Just like milestone birthdays in one’s personal life, important political anniversaries also can incline the mind toward reflection. Next year, of course, marks the fortieth anniversary of the reestablishment of diplomatic ties between the United States and China. As such, much breath and a lot of ink have been devoted to analyzing the course of the bilateral relationship over that nearly half-century. Although certainly not a universal opinion, it seems fair, if perhaps overly reductionist, to suggest that the general conclusion among a substantial number of U.S. officials, policy analysts, and journalists has been that the consistent U.S. policy emphasis on engagement with China during those forty years was, at the end of the day, a sham. In this rendering, naïve groups of senior policymakers in succeeding U.S. administrations and in most of the U.S. China-watching community were hoodwinked by wily CCP leaders who talked the talk of integrating into the so-called U.S.-led rules-based international order, but all the while they had a secret master plan to instead subvert that order and challenge U.S. primacy throughout the globe. In a slightly less menacing (if no less absurd) version of this narrative, China was, indeed, headed generally toward this hoped for integration under the stewardship of deceased paramount leader Deng Xiaoping and his handpicked successors Jiang Zemin and Hu Jintao until Xi Jinping arrived and, through a ruthless consolidation of power, decided instead to change course in what now regularly is referred to in shorthand as Xi’s “authoritarian turn.”

For the vast majority of the forty years discussed above, the economic relationship between the United States and China has been one of extreme complementarity. In fact, (then Vice) President Xi captured this perfectly on his maiden journey to Washington in 2012 when he characterized our economic integration as the “ballast and propeller” of the overall bilateral relationship. Put another way, our complementary economic ties have served as a shock absorber for the more competi-

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tive—or even conflictual—elements of our relationship, including a host of perennial security issues and the differences in our respective values and governing systems. In short, those other tensions always are with us, but they have only rarely been immediate, and were not sufficiently grave to outweigh the tremendous economic benefits to be had by both our countries.

But, with China’s legitimate desire to break through the middle-income trap and advance to the forefront of the world’s developed economies, our economic relationship is turning more competitive. To achieve Xi’s new—and ambitious—goal established at the 19th Party Congress of attaining “socialist modernization” by 2035, to say nothing of “the great rejuvenation of the Chinese nation,” he and China must go exactly where the United States must go as they focus the country’s economic development plans on the industries and services of the future world economy. Moreover, two related realities serve to substantially exacerbate the potential for increased tension. First, China’s use of a robust industrial policy toolkit—subsidies to favored domestic champions, seemingly unlimited state-backed funding, and an expansive regulatory regime, to name just a few—to advance its goals has alienated one of its most important traditional allies, the U.S. (and other foreign) business community. No longer can the CCP rely on U.S. business to call for restraint when the U.S. Government considers policies across a range of areas that might be unwelcome in Beijing. In fact, there is substantial evidence that at least some elements of the U.S. business community, and especially those in the traditional manufacturing industries, have been egging on the Trump administration to push back on China.

Secondly, and perhaps more importantly, Xi and his Politburo colleagues are exceptionally determined to achieve these goals because they judge (correctly) that the very viability of continued CCP rule likely hangs in the balance. In other words, unlike in democratic polities, where political parties sketch out sweeping goals in their electoral platforms knowing full well they will achieve almost none of them, Xi and

**Recent Events**

- **Forty Years of U.S.-China Relations Hosted by the Freeman Chair in China Studies: May 11, 2018.** On May 11th, Freeman Chair Christopher Johnson and Deputy Director Scott Kennedy moderated discussions with key policy figures and experts on the history and future of the U.S.-China relationship. Scott Kennedy moderated a discussion on “The First Forty” years, Bonnie Glaser moderated a discussion on “The Next Forty,” and Christopher Johnson moderated a discussion with former Secretary of Defense Bill Cohen and Chinese Ambassador Cui Tiankai on current U.S.-China relations. These discussions highlighted both the immense progress in the relationship over the last forty years as well as thorny challenges that have emerged as a result of changes in relative power, interests, and values.

- **Xi’s Three Battles: China’s Anti-Poverty Campaign Hosted by the Freeman Chair in China Studies: May 3, 2018.** The Freeman Chair in China Studies hosted Georgetown University Professor Kristen Looney, Lead Economist for the World Bank’s Development Research Group John Giles, and Director of the Grassroots Initiative at Johns Hopkins-SAIS Anne Thurston for a discussion on the political, economic, and social aspects of Chinese President Xi Jinping’s anti-poverty campaign. Scott Kennedy, deputy director of the Freeman Chair in China Studies, moderated the discussion.

- **Book Forum on End of an Era: How China’s Authoritarian Revival is Undermining Its Rise, Hosted by the Freeman Chair in China Studies: April 30, 2018.** The Freeman Chair in China Studies hosted Fordham University Professor of Law Carl Minzner for a discussion of his latest book, End of an Era: How China’s Authoritarian Revival is Undermining Its Rise (Oxford University Press, 2018), which analyzes how key elements of the Reform period, including greater institutionalization of policymaking, have been reversed and what this means for
the CCP have no such luxury. These are the perils of performance-based legitimacy, and, in this context, it means that the CCP and its leaders are going to fight very hard to succeed using whatever means they have at their disposal.

Taken in combination, these factors suggest that the previous pursuit of “strategic trust” between the United States and China risks being replaced by “strategic divergence.” With the economic shock absorber no longer functioning as before, the previously suppressed more competitive elements of the relationship are coming more readily, and more quickly, to the fore. Moreover, it is fair to say that several of President Xi’s policies have acted as an accelerant to that process. The displacement of China’s previous low-profile foreign policy with projects such as the Belt and Road Initiative and the militarization of China’s artificial islands and edifices in the South China Sea cause many to wonder about China’s motives and designs for the region and beyond. Similarly, Xi’s steady emphasis on the leading role of the CCP and Marxist ideology (even with Chinese characteristics) in shaping China’s future direction rings cacophonously in the ears of Western leaders and especially to the Trump administration. The result is the advent of what could well be described as “the new holy trinity,” wherein the United States now characterizes China in its most authoritative declarations of U.S. strategic policy as a strategic competitor and revisionist power practicing predatory economics.

With the problem (at least hopefully) accurately diagnosed, we now can turn our attention to an examination of what it means for the current trade dispute between our two countries and how our respective leaderships might choose to manage the situation. To cut to the chase, the trade spat can be seen to fundamentally turn on two key dilemmas. The first is the seeming tension between what we might for convenience refer to as the backward looking and the forward looking elements of the dispute. The backward looking issues focus on the alleged loss of traditional manufacturing jobs to China over the last few decades and the associated desire to protect, or perhaps even advance, those industries in the United States. The forward looking elements deal with matters

Recent Events (continued)

China and the rest of the world. Following his presentation, Freeman Chair Deputy Director Scott Kennedy moderated a conversation with Professor Minzer.

- Xi’s Three Battles: China’s Credit Risks Hosted by the Freeman Chair in China Studies: March 12, 2018. Freeman Chair Christopher K. Johnson moderated a discussion on China’s credit risks and why defusing these risks is critical to China’s continued economic growth. Andrew Polk, founding partner of Trivium/China, a Beijing-based advisory firm, and Gene Ma, chief China economist at the Institute of International Finance, presented data about the origins of China’s debt problem, the challenges Beijing faces in deleveraging the economy, and the effectiveness of its recent policies.
related to the future knowledge economy (especially services) and related concerns about Chinese theft of core U.S. intellectual property (IP) and information technology (IT). The second, but closely related dilemma is the tension between the tactical goals (reducing the substantial bilateral trade deficit) and their associated tools (the threat of tariffs) and the structural ones (grappling with Chinese industrial policy as an enabler in the competition for the industries of the future, and the consideration of policies like greater investment or visa strictures to try to combat it).

The two dilemmas discussed above have made it difficult for the Chinese to zero in on exactly what the U.S. side wants them to do. Of course, the Chinese should not be allowed to use such claims as an excuse to defer action, and it certainly is true that one reason they repeatedly raise the issue of specific asks is to determine the minimum they can do to get over the current rough patch. Still, the reported frequent U.S. retort, “you know what you need to do,” while potentially emotionally satisfying, is problematic. Like it or not, China’s political system is a top-down, heavily stove-piped Leninist bureaucracy. Xi’s concentration of power, although potentially ameliorating some of these realities in the long run, appears to be exacerbating them in the short term. So, without some sort of clear guidance as to U.S. priorities, inertia will always be the favored posture of the Chinese policy system. Some may argue that the list of demands presented by the U.S. delegation in Beijing resolves this dilemma by making abundantly clear what our asks are. But asking China to fundamentally unwind the central pillars—the 13th Five-Year Plan, Made in China 2025—of its economic blueprint for the next several decades just isn’t realistic, especially for the type of bureaucracy just described above.

So what, if anything, is to be done? Both parts, the backward looking, tactical elements and the forward looking, structural challenges each are freighted with their own unique difficulties. As such, it seems like the best place to start is to adopt what can best be described as a bifurcated or two-track approach. Under such a scenario, the two sides should work

In the News

“I think that right now the economic, political, and strategic dynamics push both sides to go ahead. They both win more going ahead than pulling back. But once they do that then they’ll start to maybe see what some of the economic and political pain is and look for ways to get to the negotiating table.” June 29, 2018

—Scott Kennedy in Bloomberg, “U.S. is Definitely Already in a Trade War, CSIS’s Kennedy Says”

“It is not in the interests of the United States to just be playing defense and creating a fortress America while the EU, China and others play offense and attempt to set the rules of the game for the next century,” June 25, 2018

—Scott Kennedy in the Associated Press, “China, EU to form group to modernize global trade rules”

“The administration is essentially saying it is willing to bring a substantial amount of commercial activity in the Asia-Pacific to a screeching halt.” June 18, 2018


“There was a concern on [the US] side that the ‘mini deal’ becomes the ‘maxi deal’... If you take that you might never get around to the structural stuff.” May 19, 2018

—Christopher K. Johnson in the Financial Times, “China stops short of accepting US trade demands”
hard to come to a quick consensus on the backward looking, tactical pieces while deferring the forward looking, structural issues for future rounds of dialogue. In fact, news accounts of the current state-of-play suggest that this dynamic already is taking shape, with the U.S. side seemingly ready to accept a “mini-deal” focused on relief from threatened Chinese tariffs on agricultural imports, some additional deficit-reducing purchases, and a few new commitments on market access, while China clearly has underscored the long-term strategic relevance of the structural fight with its arguably over-the-top insistence on relief for ZTE.

Some have argued, almost reflexively, that such an approach constitutes a “bad deal,” at least for the United States. That certainly would be the case if the Trump administration takes such an agreement, declares victory, and abandons the field when it comes to the long-haul structural gladiatorial combat. If, however, there is a general recognition, preferably by both sides, that the deficit-focused tariff squabble is fueling the most anxiety—whether in China, the United States, or around the globe—about a potential trade cataclysm, while the less immediate structural debate can be played out over decades, and perhaps even mostly out of public view, then a modicum of stability probably can be achieved. From there, sorting out whether such stability can be made durable over any relatively lengthy time horizon likely would turn on how the two issues are negotiated.

For example, if a bargain on tariff relief is merely a Band-Aid, as opposed to a genuine effort to tackle the issues like overcapacity that underpin it, then the deal is unlikely to last long. Similarly, iron-faced insistence that China completely abandon its plans, even as currently construed, for moving up the global value and supply chains is equally infeasible. So, as is so often the case on such vexing questions, the Goldilocks rule—or, perhaps better, a middle path—probably has the most applicability here. For the tactical issues, such a middle path would land somewhere between the Band-Aid described above and the all-out declaration of hermetically-sealed protected industries on each side. It could focus on

### Podcasts

LISTEN CogitAsia Podcast: How China Became an Insider in Global Governance, with Scott Kennedy (June 25, 2018)

### Recent Publications

“Protecting America’s Technology Industry From China” Scott Kennedy, *Foreign Affairs*, August 2, 2018

“Beyond the Whiplash of the ZTE Deal” Samm Sacks and Maria Sinclair, *CSIS Commentary*, June 8, 2018

“Investment Restrictions on China: The Decision that Wasn’t” Scott Kennedy and others, *CSIS Critical Questions*, June 28, 2018

“Rebooting U.S.-China Trade Ties: ‘Enter Ye Through the Narrow Gate’” Christopher K. Johnson, *CSIS Report*, May 16, 2018

REBOOTING U.S.-CHINA TRADE TIES:
“ENTER YE THROUGH THE NARROW GATE”
(continued)

requiring China to offer up fresh access, with ironclad, near-term implementation timelines, to sectors that were never on the table as part of its WTO accession or the now-defunct Bilateral Investment Treaty negotiations, while the United States could offer to take a breath on pending investment and visa restrictions that would make China much more reluctant to agree that its trade deficit with the United States is a problem.

On the structural side, a jumping off point could include a U.S. offer to acknowledge (as opposed to accept) China’s desire (as opposed to right) to move up the global value and supply chains, and perhaps to make that acknowledgement public in the form of a major policy address (similar to Ambassador Robert Zoellick’s 2005 “responsible stakeholder” speech). This is, after all, what Washington has been encouraging China to do for the last few decades. In return, China could agree, with some sort of robust verification mechanism, to curtail the toothiest elements of its industrial policy, such as subsidies to strategic industries and the juicing up of national champions with state cash for competition with foreign multinationals in third country markets. Or, if such a plan was deemed entirely too level-headed, we could perhaps agree that we are, indeed, entering a multi-decade cold war on IT and IP, but that this war can, and therefore should, largely be fought in the shadows, where it can avoid scaring our respective markets and populations about a pending trade war that risks tipping into a hot war (the tired Thucydides Trap meme).

Which brings us, finally, to the issue of how we correctly diagnose the problems in the economic relationship, as well as how we define and operationalize, as noted above, our redlines with China. Here, the Trump administration deserves some credit for its determination to avoid Einstein’s definition of insanity, or the practice of doing the same thing over and over again while expecting a different result. In many ways, the administration’s candor in calling out, and therefore popularizing, some of China’s most unfair or potentially anticompetitive trade practices has shone
a necessary light on the problem areas (Ambassador Lighthizer has dramatically enhanced U.S. awareness of the potential pitfalls associated with the Made in China 2025 program, for example, which previously was the exclusive domain of China nerds like yours truly).

But, although the diagnosis of the disease may be correct, the calculation of where U.S. leverage best lies is critical when operationalizing U.S. redlines. The demands presented in Beijing, for example, risk being interpreted by the CCP as the last gasp of an aging prize fighter who is trying to hold onto the championship title for at least a few more bouts. A better approach, perhaps, is to improve our understanding of what actually is happening in China, what President Xi’s priorities are for his economy, and how that may give us more effective leverage. For example, few U.S. commentators on the trade dispute have mentioned that President Xi, during his early April remarks to the first meeting of the newly-upgraded CCP Central Financial and Economic Affairs Commission, stressed that, as part of the government’s crackdown on financial risk, local governments and state firms should expect to feel the same deleveraging pressure that we saw in the interbank area throughout the second half of 2017. Similarly, few have commented on new central bank Governor Yi Gang’s series of remarks about wanting to loosen capital controls after China’s earlier (over) tightening of the capital account in response to massive capital outflows. What does this have to do with U.S.-China trade tensions, you might ask? A lot; for China cannot move ahead with confidence on these very pressing domestic priorities while such immense uncertainty remains with regard to its export picture resulting from the tensions with Washington. Understanding that point gives far more enduring leverage—one might call it “smart leverage”—to U.S. negotiators than threats that could backfire if China chose to truly test U.S. resolve.

In closing, it may appear odd or ironic that the title of this piece draws on “the Good Book” for a suggested approach in dealing with the CCP. But it should not surprise those of
us who believe that our best policy approaches often have their roots in the values we share and cherish. It’s also worth noting that, like so many of the bits of wisdom from that source of inspiration, the injunction is accompanied by a warning. “For wide is the gate and broad is the road that leads to destruction.”

This is an abridged version of a CSIS report originally published on May 16, 2018.

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