

# PRINCIPLES FOR MANAGING U.S.-CHINA COMPETITION

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## EXECUTIVE SUMMARY

Donald Trump and Xi Jinping both have praised their relationships with each other and expressed support for the healthy development of U.S.-China relations. Despite these positive public comments, the relationship has deteriorated further and faster than at any point since the establishment of official ties in 1979. Each country blames the other for the downturn and believes the other bears responsibility for reversing the negative trajectory. Barring presidential-level intervention to change course, the relationship likely will continue to deteriorate and, in so doing, increase the risk of future confrontation or conflict.

Enmity is not preordained. Another choice would be for both leaders to work together and establish principles for managing U.S.-China rivalry. Such an effort would not seek to stifle competition, but rather to build guardrails around the relationship so that competition could occur within accepted bounds. This, in turn, would create conditions more conducive for both sides candidly to address concerns about the actions of the other.

There are ample steps both leaders could take to insulate the relationship without compromising each side's stated strategic objectives. For example, they could develop a shared narrative for the relationship, which would provide direction and orientation for both

governments. They could revive the standard practice of using summits as action-forcing mechanisms to deliver impactful outcomes and understandings, and not just as pageants of pomp and circumstance. They could revive the practice of "no surprises" on actions that impact the bilateral relationship in order to minimize risk of either side misinterpreting the other's intentions. They could reinvigorate long-standing risk reduction work-streams to lower the possibility of unintended incidents that could lead to rapid escalation. They also could take practical steps to better manage acute irritants, such as trade, cyber issues, Taiwan, and North Korea, so that areas of friction do not overtake the relationship and drive it in a sharply adversarial direction.

The record of the past 18 months does not lend itself to optimism that leaders in either capital will take steps necessary to put the relationship on a firmer foundation. If both leaders opt instead to score points at the expense of the other, they will fuel mutual suspicions, and perceptions will harden about the inevitability of confrontation, and possibly conflict. But this outcome would be a choice, not an unavoidable result.

## DIVERGENT NARRATIVES AND GROWING TENSIONS

Amidst the noise of escalating U.S.-China trade tensions and official invocations of China as a Cold War-like rival, President Donald Trump has been unwavering in touting his close relationship with President Xi Jinping and his desire for the United States and China to improve relations. Similarly, President Xi is widely quoted in the Chinese media as saying, “there are a thousand reasons to make the China-U.S. relationship work, and no reason to break it.”<sup>1</sup>

Yet, in spite of these positive public gestures by both leaders and claims of warm relations between them, the U.S.-China relationship arguably has grown tenuous than at any point since the normalization of relations in 1979. Both countries are moving in the direction of comprehensive confrontation, where every aspect of the relationship—social, economic, diplomatic, military, political—is defined by intensifying rivalry. Left unaddressed, this dynamic will push the world’s two preeminent powers into increasingly adversarial postures, straining the quality of communication between them and elevating risk of miscalculation that could spiral out of control and serve the interests of neither side.

Both countries hold their own narratives for the causes of the deterioration in relations. From Beijing’s perspective, policy toward the United States has been consistent. In this view, the United States—not China—is the variable that has changed, and thus the reason for the deterioration in relations. Many in Beijing view Washington’s increasing assertiveness toward China as the predictable behavior of a declining power trying to hold back a rising power. There is broad acceptance in Beijing that heightened tensions are a structural feature that must be managed during the shift from a U.S.-led unipolar world to a multipolar one. According to this logic, Beijing has little incentive to accommodate Washington’s demands on trade or

other issues. Doing so would not resolve the source of intensifying rivalry—the ongoing power transition from Washington to Beijing.

Some in Beijing also suspect that the Trump administration’s underlying motive is to “destroy” the Chinese Communist Party. These analysts believe accommodation would do nothing to ease America’s pressure on China, but could have the opposite effect of inviting more coercion if Washington concludes that Beijing is weak and unwilling to punch back against U.S. pressure.

Washington has a different take. Many in the United States view China as a rival—a country with an authoritarian government and a state-directed mercantilist economy. China is seen skirting rules, stealing jobs, hollowing out American factories, and undermining universal values. Washington rejects Beijing’s argument that China has pursued a consistent set of policies, and instead asserts that Beijing has become more assertive externally and repressive internally. Many in Washington also chafe at Beijing’s increasing invocation of ideology in its domestic and foreign policies, and its efforts to manipulate public opinion abroad.

Frustration is also mounting in Washington over China’s seeming non-responsiveness to widespread requests for Beijing to reform its unfair trade practices. Chinese policies have created global distortions in industries ranging from steel to solar panels. Pledges to reform have not translated into appreciably better market access, protection of intellectual property, or prevention of forced technology transfers. U.S. policymakers have determined that a more aggressive strategy is needed to signal that the status quo is unacceptable and Washington will no longer take a “business as usual” approach to the U.S.-China relationship.

Some in the United States go further, arguing that China’s ambitions are antithetical to vital U.S. national interests and that, sooner or later, the two countries will collide. These individuals suggest

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1 “Xi says ready to boost China-U.S. ties from new starting point with Trump,” *Xinhua*, April 7, 2017, [http://www.xinhuanet.com/english/2017-04/07/c\\_136190556.htm](http://www.xinhuanet.com/english/2017-04/07/c_136190556.htm).

it would be better for the United States to take China on now, while it still retains an advantage in overall national power. Thus far, such thinking remains relegated to the fringe. It also lacks the endorsement of President Trump, who is more focused on concentrating resources at home to put “America First,” rather than entering a costly conflict with America’s most formidable competitor.

The net result of Beijing’s and Washington’s diverging narratives is that both sides blame each other for the deterioration in relations, and believe the other bears responsibility for improving the relationship. This has led to mounting mutual frustration, rising friction, a sharp decline in cooperation, and a breakdown in bilateral communication below the presidential level. Left unchecked, this pattern will shrink what little space remains between both sides for compromise on issues of competing interests. Instead, both countries increasingly will face a choice between capitulation or escalation. And, given both leaders’ aversion to appearing “weak,” they likely will lean in the direction of escalating their way out of problems rather than negotiating compromises.

## PRACTICAL STEPS TO MANAGE RELATIONS

Both leaders face a choice in addressing the ongoing deterioration in relations. They can indulge their own short-term political interests by painting the other as the problem. They can accede to arguments about inevitable great power conflict. Or they can take the reins of the relationship and work together to set it on a firmer footing. The record to date does not instill optimism that Trump or Xi will intervene directly to put a floor underneath the relationship, but if they choose to do so, a few principles should guide them.

Both leaders could signal their shared buy-in for making the relationship more durable and productive. They could communicate their opposition to having the relationship defined by comprehensive confrontation, and they could reject the reductive logic that conflict between the United States and China is inescapable. Conflict is

a choice, not the output of some formula about the behavior of great powers.

Reciprocal and visible leader-level endorsement of such a framework would provide direction and orientation for both governments. By grounding the public narrative in shared principles—such as committing to work toward achieving *fairness* and *results*—both leaders also could provide their publics with a sellable rationale for developing healthy bilateral relations.

Similarly, both administrations could re-commit to the principle of “no surprises” for managing the bilateral relationship. Once standard practice between Washington and Beijing, this tenet has fallen out of practice under President Trump. Foregoing private notifications ahead of public announcements does not give either side a meaningful tactical advantage, but it does erode trust, reduce impetus to partner on shared challenges such as North Korea, and increase risk of one side misinterpreting the intent of the other’s actions.

Regular leader-level exchanges remain the most direct and effective way for Washington to influence how Beijing identifies its interests. Such engagement also provides a source of leverage for Washington with an image-obsessed Chinese regime by creating opportunities to trade protocol for substance. Simply put, presidential meetings are how business gets done in the U.S.-China relationship. There is no substitute for the action-forcing nature of a summit to nail down agreements. And as important as cooperative agreements are, often the understandings that leaders reach on managing sensitive issues (e.g., cybersecurity, North Korea, maritime security) prove to be of greater consequence. With the relationship currently veering from competition toward hostility, both leaders should engage in a sustained dialogue to determine what each needs to see from the other to gain confidence that neither side views the other as an enemy.

In normal times, the United States also would pursue a robust set of dialogues at the Cabinet or sub-Cabinet level on a range of areas where Beijing's actions are implicating top U.S. interests. Such dialogues would provide insight into China's objectives and inform Beijing's analysis of how its actions are impacting the U.S.-China relationship.

Natural areas of focus for sustained bilateral dialogue would include global norms and standards surrounding international lending and foreign assistance, as well as global governance more broadly. If the United States has concerns about China's lack of transparency in its global infrastructure project, the Belt and Road Initiative, and the debt traps Beijing is creating for recipient countries, it could have more impact by engaging the Chinese directly with empirical analysis and concrete concerns than by overselling its own paltry initiatives that pale in comparison. Both sides also would benefit from a greater understanding of each other's strategic imperatives and expectations on issues such as Iran, North Korea, maritime security, Africa, counterterrorism, counternarcotics, and climate change. With the Trump administration's new openness to direct engagement with the Taliban—a longtime push by Beijing—there may also be an opening for stepped-up U.S.-China coordination to bring hostilities to an end in Afghanistan.

Both sides also should pursue cooperation on common domestic challenges. Urban development is one example: both sides are experimenting with regulatory reform to manage the social, environmental, and economic impacts of population shifts to urban centers. A similar dynamic is at work as it relates to health care. With aging populations, both countries could benefit from exchanging experiences on care models and cooperating to accelerate the development of big data tools for diagnosing and treating illnesses. China is the world's second-largest medical care and pharmaceutical market; U.S.-China health care cooperation also could open up significant commercial opportunities for leading American firms.

In terms of technology development and deployment, the United States and China are racing ahead of the rest of the world. Greater bilateral communication on standard-setting for new product development (e.g., driverless cars) could create efficiencies in bringing new products to market.

Similarly, China is the largest importer of agricultural products in the world, and the United States is the world's largest exporter. Both countries have a strong interest in ensuring efficient global markets to support food security. The same logic applies to energy security. China's demand for liquefied natural gas (LNG) is growing alongside advances in U.S. LNG export capacity. And as China shifts from coal to natural gas to meet its climate change mitigation targets, it will need to upgrade its domestic energy infrastructure. This is an area where U.S. companies hold a comparative advantage in developing storage and distribution networks, and where both countries would benefit from deepened cooperation.

Both countries also are leading global players in the field of development assistance. Both sides should commit to turn development into a space for healthy competition. Both would benefit from expanding coordination to avoid redundancy, jointly developing metrics to assess the effectiveness of aid, and improving coordination on overseas disaster assistance. The more capable China is of responding to natural or man-made disasters, the less burden the United States will shoulder.

Both leaders also could prioritize efforts to lower the risk of unintended escalation. Assuming that neither side sees profit in initiating conflict with the other, a key focus should be on restricting paths to escalation. To manage risk, previous administrations have established crisis management mechanisms such as hotlines, protocols for managing close-in air and naval encounters, pre-notification procedures for space launches, and processes for dealing in real-time with cyber incidents. Looking forward, both countries could benefit from exploring whether additional risk management mechanisms are needed to address new domains of competition, such as outer space and autonomous weapons systems.

On cyber issues, both would benefit from developing a clearer understanding of what constitutes acceptable and unacceptable state behavior in cyberspace. Previous bilateral engagement on government-sponsored, cyber-enabled economic espionage for commercial gain led to behavioral change on a narrow problem, but it did not address the broader question about where to draw the line on cyber operations. For example, is cyber infiltration of defense contractors considered traditional espionage, or is it cyber-espionage for commercial gain? Do efforts to influence public opinion through cyber means constitute traditional espionage, or are they unacceptable interference in internal affairs? Failure to set common expectations now on appropriate uses of cyber capabilities to advance national interests only invites instability later.

## ADDRESSING MAJOR BILATERAL CHALLENGES

While the U.S.-China bilateral relationship would benefit from reviving engagement, building cooperation, and reducing risk, these steps alone likely would be insufficient to reverse the general decline in relations. Doing so would require shared efforts to solve major challenges in the bilateral relationship or, at a minimum, manage them constructively.

The issue in most immediate need of presidential-level engagement is trade. The United States has legitimate complaints concerning China's market access restrictions and forced technology transfers. Although China's policies generally are consistent with its World Trade Organization (WTO) commitments, they increasingly are out of line with global norms. Among all G-20 countries, China is the most closed to foreign investment. Even among developing countries in the G-20, China is twice as restrictive as the average.

China and the United States are stuck in a mutually hurting stalemate. Both can inflict pain on the other, neither can impose its will, and neither is willing to back down. To break out of this dynamic, there will need to be near-term steps to show responsiveness

to each other's concerns. Given that China's market is much more closed, Beijing will need to take greater initial steps to open sectors such as automobiles, financial services, health care, and entertainment. Since both leaders will be loath to be seen as making concessions to demands from the other, both will need to accept unilateral policy decisions from the other as signals of intent to lower bilateral trade tensions.

If, for example, Beijing takes steps to improve protection of intellectual property, prohibits Chinese companies from demanding that U.S. joint venture partners transfer technology, lowers auto tariffs to match the U.S. rate, and enacts concrete market openings in areas of interest for the United States, such as financial services and health care, then Washington could agree to withhold imposition of future tariffs that have been threatened, and also apply a more focused definition of national security in its screening of Chinese inbound investment. Such a sequence could open up space for both sides to develop a set of shared principles for managing the economic relationship going forward. These could include a shared recognition that:

- Non-reciprocal market access is not sustainable and, left unchecked, will push the relationship in a confrontational direction;
- Both countries should grow trade to shrink the trade imbalance, rather than choke trade to collapse the trade imbalance;
- Both countries will move continually in the direction of exposing more of their economies to competition;
- Both countries recognize that the WTO lacks answers to pressing challenges facing the 21st century global economy and, as such, both will support efforts to update WTO rules to establish new global disciplines for forced technology transfer, protection of intellectual property, and government subsidies to state-owned enterprises.

Washington also will need to work in parallel with like-minded partners to build international acceptance for new disciplines, both at the WTO and through new trade pacts. Nevertheless, by grounding the U.S.-China economic relationship in a set of shared principles, both leaders would bound competition, move beyond treating each other as “existential threats” and, in so doing, signal to markets that they are capable of working within an accepted framework to narrow differences over time.

A similar logic could apply to both sides’ approach to Taiwan. There are no plausible U.S.-China breakthroughs, just differences that need to be managed. In the nearly 40 years since the normalization of U.S.-China relations, such differences have been managed without resort to force, in part through visible U.S. demonstrations of resolve and also through clear, consistent articulations of policy. Clarity leads to predictability, and predictability supports stability.

The United States has an enduring interest in the maintenance of stable cross-Strait relations, and opposes unilateral changes to the status quo by either side. By making clear that long-standing U.S. policy will not change, President Trump could shrink uncertainty about his intentions with respect to Taiwan. Such a clear and direct statement would dissipate anxieties in Beijing that Trump intends to use Taiwan to gain leverage in other areas. By doing so, President Trump also would be in a stronger position to insist that Xi pull back from Beijing’s tension-inducing actions, such as its assault on Taiwan’s diplomatic space, its efforts to squeeze foreign companies into accepting Beijing’s preferred nomenclature on Taiwan, its interference in Taiwan’s political system, and its increasing military operations around Taiwan.

On North Korea, both sides should work to separate the issue from oscillations in other areas of the relationship. Both sides gain from cooperation and suffer from disunity in dealing with the threat from Pyongyang. As such, it would be mutually beneficial for both sides to commit to: (1) a “no surprises” policy between the United States and China for managing

North Korea issues; (2) immunizing coordination on North Korea from other tensions in the U.S.-China relationship; (3) advancing contingency planning discussions—in coordination with Seoul—to align expectations on each side’s planned response to unanticipated events in North Korea; (4) reaching a shared understanding on the sequencing of a peace treaty, progress on denuclearization, and circumstances that would justify introduction of incentives to North Korea; and (5) not allowing differences over the Korean Peninsula to derail the overall U.S.-China relationship or, worse, cause a repetition of U.S.-China conflict on the Korean Peninsula.

## CONCLUSION

In conclusion, this paper does not seek to present an overarching strategy for the United States to respond to China’s rise. That is a different topic that would require a broader discussion about the impact of China’s rise on U.S. interests, and the role of coordination with like-minded countries to influence China’s decisions.

This paper has more limited ambition. It is intended to identify practical steps both governments could take to stabilize the bilateral relationship and limit risk of a hardening Cold War-like rivalry that would benefit neither and cost both considerably. The emergence of such a rivalry would lead to less security at higher cost for the United States, elevate risk of confrontation, and stifle cooperation in addressing shared challenges.

At a more fundamental level, as perceptions solidify that the United States is abandoning the previous framework for managing U.S.-China relations, pressure will mount in Beijing for China to abandon restraint in its dealings with the United States and its partners. It was not long ago that Beijing was saber-rattling over Taiwan, fighting wars with its neighbors, actively exporting its ideology, aggressively isolating U.S. allies such as Israel and South Korea, and serving as a leading global proliferator. If Beijing concludes that the United States is dedicated to a hostile relationship with China, it has ample ways of

reciprocating in ways that would not redound to the United States' benefit.

The approach presented in this paper is not designed to stifle competition in U.S.-China relations. Competition is an enduring feature of the relationship, and seeking to ignore or downplay it would not support the healthy development of bilateral ties. As long as it is undertaken within mutually understood parameters, competition need not be destabilizing. In fact, manageable competition would create more space for candor, by allowing both sides to confront challenges without risk that doing so would tilt the relationship in an adversarial direction. Such candor is needed to address real problems, such as trade, that will only metastasize with time if not handled effectively now.

There are many reasons why leaders in both capitals could choose not to embrace these or other similar recommendations. They may see short-term political benefit in heightened bilateral tensions, since it shows toughness in pushing back on the other. Or they may opt to divest in U.S.-China relations and shift diplomatic focus elsewhere.

The key takeaway is that both leaders face a choice. They have ample tools available to put a floor under the bilateral relationship, should they invest in doing so. If, on the other hand, they stay the course and drive the relationship into further deterioration, they will be doing so as a choice, not as a consequence of an absence of alternatives.

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