gains won from trade liberalization can help pay for major domestic improvements in education, childcare, and health care.

The Biden administration will also strive to restore U.S. leadership in multilateral institutions such as the UN, the World Bank, the International Monetary Fund, and the World Trade Organization. Most of the world will welcome this after four years of watching the Trump administration sabotage much of the machinery of the postwar international order. But the damage will not be repaired overnight. The most pressing priorities are fixing the World Trade Organization's broken dispute-resolution process, rejoining the Paris Agreement on climate change, increasing the capitalization of both the World Bank and the International Monetary Fund (to provide credible alternatives to China's Asian Infrastructure Investment Bank and its Belt and Road Initiative), and restoring U.S. funding for critical UN agencies. Such institutions have not only been instruments of U.S. soft power since Washington helped create them after the last world war; their operations also materially affect American hard power in areas such as nuclear proliferation and arms control. Unless Washington steps up to the plate, the institutions of the international system will increasingly become Chinese satrapies, driven by Chinese finance, influence, and personnel.

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## COMPETITION AND COOPERATION

The deeply conflicting nature of U.S. and Chinese strategic objectives and the profoundly competitive nature of the relationship may make conflict, and even war, seem inevitable—even if neither country wants that outcome. China will seek to achieve global economic dominance and regional military superiority over the United States without provoking direct conflict with Washington and its allies. Once it achieves superiority, China will then incrementally change its behavior toward other states, especially when their policies conflict with China's ever-changing definition of its core national interests. On top of this, China has already sought to gradually make the multilateral system more obliging of its national interests and values.

But a gradual, peaceful transition to an international order that accommodates Chinese leadership now seems far less likely to occur than it did just a few years ago. For all the eccentricities and flaws of the Trump administration, its decision to declare China a strategic competitor, formally end the doctrine of strategic engagement, and launch a trade war with Beijing succeeded in making clear that Washington was willing to put up a significant fight. And the Biden administration's plan to rebuild the fundamentals of national U.S. power at home, rebuild U.S. alliances abroad, and reject a simplistic return to earlier forms of strategic engagement with China signals that the contest will continue, albeit tempered by cooperation in a number of defined areas.

## The question for both Washington and Beijing, then, is whether they can conduct this high level of strategic competition within agreed-upon parameters that would reduce the risk of a crisis, conflict, or war.

The question for both Washington and Beijing, then, is whether they can conduct this high level of strategic competition within agreed-upon parameters that would reduce the risk of a crisis, conflict, or war. In theory, this is possible; in practice, however, the near-complete erosion of trust between the two has radically increased the degree of difficulty. Indeed, many in the U.S. national security community believe that the CCP has never had any compunction about lying or hiding its true intentions in order to deceive its adversaries. In this view, Chinese diplomacy aims to tie opponents' hands and buy time for Beijing's military, security, and intelligence machinery to achieve superiority and establish new facts on the ground. To win broad support from U.S. foreign policy elites, therefore, any concept of managed strategic

competition will need to include a stipulation by both parties to base any new rules of the road on a reciprocal practice of "trust but verify."

The idea of managed strategic competition is anchored in a deeply realist view of the global order. It accepts that states will continue to seek security by building a balance of power in their favor, while recognizing that in doing so they are likely to create security dilemmas for other states whose fundamental interests may be disadvantaged by their actions. The trick in this case is to reduce the risk to both sides

as the competition between them unfolds by jointly crafting a limited number of rules of the road that will help prevent war. The rules will enable each side to compete vigorously across all policy and regional domains. But if either side breaches the rules, then all bets are off, and it's back to all the hazardous uncertainties of the law of the jungle.

The first step to building such a framework would be to identify a few immediate actions that each side must take for a substantive dialogue to proceed and a limited number of hard limits that both sides (and U.S. allies) must respect. Both sides must abstain, for example, from cyber attacks targeting critical infrastructure. Washington must return to strictly adhering to the "one China" policy, especially by ending the Trump administration's provocative and unnecessary high-level visits to Taipei. For its part, Beijing must dial back its recent pattern of provocative military exercises, deployments, and maneuvers in the Taiwan Strait. In the South China Sea, Beijing must not reclaim or militarize any more islands and must commit to respecting freedom of navigation and aircraft movement without challenge; for its part, the United States and its allies could then (and only then) reduce the number of operations they carry out specifically to test China's commitment. Similarly, China and Japan could cut back their military deployments in the East China Sea by mutual agreement over time.

If both sides could agree on those stipulations, each would have to accept that the other would still try to maximize its advantages while stopping short of breaching the limits. Washington and Beijing would continue to compete for strategic and economic influence across the various regions of the world. They would keep seeking reciprocal access to each other's markets and would still take retaliatory measures when such access was denied. They would still compete in foreign investment markets, technology markets, capital markets, and currency markets. And they would likely carry out a global contest for

hearts and minds, with Washington stressing the importance of democracy, open economies, and human rights and Beijing highlighting its approach to authoritarian capitalism and what it calls the “China development model.”

Even amid escalating competition, however, there will be some room for cooperation in a number of critical areas. This occurred even between the United States and the Soviet Union at the height of the Cold War. It should certainly be possible now between the United States and China when the stakes are not nearly as high. Aside from collaborating on climate change, the two countries could conduct bilateral nuclear arms control negotiations, including on mutual ratification of the Comprehensive Nuclear Test Ban Treaty, and work toward an agreement on acceptable military applications of artificial intelligence. They could cooperate on North Korean nuclear disarmament and on preventing Iran from acquiring nuclear weapons. They could undertake a series of confidence-building measures across the Indo-Pacific region, such as coordinated disaster response and humanitarian missions. They could work together to improve global financial stability, especially by agreeing to reschedule the debts of developing countries hit hard by the pandemic. And they could jointly build a better system for distributing COVID-19 vaccines across the developing world.

That list is far from exhaustive. But the strategic rationale for all of the items is the same: it is better for both countries to operate within a joint framework of managed competition than to have no rules at all. The framework would need to be negotiated between a designated and trusted high-level representative of Biden and a Chinese counterpart close to Xi; only a direct, high-level channel of that sort could lead to confidential understandings on the hard limits to be respected by both sides. These two people would also become the points of contact when violations occurred, as they are bound to from time to time, and the ones to police the consequences of any such violation. Over time, a minimum level of strategic trust might emerge. And maybe both sides would also discover that the benefits of continued collaboration on common planetary challenges, such as climate change, might begin to impact the other, more competitive and even conflictual areas of the relationship.

There will be many who will criticize this approach as naive. Their responsibility, however, is to come up with something better. Both the United States and China are currently in search of a formula to manage their relationship for the dangerous decade ahead. The hard truth is that no relationship can ever be managed unless there is a basic agreement between the parties on the terms of that management.

## GAME ON

What would be the measures of success should the United States and China agree on such a joint strategic framework? One sign of success would be if by 2030 they have avoided a military crisis or conflict across the Taiwan Strait or a debilitating cyber attack. A convention banning various forms of robotic warfare would be a clear victory, as would the United States and China acting immediately together and with the World Health Organization to combat the next pandemic. Perhaps the most important sign of success, however, would be a situation in which both countries compete in an open and vigorous campaign for

It is better for both countries to operate within a joint framework of managed competition than to have no rules at all.

global support for the ideas, values, and problem-solving approaches that their respective systems offer—with the outcome still to be determined.

Success, of course, has a thousand fathers, and failure is an orphan. But the most demonstrable example of a failed approach to managed strategic competition would be over Taiwan. If Xi were to calculate that he could call Washington's bluff by unilaterally breaking out of whatever agreement had been privately reached with Washington, the world would find itself in a world of pain. In one fell swoop, such a crisis would rewrite the future of the global order.

A few days before Biden's inauguration, Chen Yixin, the secretary-general of the CCP's Central Political and Legal Affairs Commission, stated that "the rise of the East and the decline of the West has become [a global] trend and changes of the international landscape are in our favor." Chen is a close confidant of Xi and a central figure in China's normally cautious national security apparatus, and so the hubris in his statement is notable. In reality, there is a long way to go in this race. China has multiple domestic vulnerabilities that are rarely noted in the media. The United States, on the other hand, always has its weaknesses on full public display—but has repeatedly demonstrated its capacity for reinvention and restoration. Managed strategic competition would highlight the strengths and test the weaknesses of both great powers—and may the best system win.

# Appendix: Future Directions for Australia-China Relations

Speech originally delivered at the launch event of “Quarterly Essay  
76 'Red Flag: Waking Up to China’s Challenge’” by Peter Hartcher  
Parliament House, Canberra  
November 26, 2019



China's President Xi Jinping (L) inspects the Federation Guard during a ceremonial welcome at Government House in Canberra, Australia. Mark Graham, AFP, Getty Images, November 17, 2014.

**MY REASON FOR ACCEPTING PETER HARTCHER'S INVITATION** to speak at the release of his essay today was that given the current state of the fetid debate on Australia-China relations (in fact, more often like a screaming match than a debate), I thought it might be useful to offer my own personal perspectives on the past, present, and future of the relationship. I'm less predisposed to comment on the crisis of the day, be it real or imagined. I'm more concerned with how we navigate the relationship over the next 30 years.

## It's now 43 years since I first went to the Australian National University (ANU) to study Chinese language, history, and politics.

For the record, it's now 43 years since I first went to the Australian National University (ANU) to study Chinese language, history, and politics. It's 39 years since I wrote a dissertation on the Communist Party's suppression of the Democracy Wall movement, including my translation of the transcript of the trial of its leader, Wei Jingsheng. It's 35 years since I first went to work at the Australian Embassy in Beijing

where my job was analyzing Chinese politburo politics and China's political economy. Thirty years ago I was in Tiananmen Square for several days just before the crackdown where I spoke with literally hundreds of Chinese students. And since then I have visited China well over a hundred times as a state government official, the owner of my own business, a federal MP, shadow minister for Foreign and Affairs and Trade, later as prime minister and foreign minister. More recently, I have been a scholar researching Xi Jinping's worldview as well as now the head of an American think tank where my principal focus for the past five years has been the future of U.S.-China relations. That's why, for example, I was in Beijing last Friday, together with Henry Kissinger and Hank Paulson, in a meeting with General-Secretary Xi Jinping.

The predictable reaction to all this from much of the Australian political class, and what passes for much of the Australian commentariat, is a lot of eye rolling, offering further proof of the received wisdom that Kevin is still totally up himself. So let me not do anything today that might disturb your deepest prejudices. The truth is, for better or for worse, I've been reflecting, writing, and working on the Australia-China question for most of my adult life, and long before it was fashionable to do so. My remarks today are drawn from these reflections. I don't claim any monopoly of wisdom on this subject, as many relative newcomers to the current debate seem to do. Just as I'm acutely conscious of the fact that it's been some time since I've seen the product of the Australian and allied intelligence community, which I have generally held in high professional regard. There are limits, therefore, to what I can add on some of the more recent developments in the relationship, including the reporting of the past few days.

Managing the China relationship has always been difficult. It was so when I was prime minister. So it is for Prime Minister Morrison, which is why I spent time with him at Kirribilli after his reelection in May to offer my own private reflections on the way forward. And for Australia's sake, I wish him well. But Australia is not Robinson Crusoe. Every democracy in the world today, particularly those in our own region, is experiencing similar challenges. That's because of two underlying factors: first, China is a one-party state that regards liberal democracy as its ideological enemy; second, whereas once this was a matter for China's domestic political arrangements alone, as China becomes more powerful strategically, economically, and technologically, and more assertive in the prosecution of its national interests abroad, these two sets of conflicting democratic and authoritarian values are now coming into greater conflict around the world.

## CHINA'S NATIONAL INTERESTS

To understand where Australia fits in the wider scheme of things, it's important to begin by understanding the political and policy priorities of Xi Jinping's China. I see them as a set of ten concentric circles. It helps to understand what the world looks like when viewed from the weekly meeting of the Standing Committee of the Politburo before we then decide what our best strategy should be in response.

**Number one**, keep the party in power and never yield to any argument that it should transition to more democratic forms of governance;

**Number two**, sustain and secure the unity of the motherland, hence the unyielding approach in Tibet and Xinjiang, anxiety over Hong Kong, and the great unfinished business of Taiwan;

**Number three**, grow the economy to become a fully advanced economy and the world's largest economy within the next 30 years, as the basis of China's long-term national power, and continue to improve people's living standards along the way to sustain party legitimacy;

**Number four**, ensure China's relations with its 14 neighboring states are as benign as possible, and ultimately as compliant as possible, to China's stated core national interests, including the fundamental strategic transformation of the relationship with Russia to that of a de facto security and foreign policy alliance;

**Number five**, because of large-scale environmental pollution during the first 30 years of unconstrained economic growth, resulting in large-scale popular unrest, entrench sustainable development (including climate change action) as an additional economic and planning discipline for the future;

**Number six**, modernize the Chinese military, using fully integrated operations, information warfare, as well as classical power projection capabilities to return Taiwan by force if necessary; assert China's other unresolved territorial claims; and begin articulating China's aspirations to be a global great power;

**Number seven**, on China's maritime periphery to the east, push U.S. forces back behind the second island chain and fracture U.S. alliances in Asia, thereby enhancing China's future Taiwan contingencies;

**Number eight**, on China's continental periphery to its west, deploy the Belt and Road Initiative to turn wider Eurasia into a new zone of economic opportunity and foreign and security policy influence for Beijing, extending to Western Europe, South and Southeast Asia, and the Middle East;

**Number nine**, build on a half century of aid diplomacy in Africa and Latin America to secure new markets, as well as political support for China's multilateral interests whenever needed;

**Number ten**, begin the gradual refashioning of the global rules-based order in a manner more compatible with China's interests and values, through personnel, institutional, and cultural change within existing multilateral institutions, at the same time creating a new set of arrangements beyond the UN and the Bretton Woods system.

It can be seen that all ten of these strategic priorities impact Australian interests, albeit some more directly than others. For those who may be interested, there is a longer treatment of these priorities in my address to West Point cadets in March 2018. They reflect my long-held views on China's long-term strategy. And these are much the same views I held a decade ago as we developed the 2009 Australian Defense White Paper. China's trajectory has been much the same since then. What has changed under Xi Jinping has been the urgency, intensity, and overt assertion of that trajectory in what is now called the "new period" of Xi's leadership.

## WILL CHINA'S STRATEGY SUCCEED?

Will Xi Jinping succeed in the execution of this strategy? That depends on multiple variables, both domestic and foreign. On the domestic front, Xi's major vulnerability remains the economy, where his move to the left has been acutely felt by China's heretofore seemingly unstoppable private sector, causing growth to

slow well in advance of any immediate impact from the recent trade war with the United States. China's political economy for the past 30 years has been a balancing act between state planning and the market, between state-owned enterprises (SOEs) and private firms, between ideology and the buccaneering spirit of China's entrepreneurial class. This balance has changed under Xi as he confronts afresh the central dilemma faced by his predecessors but begins to deliver a different, less private sector-friendly answer.

A number of American friends and allies around the world are beginning what can only be seen as the "Great China Hedge." There is clear evidence of this already...as governments begin to ponder whether the regional balance of power is beginning to shift under their feet.

The major external variable impacting Xi Jinping's China is, of course, the United States. China has long assumed that the United States is in a process of slow decline, accelerated by its interminable wars in the

wider Middle East and the wounding of its economic and its global prestige through the global financial crisis. The election of President Trump, on balance, is regarded as accelerating America's decline as Beijing sees the emergence of an increasingly isolationist, protectionist, and populist America, damaging the global brand of democracy itself, as well as fracturing the historical solidarity of U.S. alliances in both Asia and Europe.

On balance, while the trade war is seen as unwelcome in Beijing because of its capacity to compound China's growth problems going into 2020, this is still seen as a lesser problem than the greater strategic gain for China's wider national interests from the continuation of the Trump presidency. Besides, China does not believe Trump will stay the course on trade, let alone a wider economic decoupling with Beijing, because of the damage this would do to U.S. economic interests in an election year.

Certainly, a number of American friends and allies around the world are beginning what can only be seen as the "Great China Hedge." There is clear evidence of this already in Tokyo, Delhi, Seoul, Singapore, and the Gulf as governments begin to ponder whether the regional balance of power is beginning to shift

under their feet, and how long the United States will continue to be a reliable long-term strategic partner, with the capabilities and political will necessary to balance China's rise. Beijing follows these trends acutely and acts accordingly, often with remarkable speed, dexterity, and effectiveness. And as for the global and regional multilateral system, the palpable absence and sometimes physical withdrawal of the United States from the field (it couldn't even be bothered to show up at the East Asia Summit) has left the multilateral door wide open to an increasingly activist China.

## AUSTRALIAN POLICY

So where does all this leave Australian policy toward China, bearing in mind that we are one part of this wider strategic jigsaw?

As I indicated earlier, China's strategic posture began to change during Hu Jintao's second administration from 2007 to 2012, as China sensed a deeply wounded America from the unfolding financial crisis. Indeed in office, we found ourselves dealing with a much more assertive China than was the case before.

That's why our government developed Australia's first national China strategy through the cabinet, as we found ourselves under pressure across multiple fronts—from foreign investment to national security to human rights. The core principle of that strategy was simple: “China respects strength and is contemptuous of weakness.” That's why we did the following:

**We launched a program for the long-term enhancement** of the RAN in the 2009 Defense White Paper, citing China's changing behaviour in the South China Sea as our rationale. We rejected China's determined efforts to take over Rio Tinto;

**We rejected the use of Huawei hardware** in the rollout of the National Broadband Network (NBN) on national security grounds;

**We disagreed with China robustly in Copenhagen** because of its joint blocking strategy with India to prevent the Copenhagen Accord on climate change from being adopted formally by the conference;

**We spoke in opposition to human rights abuses** in Tibet, provided visas for visiting Xinjiang activists, and defended the legal rights of incarcerated Chinese Australian Stern Hu;

**We declined China's express interest** in designating the Australia-China relationship as a “comprehensive strategic partnership,” a request quickly assented to by the Abbott government;

**We enhanced Australian Security Intelligence Organization (ASIO) resources** to deal with the reemerging challenges of state-sponsored espionage, resources that had been drastically run down during the Howard years because of the total reallocation of resources to Islamist terrorism, leaving Australia virtually undefended against efforts by states;

**We declined to back down on key negotiating positions** to protect and advance Australian interests in the Australia-China Free Trade Agreement (FTA) negotiations, positions again subsequently conceded by Abbott so that the government could proclaim political victory by having secured an agreement;

**We worked with the Obama administration on the “pivot,”** including the deployment of U.S. Marines to Darwin; and

**We helped persuade the administration to launch the negotiation** of the Trans-Pacific Partnership to establish the economic pillar of the pivot.

At the same time, we managed a balanced political and economic relationship with Beijing where we were still able to maximize Australian national interests. Trade and foreign direct investment expanded markedly over the six years of our government. Student and tourist numbers continued to grow. China did not interfere in the South Pacific, in part because my government doubled our aid flows to the region and because the region trusted us to represent its position in global climate negotiations. Ministerial visits between Beijing and Canberra proceeded at pace. I attended the opening of the Beijing Olympics and was seated next to Premier Wen Jiabao at the banquet for dozens of visiting heads of government and state. We had put in place enhanced policing measures to protect the Olympic torch during its

Australian progress, successfully preventing the sort of violent protests that had happened in London and Paris. Finally, our collaboration with China within the G20 was particularly close. Indeed, China had actively supported Australia’s membership in the body established to replace the G7, whereas other countries were trying to keep us out. And in the lead-up to the critical decisions taken on global stimulus at the London Summit in 2009, we worked seamlessly with Beijing, Washington, Berlin, and our British hosts on the final communiqué that restabilized financial markets and prevented the global economy from spiraling into depression.

**We were crystal clear with our Chinese counterparts that our alliance with the United States was the cornerstone of our security and would never change. We were equally clear about our commitment to universal human rights...which was an articulation of who we Australians were as a free people.**

During this period, the government pursued a considered, deliberate, balanced strategy toward China. We were crystal clear with our Chinese counterparts

that our alliance with the United States was the cornerstone of our security and would never change. We were equally clear about our commitment to universal human rights as defined in the UN Universal Declaration, which had also been ratified by China, and which was an articulation of who we Australians were as a free people. Just as we were clear that within the constraints of these two fundamental principles, which our Chinese partners did not necessarily like but nonetheless recognized, Australia and China should expand all other domains of bilateral economic, regional, and global collaboration. And that’s what we did. That’s what we meant by a balanced strategy. It worked.

The Liberal Party did all it could to break bipartisan political consensus on China policy during the period of our government. First, it tried attacking from the right, accusing me of being the “Manchurian Candidate” because I spoke Chinese, neglecting to note that I had never studied in China, only Taiwan, or what was then called “Free China.” It then decided the best means of attack was from the left; that is, we had been disrespectful to Chinese interests. Turnbull attacked our Defense White Paper as a relic of

the Cold War. He also challenged our decision on Huawei and proposed to the company that there would be a review of our ban if the Liberals were elected to government. The Liberals' accommodating approach to Huawei was enhanced by the extraordinary decision by Downer to take a paid position on the Huawei Advisory Board. And when John Faulkner and I tried in 2009 to change the political donation laws to ban all foreign donations to Australian political parties and place a maximum cap of \$1,000 on any future donation from individual Australian citizens, Turnbull refused to support the legislation in the Senate.

Prime Minister Abbott did everything he could to ingratiate himself with the Chinese leadership. As I said, he capitulated to China's request for Australia to be designated China's comprehensive strategic partner and conceded critical Australian negotiating positions to rapidly conclude a China FTA. The high-level business delegation he took to Beijing in 2014 was dutifully briefed to go out and attack the previous government's China policy, the central critique being that we had been insulting to China by lecturing it on human rights, thus compromising Australian commercial interests. Kerry Stokes and James Packer led the charge on Abbott's behalf. Abbott also collapsed Australia's aid effort in the South Pacific, virtually cutting it in half from our period in office. In doing so, the Liberal Government opened the door to the region for China. This was an utterly reckless act with long-term national security consequences for Australia.

Prime Minister Turnbull sustained this uncritical approach toward China between 2015 and 2017, consistent with his earlier critique of our government's approach to defense and Huawei while he was leader of the opposition. It was also on Turnbull's watch that the Australian government allowed a Chinese corporation to take out a 99-year lease on the Port of Darwin, the entry point for U.S. Marines and their equipment entering Australia as part of the agreement our government reached with the United States under the pivot in 2012. The Americans were horrified. The Chinese couldn't believe their luck. So much for national security rigor.

But then Turnbull decided to radically change course as he entered his last year in office, changing course 180 degrees. By late 2017, Turnbull was under a direct challenge for the leadership from Dutton and the far right of the Liberal Party. Turnbull also believed the Labor Party was vulnerable on China because of the Dastyari Affair. Turnbull had also been briefed on a broader Chinese influence campaign within Australia and concluded that he could make a public policy case for this radical U-turn in government policy. He also believed he could use a wholesale assault on the Chinese government to consolidate his political position against the far right of his party for whom China, as in Trump's America, had become highly campaign-able. And on top of this, he saw it as a means to advance his political standing against the Labor Party, which he attacked as being soft on China. All this culminated in Turnbull's public proclamation, in execrable Chinese, that "the Australian people had finally stood up against China," deliberately mimicking a statement from Mao at the proclamation of the People's Republic in 1949 that the "Chinese people had

The Australian government allowed a Chinese corporation to take out a 99-year lease on the Port of Darwin, the entry point for U.S. Marines and their equipment entering Australia... The Americans were horrified. The Chinese couldn't believe their luck. So much for national security rigor.

stood up.” It was this statement of policy, ostensibly about foreign interference, but in large part driven by domestic and internal Liberal Party politics, that defined the future of the relationship over the following two years.

## FUTURE DIRECTIONS

As for future directions for Australian China policy, I would like to recommend the following principles:

Develop, agree, and regularly update a classified, cabinet-level national China strategy. China has one for the United States and all its allies. The United States is beginning to develop one toward China. It would be negligent for Australia not to have our own. Such a strategy should be cabinet driven. It should be crystal clear about our national objectives in relation to China, just as it should be clear in

Australia’s national China strategy should be anchored in three core understandings: first, China respects strength and consistency and is contemptuous of weakness and prevarication...

its understanding of what China’s objectives are in relation to Australia. It should be brutally pragmatic about how we go about realizing those objectives over time by the full deployment of all arms of Australian statecraft. It should also be shared as appropriate with our principal allies. And it should be subject to systematic annual review.

of weakness and prevarication; second, China too has net strengths and weaknesses of which Australian strategists should be aware in framing our own strategy; and third, Australia should be equally aware of our own strengths, weaknesses, and vulnerabilities.

Australia’s national China strategy should be anchored in three core understandings: first, China respects strength and consistency and is contemptuous

Australian strategy should also understand the difference between operational and declaratory strategy. One of the failures of the current government is shooting its mouth off about everything and believing that this somehow adds up to a strategy. It doesn’t. In fact, it’s just political self-indulgence, driven by its perception of domestic political opportunity rather than advancing our interests with China. Australia in this respect should learn from Japan and India. Both countries have fundamental security problems with China, including significant contested territory. But both manage to be able to prosecute a balanced strategy toward China that protects their security interests, advances their economic interests, and does so with regular summitry. That has eluded the current Australian government. Australia needs a more mature approach to managing the complexity of the relationship than having politicians out-competing one another on who can sound the most hairy-chested on China. Such an approach might make for great domestic politics. It might make for great media coverage. But it gets you nowhere in advancing your core security and economic interests.

Australia should maintain domestic vigilance against any substantive rather than imagined internal threats to the democracy, our political institutions, and our critical infrastructure. China does this for its own country. We should do the same for our own. I fully support the Foreign Influence Transparency Act that passed with bipartisan support. Indeed, I wonder what would have been the result for the Port

of Darwin had the Abbott/Turnbull/Morrison government brought this in a little earlier. The port might still be in Australian hands. However, a word of caution about foreign influence: it's very easy for this to translate into a form of racial profiling. I will be the first to the barricades if this national security legislation becomes a political vehicle for Hansonism and a return to the days of the "yellow peril." These new arrangements on foreign influence transparency should be given effect as a legal and administrative process, not as a populist witch-hunt.

Regionally, Australia must once again become the international champion of our friends in the South Pacific. The current government's posture on climate change has undermined our standing with island states and provided a further opening for China. This is the exact reverse of where we were in 2009 in Copenhagen when we were the global voice for small-island developing states and their existential demand for a temperature ceiling of 1.5–2 degrees centigrade. The so-called "Pacific Step-Up" is hollow. Without credible climate leadership from Australia, it will be a dead letter. And on the aid side of the step-up, bear in mind that the quantum this year has still not returned to the levels we had when I left office in 2013.

In Southeast Asia, Australia should join the Association of Southeast Asian Nations (ASEAN). I first raised this with Indonesia in 2013. Turnbull mentioned it in 2016, and the Indonesian president appeared supportive. There will be some resistance. But we should work through these challenges over time. Australian membership would enhance the strength of this critical regional institution at a time when it is coming under considerable internal and external pressure. It would also help Australia manage its long-term relationship with Jakarta once Indonesia becomes a larger economy than Australia and the power relativities between the two countries change.

Australia must diversify its international economic engagement. Peter speaks to this in his essay. We have become too China-dependent. We need to diversify further to Japan, India, Indonesia, Europe, and Africa—the next continent with a rising middle class with more than a billion consumers. We must equally diversify our economy itself. I have written on this at length recently in my own long essay released earlier this year entitled "The Complacent Country." On India, Morrison should use his visit to Delhi in January to conclude the Australia-India Comprehensive Economic Cooperation Agreement whose negotiations I launched a decade ago.

Australia must continue to consolidate its alliance with the United States. This should be matched with a consistent Australian defense effort for the long term—of the type outlined a decade ago in the 2009 white paper. The alliance remains an enormous force multiplier for Australia at every level. It remains a critical factor impacting China's long-term strategic perceptions of Australia. It creates greater respect in Beijing for Australia, not less, given that China continues to recognize the formidable capabilities of the U.S. armed forces and the closeness of the alliance relationship Canberra has with Washington. The alliance will also continue to generate its own frictions with Beijing. But this comes with the territory. As

Australia should make no apology for its support for universal human rights as defined in the Universal Declaration of 1948 and the other UN covenants. China is also a signatory. These are the international standards we should all be held to—Australia as well.

for the Quad, Abbott's recent rewriting of history on this ignores the fact that when we were elected in late 2007, neither India nor Japan wanted to proceed with it. The Bush administration at the time was also at best half-hearted. It would have been passing strange to join something when you would be the only active member. Ten years later, the Quad is meeting at the foreign ministers' level. But India for its own curious reasons continues to exclude Australia from the Malabar naval exercises held with Japan and the United States despite six years of Australian requests to do so. I predict India may change its posture in January when Morrison visits Delhi. But Australia should be deeply realistic about the long-term reliability of India as a robust defense partner given Delhi's competing priorities elsewhere.

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Australia must also look to mid-century when we may increasingly have to stand on our own two feet, with or without the support of a major external ally. Trumpist isolationism may only be short term. But how these sentiments in the American body politic translate into broader American politics with future Republican and Democrat administrations remains unclear. Australia must plan for a big Australia. A big and sustainable Australia of the type I advocated while I was in office. That means comprehensive action on climate change and broader environmental sustainability. Again, as I have argued in my essay on "The Complacent Country," only a country with a population of 50 million later this century would begin to have the capacity to fund the military, security, and intelligence assets necessary to defend our territorial integrity and political sovereignty long term. This is not politically correct. But it's yet another uncomfortable truth.

## CONCLUSION

Peter Hartcher concludes his essay by saying that "history is forcing us out of our complacency." I hope he is right—because he must be right. For too long we have been the complacent country on the retooling of our economy, with both a government and a private sector remarkably disengaged from the structural economic challenges and opportunities unfolding across our region and the world. I increasingly fear we will be left behind. For too long we have also been the complacent country on climate change despite the existential dangers now staring us in the face and a government just hoping to keep it all out of the news while the country literally burns. And for too long we have been complacent in anticipating and responding to the profound geopolitical changes now washing over us with China's rise, America's ambivalence about its future regional and global role, and an Australia that may one day find itself on its own.

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