

REFLECTIONS ON CHINA AND U.S.-CHINA RELATIONS IN 2021

A COLLECTION OF SPEECHES AND ESSAYS IN THE
ASIA SOCIETY SERIES ON THE AVOIDABLE WAR

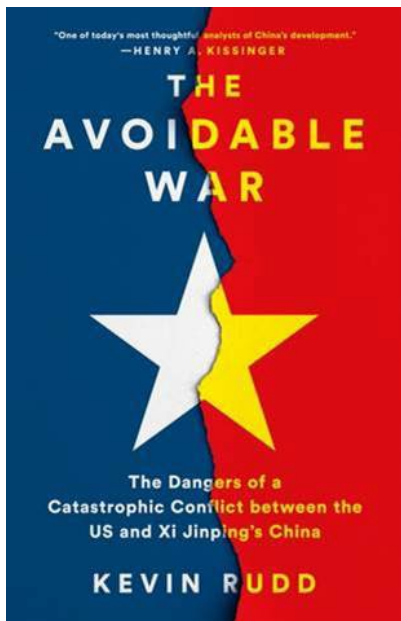
By **The Honorable Kevin Rudd AC**
President and CEO, Asia Society
President, Asia Society Policy Institute

Reflections on China and U.S.-China Relations in 2021

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SOCIETY SERIES ON THE AVOIDABLE WAR

INTRODUCING

The Avoidable War, a new book by Kevin Rudd



The Asia Society Policy Institute's Avoidable War Project, of which this series is a part, has now also culminated in the publication of a book on U.S.-China relations by Asia Society President Kevin Rudd, titled *The Avoidable War: The Dangers of a Catastrophic Conflict between the US and Xi Jinping's China*.

The book outlines the history of the U.S.-China relationship, including its recent descent into a period of what U.S. President Joe Biden has characterized as “extreme competition.” And, by exploring each country’s perception of the other – with a particular emphasis on explaining the deep roots of Chinese President Xi Jinping’s worldview and the strategic imperatives of China’s Marxist-Leninist system – Rudd demonstrates the real and growing danger of this relationship spinning out of control and unintentionally terminating in “an avoidable war.”

To provide a way out of this dangerous period facing the world in the decades ahead, Rudd’s book offers a detailed strategic framework that Washington and Beijing could adopt to proactively manage the scope of their competition, provide space for global cooperation in defined areas of mutual interest, and ultimately prevent a catastrophic conflict.

The Avoidable War: The Dangers of a Catastrophic Conflict between the US and Xi Jinping's China will be released in the United States on March 22, 2022, as a publication of [PublicAffairs](#), and is now available for pre-order from [Amazon.com](#), [Barnes & Noble](#), and other booksellers. *The Avoidable War* will also be published in [Australia](#) on March 30 by Hachette Australia, and in [the United Kingdom](#) on April 14 by PublicAffairs.



With a solution-oriented mandate, the Asia Society Policy Institute (ASPI) tackles major policy challenges confronting the Asia-Pacific in security, prosperity, sustainability, and the development of common norms and values for the region. The Asia Society Policy Institute is a think- and do-tank designed to bring forth policy ideas that incorporate the best thinking from top experts in Asia and to work with policymakers to integrate these ideas and put them into practice.

ABOUT THE AUTHOR

The Honorable Kevin Rudd AC served as Australia's 26th Prime Minister (2007–2010, 2013) and as Foreign Minister (2010–2012). He led Australia's response during the global financial crisis—the only major developed economy not to go into recession—and co-founded the G20. Mr. Rudd became President of the Asia Society in January 2021, after having joined the Asia Society Policy Institute in New York as its inaugural President in January 2015. He serves as Chair of the Board of the International Peace Institute and Chair of Sanitation and Water for All. He is a Senior Fellow at Harvard University's John F. Kennedy School of Government, a Distinguished Fellow at Chatham House in London, a Distinguished Statesman with the Center for Strategic and International Studies in Washington D.C., and a Distinguished Fellow at the Paulson Institute in Chicago. Mr. Rudd is a member of the Comprehensive Nuclear Test-Ban Treaty Organization's Group of Eminent Persons. He serves on the International Advisory Board of the Schwarzman Scholars program at Tsinghua University, and is an Honorary Professor at Peking University. Mr. Rudd is proficient in Mandarin Chinese. He remains actively engaged in indigenous reconciliation.

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INTRODUCTION

For nearly a decade, Chinese leadership planned for 2021 to be a pivotal year for China. It was to be celebrated as the 100th anniversary of the founding of the Chinese Communist Party in 1921. And it was therefore set as the year in which Chinese President Xi Jinping was determined that the country would reach the level of a “moderate prosperous society,” thereby accomplishing the first of two “centenary goals” meant to forever define his legacy as the leader who achieved the “Chinese Dream” of “national rejuvenation.”

But 2021 turned out to be a more decisive year for China – and indeed for the world – than anyone, Xi included, could have predicted. Even as the COVID-19 pandemic continued to beset humanity and isolate China from the rest of the world, 2021 also saw profound changes within China, from its politics to its economic policy settings and to its society, culture, and media.

It was a year in which Xi, at the party’s Sixth Plenum, sought to prepare for a critical political year ahead in 2022, when the 20th Party Congress would determine whether Xi would become leader for life. Xi pushed through a key resolution on party history, officially establishing a clear ideological separation between the party’s past eras of Mao Zedong and Deng Xiaoping and the “new era” of Xi Jinping Thought.

It was also a year that saw Xi execute a major redirection of China’s political economy, leaving behind the “let some people get rich first” ethos of Deng Xiaoping’s “reform and opening” era, and launching a new period of “Common Prosperity,” intended to reduce economic inequality by firmly reasserting the role of the party and the state in the direction and operation of the national economy. But it is here that Xi’s ideological preference for state economic control began to collide with the hard economic reality of business confidence and private sector-generated growth. Moreover, the accumulated risks of an investment-led growth model began to surface in the property market – epitomized by the slow-motion implosion of heavily indebted real estate giant Evergrande – forcing Beijing to manage the economic fallout and moderate its long-term strategy of deleveraging the property sector.

This past year also saw a new U.S. president take office as Washington and Beijing took tentative steps to find a way to stabilize their relationship while still recognizing the reality of the deepening strategic competition between them. Rising tensions across every dimension of the relationship generated a growing awareness on both sides that the risk of unintended conflict was now becoming an all too real possibility. But China continued to advance its “wolf-warrior” foreign policy, seeking to consolidate its regional and global influence through a combination of diplomatic, economic, and military inducements and, where necessary, coercion. Meanwhile, the United States and its allies sought to consolidate new mechanisms for advancing their own collective interests in the Indo-Pacific – through the Quad and the recent Australia-UK-U.S. security pact (AUKUS) – to China’s growing alarm.

The Hon. Kevin Rudd AC is President and CEO of the Asia Society, and inaugural President of the Asia Society Policy Institute. He served as 26th Prime Minister of Australia (2007 to 2010, 2013) and as Foreign Minister (2010 to 2012).



The Taiwan Strait saw a record-breaking number of sorties by Chinese military aircraft in 2021, as Beijing sought to signal its determination to use force to reclaim the island to Chinese sovereignty.

China also increased the tempo of its operations in the South China Sea and in the East China Sea against Japan, confronting U.S.-led Freedom of Navigation Operations. Tensions along the Sino-Indian border also remained high. And despite China's rapidly expanding conventional military and naval capabilities, Beijing also began embarking on one of the largest expansions of its nuclear forces in its history, reportedly seeking to triple its standing arsenal – thereby raising a pressing, unfulfilled need for a new generation of multilateral arms control efforts.

The year 2021 also saw China make new commitments on combatting climate change as Beijing sought to demonstrate a new era of Chinese leadership and preparedness to cooperate and coordinate with the United States on dealing with this existential global challenge – creating a rare opportunity for Beijing and Washington to work together in the midst of a growing tide of strategic competition.

As we begin 2022 – itself likely to be an even more pivotal year in Chinese politics as Xi seeks a third term in office, thereby potentially becoming leader for life – it is all the more important that we recall, reflect on, and understand what occurred in 2021 and why. That is what this fourth annual volume of the “Avoidable War” series seeks to do. It contains selected essays, articles, and speeches that provide a series of insights into events as they unfolded over the course of the year – from an assessment of Beijing's early reactions to the Biden administration to the development of the Quad and China's response, as well as the People's Liberation Army (PLA)'s new nuclear program, together with analysis of a number of the domestic political, economic, and pandemic-related drivers of China's international political behavior.

Finally, the collection (along with those volumes preceding it) helps form the basis of a broader, long-running project on U.S.-China relations, the themes of which will be explored in much greater depth in a new book, titled *The Avoidable War: The Dangers of a Catastrophic Conflict between the US and Xi Jinping's China* due out in March 2022. That volume will outline my core argument for a new doctrine of what I call “Managed Strategic Competition” for both China and the United States to embrace for the future – if we are to indeed to avoid the unimaginable carnage of war. This will become essential as we embark upon what I have for some time now called “the decade of living dangerously.”

The world has some reasons to be hopeful, as we enter 2022, that this year can finally become a year of re-stabilization in some aspects of the U.S.-China relationship. But to get there, it is useful to reflect for a moment on what went wrong – along with what went right – in the year of change that was 2021.

The Honorable Kevin Rudd AC

President & CEO, Asia Society

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January 2022



> 1 BIDEN SHOULD PRIORITIZE
REVERSING TRUMP'S BLANKET
BAN ON CHINESE AND
OTHER FOREIGN STUDENTS

An op-ed originally published in the *South China Morning Post*
January 27, 2021

Stock photo of university students brainstorming together. Beijing, China. Chalfy. Getty Images.

Among the many challenges President Joe Biden will face as he enters office, three of his key goals will be bolstering America's global economic and technological competitiveness, rebuilding American democracy to heal a divided land, and restoring American global leadership.

Fortunately, one policy change can help quickly tackle all three at once: reversing the restrictions imposed by the Donald Trump administration on visas for international students looking to study in the United States.

Trump administration policies have damaged the openness and attractiveness of the United States as a destination for the best and brightest students from around the world. In the 2019–20 academic year, 267,712 international students enrolled in the country – 11 percent off the peak of 2015–16.

This decline was not just the result of the COVID-19 pandemic. Most international students aimed to continue their studies regardless, if remotely, with one survey finding that only 4 percent of Chinese students polled had canceled their study-abroad plans.

This directly damages American interests. First, U.S. industry has been strengthened for decades by the education, training, and employment of generations of foreign students. Look at the ethnic makeup of Silicon Valley, one of the powerhouses of the U.S. economy: these students are an important part of that economy.

The human capital brought by foreign students is foundational to America's long-term innovation economy.

The human capital brought by foreign students is foundational to America's long-term innovation economy, with many of those students choosing to stay in the country and contribute world-class talent to American industry. A full 25 percent of U.S. entrepreneurs are immigrants, and immigrants or their children founded 216 of the companies in the Fortune 500.

Second, foreign students also support almost half a million American jobs in college towns across the country, according to education trade group NAFSA. Now, U.S. universities are expected to lose \$23 billion in revenue during the 2021 academic year.

Third, there is also the damage to American soft power. Right across the world, young people, their families, and their countries no longer see America as welcoming. The walls have gone up in a way that has been deeply damaging to America's global standing.

Every national government has the right to screen out any foreign students based on an individual security assessment by intelligence agencies. That is their job. But to continue to impose a series of blanket bans is just nuts.

The decline in foreign students studying in the United States has been especially pronounced with regard to students from China. In 2018, the Trump administration significantly tightened student visa regulations for Chinese students hoping to study in sensitive fields like aviation, robotics, and advanced manufacturing, shortening the duration of visas issued for study in these areas from five years to one, citing the risk of espionage and intellectual property theft.

In 2020, Trump also announced a series of policies targeting Chinese students and scholars suspected to have military ties. Following these orders, the State Department said in September 2020 that it had revoked the visas of more than 1,000 Chinese students and researchers.

The Trump administration had also proposed even tighter rules, which if implemented would restrict F-1 visas to a fixed term of four years (shorter than any PhD program and less than many BA students require) before requiring that they file for extension. The grounds for doing so are extremely narrow.

The impact of these bans on the perceptions of all categories of prospective Chinese students has been immediate and profound. Despite Chinese students traditionally making up the largest share of inter-

national students in the country, at about 30 percent, the number of new F-1 student visas granted to applicants from mainland China cratered to just 808 in the six months ending September 2020, down 99 percent from the 90,410 issued in the same period of 2019.

Chinese students who study in the United States can play a profoundly positive role in U.S.-China relations. Returning Chinese students are the

If the intelligence agencies need more resources to do this, they should receive them. It would cost a fraction of the amount lost to national revenues through America's plummeting foreign enrollment.

means by which liberal democratic ideas enter into and are sustained in China's national discourse. This keeps Communist Party enforcers up at night. Washington should be proud of it, rather than choking it off.

China and the United States are now engaged in full-scale strategic competition. This will continue under the Biden administration. There are of course demonstrable risks that come from openness. America's cutting-edge research universities and laboratories are a top target for Beijing's intelligence-gathering apparatus, which seeks to gain an edge for China by accessing scientific and technological secrets with military and commercial applications.

These risks can be limited by a smart, targeted system of national security safeguards. Such a system must be intelligent enough to avoid sweeping, simplistic restrictions. A foreign graduate student aiming to conduct aerospace engineering research may require close scrutiny, but this does not mean they should be automatically turned away, nor should a Chinese student who dreams of coming to the United States to study philosophy, political science, or economics face identical restrictions.

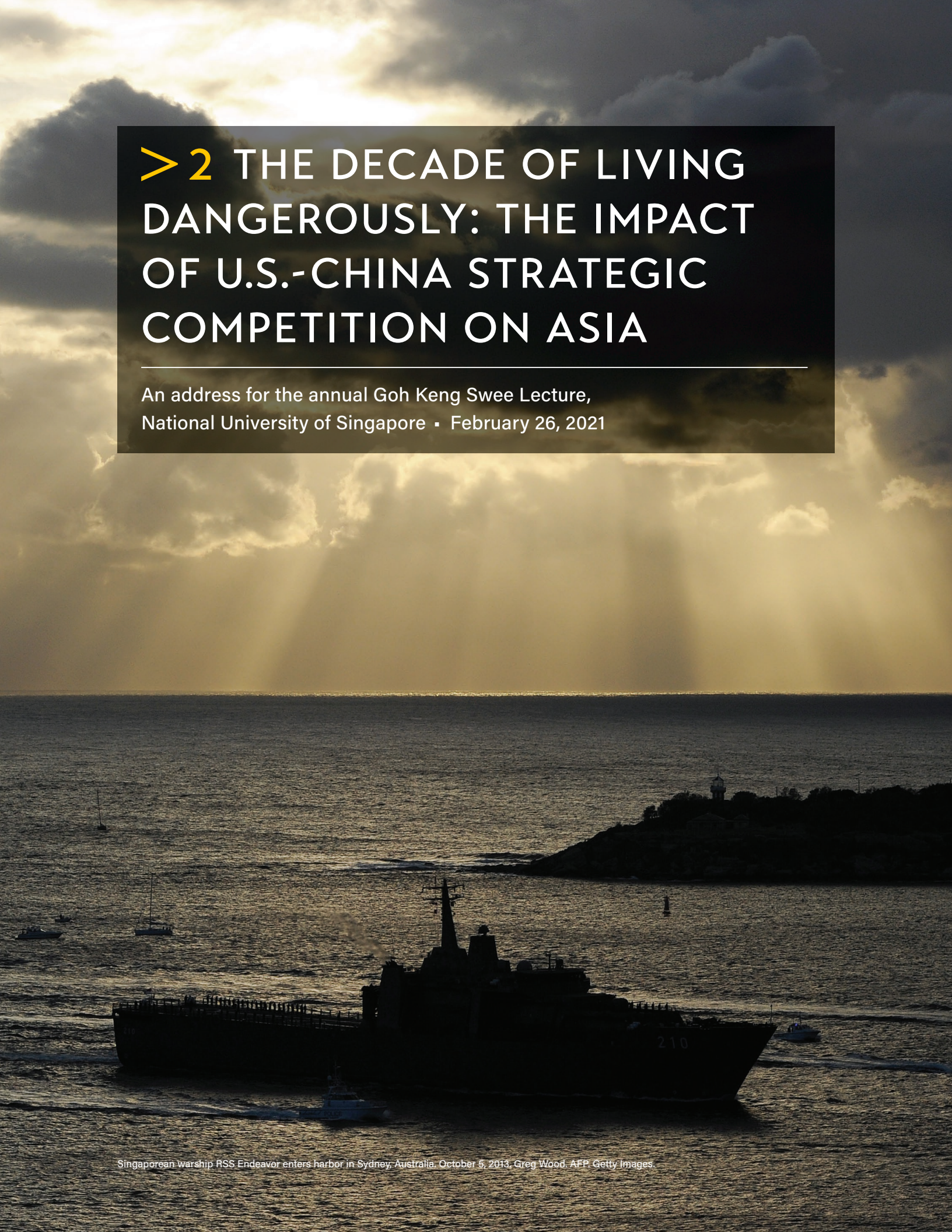
If the intelligence agencies need more resources to do this, they should receive them. It would cost a fraction of the amount lost to national revenues through America's plummeting foreign enrollment.

It made Trump look tough in the eyes of his political base to ban Chinese and other foreign students, while never owning up to the enormous self-inflicted harm on America's universities, economy, and global standing.

It is a bit like the trade war: Trump, the tariff king, was determined, once again, to look tough. But the net impact of all this on the American economy has been disastrous: America's trade deficit with China at the

end of 2020 was up 10 percent from 2016, the deficit with the rest of the world was up by 26 percent (\$103 billion), and an estimated 300,000 American jobs have been lost due to tariffs.

America has always been at its strongest when its doors are open to the rest of the world. Fixing the blanket bans on foreign students should be a priority decision for the Biden administration. No congressional action is required. And America will be stronger, not weaker, for it.



> 2 THE DECADE OF LIVING DANGEROUSLY: THE IMPACT OF U.S.-CHINA STRATEGIC COMPETITION ON ASIA

An address for the annual Goh Keng Swee Lecture,
National University of Singapore • February 26, 2021

The Future Direction of the U.S.-China Relationship

The question I seek to address in this lecture is what impact the future trajectory of U.S.-China relations over the coming decade will have on the rest of us for whom this vast region we call Asia is our home.

I have called this “the decade of living dangerously” – because it is potentially dangerous not just for the United States and China, but for all of us.

There is a tendency both in Washington and Beijing to see their relationship in purely binary terms.

That is not the case.

We are all impacted by the day-to-day dynamics of this relationship – for good or for ill.

And it is important for us all to reflect on what we, as a wider region, can do to shape our own future.

While most American eyes were trained on Trump’s Washington over the past four years, a longer-lasting sea change was taking place in U.S.-China relations. This sea change is not something that will simply be corrected now that the Biden administration is in office. It is much deeper than that.

The uncomfortable truth is that the strategic framework that had underpinned the relationship for more than 35 years is now in tatters, and the two countries are now strategically adrift.

This sea change saw the end of an era characterized by a U.S. strategy of conditional “engagement” with Beijing that hoped to accelerate political and economic reform in China and bring China into the global rules-based order – and the beginning of what the Trump administration labeled, in its landmark 2017 National Security Strategy, as a new era of “strategic competition.”

To be fair, this shift had begun before Trump took office, as the bipartisan U.S. foreign policy and national security establishment became progressively disenchanted with the results of the long-standing American strategy during President Obama’s second term.

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To be fair, this shift had begun before Trump took office, as the bipartisan U.S. foreign policy and national security establishment became progressively disenchanted with the results of the long-standing American strategy during President Obama's second term.

These were the years when China launched its island reclamation campaign in the South China Sea, accelerated its maritime activity in the East China Sea against Japan, increased tensions with Taiwan, launched the Belt and Road Initiative (BRI) in force, engaged in a high-profile cyber-hacking campaign against the U.S. government, while openly stating its intention in its "Made in China 2025 Strategy" that China would overtake the United States in technological power.

The Trump years saw this emerging political disillusionment translated into the beginnings of real push-back from the United States against China's expanding actions and ambitions.

Under Trump, however, this American "strategic awakening" was a little on the groggy side. Indeed, it became progressively incoherent in its execution. To put it mildly, "strategic competition" in practice became more of a brash political attitude rather than a considered, long-term operational strategy.

Combined with Trump's obsession with bilateral trade deficits, what resulted was a trade war that increased China's trade surplus, a tech war that redoubled China's resolve to achieve national self-sufficiency, increased saber rattling by both countries in the South China Sea and the Taiwan Straits, the collapse of virtually all levels of official dialogue, the closure of consulates and expulsion of diplomats, the severing of people-to-people ties, and the growing risk of the division of the world into opposing blocs in a "new Cold War" for which neither economy nor the rest of the world was in any way prepared.

But despite what our friends in Beijing may claim, China also shares responsibility for this structural deterioration in the relationship.

Beijing's decision back in 2014 to adopt a new, assertive foreign policy – along with Xi Jinping's crackdown on all political dissent at home – manifested itself in a new breed of wolf-warrior diplomacy determined to defend China's national honor, values, and interests with often fiery abandon – no matter how many friends China might lose in the process.

Nevertheless, in Beijing's eyes, the past four years were on balance good for China in its overall competitive race against the United States – so much so that on balance Beijing would have preferred another four years of Trump.

The Trump administration undermined U.S. alliances. It abandoned multilateral institutions, allowing China largely free reign. Best of all, from Beijing's perspective, the rolling domestic political chaos of the Trump years in general, coupled with the spectacular mismanagement of the coronavirus in particular, seriously damaged America's regional and global standing.

Since the end of last year, Xi Jinping has frequently boasted how China was the only major economy to achieve positive growth in 2020 when the U.S. economy contracted by 3.5 percent.

Many studies now place the year when China will overtake the United States as the world's largest economy, measured by GDP at market exchange rates, sometime in the late 2020s – whereas this once appeared unlikely until the 2030s at the earliest or even later, if at all.

China more broadly is increasingly confident that the United States is in structural decline and that the 2020s will be China's decade and the beginning of the China century.

In January, Xi Jinping declared to the Politburo that “time and momentum are on our side,” and the phrase “East Rising, West Declining” (东升西降) is now commonly repeated throughout Chinese media. A true believer in Marxist historical determinism, Xi is now more confident than ever that he and China are on the right path.

There is a danger that Xi is underestimating the U.S. capacity to recover both politically and economically – what Lee Kuan Yew once described as America's “black box” of characteristics that allows it to repeatedly remake itself generation after generation.

But what is clear is that the 2020s are going to be a make-or-break decade for American and Chinese global power, when the balance of strategic, economic, and technological power between Washington and Beijing is likely to move closer to parity than ever before.

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The 2020s are therefore going to be a decade of living dangerously.

The history of rising powers challenging established powers is a sobering one.

No matter what stratagems the two sides pursue or what events unfold, the structural tension between the United States and China will grow and competition will intensify. That much is inevitable.

But that does not necessarily mean that crisis and conflict are also somehow inevitable. As a believer in the supreme power of human agency, I know the two countries need not be destined for war.

The open question for our region is where does all this leave the rest of us in Asia?

And, most importantly, what should we do about it?

What Four Years of Trump Meant for the Rest of Asia

To answer this, it is worth reviewing what the past four years really meant for Asia and the Pacific.

In retrospect, the Trump administration does not appear to have had a real Asia strategy, only a China

strategy. That is to say, it focused all its efforts on attempting to unite the Indo-Pacific region behind Washington in a unilateral and ideological security contest with China.

True, the administration did achieve some success in this regard, deepening security cooperation with a number of states in the region and most notably reviving the Quadrilateral Security Dialogue (the Quad) with India, Japan, and Australia, which had earlier been abandoned by Washington, Tokyo, Delhi, and Canberra during my own time in office.

The rebirth of the Quad, however, was achieved less by Trump and more by Beijing, whose assertive posture on the Indian border, in the East and South China Seas, and on trade with Australia made collective security a more pressing concern for all.

Elsewhere in the region, however, critical U.S. relationships moved backward, most notably with Manila, but more broadly as well.

Overall, Washington under the Trump administration's foreign policy failed to gain traction in much of Southeast Asia, and indeed it lost influence in a number of areas.

Meanwhile, those identifying China as the most influential economic power rose to a high of 79 percent in 2020, while the United States never broke 8 percent.

The Institute of Southeast Asian Studies' excellent annual "State of Southeast Asia" survey, the 2021 version of which has just been released, helps demonstrate this point.

The number of Association of Southeast Asian Nations (ASEAN) respondents identifying the United States as the most influential political and

strategic power in the region fell over the course of the Trump administration to a record low of 27 percent in 2020, while China rose to a record high of 52 percent.

Meanwhile, those identifying China as the most influential economic power rose to a high of 79 percent in 2020, while the United States never broke 8 percent.

These are stunning numbers.

By and large, Southeast Asia resented being used as a crude strategic wedge in Washington's binary strategic struggle against Beijing.

Washington failed to understand that much of the region did not want to be pushed into a position of openly choosing sides.

Washington failed to understand the dimensions of China's bilateral economic significance to each individual ASEAN state while offering nothing in return in terms of American market access. Indeed, the United States abandoned the Trans-Pacific Partnership (TPP) as Trump's first decision in office in 2017.

Washington also failed to treat ASEAN as important in its own right, often simply failing to show up. It neglected multilateral summits. It failed to appoint relevant ambassadors, including to Singapore and ASEAN, for extended periods, in some cases for almost the entire Trump term. Indeed, in these most basic elements of foreign policy, this was one of the most reckless periods of U.S. regional diplomacy in Southeast Asia since the fall of Saigon.

And when it did engage with the region, the Trump administration framed everything through the single lens of its strategic contest with China.

In one striking example of overreach among many, in 2020 the Trump administration requested that U.S. surveillance planes flying in the South China Sea be allowed to land and refuel in Indonesia. This shocked Jakarta, which, in accordance with its historical strategy of nonalignment, has never allowed foreign militaries to operate from its soil.

Just like the public pressure the Trump administration sought to use with Indonesia, again with Secretary of State Mike Pompeo's efforts, it tried to push Jakarta to use its authority in the Muslim world as a medium to criticize China over Xinjiang. This did not deal with resistance elsewhere in the Islamic world to the pursuit of any such strategy against Beijing; Chinese diplomacy had been both nimble and brutally effective in this region. It represented an abject failure in understanding the importance of private diplomacy over the application of public political leverage – if indeed the substantive objective was to secure Jakarta's cooperation, rather than simply make a splash with the Republican Party base.

Both these examples (surveillance overflights and Xinjiang) demonstrated that the Trump administration either did not know much about Indonesia or simply did not care.

Secondly, the Trump administration also sought to transform the U.S.-China strategic contest into a fundamentally ideological battle between

“those who favor repressive systems and those who favor free societies,” as the 2017 National Security Strategy put it. While this may have been an effective rallying cry in the West, it has rarely been a winning script in Southeast Asia. The worst example of this was Pompeo's effective declaration that it was now up to the “free world” to overthrow the Chinese Communist Party.

Third, the Trump administration failed to consider or even provide for the region's own immediate and tangible needs.

For example, ASEAN respondents in the latest Institute of Southeast Asian Studies (ISEAS) survey list the pandemic, unemployment, income disparity, and political instability as their top concerns – way ahead of geopolitical tensions.

However, the Trump administration, by and large, left regional vaccine cooperation to China, failing to

The Trump administration also sought to transform the U.S.-China strategic contest into a fundamentally ideological battle between “those who favor repressive systems and those who favor free societies,” as the 2017 National Security Strategy put it.

even join the UN's COVAX initiative for developing countries, in blind pursuit of yet another chapter in the mindless foreign policy saga called "America First."

On wider development policy, the Trump administration simply lacked any coherent, overarching regional economic strategy.

Although it expanded a number of American tools to aid with development – such as forming the U.S. Development Finance Corporation – these tools were limited in scope compared with the BRI and focused on infrastructure projects primarily designed to benefit U.S. fossil fuel exports, rather than respond to the region's immediate economic development needs.

Worse, Trump's maniacal pursuit of America First served to punish America's closest and most supportive strategic partners in the region – including launching an investigation into Vietnam and threatening tariffs for alleged currency violations and stripping Thailand of trade preferences – all for their flourishing trade with the United States.

This helped undermine whatever regional economic benefits that may have come from U.S. pressure to decouple global supply chains from China.

By the end of 2019, according to an AmCham China poll, 40 percent of American companies in China had or were considering moving or expanding some production out of China, and of those half named Southeast Asia as their top destination. However, this irked the Trump administration, which could focus only on how few chose to return production to the United States.

In summary, it is fair to say that the Trump years were not especially positive for American standing in Asia. And it is important that the U.S. foreign policy, national security, and economic establishment understand that.

Only 5.5 percent of ASEAN respondents have any confidence that China will uphold international law and the rules-based order.

It is equally notable, however, that despite all this, the ISEAS survey indicates that China has not gained in political and strategic trust in the

region. Indeed, distrust of China is now at record levels across Asia.

Only 5.5 percent of ASEAN respondents have any confidence that China will uphold international law and the rules-based order.

Even fewer – only 1.5 percent – regard China as a "benign and benevolent power."

The region, of course, is not naïve. Japan, Australia, and the ASEAN states have witnessed with concern China's growing assertiveness – and the arrogance of its wolf-warrior class – over recent years.

We have seen this with Chinese efforts at coercive trade diplomacy against Japan over the East China Sea, against the Philippines over Manila's international legal case against Beijing's nine-dotted-line in the South China Sea, against Korea over THADD missile-defense deployments, and against Australia on an accumu-

lated list of foreign policy grievances against Canberra.

These efforts have been used elsewhere in the world as well, including Norway and Sweden.

They are meant to serve what is commonly described in the Chinese strategic tradition as the principle of “killing one to warn a hundred.”

I am not entirely sure that this has been a winning strategy for Beijing.

The states of the region, including ASEAN, well understand the need to provide for their own stability, security, and independence, and to maintain an effective strategic and economic balance.

More broadly, it has been remarkable how countries in Asia have drawn closer on their own accord in the absence of U.S. leadership and in the presence of Chinese strategic pressure – with Japan’s extensive outreach to Southeast Asia as part of its “Indo-Pacific Vision,” regional infrastructure funding and revitalization of the CPTPP trade pact; India’s re-energized “Look East Policy”; South Korea’s “New Southern Policy,” which President Moon Jae-in announced in Indonesia in 2017; and even Taiwan’s “New Southbound Policy.”

Of greater note has been the solidarity of ASEAN’s South China Sea claimant states in making a series of supportive submissions to the United Nations over the past two years pushing back against Chinese territorial claims using the processes in international law.

These are significant developments.

They also provide an opening for President Biden’s administration to do much better in the region than his predecessor’s, even if the region now approaches the United States with some real degree of political and strategic caution, given the roller coaster ride of the past four years.

What Does Asia Seek from the United States over the Next Four Years?

So what does “the rest of Asia” seek from the United States during the next four years of the Biden administration amid this decade of living dangerously in U.S.-China strategic competition – even “extreme competition” as President Biden put it recently?

“Asia” is, of course, a massive, dynamic, and diverse region.

Generalizations are therefore hazardous.

Fundamentally, what the region is seeking is a U.S. strategic approach that works within the grain of the region, rather than against it, as the Trump administration did.

Anticipating the howls of Trumpian ridicule at such a proposition: no, this does not mean capitulating to China’s growing strategic footprint.

What it does mean is grasping the basic principle of diplomacy that an effective foreign policy means

bringing countries with you rather than alienating them through domestically driven political crudity.

That means, first of all, showing up.

It means attending at the highest level multilateral groupings and forums like ASEAN and the East Asia Summit (EAS), which previous U.S. administrations did to ensure that the United States and China were both at the table, not just China.

It means swiftly appointing relevant ambassadors, diplomats, and other officials who provide an immediate and effective channel of communication.

Fundamentally, what the region is seeking is a U.S. strategic approach that works within the grain of the region, rather than against it, as the Trump administration did.

It means prioritizing presidential travel to the countries of the region, once travel is again possible.

It means respecting the region as important in its own right, and making Southeast Asia, beyond China, a core part of America's strategic priorities overall.

It also means listening to and taking seriously the core concerns of Asian states, including the strong desire to not have to explicitly "choose sides" – recognizing that this is not just a matter of political will but also in many cases of perceived economic necessity.

Washington may not like it when Singapore's Prime Minister Lee Hsien Loong says that the reality is that Southeast Asia "cannot afford to alienate China" and that "other Asian countries will try their best not to let any single dispute dominate their overall relationships with Beijing."

But that is the strategic reality that Washington is now dealing with.

Washington needs to understand that while some countries (such as Australia, Japan, and more recently India) are open to deeper, open strategic alignment with the United States in the context of their overall relationship with China, others in the region simply cannot or will not do so.

This requires a textured strategic and foreign policy based on an understanding of regional diversity and complexity.

It requires an understanding of the differences between declaratory and operational strategy and policy.

It also requires diplomatic subtlety to achieve common strategic objectives, as opposed to the daily use of the public political megaphone targeted primarily at a domestic American political audience.

Previous generations of professional American diplomats have understood these principles intuitively.

Indeed, any analysis of underlying political and foreign policy sentiment in the region would conclude that much of Southeast Asia is deeply anxious about the future impact of unbridled Chinese power.

The region has a profound interest in substantive strategic balancing.

The reason is that this affords the region greater strategic autonomy in navigating its own future.

The question, therefore, is what strategy best achieves that outcome, without turning the region into a binary strategic battlefield between Washington and Beijing on an almost daily basis.

Working “with the grain” in the region also means addressing the region’s internal economic and public health needs.

In the immediate term, it means as much American action as possible in overcoming the COVID-19 pandemic and its economic and financial impact, which has hit Southeast Asia especially hard.

Over the medium term, it means the Biden administration must develop and integrate a regional economic engagement strategy with the ASEAN states that has the same priority and substance as its foreign policies and security strategies.

It means respecting the region as important in its own right, and making Southeast Asia, beyond China, a core part of America’s strategic priorities overall.

Otherwise, the United States will simply lose in Southeast Asia as China progressively wins, simply because of the growing significance of its regional economic footprint and the gravitational pull emanating from the sheer size of the Chinese domestic economy.

For their part, the countries of the region will need to encourage as much U.S., Japanese, and Korean economic engagement as possible – not to choose sides, but to maintain a healthy economic balance in order to maximize the region’s strategic autonomy.

For better or worse, comprehensive regional arrangements like the TPP and the Regional Comprehensive Economic Partnership (RCEP) are more than just trade deals.

To quote Prime Minister Lee Hsien Loong again, the region sees these arrangements as “platforms that enable Asia-Pacific countries to cooperate with one another, develop stakes in one another’s success, and together mold the regional architecture and the rules that govern it.”

President Biden has made clear that for domestic political reasons, the United States is unlikely to rejoin the CPTPP any time soon. But that does not mean that nothing can be done on this front.

The Asia Society Policy Institute’s Wendy Cutler, a former deputy U.S. trade representative who helped negotiate the original TPP, has recently explored this in depth and suggests, for example, that interim sectoral agreements on digital trade or trade in medical products could get Washington quickly re-engaged on trade in the region without waiting for a politically complicated, comprehensive TPP.

Failing to take substantive action on the fundamental regional challenges of economic security and the res-

toration of economic prosperity will leave the United States on a dead-end path in Asia.

Finally, working within the grain in Asia and Southeast Asia also means re-embracing multilateral responses to the region's problems – including the effective management of U.S.-China strategic competition.

Strengthening Asia's Multilateral Architecture

While Washington must understand, respect, and work within the wider region's strategic culture, ASEAN itself should be under no illusions about the scale of the strategic challenges that it now faces across the board.

This includes a China that seeks a regional order in which countries defer increasingly to its national interests, values, and authority; Chinese challenges to the authority of international law, most vividly over China's reaction to the decision of the UN Permanent Court of Arbitration on the South China Sea; a growing Chinese critique of democratic norms in domestic governance; and a

Failing to take substantive action on the fundamental regional challenges of economic security and the restoration of economic prosperity will leave the United States on a dead-end path in Asia.

continuing pandemic, including its devastating health, economic, and social consequences.

Responding effectively to these challenges will require bold regional leadership.

That means ASEAN taking the region's future into its own hands by exercising its own agency.

There is still enormous power in both the reality and the perception of ASEAN solidarity.

A unified ASEAN confronting the major strategic challenges the region now faces remains a force to be reckoned with.

Of course, achieving unity can be difficult. But even the absence of absolute unity among all member states does not necessarily diminish the significance of a mainstream ASEAN position.

This is no longer a business as usual world for ASEAN – nor for any of us in the wider region. ASEAN must adapt, innovating multilateral solutions that make a difference.

The Biden administration would do well to make both ASEAN centrality and ASEAN unity a core pillar of broader U.S. strategy in the Indo-Pacific.

The Biden administration would also be wise to develop a networked approach to regional security centered on the existing institutional foundations of the East Asia Summit.

This would never be seen as a substitute for U.S. hard security measures in the region. U.S. alliances,

including the Quad, would continue to operate. The U.S. armed forces would continue to deploy unilaterally across the region.

It would be equally unrealistic to expect China to abandon its own military strategy.

That does not mean, however, that regional confidence- and security-building measures could not help reduce military tensions over time.

Brunei, as the 2021 ASEAN chair, could collect nominations from EAS member states to form an advisory nongovernmental Eminent Persons' Group (EPG) to propose practical regional confidence-building measures, building on the success of existing bilateral arrangements.

This could reduce head-to-head confrontations between Washington and Beijing and reassure Southeast Asian countries that the United States values ASEAN centrality.

That means ASEAN taking the region's future into its own hands by exercising its own agency.

How the Biden administration would respond to such an initiative is an open question. But unlike its predecessor, the current administration would as a matter of principle respect concrete proposals from long-credentialed regional institutions.

China too would have little option but to come to the table.

Forging ASEAN unity has never been easy, but now is perhaps the most urgent time in recent decades for ASEAN cohesion and unity. Currently, resilience and recovery are the priorities, and as Bilahari Kausikan has noted, ASEAN "regional resilience enhances national resilience."

In this, ASEAN will not find itself alone: other regional states like Japan, Korea, and Australia would welcome a stronger ASEAN role in helping build the wider region's long-term security architecture.

Conclusion

We live in challenging times – times driven by profound geopolitical, geo-economic, and global public health challenge and change.

These are also imposing great challenges on all our national governments.

It is important to recognize, however, that here in the region we are able to shape, manage, and control these challenges if we work together.

The epicenter of these changes lies in the future dynamics of the U.S.-China relationship.

But critical regional institutions such as ASEAN are also able to significantly influence our wider region's future.

President Biden could kick-start this effort.

Washington could issue an invitation to ASEAN leaders to attend a virtual or in-person U.S.-ASEAN summit in the next six months, just as President Obama did in 2016.

Indeed, this should become an annual event.

It would also contribute to the rebuilding of American standing in the region – just as it would also enhance South East Asia's interest in maximizing its own long-term strategic autonomy in this decade of living dangerously.

> 3 BEIJING'S EARLY REACTIONS TO THE BIDEN ADMINISTRATION: STRATEGIC CONTINUITY AND TACTICAL CHANGE

An address to the Asia Society New York • March 18, 2021



Chinese delegation led by Yang Jiechi (R), director of the Central Foreign Affairs Commission Office, and Wang Yi (L), China's Foreign Minister, attend opening session of U.S.-China talks in Anchorage, Alaska on March 18, 2021. Frederic J. Brown. Pool/AFP. Getty Images.

The meeting on March 18 in Anchorage between U.S. Secretary of State Blinken and National Security Advisor Sullivan together with Chinese Politburo member Yang Jiechi and Chinese Foreign Minister Wang Yi is no ordinary meeting.

The last time the U.S. secretary of state and national security advisor met with their Chinese counterparts was in the context of President Trump's "state visit plus" to Beijing in November 2017. That was three and a half years ago. Three and a half years is a long time between drinks.

With the single exception of then-Secretary of State Mike Pompeo's one-on-one meeting with Yang Jiechi in Honolulu last year, the last time we had an interruption in high-level political dialogue of the type now underway in Alaska between China and the United States was in the period following Tiananmen in 1989.

The Trump administration suspended the strategic and economic dialogue with Beijing in early 2017. But apart from President Xi Jinping's early visit to Mar-a-Lago, followed by President Trump's visit to Beijing later that year, there has been a near total drought in high-level political contact between the two sides. The only track left open was the trade track with U.S. Trade Representative Robert Lighthizer at one end and Vice Premier Liu He at the other. Their job was to manage the U.S.-China trade war.

I confess to be on the side of Winston Churchill and his long-famous aphorism that it is generally better to "jaw jaw than to war war."

This can create a problem in the management of great power relations in any age. The Trump administration had its reasons for suspending high-level diplomatic contact with Beijing. But the problem is that when countries go on radio silence with each other, and we are left primarily in the hands of the Chinese propaganda

department on the one hand and President Trump's Twitter account on the other, it can create unnecessary complications, drama, and crisis in a relationship that was already difficult to manage in the first place.

So in all this I confess to be on the side of Winston Churchill and his long-famous aphorism that it is generally better to "jaw jaw than to war war."

Of course, that assumes that the "jaw jaw" has real substance to it, that it is not just an exercise in diplomatic deception and subterfuge, that both sides have real messages to convey to each other, and that these are conveyed and communicated with clarity and effect.

The time has come for a serious dose of reality therapy for this most critical of relationships. First, gone are the days when one side could assume that the other side was too stupid to understand what was actually going on in the real world of security and economic policy action on the ground. Both systems are now sufficiently sophisticated that the mouthing of platitudes will no longer suffice for substantive communication.

Second, both sides, of course, have their messaging needs for their domestic political constituencies. But, at this stage of the relationship's evolution, to conflate public messaging with the cold, hard reality of substantive diplomatic engagement is counterproductive.

Finally, for both Secretary Blinken and National Security Advisor Sullivan, there is also a further imperative. In Xi Jinping's China, most of Xi's senior officials are terrified of him. They are highly unlikely therefore to be providing frank and fearless advice internally. Under these circumstances, it is critical that Chinese intermediaries are able to convey accurately and concisely messages they are receiving from their American counterparts directly to China's paramount leader himself. In the Chinese system, Xi Jinping is the decision maker. Nobody else.

For these reasons, this meeting in Anchorage may primarily end up being a dialogue about the terms, expectations, and mechanisms for future dialogue. Not thrilling for the fourth estate, but in itself no bad thing.

I wish all four diplomats well. I have known each of them for many years. There is a lot of conceptual, analytical, and practical grunt in that room.

The Trump Inheritance

The purpose of my remarks today is not to provide gratuitous public advice to either side about how they should conduct their bilateral relationship.

I have written recently and extensively on my proposal for “managed strategic competition” between Washington and Beijing – as outlined in my recent essay in the February edition of *Foreign Affairs* – which argues that there should be an agreed-upon, joint strategic framework between the two countries at the highest political and diplomatic levels that is capable of embracing three things simultaneously: strategic redlines concerning each country's core national interests; the vast open spaces of strategic competition that now present themselves across the economy, foreign policy, and the rest of security policy; as well as the provision of political space for strategic cooperation where each country's national interests align and where there is a global interest at stake, for example, in the case of climate change. Much easier said than done. Operationalizing such a concept would be difficult but, in my judgment, doable. I still do not see a credible strategic alternative on offer – short of appeasement in one direction and confrontation, conflict, and war in the other.

The time has come for a serious dose of reality therapy for this most critical of relationships.

My purpose today is much more limited in scope. It is simply to describe, and to analyze where I can, how Xi Jinping's administration is responding to President Biden's new team in the several months that have now elapsed since the election last November. In doing so, I will look at three things:

- China's changing official commentary on its overall national security environment;
- China's statements and comments directed specifically at the future of the U.S.-China relationship; and
- What Chinese political, military, and economic actors have been actually doing in the real world over the past several months to give us some indication of what Chinese strategic behavior is really up to.

Neither the Chinese nor the American sides begins with a blank sheet of paper. China, the United States, the region, and the world have all changed radically since the halcyon days of 2016.

Over the past five years, Xi Jinping has taken his country further to the left in its domestic politics, to the left in its domestic political economy, and to the right in its promotion of Chinese nationalism. As a result, Xi is now more powerful than ever. This is despite a number of self-inflicted wounds in China's emerging economic model and despite open criticism of his leadership during the first half of past year when the COVID crisis was at its worst.

Xi's China, having so far navigated the virus successfully, and with its economy now roaring back to life in most but not all sectors, has emerged more self-confident than ever. This has been reinforced by blanket media coverage through the Chinese propaganda apparatus of the spectacular failures in the United States and much of the rest of the West in pandemic management. Indeed, the level of China's self-confidence at present is problematic, as it may blind some Chinese leaders to the extent of China's own continuing

domestic and international vulnerabilities, just as they may also be blinded to America's ability to rebuild its economy, politics, and global standing.

China, the United States, the region, and the world have all changed radically since the halcyon days of 2016.

Prior to the virus torpedoing both countries, from Beijing's perspective, much of the bilateral relationship had already collapsed as a result of the trade war, the

imposition of a range of technology sanctions against Chinese firms, and the suspension of high-level strategic dialogue. The White House signing ceremony in January 2020 for the Phase One trade deal was seen in Beijing as a national humiliation. It received virtually zero media coverage at home. Indeed, Xi Jinping had told his Politburo several months earlier when a previous draft agreement had been rejected by the Chinese side that the party needed "to prepare for another 30 years of American provocation" and that the country now needed to embark on a new economic strategy of "national self-reliance."

On foreign policy, at one level, Beijing was delighted by President Trump's profound disinterest in human rights. It was also delighted by Trump's paper-thin measures adopted in response to the Chinese crack-down in Hong Kong with the new national security law of June 2020. Beijing was apoplectic in response to Secretary of State Pompeo's free riding on Taiwan policy, which had the effect, in its view, of undermining the integrity of the "One China policy." Overall, however, Beijing believed Donald Trump was a paper tiger on any question of hard national security, having carefully read his language and behavior over both Syria and North Korea, and concluded that Trump would never take up arms against "his great personal friend Xi Jinping." For these reasons, and because Trump had weakened the U.S. alliance structure in both Europe and Asia, the Chinese national security hardheads, despite all of Trump's unpredictability, would on balance have preferred to see his reelection rather than the Biden alternative.

By the time of Biden's election, from Beijing's perspective, the deep fabric of the bilateral relationship had already been torn apart. Once again, the national security hardheads saw this as an inevitable structural change in the underlying terms of the relationship as the balance of power gradually shifted in China's favor. The same hardheads also saw that there had been a sea change in American public opinion toward China, leaving negligible political space for the Democrats to improve the relationship even if they wanted to. The Chinese concluded there would be some tactical shifts in the Biden administration's policy approach

to Beijing. But they also recognized that the fundamental directional change that had been put in place, with the 2017 National Security Strategy defining China as a strategic competitor, was likely to remain in place under the Democrats, albeit through a more disciplined, whole-of-administration strategy. And on this, the Chinese, basically, are being proven right.

The bottom line is that across the multiple measures put in place by the Trump administration in trade, investment, technology, individual sanctions, Taiwan, student and journalist visas, and consulate closures, practically all these measures have so far remained in place under Biden.

Two months into the administration, tariffs remain in place. Some technology bans have been strengthened, while a limited number of others have been placed under review. The number of sanctioned individuals has increased as retaliation for recent changes to the Hong Kong electoral law. One category of student visa bans has been deferred while the others remain in place, and the consulates that have been shuttered remain shuttered.

By the time of Biden's election, from Beijing's perspective, the deep fabric of the bilateral relationship had already been torn apart.

For those interested in the details of each of these measures, there is an attachment to the written version of this speech that may be useful. It makes for sobering reading about where the relationship has gone to over the past several years.

But this indeed reflects much of the substance of this much diminished U.S.-China relationship as of mid-March 2021 as the secretary of state and the national security advisor sit down with their Chinese counterparts in Anchorage.

China's Changing Official Language on National Security

So how is the Chinese official media describing China's national security circumstances and does it really matter what the Chinese official media have to say?

In the Chinese political system, the "line" approved by the propaganda apparatus on any policy actually matters because it signals to the party membership where major changes are occurring and/or where new emphases are emerging. With a party membership of around 90 million, internal documents cannot be relied on alone to communicate the center's political and policy direction to its foot soldiers. Also, in an increasingly controlled media space, the broader public must also understand the acceptable parameters for public discussion.

In other words, the party's official language is a useful barometer of changing party thematics on the broader question of U.S.-China relations, although it is always hazardous to reach any policy conclusions of a more granular nature simply from a survey of the official literature.

A fuller, but by no means complete picture is likely to emerge when official statements and commentary are meshed with concrete policy actions taken by the Chinese party-state on the ground. Even then, however, we will have only part of the picture of the political culture of a Leninist party, which for 100 years has

prided itself on its culture of absolute secrecy.

The core political messages conveyed in the party's "inward-facing" statements on national security and commentary over the several months since Biden's election are as follows:

- First, despite the current turbulence in international relations, there is an inexorable trend that favors China. As Xi himself said in January 2021: "The world is in a turbulent time that is unprecedented in the past century ... but time and momentum are on our side." In an earlier message in January, Xi had also said that "as changes to the global structure accelerate, China's rule is in sharp contrast with the turmoil in the West." Or as Chen Yixin of the Central Political and Legal Affairs Commission said more graphically, "The rise of the East and the decline of the West (*dongsheng xijiang*) has become a global trend and changes in the international landscape are in our favor."
- Second, despite these deep trends in China's favor, Xi warned that the party's "political and law enforcement work faces new risks and challenges," causing his lieutenants to demand "strengthening in the evaluation of risks" and, using the ideological vernacular of Marxism-Leninism, a "curbing [of] major new hidden contradictions" that threaten the system

from both within and without. Once again, Chen Yixin made plain that "U.S. suppression is a major threat" to China.

- Third, given these threats, Chen, on Xi's behalf, reminded the party that "security is now the cornerstone of development" and that "without security we cannot achieve anything." This "securitization" of the entire policy

agenda of the party includes "economic security," which has become the new rationalization of Xi's 2020 doctrine of "national self-reliance" in everything. This would also necessitate a further strengthening of domestic law enforcement against threats to political security, including for the first time what Guo Shengkun refers to as the "extraterritorial application of Chinese laws."

- Fourth, these domestic and international threats and their impact on national security writ large mean that China must now engage in a protracted "struggle" or *douzheng* against its adversaries. This term is important in both Chinese domestic and international behavior. Again, it proceeds directly from Marxist-Leninist orthodoxy and is understood to be the necessary response to the emergence of "contradictions." Struggle can be both violent and nonviolent within the framework of Chinese Marxist ideology and in the lived history of the Chinese Communist Party. Significantly, on March 1, 2021, Xi Jinping delivered a speech to the Central Party School in which he urged cadres to "dare to struggle" and said that "struggle is how our party got to where it is today" and that "we must rely on struggle to win the future." Equally significantly, nowhere does Xi identify that the "struggle" he is calling for should be nonviolent in nature.
- Fifth, Xi's new emphasis on threats to security at home and abroad and the need to struggle against these threats has also been translated directly into the military sphere. In his address to military delegates to the March 2021 National People's Congress (NPC), Xi Jinping stated

"The world is in a turbulent time that is unprecedented in the past century ... but time and momentum are on our side."

– Xi Jinping, President of China

bluntly that the “the current security situation of our country is largely uncertain and unstable” and that the military must therefore enhance its combat readiness. General Xu Qiliang, the vice chair of the Central Military Commission, at the same meeting stated for the first time that “in the face of Thucydides’ Trap and [China’s] border problems, the military must accelerate increasing its capacity” – although, given China’s GDP growth, Xu said, China was already “standing on the edge of a new chapter of strength.” On top of this, Defense Minister Wei Fenghe stated that strategic confrontation with the United States had now entered a period of essentially equal balance and stalemate and that “containment and counter-containment will be the main theme of bilateral ties in the long term.”

- Finally, all these factors have come together in hardline language on Taiwan. At the same March session of the NPC, Foreign Minister Wang Yi stated bluntly that “the two sides of the Taiwan Strait must be and will surely be reunified” and that this too, deploying the Marxist-Leninist language of historical determinism, was “the trend of history and the collective will of the entire Chinese nation.” In the context of U.S.-China relations, Wang added that this was “a redline that should not be crossed,” and where there was “no room for compromise.”

These are the six major themes now alive in China’s foreign and security policy discourse. The question arises, of course, as to what they actually mean in the context of U.S.-China relations. This is a complex question in terms of both domestic and international signaling by the Chinese party-state.

While the language about the “rise of the East and the decline of the West” is relatively new in the current context, variations on this theme have been used by Xi in the past, although not with its current frequency and intensity. It was also a favored phrase of Mao.

The language on the need to face “Thucydides’ Trap” rather than avoid it is for the Chinese military also new, as is the language on Chinese-American military parity and the reality of military confrontation.

As for the other formulations I have referred to on the new threats China faces, the new premium on security, the reality of the new contradictions it now confronts, and the centrality of struggle, these too have been used before, albeit sparsely. However, they now litter the official discourse.

Overall, the changing tone of the official commentary appears to represent a number of trends. It is designed to signal domestic political confidence at a time when the Chinese people have been under duress during much of 2020 with both COVID and economic contraction. At the same time, however, the repeated language about domestic threats to security also seems to reflect a high degree of regime anxiety about the underlying strength of its rule. In this context, the graphic depiction of the great external threat of the United States is designed to further justify the securitization of everything. While these are all domestic political interpretations of China’s changing national security discourse, we would be foolish to ignore

Xi Jinping stated bluntly that the “the current security situation of our country is largely uncertain and unstable” and that the military must therefore enhance its combat readiness.

them. The bottom line is that Xi Jinping's external security discourse is measurably hardening, also making it more difficult over time for the system to compromise on any critical future challenge on Taiwan, the South China Sea, or even the East China Sea.

China's Official Commentary on the Biden Administration

Beyond these general positions on Chinese national security, as reflected in the party's official media over recent months, there have also been a number of specific statements and commentaries on the Biden administration itself. Unremarkably, these have generally been more accommodating in both tone and content than the hardline realpolitik reflected above. China's overriding interests have been to re-stabilize the relationship strategically, reduce the risk of unintended crises (principally in the near term over Taiwan), and achieve these objectives by reestablishing more regular mechanisms of high-level political dialogue. By and large, these are tactical objectives. Thus far, however, they do not foreshadow any fundamental shift in Chinese strategy.

The bottom line is that Xi Jinping's external security discourse is measurably hardening.

Following the November 2020 presidential elections, Chinese officials began their commentary on the state of the U.S.-China relationship by blaming the Americans for bringing the relationship to its

lowest level in half a century, calling on Washington to recognize the errors of its ways and rebuild the relationship in the spirit of "no conflict, no confrontation, mutual respect, and win-win cooperation." From Washington's perspective, this was not an entirely persuasive opening foray in the re-stabilizing process. It was seen as catering to the needs of China's domestic political narrative rather than addressing China's own responsibility for the deterioration of the relationship.

Foreign Minister Wang Yi was first out of the block on this in his Asia Society address on December 18, 2020. His formulation was a familiar one: calling on the Americans to de-ideologize the relationship by respecting China's domestic political model; to respect China's domestic sovereignty and territorial integrity (code language for Xinjiang, Tibet, Hong Kong, Taiwan, and the South and East China Seas); to remove trade sanctions; to avoid maritime confrontation; and to restore people-to-people exchanges.

Yang Jiechi followed with a similar speech to the National Committee on U.S.-China Relations not long after the Biden inauguration, in which he launched a full-scale attack on the Trump administration's mismanagement of the relationship – including Trumpian decoupling, the threat of a "new Cold War," and Trump's Taiwan policy. This speech had followed a Chinese decision announced on January 19 to impose personal sanctions on 28 individuals from the Trump administration who had "seriously violated Chinese sovereignty." This was the first time that China had imposed sanctions on individuals in this way, reflecting its declared intention to engage in "the extraterritorial application of Chinese law." Despite the Biden administration's lack of affection for team Trump, however, once again this was not a winning formula in Washington as Beijing sought to drive a crude wedge between Republicans and Democrats on China strategy, ignoring the fact that the one thing that has united Republicans and Democrats over the previous four years had been China. Instead, the new Democrat administration attacked China's actions against the 28 Republicans.

Yang also traversed China's long-standing argument that the "root cause" of the deterioration in the

U.S.-China relationship was a “strategic misjudgment by some in the U.S. who view China as a strategic competitor or even adversary.” The reality is that this “misunderstanding” argument has zero traction in Washington. Post-COVID, it also has zero traction across the rest of America. It now sits uncomfortably with the public language of Xi Jinping and China’s military leadership at the most recent NPC, speaking in direct terms of America’s decline, China’s rise, and the regional military parity and/or superiority that China has achieved. Chinese diplomats understand that this combined narrative of American strategic misunderstanding of Chinese intentions, grave American policy errors, and the need for the Americans to now repent of their mistaken ways is no longer of any practical use. The fact that it is still used, however, is a reflection of the rigid articulation of a long-standing foreign policy dogma and domestic political narrative that has now passed its use-by date.

By the time these early Chinese efforts to return the bilateral relationship to the status quo ante began to stall, both Wang and Yang reached elsewhere into their diplomatic toolkit to trial other ideas on how the relationship could be revived under the new administration. Wang Yi had already floated in his Asia Society address the idea of categorizing the relationship into three baskets: strategic redlines that could not be crossed, those areas where competition would be normal, and those other areas where the traditional cooperation agenda could apply. Indeed, this type of formulation would also be found in Secretary of State Tony Blinken’s first foreign policy speech on February 3 and his own elegant formulation that “our relationship with China will be competitive when it should be, collaborative when it can be, and adversarial where it must be.” Yang Jiechi on February 2 had also identified those specific areas where “mutually beneficial cooperation ought to be broadened,” including climate, pandemics, global macroeconomic coordination, and cyber. Even Xi Jinping in his January 25 Davos address began advocating “fair competition” with the United States “like competing with each other for excellence in a racing field, not beating each other in a wrestling arena.” In other words, Xi, Yang, and Wang were beginning to adjust the historical official Chinese narrative from one of global harmony, blissful cooperation, and a wonderful world of win-win to one that begins publicly to recognize the fundamentally realist nature of the strategic competition that has long been underway between China and the United States.

The reality is that this “misunderstanding” argument has zero traction in Washington.

The third stage in the evolution of China’s official discourse on the bilateral relationship came with the two-hour-long telephone conversation between Xi and Biden on February 10. An earlier call on February 7 between Yang and Blinken had not gone well. Yang had warned Blinken that “no one can stop the great rejuvenation of the Chinese nation.” Meanwhile, the secretary of state returned diplomatic fire that the United States “would hold Beijing accountable for its abuses of the international system.” President Biden himself added in a CNBC interview that “there’s going to be extreme competition” with China under his administration, but as “I’ve said to [Xi] all along ... we need not have a conflict.” He added that “I’m not going to do it the way Trump did. We’re going to focus on international rules of the road.”

But just two days later, a slightly different tone appears to have been struck between Xi and Biden in their February 10 call. According to the American readout, Biden had confronted Xi over China’s “coercive and unfair economic practices, crackdown in Hong Kong, human rights abuses in Xinjiang, and increasingly assertive actions in the region, including toward Taiwan,” while at the same time telling Xi he was willing to work with China on areas of mutual interest including COVID-19, climate change, and nuclear prolif-

eration. While Xi Jinping provided China's customary defense that these were China's internal affairs and that the United States "should respect China's core interests" and "act with caution," he also said that the two sides should "reestablish mechanisms for dialogue so that there would be an accurate understanding of each other's policy intentions and to avoid ... miscalculation."

Some internal analytical readings of the call from China's side have emphasized that the personal chemistry between the two leaders was "very good," with "lots of common memories exchanged" and that Biden had said he "wouldn't want confrontation with China" and "that was a bottom line." Chinese official reporting has also emphasized the "spirit of the call," although there remained "different interpretations of the facts" pertaining to the One China policy. Indeed, wider official commentary even in the lead-up to the call had carried a chorus of orchestrated opinion pieces calling for the re-normalization of the relationship. Following the call, the official position was that the call had pointed the relationship in a positive direction, with Foreign Minister Wang Yi on February 22 stating that "this very important call has oriented

China-U.S. relations, which had been struggling to ascertain its bearings" and had "sent out the first encouraging news of the spring for the two countries and the whole world."

The meta-message from the Chinese system was clear: whatever happened in the immediate dynamics of the Beijing-Washington relationship, China would continue to expand its global geopolitical and geo-economic footprint.

Beyond the immediacy of the U.S.-China relationship, however, the greater Chinese diplomatic juggernaut continued to roll on. Foreign Minister Wang Yi, on January 18, in yet another speech, had committed China to "deepening its comprehensive strategic coordination with Russia to form a bulwark for peace, security,

and strategic stability in the world." On the European Union, long seen as the geopolitical swing state in China's global strategic competition with the United States, Wang stated China would work to "upgrade our relations with Europe," building on the signing between Brussels and Beijing the previous month of their Comprehensive Agreement on Investment. Meanwhile, Xi Jinping again used his Davos address to advance China's credentials as a champion of multipolarity (aka less American and more Chinese power in the international system) and a champion of globalization, as well as to foreshadow greater Chinese activism in the institutions of global governance, indicating in particular that "China will become more actively engaged in global economic governance." The meta-message from the Chinese system was clear: whatever happened in the immediate dynamics of the Beijing-Washington relationship, China would continue to expand its global geopolitical and geo-economic footprint.

Finally, in this short review of the relevant Chinese official commentary across the past several months, one new, major, and potentially overwhelming issue to emerge in U.S.-China relations is the unfolding international debate on the question of whether or not Chinese policies in Xinjiang represent genocide against the Uighurs, and whether this should trigger an international boycott of the Beijing Winter Olympics in 2022. Secretary of State Blinken in his confirmation hearings had already agreed with the previous administration's characterization of actions in Xinjiang as genocide. That was despite stern warnings from the *People's Daily* the previous day that "The Winter Olympics is a key landmark event at an important historical juncture for China ... a vital opportunity to showcase China and boost China's development and national spirit." This had followed Xi's visit to the Olympic Village the previous day, where he underlined the "great importance"

the Chinese Communist Party's Central Committee and the Chinese people attached to hosting the games.

The reason I mention this here is that whatever else may unfold with the United States and China this year, this single issue has the capacity to unravel the entire relationship. It will trigger all the forces of Chinese nationalism, similar to what we saw with Russian nationalism under Putin in early 2014 when the United States and others boycotted the Sochi Winter Olympics. The Russian invasion of Ukraine happened barely a month later. For these reasons, genocide and the future of the Olympics have, of themselves, an explosive potential for the year ahead.

Chinese Actions toward the Biden Administration

Much of my analysis so far has been based on the changing tone and content of Chinese official commentary since the November 2020 presidential election. In part, this has dealt with China's domestic political discourse about the country's inexorable rise. It has also distilled China's foreign policy commentary on the future of Beijing's relationship with the United States. In the final part of these remarks, I intend briefly to examine any observable changes in Chinese official behavior toward the United States in both the military and economic spheres. By bringing these three streams of analysis together, I hope then to have some indication of where China may now be headed with the Biden administration.

Taiwan of course remains the geopolitical crucible of the relationship. Just three days after the Biden inauguration, the PLA flew 13 military aircraft across the Taiwan Strait and into Taiwan's

Air Defense Identification Zone (ADIZ). In response, the United States immediately dispatched a carrier battle group into the Taiwan Strait to conduct freedom of navigation operations. The administration later confirmed that the carrier in question, the *USS Theodore Roosevelt*, and its accompanying ships were then used as a simulated target by the Chinese Air Force. The administration then released a statement reaffirming America's "rock-solid" commitment to Taiwan's defense, and noting "with concern the pattern of [China's] ongoing attempts to intimidate its neighbors, including Taiwan." Following this series of incidents, on February 24, a U.S. destroyer separately transited the Taiwan Strait in a patrol. China responded the next day with 10 bombers conducting exercises in the South China Sea just south of Taiwan. Then, on March 16, Taiwan's defense ministry confirmed that the Biden administration had approved the sale of three categories of advanced submarine parts of unspecified value to Taiwan. Two of these had been provisionally approved by Trump in December and January, but Biden approved an additional category as well. The bottom line is that, on Taiwan, the level of operational tension between the U.S. and Chinese militaries remains high – with Chinese aircraft crossing the Taiwan Strait almost every day in January in an almost unbroken continuation of a record high 91 days of intrusions into Taiwan's ADIZ in 2020.

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On the South China Sea, in a January 28 call with Philippine Foreign Secretary Teodoro Locsin Jr., Secretary of State Blinken affirmed that the U.S.-Philippines Mutual Defense Treaty applies to any attack on Philippine assets in the South China Sea, stating that the United States "stands with Southeast Asian claimants in the face of PRC pressure." Meanwhile, on February 5 a U.S. warship sailed past Chinese-controlled islands in the Paracels, in the first Freedom of Navigation Operation under Biden. Then, on February 10, U.S. Rear Admiral James Kirk warned that Chinese military activities in the South China Sea have risen "steadily" in recent months. As with the Taiwan Strait, the tempo of the U.S. and Chinese military activity remains high

in the area, after the U.S. Navy conducted a record number of freedom of navigation operations (FONOPs) in the South China Sea in 2020.

As for the East China Sea, in a January 28 call with Japan's Prime Minister Yoshihide Suga, Biden reaffirmed that the United States considers the U.S.-Japan mutual defense treaty to apply to the Senkaku Islands. Three days later, on February 1, China passed a new Coast Guard Law authorizing the Chinese Coast Guard to fire on foreign vessels violating its territorial waters. This prompted significant concern in Japan, which subsequently saw Chinese incursions into waters around the Senkaku Islands on six separate days in February, the highest frequency since 2016. Japan in turn decided that its Coast Guard should also legally be permitted to fire on vessels "violating Japanese law." Tokyo proceeded to raise the changes to China's Coast Guard Law repeatedly with Washington and with the other members of the Quad. The U.S. State Department said on February 19 that it was very concerned about China's Coast Guard Law, because its allowance for the use of force "strongly implies this law could be used to intimidate the PRC's maritime neighbors."

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As for Hong Kong, on March 5 a draft decision on changing Hong Kong's electoral system was introduced at the NPC. This neutered the democratic opposition by stacking both the Election Committee

(EC) and the Legislative Council with new loyalist members and empowering the EC to approve candidates for office, ensuring "that control is firmly in the hands of forces that love their country and love Hong Kong." According to Beijing, opposition forces in the city had coalesced into a "severe threat to national sovereignty, security, and development interests," and "this had to be met with staunch opposition and forceful measures to contain and defuse the risks." The United States in response called China's moves to change the Hong Kong electoral system a direct attack on the city's autonomy and democratic processes and said that Washington was working at "galvanizing collective action" against China over both Hong Kong and Xinjiang. This would include, by March 16, further sanctions on 24 Chinese officials for their complicity both in the emasculation of Hong Kong's electoral laws and in the introduction last year of Hong Kong's new national security law, which had already seen the mass arrest of Hong Kong's democratic leadership. China, however, appears utterly contemptuous of American actions to date, as none of these measures has touched China's material economic or security interests.

On Xinjiang, as noted above, the party has become deeply focused on the gathering international movement to define its policies there as "genocide" and to initiate a boycott of the 2022 Winter Olympics. On February 22, Wang Yi addressed the UN Human Rights Council (UNHRC) on Xinjiang, declaring that there has "never been so-called 'genocide,' 'forced labor' or 'religious oppression'" in Xinjiang. He then invited the UNHRC high commissioner to visit Xinjiang. In the meantime, China sought once again to exercise its new extraterritorial legal reach when a group of Chinese companies filed a lawsuit in a Xinjiang court against U.S.-based researcher Adrian Zenz, one of the foremost voices on Xinjiang abuses, for costing them money due to resulting sanctions. This is the first such suit of its kind, with the potential to see China imposing legal costs on academics and other human rights critics. Finally, the 14th Five-Year Plan adopted by the NPC in March also stated that it would "fully implement the party's basic policy on religious work" and "continue to pursue the Sinicization of China's religions and actively guide religions so that they can be compatible with socialist society." This would apply to both Islam and Christianity. On Xinjiang, as with

Hong Kong, Xi Jinping's China is now doubling down against the West, is increasingly indifferent to international political opinion, and is reinforced in this by its ability to garner sufficient international support in multilateral fora including the UN to defray any attack.

The Biden administration, like its predecessor, has continued to elevate the significance of the Quad. Biden met with the Quad heads of government on March 12 in the first such Quad Summit in history. They released a joint statement listing “the rule of law, freedom of navigation and overflight, peaceful resolution of disputes, democratic values, and territorial integrity” as key objectives but did not explicitly name China. Jake Sullivan later stated that the group had discussed China’s “coercion of Australia, [its] harassment around the Senkaku Islands, and [its] aggression on the border with India” as key issues. The Quad also launched a U.S. plan to provide one billion doses of COVID-19 vaccines to Southeast Asian nations in order to counter Chinese influence in the region. Xi Jinping is likely to be concerned about the strengthening of the Quad over the past several years. China’s official reaction to the summit has been to denounce the formation of “small cliques” motivated by “Cold War mentality and ideological prejudice.”

This is the first such suit of its kind, with the potential to see China imposing legal costs on academics and other human rights critics.

China’s relationship with India remains of critical importance to both countries because of their contested border, the Maritime Silk Road, and Pakistan-Kashmir. China has not welcomed India’s final and full embrace of the Quad with the United States, Japan, and Australia. Here, however, China appears to be in the process of de-escalating conflict after its bloody border clashes in June 2020. On February 22 of this year, China and India completed a negotiated pullback of troops from their border, and India began clearing 45 suspended investment proposals from China. It has also been reported that Xi may attend the BRICS (Brazil, Russia, India, China, and South Africa) summit in India later in the year and meet with Modi, potentially signaling the beginning of a thaw in relations. China may not want to have active adversaries on all points of the compass.

Meanwhile Biden has been at pains to consolidate his European flank given the EU’s decision to agree to the EU-China Comprehensive Agreement on Investment (CAI) with Beijing on the eve of the inauguration. This is part of what some in the European Commission describe as Europe’s desire to achieve European “strategic autonomy” rather than becoming an American strategic ally against China. On February 19, Biden spoke at the Munich Security Conference, stating that the United States and the EU must work together to prepare for “long-term strategic competition with China,” and they have a common obligation to stand up for democracy, as well as to “push back against the Chinese government’s economic abuses and coercion that undercut the foundations of the international economic system.” Biden added that “competition with China is going to be stiff,” that democracy was under assault, and that the West had to “prove that our model isn’t a relic of history,” saying that the international debate on that was at an “inflection point.” This speech was likely to have been music to Xi Jinping’s ears, as from China’s perspective it conveyed a high level of defensiveness about the autocratic challenge to democratic legitimacy.

On technology, the Biden administration on March 12 informed Huawei suppliers of tighter conditions than previously for approval of export licenses, including banning items for use in or with 5G devices. Commerce Secretary Gina Raimondo had earlier promised to use the entity list “to its full effect.” On the same day, the U.S. Federal Communications Commission designated five Chinese companies, including

Huawei and ZTE, as threats to national security under a Trump administration law. U.S. companies using their equipment will be required to “rip and replace” that equipment. This tightening of technology laws by the new administration will underscore Xi’s decisions, reflected in the 14th Five-Year Plan, to maximize the allocation of resources for the achievement of Chinese national technological self-sufficiency, most particularly in all categories of microchips, where China has continued to lag.

Cybersecurity has already loomed large in the early days of the Biden administration. On March 8, the U.S. media reported that the White House was wrestling with how to respond to the major hack of Microsoft by a Chinese state-backed group. The administration had already indicated a series of clandestine actions against Russia would commence in the coming weeks, having promised cyber attacks would not “go unanswered.” Jake Sullivan and Anne Neuberger, deputy national security advisor for cyber and emerging

technologies, are reported to have elevated cyber response to the top of the National Security Council’s agenda.

In the only faintly positive development in the U.S.-China relationship in recent months, the U.S. media reported on March 10 that Washington and Beijing would co-chair a G20 study group focusing on climate-related financial risks.

In the only faintly positive development in the U.S.-China relationship in recent months, the U.S. media reported on March 10 that Washington and Beijing would co-chair a G20 study group focusing on climate-related financial risks. The Chinese co-chair will be the director of the Institute of Public and Environmental Affairs, Ma Jun; it was not clear who the U.S. co-chair would be. Ma Jun said China had proposed upgrading the study group to the work-

ing-group level, which would enable it to make policy recommendations. According to leading U.S. climate change policy advisor John Podesta, “both sides were inching closer to each other and trying to make climate a safe lane for communication.”

It is clear from all of the above – from Taiwan, the South China Sea, the East China Sea, Hong Kong, Xinjiang, the Quad, India, the EU, technology bans, cybersecurity, and climate change – that the operational political, economic, and security terrain of the relationship remains overwhelmingly adversarial. In some areas, the relationship between China and the United States has actually deteriorated further, albeit not significantly so. The only area where there appears to be a glimmer of light at present appears to be climate change. What this says to us all is that, in both Beijing and Washington, the culture of strategic competition now runs deep across the board, although we should wait and see what Anchorage delivers.

Conclusion

So what do these various elements of analysis say to us about the essential nature of Xi Jinping’s early response to the Biden administration?

In our examination of China’s official national security discourse over the past several months, it is relatively clear that Beijing is at least as hardline as ever – and arguably more so. Xi Jinping’s language about the “rise of the East and the decline of the West” has now become all-pervasive within the Chinese system. Similarly, the language of his military commanders has become remarkably unguarded in terms of the

hard, strategic competition in which the Chinese leadership is now engaged against the United States. Nonetheless, unofficial reporting indicates that Xi is also deeply aware of the military and economic vulnerabilities that China would have were it to find itself in open conflict with the United States tomorrow. Xi Jinping's strategy, therefore, in my judgment, is still to seek to buy time in order to further adjust the correlation of forces in China's favor by decade's end.

This explains in large part why the public language that we have seen in China's official foreign policy discourse with the Biden administration has been more accommodating. The overwhelming thematic in the public language of Xi Jinping, Yang Jiechi, and Wang Yi has been the paramount importance of returning to some form or another of regular, high-level strategic dialogue with Washington. For Beijing, this appeal makes eminent good sense, tactically. The expectation of China's political and security apparatus for its diplomatic establishment is to extract as much as it can from its American counterparts about America's strategic intentions, to provide as little as possible about China's, and to take the strategic temperature down in the relationship overall by embedding and enmeshing it in a complex of dialogue mechanisms.

As for our third level of analysis – that is, what Chinese military and diplomatic officials are actually doing on the ground – once again the overall thematic here is of a deeply realist China in determined prosecution of its long-term strategic objectives. In this sense, it meshes entirely with the conclusions reached from our analysis of China's internally focused national security discourse described above. The sharpness of PLA Air Force deployments in the Taiwan Strait and South China Sea, the significance of China's new direction to its Coast Guard to deploy weaponry where necessary, together with the ruthlessness of Chinese actions in Hong Kong, all reflect absolute, hardline realist strategic resolve.

Xi Jinping's language about the "rise of the East and the decline of the West" has now become all-pervasive within the Chinese system.

The overall message, therefore, to emerge from these early months of China's response to the Biden administration is one of Chinese strategic continuity accompanied by a limited degree of tactical flexibility. Chinese strategy remains building its comprehensive economic, military, and technological power over the course of the decade ahead in order to achieve its territorial objectives without ever having to fire a shot. Tactically, China's objective is to continue to provide its military, economic, and technological establishment the time necessary to prepare for the day of action of their choosing.

All this, of course, is of primary relevance to the question of Taiwan. In many respects, Xi Jinping has been emboldened over Taiwan because of the pusillanimous response of the United States and the collective West over the passage of Hong Kong's new national security law and its just-announced new electoral law. The United States, even under Trump, declined to take any hard financial or economic measures against Beijing, primarily because too many Western financial interests were at stake. While the imposition of individual sanctions against Chinese and Hong Kong leaders is both personally inconvenient and politically humiliating, these actions do not go to the core economic and strategic interests of the Chinese state. From Beijing's perspective, they have largely been seen as a pinprick. While China does have a deep interest in preserving its global reputation as a would-be global great power, Beijing remains confident that its ultimate critics will end up being a dwindling band of Westerners primarily located in the Anglosphere.

For Xi Jinping, Taiwan remains the pearl of great price. No other Chinese leader since Mao has burnished

the same level of ambition to return Taiwan to Chinese sovereignty. For Deng Xiaoping, Jiang Zemin, and Hu Jintao, China's economic dependency on the United States remained the central organizing principle for the overall U.S.-China relationship. Taiwan, by and large, was always a distant second and was handled as best they could. For Xi Jinping, these priorities have been reversed; Xi has concluded that China no longer needs to be as dependent on the United States. While access to the American export market and high-technology suppliers continues to be important, for Xi Jinping such access is no longer deemed to be essential – hence his newfound doctrine of national economic and technological self-sufficiency. For Xi, the future of the U.S.-China relationship is now seen primarily, if not exclusively, through the prism of Taiwan. And this of itself fundamentally impacts the long-term trajectory of the U.S.-China relationship overall.

Given all of the above, is Xi Jinping likely to be interested in any joint strategic framework such as “managed strategic competition” that might govern the relationship with the United States for the decade ahead? Possibly. But particularly if China were able to strategically re-stabilize the U.S.-China relationship for at

Beijing remains confident that its ultimate critics will end up being a dwindling band of Westerners primarily located in the Anglosphere.

least the first half of the decade – and perhaps longer. Remember, Xi Jinping's tactical objective is to buy as much time in the immediate period ahead to enable the relativities of Chinese and American military, economic, and technological powers to move more decisively in Beijing's favor.

Would a concept of managed strategic competition be of any value to the United States in these circumstances? Once again, possibly. It may afford the United States the strategic window necessary to fully recover from the political, economic, and public health consequences of the great pandemic of 2020–21. It might also provide the window necessary for America to rebuild its relationships with friends, partners, and allies across the international community as it cleans up the foreign policy wreckage from the Trump years.

In many respects, “the great race” between China and the United States as of 2021 remains evenly poised. China continues to have many vulnerabilities that are often invisible to Western political elites – just as America's great national strengths, including its capacity to politically and economically rebound from national disasters, have never really been understood by the CCP. For these reasons, underneath all the *sturm* and *drang* of the U.S.-China relationship over the past several months, there is still a level of respect and concern on the part of the Chinese party leadership that America could still come roaring back under this Biden administration.

The jury is still out. And we all wait with interest the outcome of the first formal engagement between the two sides in Anchorage, Alaska, today.

ATTACHMENT A: TRUMP ADMINISTRATION MEASURES TOWARD CHINA AND BIDEN'S SUBSEQUENT ACTIONS

Trade

- Trump left office with tariffs of between 7.5 and 25 percent on around \$370 billion in Chinese goods.
- Under Biden, no tariffs have so far been removed. Indeed, in February Treasury Secretary Janet Yellen said Trump-era tariffs would remain in place and that any changes would depend on China's adherence to trade deal commitments.

Technology

- By the time Trump left office, the Department of Commerce had placed more than 420 Chinese companies (plus subsidiaries) on its Entity List, restricting exports. This included 60 added in the largest single batch on December 18, 2020. Notable companies and organizations include Huawei, ZTE, SMIC, DJI, China State Shipbuilding Corporation, and Hikvision, along with several universities.
- On January 14, 2021, the Department of Defense (DOD) added nine new Chinese companies to its blacklist of "Communist Chinese military companies," bringing the total blacklisted to 45. This includes notable organizations beyond the DOC list, including Xiaomi, COMAC, CNOOC, and China Telecom. Companies on the DOD list are also subject to the November 2020 Trump executive order banning U.S. investors from holding stock in military-linked companies.
- In August 2020, Trump signed orders banning WeChat and TikTok, among other Chinese apps. In January 2021, Trump also signed an additional order banning payment transactions with eight Chinese apps, including WeChat Pay, Ant Group's Alipay, and Tencent's QQ Wallet.
- In November 2020, the Trump administration proposed an additional rule allowing the Commerce Department to ban technology-related business transactions that it determines pose a national security threat, as part of an effort to secure supply chains.
- None of these technology restrictions have been removed or repealed by the Biden administration. Some reviews have been commissioned, however; for example, a "review" of the TikTok and WeChat ban – but these have not yet been removed. In addition, a U.S. court has ordered a halt to Xiaomi's inclusion on the DOD blacklist. U.S. courts also temporarily blocked the bans on TikTok and WeChat at the end of 2020. The Biden administration has paused the Trump administration's legal appeals to these blocks as part of the "review" mentioned above.
- At the same time, Biden is moving to further tighten tech restrictions overall. The administration has allowed the Commerce Department's sweeping November 2020 national security rules to go forward, to be implemented later in March 2021 after public comment. The impending Commerce Department rules are widely considered the most far-reaching of the

By the time Trump left office, the Department of Commerce had placed more than 420 Chinese companies (plus subsidiaries) on its Entity List, restricting exports.

Trump administration's actions against Chinese tech. It would give the department sweeping powers to require licenses for the wide range of technology transactions or to ban them outright.

- On March 11, the Biden administration also further tightened the requirements for suppliers to be granted a license to export 5G-related parts to Huawei. On March 12, the U.S. Federal Communications Commission designated five Chinese tech firms as posing an “unacceptable risk” to national security (Huawei, ZTE, Hytera Communications, Hangzhou Hikvision Digital Technology, and Dahua Technology).

Individual Sanctions

- The Trump administration sanctioned dozens of Chinese and Hong Kong officials, including four individuals in July 2020 for Xinjiang abuses: Politburo member Chen Quanguo; 11 individuals in August 2020, including Xia Baolong, Carrie Lam, Luo Huining, Zheng Yanxiong, and various other Hong Kong government and mainland security officials; 14 individuals in December 2020, including the whole NPCSC, with the exception of Li Zhanshu; and 6 individuals in January 2021, including You Quan, vice chairman of Beijing's Central Leading Group on Hong Kong and Macau Affairs, and Sun Qingye, deputy director of Hong Kong's national security office.
- The Biden administration has removed none of these. Indeed, it has now added to them. On March 16, the Biden administration announced new sanctions on 24 Chinese and Hong Kong officials over electoral changes, including on Politburo member Wang Chen. Financial sanctions were added to previous travel sanctions on some individuals, including all the vice chairs of the NPCSC.

Taiwan

- On January 9, 2021, Secretary of State Pompeo lifted U.S. government guidance restricting meetings between U.S. and Taiwanese officials. This included Taiwanese officials not being permitted to enter the State Department, for example.
- The Trump administration had already also sent a series of increasingly high-ranking officials to Taiwan, including Secretary of Health and Human Services Alex Azar and Under Secretary of State for Economic Growth, Energy, and the Environment Keith Krach.
- The Trump administration also sold more than \$5 billion in arms to Taiwan in 2020 alone.
- None of these measures has been changed since the coming into office of the Biden administration.
- Biden invited Taiwan's de facto ambassador Bi-khim Hsiao to his inauguration, the first time Taiwan was officially represented at a presidential swearing-in ceremony since 1979.
- On Pompeo's relaxation of rules, Blinken said in January that “I want to see that process through to conclusion if it hasn't been completed, to make sure that we're acting pursuant to the mandate in the [Taiwan Assurance] act that looks at creating more space for contacts.”
- Also on February 10, the Biden administration held a meeting between Hsiao Bi-khim and Acting U.S. Assistant Secretary of State for East Asian and Pacific Affairs Sung Kim,— notably inside the State Department building.

- On March 16, Taiwan's defense ministry confirmed that the Biden administration had approved the sale of three categories of advanced submarine parts to Taiwan of unspecified value. Two of these had been provisionally approved by Trump in December and January, but Biden approved an additional category as well.

Visas

- In 2018, the Trump administration significantly tightened student visa regulations for Chinese students hoping to study in sensitive fields like aviation, robotics, and advanced manufacturing, shortening the duration of visas issued for study in these areas from five years to one, citing the risk of espionage and intellectual property theft. In March 2020, the Trump administration also began limiting F-1 visas for foreign students amid the coronavirus outbreak. In September 2020, the Trump administration also proposed a rule to shorten F-1 student visas to a limit of four years, among other measures.
- In March 2020, China expelled a large number of U.S. journalists from the country amid tit-for-tat escalation of visa restrictions with Washington, including from the *New York Times*, *Wall Street Journal*, and *Washington Post*, after their writers criticized the Chinese government's mismanagement of the coronavirus outbreak. In May 2020, the United States shortened visas for Chinese journalists to 90 days. In August 2020, China threatened to expel U.S. journalists if the United States did not renew the expiring visas for Chinese journalists in the United States. In September, China froze the press credentials for more U.S. journalists and many later left the country.
- In July 2020, the United States closed China's Houston consulate, after which China closed the Chengdu consulate. And, in September 2020, China announced new restrictions on six more U.S. media organizations working in China. This followed U.S. requirements that Chinese media organizations in the United States register as foreign missions.
- In January 2021, Biden issued an executive order for agencies to postpone Trump rules that had not yet taken effect. This included the latest F-1 visa rules, but not the 2018 changes. In January 2021, Biden also issued an executive order on "Ending Discriminatory Bans on Entry to the United States," which ordered a resumption of visa processing and a clearing of application backlogs, including those halted due to COVID. Biden had said during the campaign that he would also lift Trump's ban on new H-1B work visas, but as of early March it was reported that the administration was "still undecided" on lifting the ban. Biden has not yet lifted the tighter F-1 visa requirements implemented by Trump in 2018 that focus on national security.
- The Biden administration has said nothing publicly about lifting the visa restrictions on Chinese journalists, which remain in place.
- There has been no indication so far of a decision to reopen the consulate closed by the Trump administration or any parallel action by the Chinese.

Biden had said during the campaign that he would also lift Trump's ban on new H-1B work visas, but as of early March it was reported that the administration was "still undecided" on lifting the ban.

A photograph of Joe Biden and Anthony Blinken seated at a table during a virtual meeting. Biden is on the left, wearing a dark suit and a yellow and blue striped tie, looking towards the right. Blinken is on the right, wearing a dark suit and a black face mask, looking towards the camera. Behind them are the flags of the United States, India, and Japan. The text is overlaid on a dark semi-transparent box in the upper left.

> 4 WHY THE QUAD ALARMS CHINA: ITS SUCCESS POSES A MAJOR THREAT TO BEIJING'S AMBITIONS

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U.S. President Joe Biden and U.S. Secretary of State Anthony Blinken participate in a virtual meeting with leaders of Quadrilateral Security Dialogue (Quad) countries on March 12, 2021. Alex Wong, Getty Images.

When former Japanese Prime Minister Shinzo Abe invited officials from Australia, India, and the United States to meet in Manila in November 2017, Chinese leaders saw little reason to worry. This gathering of “the Quad,” as the grouping was known, was merely “a headline-grabbing idea,” scoffed Chinese Foreign Minister Wang Yi: “They are like the sea foam in the Pacific or Indian Ocean: they get some attention but will soon dissipate.” Beijing had some reason for such dismissiveness. The interests of the Quad’s members were, Chinese strategists assessed, too divergent to allow for real coherence. Anyway, the Quad grouping had already been tried more than a decade earlier, with little in the way of real results.

Within a few years of that November 2017 gathering, however, Beijing had started to rethink its initial dismissiveness. By March of this year, when the Quad held its first leader-level summit and issued its first leader-level communiqué, Chinese officials had begun to view the Quad with growing concern. Since then, Beijing has concluded that the Quad represents one of the most consequential challenges to Chinese ambitions in the years ahead.

As “strategic competition” with China has become a rare point of bipartisan consensus in Washington, Chinese President Xi Jinping has taken to warning that his country faces a “struggle over the future of the international order” with a United States determined to thwart China’s rise. Xi believes that Beijing has an opportunity between now and 2035 to make China the world’s top economic, technological, and potentially even military power. Integral to this push is persuading countries in Asia and around the world that Chinese dominance is inevitable and that, accordingly, they have no option but to start deferring to Chinese demands. That would enable China to begin rewriting the rules of the international order – and entrench its global leadership position – without ever having to fire a shot.

Beijing has concluded that the Quad represents one of the most consequential challenges to Chinese ambitions in the years ahead.

The Quad is uniquely problematic for China’s strategy because its aim of unifying a multilateral coalition of resistance has the potential to stiffen spines across the whole of the Indo-Pacific and possibly beyond. For Xi, the critical question is whether the Quad will evolve to be large, coherent, and comprehensive enough to effectively balance against China, thereby undermining any sense that its dominance, in Asia or globally, is inevitable. So far, Beijing has struggled to mount an effective response to the Quad challenge. Whether Chinese officials settle on a strategy that succeeds in undermining the Quad’s progress will be one of the key factors in determining the course of U.S.-Chinese competition – and the fate of China’s global ambitions more generally – in what has already become a “decade of living dangerously.”

Come Together

Abe’s first attempt to launch the Quad came in the aftermath of the 2004 tsunami, when Australia, India, Japan, and the United States worked together on a disaster response. Abe saw the Quad as a way to build the four countries’ capacity to work together to meet shared regional security challenges. But the response in other capitals was tentative at best.

In Washington, President George W. Bush worried that such cooperation would unhelpfully alienate China when it needed Beijing in the “war against terrorism”; within a few years, as cables subsequently released by WikiLeaks showed, the administration was privately assuring regional governments that the Quad

would never meet. In New Delhi, Prime Minister Manmohan Singh repeatedly ruled out any real security cooperation with the Quad and categorized ties with Beijing as his “imperative necessity.” And in Canberra, the conservative government of John Howard worried about undermining economically beneficial ties with China and also opposed expanding existing trilateral cooperation with the United States and Japan by adding India; in July 2007, Australia formally withdrew and announced the decision in Beijing soon after. When Abe, the driving force behind the Quad, unexpectedly resigned, in September 2007 (before becoming prime minister again in 2012), his successor, Yasuo Fukuda, formally consigned the Quad to the dustbin of history.

When Abe got the band back together a decade later, strategic circumstances had changed dramatically. After years of growing U.S.-Chinese tensions, assertive Chinese behavior in the South China and East China Seas and repeated clashes between Chinese and Indian forces along their contested land border, the strategic calculus on China had evolved in all the Quad capitals. Still, Beijing thought it had little reason to worry after the Quad reassembled, in November 2017, for a working-level meeting of diplomats on the sidelines of the East Asia Summit in Manila: they failed to issue a joint communiqué outlining a common strategic purpose, instead releasing uncoordinated individual statements that served mostly to highlight

divergences on key concerns. Beijing remained largely indifferent even after the first meeting of the Quad’s foreign ministers, in September 2019 in New York, and even when the ministers finally agreed to work together on what would become the Quad’s mantra: to “advance a free and open Indo-Pacific.”

Then, in June 2020, Chinese and Indian forces clashed along their shared border, leaving 20

Thanks in large part to the June 2020 border clash, all remaining hesitation in Delhi was gone. From Beijing’s perspective, the geopolitical wei qi board was suddenly looking less advantageous.

Indian soldiers dead and causing New Delhi, heretofore the most reluctant member of the Quad, to reassess its strategic priorities and demonstrate new eagerness to balance Chinese power. When the Quad’s foreign ministers met again, in October 2020 in Tokyo, Beijing began to pay attention. U.S. Secretary of State Mike Pompeo stated bluntly that Washington’s goal was to “institutionalize” the Quad, “build out a true security framework,” and even expand the grouping at “the appropriate time” in order to “counter the challenge that the Chinese Communist Party presents to all of us.” (Pompeo had earlier gathered New Zealand, South Korea, and Vietnam for what became known as the “Quad Plus” talks on trade, technology, and supply chain security.)

Following the meeting, India invited Australia to join its annual Malabar naval exercises held with the United States and Japan. This was notable because India had previously refused to allow Australian participation in the exercises for fear of antagonizing Beijing. Now, thanks in large part to the June 2020 border clash, all remaining hesitation in Delhi was gone. From Beijing’s perspective, the geopolitical wei qi board was suddenly looking less advantageous.

From Divide to Attack

At first, Chinese strategists seemed to think there was a relatively straightforward solution to the new challenge from the Quad: using a combination of carrots and sticks to drive a wedge between the economic and security interests of the Quad’s members. By stressing each state’s overwhelming dependence on the

Chinese market, Beijing hoped to break the Quad apart.

Following the October 2020 Quad ministerial meeting and the subsequent Malabar naval exercises, Wang, the Chinese foreign minister, changed his tone dramatically, slamming the effort to build an “Indo-Pacific NATO” and calling the Quad’s Indo-Pacific strategy “a big underlying security risk” to the region. Beijing also selected a target against which to use a stick. Chinese strategic tradition advises “killing one to warn a hundred.” In this case, the idea was to kill one (Australia) to warn two (India and Japan).

Beijing had previously seemed intent on improving relations with Canberra. But without specific explanation, it suddenly imposed restrictions on imports of Australian coal – and then meat, cotton, wool, barley, wheat, timber, copper, sugar, lobster, and wine. As the smallest of the four Quad economies, Australia would, in Beijing’s judgment, be the most vulnerable to economic pressure (and by dint of size and geography, less threatening to Chinese security interests). At the same time, China worked to repair relations with India and Japan. Following years of efforts to improve ties with Tokyo, Beijing tried to finalize a visit by Xi to meet with Abe’s successor, Yoshihide Suga. And it sought to de-escalate tensions with India by negotiating an agreement to pull back troops from the area where clashes had occurred and working quietly to secure the release of a captured Chinese soldier in order to avoid sparking a nationalist firestorm.

Chinese strategic tradition advises “killing one to warn a hundred.” In this case, the idea was to kill one (Australia) to warn two (India and Japan).

But Beijing had underestimated the effect of its own actions on Quad solidarity, and neither of these carrots had the intended effect. In Tokyo, aggravation over Chinese assertiveness in the East China Sea and concerns about human rights and Hong Kong had begun to throw the relationship into a deep chill. In Delhi, wariness of China had become deeply ingrained, no matter that the immediate standoff had been resolved. As Indian Foreign Minister Subrahmanyam Jaishankar explained, the border clashes had produced greater “comfort levels” in Delhi with the need “to engage much more intensively on matters of national security” with Washington and other partners. The arrival of a new administration in Washington, one that would bring a renewed focus on allied, regional, and multilateral engagement and move quickly to resolve Trump-era trade and military-basing disputes with Asian allies, added a further obstacle to Beijing’s plan.

By early this year, Chinese officials had realized that neither ignoring nor splitting the Quad would work. So Beijing moved on to a third option: full-scale political attack.

The March meeting of the Quad’s leaders confirmed growing Chinese concerns about the grouping’s significance. By convening the Quad’s top leaders for the first time (albeit virtually) so early in his administration, U.S. President Joe Biden signaled that the group would be central to his strategy in the Indo-Pacific. And for the first time, the meeting produced a unified communiqué committing to promote “a free, open, rules-based order, rooted in international law” and to defend “democratic values, and territorial integrity.” The Quad also pledged to jointly manufacture and distribute one billion COVID-19 vaccine doses throughout the region. Indian Prime Minister Narendra Modi spoke to what may be Beijing’s worst fear when he declared, “Today’s summit meeting shows that the Quad has come of age. It will now remain an important pillar of stability in the region.”

Since then, there has been an explosion in Chinese condemnations of the Quad as a “small clique” of countries trying to “start a new Cold War.” In May, Xi denounced efforts to use “multilateralism as a pretext to form small cliques or stir up ideological confrontation.” China has begun to portray itself as the champion of “genuine multilateralism” and as the leading defender of the United Nations system. Xi and other Chinese officials have started talking more frequently about “great-power responsibility” and China’s status as the “responsible great power.” Beijing is also doubling down on its efforts to develop alternate trade frameworks by promoting its membership in the Regional Comprehensive Economic Partnership (RCEP), attempting to finalize the EU-Chinese investment agreement and flirting with the idea of joining the CPTPP (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which evolved

out of the U.S.-driven Trans-Pacific Partnership negotiations). Beijing’s hope is that it can isolate and marginalize the Quad by diplomatically and commercially outflanking it on the global stage.

Yet such denunciations have so far done little to stall the Quad’s progress. Biden’s June trip to

Beijing’s hope is that it can isolate and marginalize the Quad by diplomatically and commercially outflanking it on the global stage.

Europe – where Australia and India joined a gathering of the G7 and U.S. discussions with the EU and NATO included a heavy China component – reinforced fears that the Quad could integrate itself into a broader anti-Chinese alliance. And U.S.-South Korean interactions, including President Moon Jae-in’s May visit to Washington, reinforced fears that the Quad could bring in South Korea and become “the Quint”; although Seoul has usually been reluctant to side explicitly with the United States against China, the two countries’ joint statement agreed that they “acknowledge the importance of open, transparent, and inclusive regional multilateralism including the Quad.”

Reason to Worry

China has considerable reason to worry about such developments and what they could mean for its regional and global prospects. On the security front, for example, the Quad changes Beijing’s thinking about various scenarios in the Taiwan Strait and the South China Sea and, to a lesser degree, in the East China Sea, as China’s sense of the likelihood of Australian, Indian, or Japanese military involvement in any conflict involving the United States grows. Especially significant would be the Quad’s coordination with the United States’ Pacific Deterrence Initiative. A distributed network of land-based anti-ship missiles and other precision-strike capabilities stationed in allied countries in the region could hinder Beijing’s ability to threaten Taiwan with an amphibious invasion, a blockade, or land-based missiles – although political agreement on such deployments in individual Quad countries is far from guaranteed. Another Chinese concern is that the Quad will move toward an intelligence-sharing arrangement with the Five Eyes intelligence partnership, which would allow for sensitive information on Chinese strategy and behavior to be more widely disseminated.

But the worst-case scenario from Beijing’s perspective is that the Quad could serve as the foundation of a broader global anti-Chinese coalition. If the Quad were to draw other Asian countries, the EU, and NATO into efforts to confront or undermine China’s international ambitions, it could over time swing the collective balance of power definitively against China. The Quad could also lay the groundwork for a broader allied economic, customs, and standards union, which could reshape everything from global infrastructure funding to supply chains to technology standards. The Biden White House’s senior Asia official, Kurt Campbell, has already spoken of the need to provide a “positive economic vision” for the Indo-Pacific;

Beijing fears that the Quad could become the fulcrum for such an effort.

One bright spot from Beijing's perspective is the Association of Southeast Asian Nations (ASEAN), which is likely to keep its distance from the Quad, as part of its general neutrality on U.S.-Chinese tensions. Chinese officials also take comfort from continued protectionist sentiment in both Washington and Delhi, which means that neither is likely to join the CPTPP (or even RCEP) any time soon. Indeed, the gravitational pull of the Chinese economy will remain the greatest tool for weakening the Quad and subverting anti-Chinese efforts more broadly: for Beijing, China's continued economic growth and increasing share of the global economy remain its most important strategic advantages, as they were in the past.

China will also double down on strategic and military cooperation with Russia. Moscow and Beijing have already committed to expand bilateral nuclear energy cooperation, and in a May call with Xi, Russian President Vladimir Putin called Chinese-Russian relations "the best in history." From China's perspective, Russia serves as a useful military partner and, with respect to the Quad, offers a way to expand China's field of strategic options geographically. Russia's proximity to Japan and its continued occupation of Japan's Northern Territories, for example, could make Tokyo think twice before joining with the United States in any future military scenarios involving China.

If they see the correlation of forces with the United States and its allies shifting against China, Beijing's military spending will increase accordingly, turbocharging the regional arms race in Asia.

The continued consolidation of the Quad will also drive further increases in Chinese military spending. Even if some Chinese analysts are doubtful about the actual impact of the Quad on the hard business of war fighting, military officials will argue that they must be ready for worst-case scenarios involving the Quad. Chinese officials are wary of repeating the Soviet Union's mistake of military overextension at the expense of the civilian economy. But if they see the correlation of forces with the United States and its allies shifting against China, Beijing's military spending will increase accordingly, turbocharging the regional arms race in Asia.

Ultimately, the biggest question may be what all of this means for Xi, especially in the run-up to the 20th Party Congress in the fall of 2022, where Xi hopes to secure his own long-term political dominance. There is some chance that the Quad's progress will offer Xi's detractors additional evidence of his inclination to strategic overreach. More likely, however, is that Xi will ultimately manage to strengthen his own hand by pointing to the Quad as proof that China's adversaries are circling the Motherland, thereby further consolidating his hold on power.



> 5 XI JINPING'S PIVOT TO THE STATE

An address to the Asia Society New York • September 8, 2021

People have been trying to make analytical sense of the rapid series of economic policy decisions by Xi Jinping's administration over the course of the past year.

There has been, at times, a bewildering array of them:

- The decision to suspend Alibaba's financial affiliate, Ant Group's, planned IPO in Hong Kong and Shanghai last October;
- The announcement in April this year by China's market regulator, the State Administration for Market Regulation (SAMR), to impose a \$3 billion fine on Alibaba itself for "monopolistic behavior";
- That same month, another SAMR inquiry into suspected monopoly practices by food delivery giant Meituan;
- The decision in July this year by the Chinese cyber-regulator (the Cyberspace Administration of China, or CAC) to remove China's ride-hailing giant Didi's app from stores while a joint investigative unit was established to examine Didi's compliance with China's data security laws (followed in August by a summons by China's Transport Ministry regulators to haul in senior executives from Didi, Meituan, and another nine companies, directing them to "self-rectify their misconduct by December");
- The decision also by the Chinese government to take a 1 percent equity stake in ByteDance's Beijing subsidiary, the owners of TikTok;
- A similar decision to secure equity in China's micro-blogging platform, Weibo; and
- The decision also in July by the education regulators to issue new regulations effectively killing China's private tutorial sector by forcing firms to become nonprofits.

Xi Jinping has been advancing a new overarching economic policy framework over the course of this year entitled the "New Development Concept"

It is not, however, just this impressive list of administrative actions against individual firms that has caught the domestic and international investment community by surprise. The Chinese government has also been busy promulgating a series of new regulations across the private sector, including the following:

- New rules released by the State Council in August putting all Chinese firms in the telecoms, energy, transport, finance, and defense sectors under close cybersecurity scrutiny to protect what is described as "critical information infrastructure";
- Also in August, new draft rules by SAMR to tackle market competition in the internet sector and to rein in the handling of critical data by corporations (following the Ministry of Information and Technology publicly attacking 43 apps, including those of WeChat and Tencent, for illegally sharing data); and
- This was followed in August by the National People's Congress Standing Committee passing China's first national data privacy law, the so-called Personal Information Protection Law, requiring any corporation or individual handling Chinese citizens' personal data to obtain

prior consent from consumers first, and preventing data from being passed to other corporations in “unsecure” countries.

Beyond these individual actions against companies, and the frenetic pace of regulatory activity by the NPC, the State Council, and individual government agencies, Xi Jinping has been advancing a new overarching economic policy framework over the course of this year entitled the “New Development Concept” – a concept that incorporates within it a range of different elements, including the following:

- Xi’s 2020 idea of a “dual circulation economy,” which seeks to reduce China’s future dependency on export-driven growth and instead have Chinese domestic consumer demand become the principal growth driver, thereby leveraging the enormous “gravitational pull” of the Chinese domestic economy on the rest of the global economy;
- Second, his 2021 prioritization of the idea of “Common Prosperity,” which emphasizes income redistribution away from China’s billionaire class to low- and middle-income earners; and
- Third, the continued expansion of China’s “industrial policy,” led by a revamped state-owned sector, as China seeks to take the commanding heights of new technology platforms as the drivers of the twenty-first century global economy, including semiconductors, artificial intelligence, quantum computing, and new forms of advanced manufacturing.

For many in the international community, as well as China’s own entrepreneurial class, this has been received as a surprising, bewildering, almost scattergun series of announcements – from the micro to the macro.

I would argue, however, that there is a common “red thread” to all of the above – particularly when seen through the political lens of Xi Jinping’s office in Zhongnanhai, rather than through the financial analyst lens in London, New York, or Tokyo.

Xi Jinping has decided that in the overall balance between the roles of the state and the market in China, it is in the interests of the party to pivot toward the state.

After all, between February and August of this year alone, the cumulative losses in shareholder value arising from these various moves approximated \$1.1 trillion wiped from the market value of China’s top six technology stocks alone, including Alibaba, Tencent, and JD. And that number excludes losses to the education, transportation, food delivery,

entertainment, and video-gaming industries. In particular, we have not yet taken into account the market impact of Xi’s decision last month to restrict gaming hours of school-aged children to three hours per week.

The bottom line is that in all these decisions, and in Xi Jinping’s hierarchy of policy needs, questions of politics, security, and ideology come first, whereas the interests of investors, analysts, and corporations like the ones I have just listed come last.

So what is the nature of the overall “red thread” that I have referred to? The best way to summarize it is that Xi Jinping has decided that in the overall balance between the roles of the state and the market in China, it

is in the interests of the party to pivot toward the state.

In doing so, it reflects Xi Jinping's wider worldview on the role of the party, the state, and the market in the transformation of modern China into a global great power, but a great power in which the Chinese Communist Party nonetheless retains complete control.

What we have seen since 2012 at the beginning of his first term is Xi Jinping progressively moving the center of gravity of Chinese politics further to the left.

What we have seen during Xi Jinping's second term since 2017 is evidence of a parallel move toward the left on the Chinese economy.

Indeed, both these moves have occurred at a time when Chinese nationalism has moved further to the right, as China has prosecuted a more nationalist, assertive, and confrontational foreign policy – not just in its own region but also around the world.

Some may object to the use of the terms “left” and “right” in this context, but I use them advisedly.

In Chinese politics, for example, we have seen this move to the left in the reassertion of the power of the party as an institution over the policy, technocratic, and administrative agencies of the Chinese state, just as we have seen the re-empowerment of the party within both

Chinese state-owned corporations and private firms, as well as the return of Marxist-Leninist ideology as a respected organizing principle for both politics and wider public policy.

We have seen the re-empowerment of the party within both Chinese state-owned corporations and private firms, as well as the return of Marxist-Leninist ideology as a respected organizing principle for both politics and wider public policy.

At the same time, within this shifting center of gravity in Chinese politics, we have also seen Xi Jinping's success in entrenching his own position as China's paramount leader. This has occurred at the expense of the Dengist principle of collectivist leadership put in place in the decades following the Cultural Revolution.

As for the economy, this move to the left has been reflected in a number of specific domains:

- The reassertion of Chinese industrial policy led by the state across all branches of technology;
- The reinvigoration of state-owned enterprises more broadly as a dominant player in the Chinese economy (and now empowered to take extensive equity in Chinese private firms as part of Xi Jinping's so-called “mixed economy model”); and
- Xi Jinping's chiding of China's private entrepreneurial elite for not being sufficiently patriotic when what the party requires is a brigade of Chinese corporate leaders walking in partnership with the Chinese state and under the ultimate direction of the party.

As for the third part of my argument (that the movement to the left in Chinese politics and the political economy has been accommodated by a parallel shift to the right on Chinese nationalism, foreign policy,

and strategic policy), all analysts of Chinese politics and policy would agree that Xi Jinping's recourse to nationalism through the propaganda apparatus is much greater than that of his predecessors, just as analysts would agree that Chinese international policy has become measurably more assertive around the world over the past seven years.

My argument is that none of these things have happened by accident. They have, by and large, occurred as a result of a change in China's overall strategic course – through what Xi Jinping himself lauds as “top-level design” (*dingceng sheji*), an approach that also happens to sit comfortably with Xi Jinping's personal style.

The international analytical community and certainly the investor community seem to have ignored Xi Jinping's pronouncement at the 19th Party Congress in 2017 that under his leadership, China had entered into a genuinely “new era” (a *xin shidai*). Indeed, within the ideational schemata of Xi Jinping's new era, we are now in a third new age of Chinese communism:

- The first was the Mao Zedong era until the end of the Cultural Revolution, when China “stood up”;
- The second was the Deng Xiaoping era that ran from 1978 for another 40 years until the 19th Party Conference in 2017, when China, having “stood up,” had now “become rich”; and
- The third, the Xi Jinping era, beginning in 2017, is when Xi Jinping says that China, having stood up and become wealthy, must now “become powerful.”

Indeed, in Xi Jinping's worldview, his definition of a new era of Chinese power is not just a simple question of semantic differentiation from his predecessors. He intends for it to be a substantive differentiation.

So much so that the same 19th Party Congress in 2017 also commissioned a new ideological orthodoxy to help navigate this new era, entitled “Xi Jinping Thought on Socialism with Chinese Characteristics for the New Era.”

In Xi Jinping's worldview, his definition of a new era of Chinese power is not just a simple question of semantic differentiation from his predecessors. He intends for it to be a substantive differentiation.

“Xi Jinping Thought” is now applied to every domain of political theory and public policy. And most recently, it has also been incorporated into a new textbook for Chinese schoolchildren.

For these reasons, we should not underestimate the significance of China's political and policy changes we are now living through.

If there is a central organizing principle in all the above, it is the return of the party to a central position in Chinese politics, economics, and international policy – and within the party the absolute centrality of Xi Jinping as the party's “core leader” – and the resuscitation of the Maoist concept of “struggle” as the only effective means through which to bring about change.

The Drivers of Recent Economic Policy Change

Beyond this broad trend toward the left, we also need to understand the fundamental driving forces at work in bringing about the particular changes in economic policy that we are examining in this lecture. I argue

that there are three of them – ideology, demography, and economic decoupling from the United States:

1. First, the formal changes in the party's ideological framework outlined in the 19th Party Conference in 2017;
2. Second, the power of demography and the leadership's concern about a population that is aging and shrinking in size more rapidly than it had previously thought; and
3. Third, the impact of decoupling – as Xi Jinping seeks to organize a form of decoupling from the United States on China's terms, before having one imposed on him by the United States, given China's net assessment that U.S. domestic politics will become more rather than less hostile to China over the decade ahead.

The Impact of Ideology

Foreign analysts often underestimate the importance of Marxist-Leninist ideology within the Chinese political and public policy process. Ideology has been a fundamental component of the Communist Party's life and work since its founding 100 years ago this year. But equally, across that hundred years, Marxism-Leninism has evolved in its meaning – just as the importance of ideology itself as a guide to political action has also evolved with changing political seasons.

For Chinese practitioners, Marxism-Leninism has three core components: historical materialism (which identifies China's place in a determinist economic development cycle from slave-owning societies through feudalism to capitalism, socialism, and then communism); dialectical materialism (or the analysis of opposing forces of action and reaction in any given period of economic history that, if properly harnessed, advance society in the ultimate direction of communism); and third, the “theory of contradictions” (which seeks to identify precisely the predominant force at work in driving change, among all these dialectical forces, to which the party should therefore address its primary attention).

Foreign analysts often underestimate the importance of Marxist-Leninist ideology within the Chinese political and public policy process. Ideology has been a fundamental component of the Communist Party's life and work since its founding 100 years ago this year.

This will seem arcane to most people. But within what the British sinologist Kerry Brown rightly calls the “band of meaning” that is represented by ideology within the internal discourse of the Chinese Communist Party, it is this shifting definition of the party's “principal contradiction” that ultimately determines what the party's political direction is at a given time.

In the Communist Party's official worldview, having established the new China in 1949 (and then having eliminated, often physically, what it deemed to be the “counter-revolutionary class”), it then proclaimed that the party's principal contradiction had changed from one of “class struggle” to one of “economic development” in order to lift the people out of poverty.

Again, according to the party's official periodization, Mao's error was to ignore this decision by the 8th

Party Congress in 1956 and continue to prosecute class struggle as the party's primary focus right through to the end of the Cultural Revolution in 1976.

Then, at the party's 12th Congress in 1982, Deng Xiaoping, by then politically ascendant, redefined the party's principal contradiction once again as economic development. Deng, in fact, went further. It will be recalled that at the time the slogan he was famous for was "to get rich is glorious." He also said it did not

matter if some people in some regions became rich earlier than others.

Both in ideology and then, as a result, in practical policy terms, Deng authorized a new era of market-based economic reforms necessary to "unleash the productive forces" within the Chinese economy irrespective of the consequences that might have on what Marxists call the "relations of production" or class structure.

Deng's redefinition of the party's principal contradiction in support of untrammelled economic

development would remain in place for another 35 years – between the 12th Party Congress in 1982 and the 19th Congress under Xi Jinping in 2017.

Xi Jinping's ideological adjustment to the party's principal contradiction in 2017 on the surface of it seemed subtle. Deng Xiaoping's era of economic development was not attacked. Indeed, it was acknowledged as being foundational to Xi Jinping's new era: that is, the period of reform and opening under Deng had generated sufficient wealth in China through the absolute priority he had attached to economic development to now enable Xi Jinping to do two new things: first, to deal with the problems of "unbalanced development" and, second, to deal with the problems of "inadequate development."

This seems unremarkable at one level. But beneath the surface, the ideological significance of this change was profound. It ideologically authorized the political and policy apparatus of the Chinese state to adopt a more radical approach to resolving the problems of capitalist excess created during the Deng period, including

- Income distribution;
- The adequacy of public education;
- The adequacy of public health;
- The adequacy of retirement income; and
- The need to deal with the massive negative environmental consequences of China's untrammelled economic development over the past decades.

More broadly, the 2017 Party Congress also authorized a re-energized party to intervene in the economy in order to bring about a range of other political and social policy objectives.

Beneath the surface, the ideological significance of this change was profound. It ideologically authorized the political and policy apparatus of the Chinese state to adopt a more radical approach to resolving the problems of capitalist excess created during the Deng period.

In other words, the 2017 Congress represented the ideological justification for “the pivot to the state” that is the title of this lecture.

Nick Lardy, for example, from the Peterson Institute, described this in 2019 as “the state strikes back” in his book of the same name. Others in the specialist analytical community have been tracking these developments for some time. Indeed, I have been writing on them myself for the past three years and posing questions as to where this ideological change would ultimately land the substance of Chinese economic policy, as well as what the impact of policy change on China’s real growth numbers would be in the medium to long term.

The Impact on Economic Policy Direction – Market or State?

So what did this ideological change, engineered at the 19th Party Congress, actually bring about in terms of shifts in real-world economic policy?

Deng Xiaoping’s period of reform and opening from 1978 to 2017 unfolded evenly across a number of different phases – but the central economic policy debate through this period invariably boiled down to a single phrase: that is, what was the role of the market or the state in the ultimate allocation of economic resources.

Indeed, year after year, Party Congress after Party Congress, the fight would be between economic conservatives and reformers over this central principle, as the tide was gradually rolled back over time against the state and in favor of the market.

Ironically, this internal ideological debate appeared to have reached its concluding point in 2013 (already just into Xi Jinping’s term) when the relevant party plenum concluded that the market henceforth would play the “decisive” role in the allocation of resources within the economy. The Chinese term here is *juedingxing*.

In the lead-up to the 2017 Party Congress, the political impetus to implement the reformist decisions outlined in the 2013 plenum had already begun to ebb away.

What many analysts failed to note carefully, however, in the 2013 plenum decision was that the same endorsement of the market playing a

decisive role in the economy was balanced in the following paragraph by an official conclusion that the state would also continue to play a major role. In other words, this was not a clear-cut win for market reformers. It was, at best, a win on points for the market – or perhaps even a nil-all draw.

In the lead-up to the 2017 Party Congress, the political impetus to implement the reformist decisions outlined in the 2013 plenum had already begun to ebb away.

Indeed, in the Asia Society Policy Institute–Rhodium Group’s joint analysis of the implementation of the 60-part reform program embraced by this plenum, we concluded, based on the data alone, that of the 10 major baskets of reform outlined in 2013, there had been either zero progress or actual policy regression in most of these by 2021.

One critical factor that undermined Xi Jinping's confidence on the 2013 reform program (under the rubric of the market now playing a decisive role in the economy) was China's real-world domestic financial crisis of 2015 when asset bubbles finally burst, stocks lost nearly half of their value, and a state-orchestrated bailout of the market failed miserably.

This crisis served to reinforce Xi Jinping's underlying ideological skepticism about the supremacy of markets over the instrumentalities of the party and the state.

I suspect that Xi Jinping's political strategy after the 19th Party Congress in 2017 was to gradually introduce a range of policy measures that would temper market excess over time.

But as with his experience of the stock market crash of 2015, unfolding economic events in the real world would soon create a new reality that Xi had to contend with.

These included the political and economic impact of the following:

- First, the U.S.-China trade war of 2018–19, Trumpian protectionism, and the incremental unraveling of globalization that we began to witness at the time;
- Second, the COVID-19 pandemic, which ravaged China in early 2020 and then the rest of the world since then; and
- Third, Xi Jinping's conclusion that the United States under Biden was unlikely to change its strategic course on continued decoupling from China.

One critical factor that undermined Xi Jinping's confidence on the 2013 reform program was China's real-world domestic financial crisis of 2015 when asset bubbles finally burst, stocks lost nearly half of their value, and a state-orchestrated bailout of the market failed miserably.

The cumulative impact of these major macro developments in the years following the 19th Party Congress in 2017 was to cause Xi to conclude that his best bet for navigating this complex future was through stronger, not weaker, party and state leadership of the economy.

This of course only served to reinforce Xi's preexisting inclinations toward greater party control that had already been demonstrated in his root-and-branch approach to political and party reform during his first term.

Xi, by every instinct, is a centralist, not a devolutionist.

The question then arises as to how this ideological change in Xi's way of thinking about the party, the state, the market, state-owned enterprises, and private entrepreneurs has been reflected in overall policy terms. That is where we need to reflect on Xi's New Development Concept, his concept of the dual circulation economy as well as his ideas, now rapidly advancing, concerning Common Prosperity.

The New Development Concept

The ideological core of Xi Jinping's New Development Concept, referred to in the introduction, is a greater and growing role for the party and state. Not just as regulators of economic activity, but also as direct economic participants through state-owned enterprises and state investment funds, as well as China's predominantly state-owned financial sector (which of itself can direct the flow of capital across the economy).

While the term "New Development Concept" first began appearing in the Chinese official literature several years ago, it only acquired concrete meaning over the course of the past year.

Importantly, just as the phrase "reform and opening" became emblematic of Deng and his immediate successors Jiang Zemin and Hu Jintao, Xi Jinping's "New Development Concept," as of 2021, was beginning to become the substitute banner term.

Whereas the phrase "reform and opening" in itself indicated a particular policy direction toward greater reliance on markets both at home and abroad, the New Development Concept, while neutral as a term in itself, is gradually being imbued with a new set of more "statist" meanings instead.

The best way to understand these new meanings is to see them as an accretion of Venn diagrams: sometimes intersecting, sometimes overlapping, other times not, but within the overall framework of a party now empowered to intervene whenever it wants.

First, one of the component parts of the New Development Concept is Xi's continuing reference to and preference for "the real economy" or *shiti jingji*.

The ideological core of Xi Jinping's New Development Concept... is a greater and growing role for the party and state.

While rarely defined in absolute detail, the official commentariat refers to manufacturing, agriculture, merchandise trade, and concrete consumer services as the "real economy" – in contrast to "fictitious economy" sectors that produce little of material value, such as property speculation, technology platforms, and the "reckless capital" of the financial firms that enable them.

Within this frame, the real economy by definition provides real jobs with proper conditions and services the real needs of low- and middle-income Chinese, whereas the fictitious economy (including the gig economy) produces poor employment opportunities, low wages, exploitative working hours, and only limited benefit to consumers.

This is sobering messaging from the political system to the new economy.

Second, there is Xi's concept of the "dual circulation economy," which is usually defined as moving the Chinese development model from its reliance on labor-intensive, low-wage exports to a model that is dependent on domestic consumer demand, higher value-added exports plus higher-quality imports.

The logic of the dual circulation is that the internal circulation of the economy, based on rising domestic consumer demand, will render China less vulnerable to external economic shock in the future.

Furthermore, the size and sophistication of China's domestic demand will also result in greater foreign dependency on the Chinese market for the future success of those foreign firms, whether in the goods or services sector.

Moreover, in the classic articulation of the dual economy formula, the party explicitly emphasizes that the domestic rather than the foreign component is the dominant part of the model.

And the idea of increasing Chinese capture of foreign firms is also explicitly acknowledged in the party's official literature, including by Xi Jinping himself, who described the goal as in part transforming the

Chinese market into a "huge gravitational field attracting international commodity and factor resources." This would help force the rest of the world to engage with China on Beijing's own terms or risk falling behind commercially.

A third element of the New Development Concept is Xi Jinping's recourse to the language of national self-reliance, or *zili gengsheng*, which literally means "to rejuvenate through one's own strength."

Prior to the 2017 Party Congress, the term "self-reliance" was not commonly used. When it was used, it tended to be restricted to elements of domestic food supply, energy supply, and high technology

(as, for example, articulated in China's "Made in China 2025" strategy, which was first released in 2015).

The idea of increasing Chinese capture of foreign firms is also explicitly acknowledged in the party's official literature, including by Xi Jinping himself, who described the goal as in part transforming the Chinese market into a "huge gravitational field attracting international commodity and factor resources."

But by 2020, national self-reliance had taken on a much wider meaning. For example, in April last year, Xi Jinping called for "killer technologies," the enhancement of high-speed rail, electronic power equipment, new energy, communication among other industries, as well as the development of "independent and controllable, safe and reliable domestic production and supply systems which ... can do self-circulation in critical moments to ensure the normal operation of the economy in extreme circumstances."

To give effect to this national self-reliance strategy, Xi Jinping has now appointed Deputy Premier Liu He to run an effort with \$1 trillion in investment funding aimed at helping Chinese semiconductor manufacturers overcome current and potential U.S.-led sanctions.

A fourth component of the New Development Concept is a broader role for state-owned enterprises (SOEs). Prior to 2017, and in particular prior to 2012, the future of Chinese SOEs was in some doubt, unless they radically purged their debt structures, rationalized their assets, and downsized their employment numbers, thereby getting rid of large numbers of zombie enterprises and zombie jobs.

However, since 2017, there has been a renewed emphasis on the role of state-owned enterprises across the board – both as enterprises in themselves and through a new set of emerging state investment funds enabling SOEs to expand their operations, invest in private companies, or even merge with them.

This is all being done now under the rubric of an SOE reform described as “the state management of capital” rather than simply “the state management of assets.”

Its net effect is that over the past several years, the SOE sector has been brought back from the dead and has once again become a significant economic player in China’s overall economic structure – certainly as significant as the private sector and, by some official accounts, much more so.

A fifth element of Xi Jinping’s New Development Concept is the unfolding debate on “Common Prosperity.” If the previous four elements have dealt in part or in whole with the future of Chinese industry policy, Xi’s Common Prosperity initiative prioritizes household income policy and, in particular, income redistribution.

For example, the readout from the August 2021 Central Financial and Economic Affairs Commission was that the party has now “pledged to narrow the gulf between rich and poor and reform income allocation by adjusting excessively high income,” crack down on “illegal gains,” and encourage high-income groups and enterprises to “give back more to society.”

Over the past several years, the state-owned enterprise sector has been brought back from the dead.

The party has justified this approach by saying it wants to encourage more people to get rich and to promote more people from lower-income levels to middle-income levels, and to encourage wealth creation through hard work and innovation (as opposed, we presume, to speculation).

To give visual imagery to Xi Jinping’s vision of what common prosperity might look like, Xi said he wanted to see “an olive-shaped distribution, where the middle is large, and the two ends are small.”

Right out of the block, the People’s Bank of China on August 20 stated that “[we must] make promoting common prosperity the starting point and focus of all financial work.”

Some of China’s largest corporations then began creating large-scale Common Prosperity philanthropic funds in the tens of billions (of dollars, not yuan).

At its core, Common Prosperity seems targeted on using income distribution to lift real wage levels for China’s working and middle classes, thereby enhancing the capacity of Chinese workers to become bigger and better consumers in the future, augmenting Xi’s new dual circulation economy as a result.

But in political perception, and in intention, it is also a clear crackdown against what the party sees as obscene levels of personal wealth.

As we can see, therefore, Xi Jinping’s New Development Concept is an evolving reality. It is difficult to give it a precise conceptual definition.

However, the meta-principles have already become clear: mainly that the days when the market could justify any involvement by firms are over: it is no longer simply a question of firms not bribing public offi-

cial, which is important, but it is now the role of the party to directly intervene in the economy – to roll back private monopoly, to begin enforcing better wages and conditions in the gig economy, and to build a new breed of state-owned (or co-owned) national product champions for the future.

It is, by definition, a pivot to the state.

Demography and China's Destiny

I said before that there were a number of factors driving economic policy change in China. The redefinition of the party's ideological trajectory under Xi Jinping has been one of them, as Marxist-Leninism reemerges from the shadows to the center stage of the Chinese political economy debate.

It is increasingly clear that the seriousness of China's date with demographic destiny is seizing China's leadership – the rapid aging of the population, the increasing age dependency ratio, and the shrinking of both the workforce and the population at large.

Another, however, is demography. It is increasingly clear that the seriousness of China's date with demographic destiny is seizing China's leadership – the rapid aging of the population, the increasing age dependency ratio, and the shrinking of both the workforce and the population at large.

Xi Jinping's "China Dream" had two central pillars: one for China to achieve middle-income status by the centenary of the party's birth in 2021; the second was for China to achieve

advanced economy status by the centenary of the PRC's founding in 2049, when China is to reach advanced economy status and be recognized once again as a global great power.

Xi's deep concern is that the likelihood of China becoming a global great power could well be undermined if population growth collapses and the country's public finances implode through the crushing burden of the retirement income, aged care, and health budgets because of an aging population.

In other words, the deepest fear among China's legion of long-term planners is that the Chinese nation becomes old (even too old) before it becomes either wealthy or powerful.

This level of concern has already been reflected in the rapid relaxation of China's previous one-child policy over recent years.

China's 2021 census reveals that birthrates have fallen sharply. The number of births in 2020 was down 18 percent from births in 2019. While this can partly be explained by the impact of the pandemic, COVID-19 does not explain it all.

China's fertility rate now stands at 1.3 – lower than China's desired target of 1.8 set in 2017, lower than even Japan's at 1.4, and certainly lower than America's at 1.7 in 2019. The age dependency ratio is already 42 percent and now rising rapidly. China's working population already peaked in size in 2011.

There is an active debate now among demographers as to whether China's total population might already have peaked in 2020, rather than, as previously expected, much later in the coming decade.

For Xi Jinping, these statistical data points, and the dynamics they represent, trigger deep concerns about the future of China's national wealth and power.

Polling data already indicate a serious reluctance on the part of Chinese women to have more than one child simply because it is now unaffordable.

It is calculated that Chinese families now spend an average of \$115,000 per child from birth to the age of 17 (that is, before college costs) on their children's basic education needs, according to one study.

Indeed, a large part of costs to families is being accrued as a result of large payments to private tutorial firms specializing in the K–12 bracket. It is estimated that some 70 percent of families in China's metropolitan areas use private tutoring services and that these payments take up an average of 12 percent of a parent's income.

These policies are also grounded in [Xi's] underlying concerns about China's current demographic direction.

Beyond these factors, the employment dynamics of China's gig economy, as indicated earlier with its uncertain hours and highly variable remuneration, compound the sense of family-level economic uncertainty.

Under these circumstances, parents are highly reluctant to consider larger families – particularly as many of them have become acculturated to the one-child family over 40 years of vigorous implementation by the state.

Therefore, when we seek to understand why Xi Jinping is now moving on his new common prosperity agenda, his crackdown on the education sector, as well as the employment practices of China's new economy, we note that these policies are also grounded in his administration's underlying concerns about China's current demographic direction.

In other words, changes in Xi Jinping's policy course in a more interventionist direction have not just been the product of a realignment of party ideology.

Demographic trends have also been part of the political and policy mix.

Economic Decoupling

A third dynamic at play in Xi Jinping's new economic policy direction lies in his concerns about the real-world prospect of economic decoupling from the United States.

I have written in recent years that the term “decoupling” embraces within it multiple complexities: the decoupling of trade in goods and services; the decoupling of foreign direct investment; the decoupling in global technology markets; the decoupling of financial markets writ large; and, in particular, the lon-

ger-term decoupling of currency markets in the long-running, undeclared race between the U.S. dollar and the Chinese yuan for domination.

Against any measure, the current state of decoupling is uneven. On trade, the tariff barriers between China and the United States are already formidable and are unlikely to be relieved. Although China's bilateral trade surpluses with the United States have continued to grow, the medium- to long-term prospects for any further round of trade liberalization appear remote.

Foreign direct investment in each other's economies has already contracted to relatively insignificant levels when compared against the national and global quantum of foreign direct investment for each country – in both stock and flow.

In technology markets, the barriers China has encountered in a range of critical technologies (most particularly, in certain categories of semiconductors) have been real and may well be tightened further in the future.

As for capital markets, actions by both Chinese and American regulators concerning listings on their

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respective stock exchanges are an early indicator of where things may well go in the future. And on this score, it is important to remember that there are, apart from Didi, another 281 Chinese firms currently listed on U.S. markets.

On currency markets, China continues to roll out its digital yuan, and there are reports the United States may well follow suit soon on a digital dollar.

It has been the historical enmeshment between the Chinese and American economies that has insulated the relationship during previous periods of geopolitical tension from spiraling into crisis, conflict, or even cold war.

In other words, the mutual economic costs were judged to be too high.

Furthermore, it was judged that widespread mutual economic engagement opened multiple alternative channels of communication between the two countries, which would always militate against the predilections of the security and intelligence establishments in each capital.

However, with the continued unraveling of the U.S.-China economic relationship, combined with financial market reactions to recent regulatory changes in Beijing, the economic ties that have traditionally bound the two countries together are becoming deeply frayed.

In Washington, it has often been assumed that decoupling continues to be a discretionary policy decision for the United States alone for the future. That is, the United States could decouple from China whenever and in whatever areas it chose.

However, the emerging reality is that Xi Jinping's administration has already concluded that this is what the U.S. administration will continue to do (under Biden, but just as it had done under Trump).

Therefore, there is more and more evidence that Xi Jinping (without declaring it as such) has begun to incrementally decouple his own economy from that of the United States.

In other words, the underpinning strategic logic is that Xi Jinping does not intend to be placed in the same position as he was in 2018–19 when the Trump administration began to crush Huawei, China's global 5G strategy, as well as the future of its industry's overall need for foreign-sourced semiconductors.

More broadly, the change in the tone and content of Xi Jinping's public language has been profound.

In 2019, Xi began talking about a period of protracted struggle with the United States that would extend through mid-century.

In 2019 and 2020, Xi Jinping began emphasizing the term "struggle" on multiple occasions in referencing the challenges China now faces with an increasingly adverse international political and economic environment.

Then in 2021, Xi Jinping doubled down again, only last week calling on Chinese officials to maintain a fighting spirit and strengthen their ability to struggle – calling on them to "to discard wishful thinking, be willing to fight, and refuse to give way," rekindling the fighting spirit that the party had demonstrated in the past through great periods of adversity.

The nationalist theme, which is increasingly evident across Xi Jinping's speechmaking, appears to be a direct product of his response to China's changing international circumstances.

Xi is concluding that the United States, whatever it says, is now determined to isolate the Chinese economy and that China had therefore better be ready for that contingency.

In other words, Xi is concluding that the United States, whatever it says, is now determined to isolate the Chinese economy and that China had therefore better be ready for that contingency.

This much is evident in Xi's notion of national self-reliance, the dual circulation economy, and the cyber-security of China's major technology platforms, as well as his deep concerns about the future trajectory of China's demography.

On cyber alone, for example, Xi has gone further than before with a new data security law that provides for the investigation of data processing activities inside or outside of China that may "harm the national security, public interest or legal rights and interests of citizens or organizations of the PRC."

As Xi Jinping has stated: "without cybersecurity, there is no national security."

Beyond Xi's nationalist concerns for his country's future economic resilience, he has also authorized a wider social policy campaign to build up the moral fiber of Chinese youth.

I have already referred to his decision to limit gaming for students to three hours per week. This has been accompanied by semiofficial blogs urging Chinese parents to ensure that their sons are brought up in an appropriately masculine environment so that no room is left for “effeminate sissies.” These unofficial campaigns across Chinese social media have only just begun but have also bled out into new restrictions facing China’s large LGBTQ community.

All this is now to be addressed in the classrooms of China with a solid dose of Xi Jinping Thought – reinforced by new Xi Jinping Thought primers, one of which goes under the snappy new title of “Happiness Only Comes Through Struggle.”

Impact on China’s Economy: Growth, Innovation,... and Productivity

Understanding what Xi Jinping is now seeking to do in his overall economic policy direction is one thing.

Understanding why he is doing it is another.

Understanding what impact it may have in the real economy of the future is perhaps the most important of all.

It is the possibility of economic failure that represents the most pressing political threat hanging over Xi Jinping’s head in the critical decade ahead – the decade likely to determine the future balance of power between China and the United States.

All this is now to be addressed in the classrooms of China with a solid dose of Xi Jinping Thought – reinforced by new Xi Jinping Thought primers, one of which goes under the snappy new title of “Happiness Only Comes Through Struggle.”

Xi’s most recent gambit to “pivot to public” on the economy is fundamentally a political one.

It includes the focus on Common Prosperity by reducing income inequality, achieving national technological self-reliance, and most importantly embracing state leadership over the market at most levels of the economy.

In Xi’s vision, this will simultaneously win over “the people” to his side, reduce China’s vulnerability to external pressures, and provide a robust new driver for the sustainable growth of China’s “real economy” far into the future.

This, however, is highly optimistic. Casting aside the proven growth engine of China’s recent economic transformation – the private sector – in favor of more centralized control of the economy risks stunting China’s growth momentum at the most critical time.

Indeed, there are signs that private fixed capital investment has already begun to lag, reflecting declining levels of private sector confidence.

China’s economic growth is already beginning to slow.

While Chinese GDP posted a strong 18.3 percent early recovery from the pandemic in the first quarter of 2021, growth then slowed to 7.9 percent in the second quarter – well below expectations.

Additionally, recovery in industrial production fell to 8.9 percent in the second quarter, marking a significant drop from the 24.5 percent logged in the first.

The slowdown signaled a halt to a hoped-for V-shaped recovery from the COVID-19 pandemic and hinted at the underlying structural challenges beneath China's economic growth prospects for the decade ahead.

The long-standing growth drivers of net exports, manufacturing, and government investment powered much of China's economic growth during 2021. Exports, however, are unlikely to persist as a major growth driver because of disruptions related to the pandemic, the U.S.-China trade war, and global supply chains.

Under Xi's new development model, as noted above, domestic consumer demand is also meant to drive much of China's economic growth for the coming decade. But while private consumption has proven to be relatively resilient so far, it is still limited by the country's culture of high household saving rates.

In general, the future outlook for China's consumer demand is less than robust. With the income and spending gap between China's rich and poor widening significantly during the pandemic, it is far from certain that China's overall consumption growth can maintain previous momentum.

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What consumer spending growth there has been is expected to moderate once pent-up demand from the pandemic dissipates.

And while e-commerce has seen relatively strong growth during the pandemic and immediate post-pandemic period, this is precisely the sector where Xi's anti-monopoly campaign is cracking down hard with as yet uncertain consequences for growth.

Consumer demand is also likely to be undermined by persistent problems with unemployment. The latest official unemployment figures show that China's surveyed urban unemployment rate stood at around 5 percent in July 2021.

While this is not high (though some analysts speculate the real rate is much higher), it covers up more specific concerns – namely the unemployment rate for 16–24 year olds, which even on the official numbers rose to 13.8 percent. Xi's crackdown on China's private sector, which provides about 90 percent of new employment growth, will only dim them further.

Xi has also focused on state-led innovation through initiatives like the “Made in China 2025” policy that

I referred to previously, and its various successor policies. It remains to be seen, however, whether this Beijing variation of the Chinese “military-industrial complex” will succeed like its American antecedents in the 1950s, or whether it will only exacerbate China’s existing inefficiencies in the allocation of capital.

However, it is in overall productivity growth where China’s economy is weakest and faces the greatest challenge in Xi Jinping’s new economic era.

Since 2008, China’s total factor productivity (TFP) has grown by just 1.1 percent annually, less than a third the rate of the previous three decades, according to the World Bank.

During the 2009–18 period following the global financial crisis, aggregate labor productivity in China weakened to 7.4 percent per year, down from 9.0 percent in the 1999–2008 period before the crisis.

Moreover, of all the sectors that have experienced slowdowns in the past few years, it has been the services sector – precisely the sector Xi is counting on powering the economy – that has been hit the hardest, with productivity falling from 8.1 percent to 4.6 percent over the past decade. That downward trend has persisted as the overall pace of reform has slowed.

Comparatively, China’s economy does not yet come close to measuring up against the economies of other advanced countries. China’s economy is still only around 30 percent as productive as the U.S., Japanese, and German economies.

Most economists’ evaluation of the reasons for this is clear: it lies in the continued size, influence, and unproductive investment of the state sector. While the International Monetary Fund (IMF) evaluates productivity at Chinese state-owned enterprises to be only about 80 percent that of private firms, state firms enjoy preferential access to capital from banks.

Economists argue that major state-sector reform to clean out low-productivity firms could more than double annual productivity growth over the next five years from 0.6 percent to about 1.4 percent. This 0.8 percent improvement would also lift overall GDP growth by the same level, for example, from the IMF’s 5.7 percent projection for 2022 to 6.5 percent.

Xi, however, now shows little interest in moving in this direction.

For these reasons, while China is likely to reach its year-end target of 6 percent economic growth in 2021, the era of high growth in China may well be over. Even ahead of Xi’s crackdown on the private sector, a consensus has emerged among global economists that China’s economic growth will probably slow to around 4 percent by 2025.

This forecasted deceleration also reflects China’s aging population, declining workforce, weak productivity growth, a negative trade environment, and high levels of official debt.

Now, if we add to this the as yet unknown impact of Xi’s macro pivot to public across the overall political economy and to the potential expense of China’s hitherto remarkable culture of private sector dynamism, we simply do not know what the net impact on growth might be.

Private sector investment, from both domestic and foreign sources, could well slow further – stranded in a period of great uncertainty between Xi’s Common Prosperity campaign at home and the threat of U.S.-China decoupling abroad.

For years, economists have warned that only increases in total factor productivity can ultimately save China from the middle-income trap, and that this increase can only come from an economy with less state involvement, not more.

The next decade is likely to determine once and for all whether this hard-won, collective wisdom proves still to be true – or whether China really is *sui generis* in the efficacy of its new, but still unfolding, economic model: Xi’s New Development Concept.

If Xi Jinping is fully aware of the economic policy gamble he is taking by changing the model in the midst of unfolding geopolitical risk, it may induce a level of caution about adding further risks to his overall strategic calculus.

But if he is unaware, which may well be the case because of his reported intolerance of official doubt, caution, and negativity, compounded by his lack of familiarity with the technical granularity of the economic policy brief, then China may well find itself embarking on a decade of growing international assertiveness at a time when its domestic economy is beginning to weaken.

For years, economists have warned that only increases in total factor productivity can ultimately save China from the middle-income trap, and that this increase can only come from an economy with less state involvement, not more.

Conclusion

For these reasons, I believe that right now we are living through a profound change in China’s overall economic policy settings.

I also believe that this new economic direction will remain with us at least until the 20th Party Congress due to be held in fall 2022.

It will also be recalled that it is the 20th Congress that will determine whether Xi Jinping is reappointed for a record third term and therefore, most likely, as leader for life.

Whereas the change in economic policy directions that I have outlined today is indeed driven by a combination of ideology, demography, and the perceived risk of decoupling, Xi Jinping also has his eyes set on the politics of 2022.

His political calculus is that by injecting more “socialism” into Deng’s “socialism with Chinese characteristics,” this is more likely than not to win him broad-based popular support across Chinese society.

In other words, his calculus is that given the 600 million Chinese who currently live and work on less than \$155 per month, a more socialist message about income distribution and employment conditions is more

likely than the reverse to enhance his reappointment prospects.

Similarly, in dealing with the risk of a U.S.-led decoupling of the two economies, Xi Jinping's economic mantra is also redolent with nationalist flavor, to prepare China properly to resist externally generated threats designed to prevent China's otherwise inevitable rise.

It will not, however, be all plain sailing for Xi Jinping over the next 15 months or so. His Achilles' heel will continue to lie in the performance of the Chinese economy. And that, as I indicated earlier, is where Xi is taking a large gamble indeed.

Chinese private sector sentiment is unaccustomed to this level of political, legislative, and regulatory change. Of itself, it is unsettling. Some will see opportunity in it. Many others will see risk and threat.

It is for these reasons that China's dwindling band of liberal economic reformers has been out in recent days, weeks, and months, proclaiming the party's "unwavering support" for the private sector.

His political calculus is that by injecting more "socialism" into Deng's "socialism with Chinese characteristics," this is more likely than not to win him broad-based popular support across Chinese society.

Given the water that has gone under the bridge since the tumultuous events of this past November, I am not certain that the Chinese private sector is likely to be convinced.

Nor for that matter am I convinced that private fixed capital investment data for the year ahead (the best litmus test of real levels of business confidence) will

be robust, if indeed the data are robustly collected and reported.

Within the internal world of the Chinese Communist Party, however, Xi Jinping may well have gotten the politics right with these most recent economic policy decisions.

But the question remains as to whether he has the underlying economics quite wrong.

And if the economics does prove to be wrong, and China's growth numbers are significantly impaired over time, that in turn will have profound implications for long-term global economic recovery from the COVID-induced recessions of 2020 and 2021.

As for the wide, wide world of foreign policy, way beyond the remit of this particular address, the future direction of China's political economy – irrespective of whether Xi Jinping's economic project succeeds or fails – all the policy evidence points to a growing policy divide between the Chinese and American economies, rather than the reverse.

Economics, therefore, now appears to be reinforcing rather than remediating the geopolitical chasm that has already opened up between the two countries.

And so now we live in difficult times indeed.



**> 6 CHINA SHOULD NOW
OUTLINE HOW IT WILL REDUCE
DOMESTIC CARBON EMISSIONS**

An op-ed originally published in *Nikkei Asia* - September 27, 2021

Xi Jinping's pledge to the UN General Assembly last week to halt China's construction of coal-fired power plants abroad through the Belt and Road Initiative (BRI) has drawn a big line in the sand.

It is a welcome development signaling that China knows the future is paved by renewables. The key question now is when China will draw a similar line in the sand at home.

China represents around 27 percent of global emissions, more than the developed world combined. On current trajectories, China will also be the world's largest historical emitter of greenhouse gases by 2050, making its actions central to whether the world can keep temperatures from rising above the Paris Agreement's 1.5 degrees Celsius limit.

The largest infrastructure initiative in history and the jewel in the crown of Xi's foreign policy, the BRI has funneled billions of dollars toward the construction of coal-fired power plants as far away as Eastern Europe and across Africa since its launch in 2013.

In a single sentence, Xi has wiped \$50 billion of planned investment that would have resulted in more than 40 new coal plants – more than the current operating fleet in Germany – in countries including Bangla-

desh, Indonesia, Vietnam, and South Africa – and helped avoid at least 250 million tons of carbon emissions a year.

Over their operating life span, this would have been as much as a year of China's own emissions. In other words, this is a very big deal that will have a major important impact on the global demand for coal.

Whether Xi's pledge will impact a similar number of Chinese coal-fired plants that are already under construction or are in the final stages of planning around the world would be an important signal to the international community that Beijing is serious. So too would be whether Chinese labor in these projects is restricted, and whether Beijing's support for coal is replaced by genuinely green alternatives, and not high-emitting options like natural gas.

Moves to restrict foreign direct investment, as well as commercial and state-owned enterprise finance in these BRI projects, would be another. That is why the Bank of China's announcement on Friday that it will largely halt investment in coal later this year is a welcome sign. China's three other state-owned banks should now follow suit.

Beijing's latest move is not entirely unexpected, confirming what China had already begun to operationalize over the past year after similar moratoriums by Japan and South Korea. Added to this was pressure from many BRI recipient countries that in recent years had begun to eschew, and in some cases reject, Beijing's preference for adding coal-fired power capacity over renewables.

In China's eyes, the time was right for a major policy reset on its own terms, one that was not done at the behest of the Americans. Adding urgency was the fact that massive new clean energy investments around

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the world driven by American finance risked unseating the political and strategic footholds Beijing had secured in many of these countries.

China also had to bring more to the table ahead of next month's 26th UN Climate Change Conference of the Parties, or COP26, in Glasgow in order to avoid being painted as a villain, especially now that the easy international ride China had under Donald Trump's reckless climate approach was over.

Still, China has much more to do. Unlike other major emitters such as the United States, China is yet to formally update its domestic climate targets first enshrined under the 2015 Paris Agreement.

And given that Xi's latest announcement on BRI projects does not speak at all to China's own efforts to reduce emissions at home, the international community will be keenly awaiting the release of China's revised nationally determined contribution required under the Paris Agreement.

Currently only pledging to peak carbon emissions before 2030, Beijing must bring forward its plan to peak domestic emissions if China is to reach carbon neutrality by 2060. According to modeling by the Asia Society and Climate Analytics, this will need to be much closer to 2025.

Given the magnitude of Chinese emissions on a global scale, bringing forward that date by a year or two will simply not be enough and would undermine the credibility of Xi's carbon neutrality pledge – neither will committing to any such peak without a cap on emissions in the meantime, thus ensuring that emissions do not skyrocket between now and then.

Still, China has much more to do. Unlike other major emitters such as the United States, China is yet to formally update its domestic climate targets first enshrined under the 2015 Paris Agreement.

For example, an annual Chinese cap of 10 billion tons of CO₂ emissions would put China on track to soon cross the symbolically significant threshold of reducing coal for the first time ever to less than half of its domestic energy mix.

With close to half of China's emissions – and 20 percent of all the world's emissions – coming from coal, this would really change the game globally. A trajectory toward carbon neutrality by 2060 will also require China to completely remove coal from its domestic energy mix by 2040.

Until China is prepared to draw a similar line in the sand on the construction of new coal-fired power plants at home and convert the coal plants already under construction abroad to renewable alternatives, Xi's latest announcement is unlikely to be met with the international fanfare Beijing might hope to receive.



> 7 UNDERSTANDING EVERGRANDE

An address to the Asia Society New York - October 6, 2021

I am speaking today about Evergrande, the Chine,markets and policymakers because the developer has \$669 million in payments coming due through the end of this year. It has liabilities involving more than 128 banks and more than 121 nonbanking institutions. And it threatens a sector that represents approximately 29 percent of Chinese GDP, some 41 percent of all Chinese bank loans, and 78 percent of the wealth invested by urban Chinese. Evergrande's difficulties, therefore, are triggering broader concerns about Chinese and global financial stability.

Today I want to locate the Evergrande "crisis" in the wider remit of China's current politics and macro-policy settings and its perception of financial risk within those parameters, as well as to indicate where it seems the Chinese system is headed in terms of the long-term management of Evergrande and the problems that it presents to Chinese President Xi Jinping.

So where is Evergrande situated in terms of China's current macro challenges? If you are sitting in Xi Jinping's seat in Zhongnanhai at the moment, there are three big ones:

First: "How do I get reelected as general secretary of the Communist Party in about 12 months from now?" Reelection, one way or another, is a question that always looms large in the minds of politicians.

Second: "How do I deal with a slowing Chinese economy?"

And third: "How do I deal with an increasingly adversarial geostrategic environment?"

During Xi Jinping's period in office, he has taken Chinese politics to the left, Chinese economics to the left (albeit more recently so) and has moved nationalism – as expressed through Chinese foreign, security, and international economic policy – to the right. It is useful to keep this frame in mind as we look at the Evergrande phenomenon.

Chinese Economic Policy Moves to the Left

On moving the Chinese political economy's center of gravity to the left, we see this reflected in Xi Jinping's Marxist-Leninist ideological worldview.

We see it in his increasingly statist view of how best to respond to China's growing array of national challenges.

We also see Xi wrestling with the problems of Chinese demography: a shrinking workforce and potentially an overall population that is shrinking, or soon will be.

To try to conceptualize where Evergrande and macro-financial risk sit within Xi's overall economic worldview, there are a few concepts we first need to familiarize ourselves with.

One is what Xi Jinping now routinely calls the "New Development Concept" (NDC). This has in many respects come to replace, as a standard phrase, the period of reform and opening that we became familiar with from 1978 to 2018. What we now see is the NDC increasingly becoming the replacement idea for this "new period" of China's economic development.

The NDC also has some subsidiary concepts: the “dual circulation economy,” the “Common Prosperity” doctrine, as well as “security and development.” I spoke on these at some length in my previous remarks on “Xi Jinping’s Pivot to the State.”

What are all these new terms code language for?

The dual circulation economy essentially means greater and greater levels of Chinese economic “self-reliance.” It also means less exposure and vulnerability to international supply chains and the risk of being on the receiving end of decisions made in Washington. This is to be done primarily by making domestic consumption the primary driver of Chinese economic growth. Additionally, it is designed to ensure the world continues to grow more reliant on economic exchange with China by turning its vast internal market into what Xi has called a “gravitational field” for global products, resources, and capital markets.

Xi’s Common Prosperity agenda is code language for greater equality within the Chinese system and a greater redistribution of wealth (given that some 600 million Chinese people still live on incomes less than around \$155 per month, according to Premier Li Keqiang).

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Security and development signifies the prioritization of the national security of the Chinese state – including its national financial security and freedom from externally manipulated financial and economic risk – above all other concerns.

These terms have become almost universal in Chinese public discourse over the past several months.

Meanwhile, at a more micro level, we have witnessed parallel shifts in Chinese official attitudes toward its state-owned enterprise (SOE) sector and private sector and its approach to “industrial policy.” The latter is turbocharged by industrial-scale “industry-guidance” funds through which the Chinese state, usually through SOEs, now engages in large-scale, strategic industry investments.

The overall pattern we see, therefore, is a macro and micro policy shift to the left: back toward the party-state and away from the market.

However, the reality is that China’s political economy is not so tame a beast.

Xi Jinping also has to wrestle with macro-financial risk. This includes any individual financial institution or property-financial conglomerate becoming a structural risk for the wider Chinese financial system.

China now has debt-to-GDP levels of some 285 percent. This is large by global standards. And it has been of growing concern to the Chinese leadership over the past seven years.

It is these two things – Xi moving China’s macro- and micro-policy settings to the left and the leadership’s

continuing concern over managing systemic financial risk – that create the wider economic context within which Xi now confronts the Evergrande problem.

Evergrande and Xi Jinping's Three Worlds

Evergrande intersects with Xi's political world, because he does not want to have a domestic financial crisis in the 12 months leading up to his reelection next November for a third term.

Evergrande intersects with Xi's left-leaning economic world because it is symptomatic of the excesses of the billionaire class that Xi is now targeting with his Common Prosperity campaign.

It directly impacts his campaign for greater economic equality in achieving housing affordability for working families.

It impacts too his concept of how to solve China's demographic challenges by making it more possible for families to have the disposable income necessary to have more children.

And it affects other elements of Xi's overall economic reset as he seeks to redirect what he would describe as "unproductive" forms of speculative investment into more "productive" ones.

Evergrande also intersects directly with the abiding concern of the party to avoid systemic financial risk. An estimated 41 percent of China's \$45 trillion in banking sector assets are exposed in one way or another to the property market, while around 27 percent of its \$30 trillion in loans are also tied up in this market.

As for the international environment Xi faces, he wants to avoid any external perceptions of domestic economic weakness, let alone a perception that China could suffer from the same financial affliction as the United States did in 2008. Indeed, the party has based a large part of its legitimacy on convincing the Chinese people that China now has a far more sophisticated system for dealing with crises (whether a pandemic or an economic one) than the West.

In other words, all these concerns bring Evergrande directly into sharp focus for Xi and the rest of the Chinese leadership.

Evergrande and the "Real Economy"

Xi Jinping, in a parallel debate, has also emphasized the critical importance of what he calls the "real economy" (*shiti jingji*), as opposed to what he calls the "fictitious economy" (*xuni jingji*).

In his definition, seen through a Marxist lens, the real economy is about advanced manufacturing, infra-

It is these two things – Xi moving China's macro- and micro-policy settings to the left and the leadership's continuing concern over managing systemic financial risk – that create the wider economic context within which Xi now confronts the Evergrande problem.

structure, technology, and deep economic transformation – or what he describes as building a “modern” economic system.

Meanwhile the fictitious economy (a term with a long Marxist pedigree, originating in *Das Capital*) is about speculative bubbles – asset bubbles, property bubbles, financial bubbles, and so on.

After 2015, Xi began decrying the fact that “a large amount of capital flows to the fictitious economy, which makes asset bubbles expand and financial risks gradually appear.”

This ideological debate on what constitutes productive economic and financial activity reached its conclusion in 2017 when Xi declared simply that “houses are for living in, not for speculation.”

When Xi and party cadres decry a “reckless expansion of capital” (now a commonly used phrase), this is what they are complaining about.

This ideological debate on what constitutes productive economic and financial activity reached its conclusion in 2017 when Xi declared simply that “houses are for living in, not for speculation.”

This is the ideological framework within which Xi looks at the Evergrande question.

Evergrande - The Problem

In terms of Evergrande’s current circumstances, it is important to summarize where we are up to today.

Evergrande was founded in Guangzhou in 1996 by Chinese billionaire Xu Jiaying and is one of China’s biggest property developers.

As of 2020, it had accumulated some \$300 billion in total liabilities and, as of the end of June 2021, the equivalent of around \$89 billion in interest-bearing borrowings.

As of 2020, Evergrande owned more than 1,300 developments across the nation, many in lower-tier cities. It had some 200,000 staff and hired around 3.8 million people every year for project developments.

In November 2018, the People’s Bank of China had named the company in a report as one of the few financial holding conglomerates that could cause systemic risk to China’s financial system.

In August 2020, Beijing unveiled its “Three Red Lines” policy, introducing implicit caps on three debt ratios: debt to cash, net debt to equity, and debt to assets. This would become a fateful event for Evergrande.

The next month, a letter purportedly from Evergrande addressed to the Guangzhou provincial government circulated on Chinese social media and brought Evergrande’s troubles into public view for the first time. The letter requested help from the Guangdong provincial government regarding a potential Evergrande mainland subsidiary listing and also warned that it could face a cash crunch that could lead to systemic risks.

In June 2021, China's top financial regulator, the Financial Stability and Development Committee (FSDC), met with and instructed Xu Jiaying to solve his company's debt problems as quickly as possible.

By then, Evergrande was failing on all three metrics of the Three Red Lines and was therefore forbidden from raising additional debt – triggering its current crisis.

On August 12, China's central government instructed authorities in Guangdong province to map out a plan to manage Evergrande's debt problems. Simultaneously, at least three major creditors agreed to give the developer extensions on some project loans.

On August 19, the People's Bank of China and the China Banking and Insurance Regulatory Commission summoned Evergrande senior executives to a meeting and instructed them to resolve Evergrande's debt issues without destabilizing the property and financial markets. A brief statement following the meeting acknowledged Evergrande's industry-leading position and responsibility to ensure the real estate market would be stable and healthy and not harm China's broader financial stability.

The Ministry of Housing and Urban-Rural Development then instructed local subsidiaries across the country to supervise funds for Evergrande's property projects in special escrow accounts, signaling that homeowners come first on Beijing's priority list for managing the Evergrande crisis.

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In early September, the FSDC ordered provincial governments to establish working groups to monitor social and economic instability around Evergrande.

On September 13, Evergrande's troubles again exploded into public view following reports of social unrest breaking out at Evergrande's offices in Shenzhen, Nanchang, Zhengzhou, Qingdao, and Chengdu.

Following these investor protests on September 13, Evergrande hired outside financial advisors from a U.S. investment bank and a Hong Kong firm, suggesting that Evergrande had begun working on a debt-restructuring plan.

On September 22, at least two local governments in China – districts in Guangzhou and in Zhuhai – took control of sales revenue from Evergrande's properties to block potential misuse of funds.zzzzzz

On September 23, Chinese authorities ordered local governments to “get ready for the possible storm,” referring to the possibility of an Evergrande default. With the company facing a potential default on interest payments due (after a 30-day grace period), Beijing ordered local governments and state-owned enterprises to prepare to take over real estate projects and set up law enforcement teams to monitor public anger and contain “mass incidents” in the event of Evergrande's collapse.

That same day, Evergrande missed its first offshore bond interest payment, worth \$83.5 million.

On September 27, the People's Bank of China released a statement vowing to ensure a "healthy property market" and protect home buyers' lawful rights. The statement did not mention Evergrande by name but emphasized healthy development of the real estate market.

On September 28, sources familiar with the matter informed Reuters that Beijing was prodding government-owned firms and state-backed property developers to purchase some of Evergrande's assets. According to the source, a handful of government-owned enterprises conducted due diligence on Evergrande assets in Guangzhou.

On September 29, Evergrande missed a second offshore bond payment, this time worth \$47.5 million.

By September 29, the People's Bank of China had injected 750 billion yuan (around \$116 billion) into the financial system via consecutive open market operations since September 17, aimed at helping calm China's financial markets by ensuring they remain liquid.

On October 4, Evergrande suspended trading of its Property Services Group's stock in Hong Kong, stating in a stock exchange filing that the move was taken ahead of "a possible general offer" for the property group, which was recently valued at around \$7.1 billion. This raised speculation that the company could be on the verge of being split up and sold off to a mix of private or state-owned buyers.

Evergrande - The Prognosis

It is important to understand that Beijing has had an on-again, off-again history in dealing with deleveraging the Chinese financial sector.

It began after the 2015 financial market crash.

Progress was made in 2016 and 2017. But as the trade war with the United States took hold in 2018, the pressure of the deleveraging campaign began to taper off.

Beijing has over the past several years also accumulated considerable experience in dealing with institutions facing potential financial collapse.

With the advent of COVID-19, it slowed even further.

But deleveraging in order to de-risk the financial system still remains the overriding objective.

Beijing has over the past several years also accumulated considerable experience in dealing with institutions facing potential financial collapse: Anbang, Baoshang, HNA, and Huarong.

With Anbang, it is important to remember how big that insurance conglomerate was. It had more than \$329 billion in total liabilities. It was brought under state control in 2018 and restructured for sale. Its former chief executive Wu Xiaohui was sentenced to 18 years in prison.

Baoshang, a regional lending bank, had \$32 billion in debts. However, it was allowed to go bankrupt. It was not seen as systemically significant, and Beijing was determined to send a message to the rest of the

financial system. Baoshang was owned by Xiao Jianhua, renditioned from Hong Kong in 2017 and arrested.

HNA, one of China's largest global asset buyers, with some \$77 billion in debts, was taken under the control of state bankruptcy regulators and forced to split into four separate entities. Both its chairman and chief executive were arrested in September 2021.

Then Huarong, the asset manager with \$150 billion in debt, was partially bailed out by the government through state-owned investor groups. That process is ongoing. Its chairman, Lai Xiaomin, was executed for corruption in January 2021.

Therefore, drawing upon this most recent institutional experience, what are we likely to see unfold in relation to China's handling of Evergrande?

If you look at the expert commentary from a number of international investment banks and institutions, including the International Monetary Fund (IMF), the general consensus is that Evergrande in itself does not pose a direct risk to the broader financial system. Not yet.

The IMF has expressed confidence that Beijing has the capacity to handle the situation, stating on September 21 that "China has the tools and the policy space to prevent this turning into a systemic crisis."

Industry analysts are also confident that China's banking sector has the capacity to digest an Evergrande default, given that the sector's exposure to Evergrande is well distributed.

The general consensus is that Evergrande in itself does not pose a direct risk to the broader financial system. Not yet.

Strategists at Citigroup, Barclays, and UBS Group have maintained that Evergrande's debt crisis is unlikely to become China's "Lehman moment," with Barclays's macro strategists writing that "The conditions are simply not in place for even a large default to be China's Lehman moment."

Nonetheless, China is deeply risk-averse. Chinese regulators are concerned about possible policy missteps or how their policy actions, real or perceived, will impact the rest of the financial system.

So as the Chinese policy community gathers to look at the current challenges presented by Evergrande, there will be arguments in favor of propping the company up. These are based on Evergrande being "too big to fail."

There are also arguments in favor of allowing Evergrande to go bankrupt. These are based on moral hazard – the need to send a clear signal to the rest of the industry that it really is time to put their house in order.

There will also be arguments in favor of a third way: an orderly distribution of Evergrande's assets, facilitated by the state.

This approach is based on precedent (as applied in the cases of Anbang, HNA, and Huarong).

We also see it in the behavior so far by Chinese officials at both the provincial and local levels responding

to instructions from Beijing to prepare to purchase distressed Evergrande assets to head off social unrest.

Therefore (although I hasten to add this is not financial or market advice), if you look at the evidence of where all this is headed, the most likely outcome, on balance, is an orderly distribution of assets to a mix of private and state buyers.

We also need to be mindful of the disciplines likely to be applied – as well as a differential treatment of the stakeholders involved.

The political priority is likely to be for those who have apartments owed to them by Evergrande that have already been paid for. The Chinese state believes these Chinese families have an entitlement to receive those homes.

As for domestic creditors, bondholders, and shareholders, the emerging evidence is that they will be preferred second – though it is likely they will receive a haircut.

Coming third and last will be foreign bondholders and shareholders where the haircut is likely to be the sharpest.

Indeed we already know this, given that both sets of payments missed so far by Evergrande have been for offshore bonds. Their haircut is likely to be far more significant. And you do not have to be a Rhodes scholar to work out how this differential treatment of foreign and domestic stakeholders is likely to impact international market perceptions of investing in China.

The most likely outcome, on balance, is an orderly distribution of assets to a mix of private and state buyers.

Finally, there is another, new element at play with Evergrande that is also important for us to note.

The anticorruption apparatus, directed by the Central Commission of Discipline Inspection (CCDI), has now been unleashed across China's financial and property corporate landscape to identify malfeasance across the sector.

The anticorruption apparatus, directed by the Central Commission of Discipline Inspection

On September 26, CCDI head Zhao Leji stated that his inspection teams' focus should now include “promoting the three tasks of serving the real economy, preventing and controlling financial risks, and deepening financial reform.”

This, he said, includes “strengthening the party's leadership in financial work, safeguarding the national economic and financial security, promoting the high-quality development of the financial industry, and promoting the punishment of financial corruption and the prevention and control of financial risks.”

He added that “We should thoroughly find out the political deviations existing in the party committee in performing the party's leadership responsibilities and the prominent problems that affect and restrict the high-quality development of the financial industry, and urge financial units to put the party's political construction in the first position.”

The significance of this statement cannot be overstated.

It indicates that the anticorruption campaign will now be wielded to add serious criminal penalties, beyond financial penalties, to firms and executives that fail to deleverage and de-risk.

It means that Xi has run out of patience with the speculators of the fictitious economy that he has already attacked and is determined to rein them in forcefully.

Beyond Evergrande – The Rest of the Property Sector

Evergrande is not the end of China's problems with the property sector. It may just be the end of the beginning, particularly as China's deleveraging campaign continues.

Indeed, we have already seen another mid-size real estate developer, Fantasia Holdings, fail to make a \$206 million bond payment on October 4, raising concerns that Evergrande's failure could be spreading through the property market.

It may be worthwhile for policymakers in Beijing to consider carefully the law of unintended consequences when it comes to their own deleveraging policies – in particular the Three Red Lines of August 2020.

The anticorruption campaign will now be wielded to add serious criminal penalties, beyond financial penalties, to firms and executives that fail to deleverage and de-risk.

The parallel campaign by the CCDI is likely to add to this pressure, impacting further on the confidence of the financial services industry in general as well as the property sector in particular.

Six months from now, we will still be talking about Evergrande. But we are also likely to be talking about a longer list of other institutions that have also fallen afoul of the Three Red Lines and the CCDI.

Even if an orderly distribution of Evergrande's assets manages to keep Chinese and international financial markets stable, the spotlight will turn to the rest of the Chinese property and finance sectors that are also highly leveraged.

The question then becomes: what happens to the rest of the property market and similar firms in similar trouble? It would be difficult to replicate a similar orderly outcome across the entire sector for every troubled firm, given that the property sector is so vast and its aggregate level of indebtedness so great.

In other words, can the state afford a much broader set of interventions to head off a crisis? Or can it find a way to do this through the hand of the market instead and still retain control? At nearly a third of GDP, can it afford not to?

Wider Impacts

If the Chinese property sector slows or contracts, the implications for global economic growth for the decade ahead will be significant.

China's growth represented 28 percent of all global growth between 2013 and 2018, twice that of the United States.

Therefore, a slowing property sector, given its significance to overall GDP, would inevitably feed through to a slowing global growth rate, including global commodity prices that many developing economies rely on for export-driven growth.

Meanwhile, for China itself, the political and economic challenges arising from Evergrande will continue.

Political stability in China can be maintained if a financial crisis is avoided.

But if this means suspending for the third time since 2015 the implementation of Xi's long-planned deleveraging campaign for the financial sector as the cost of maintaining that stability, the can will simply be kicked down the road one more time.

Herein lies Xi's policy and political dilemma – to continue to deleverage the sector for the long term or to secure short-term stability.

Economists like Michael Pettis project that, on the current trend, for China to meet Xi's big goal of doubling the economy by 2035, the current development model of investment-led growth would require China's debt-to-GDP level to surpass 400 percent.

No major economy has ever done this in history – their economies have all crumbled under the weight of that debt before it reached such a level.

China may be *sui generis*, but in economics the notion that “this time it is different” is rarely right.

China's reform-minded economic technocrats of course understand this very well, hence why they have preached for so long the need simultaneously to deleverage the financial system and to shift China's development model in a more reformist direction.

But the second part of this formula is not part of Xi's macro policy direction.

Xi's increasingly left-leaning populist economic agenda, as noted previously, is based on greater state intervention, greater income equality, and greater national economic self-reliance.

This strategy is likely to slow overall economic growth in the years ahead, given its collective impact on business confidence and private sector investment, innovation, and productivity growth – that is, before the long-term demographic drag begins to slow the economy.

And slowing growth will be exacerbated by a slowing property sector.

Xi's new economic agenda is currently replacing 40 years of Deng Xiaoping's reform and opening; strategy, therefore, now poses a bigger question mark than before for China's ability to surpass the United States and become the preeminent global economy.

It is here that Xi's political ideology seems increasingly likely to run headlong into the cold hard facts of economic reality and the untamable animal spirits that have animated it for much of the past 35 years.



> 8 UNDERSTANDING THE IMPORTANCE OF XI'S HISTORICAL RESOLUTION AT THE SIXTH PLENUM

An op-ed originally published in *The Wall Street Journal* as "'Xi Jinping Thought' Makes China a Tougher Adversary" • November 12, 2021

A week is a long time in international politics. Last Monday U.S.-China relations were in free fall.

By this coming Monday, President Joe Biden and General Secretary Xi Jinping will have had their first full (albeit virtual) summit, following the surprise statement by their envoys in Glasgow on their resolve to work together on climate.

In the intervening week, Xi has concluded a major plenum of the Chinese Communist Party, which further entrenched his power. This is likely to make him an even more formidable adversary for the United States.

Annual plenums are the mechanism through which the 95-million-member party defines the parameters of official ideology, political discourse, and policy direction. But this plenum was different. It was the first time since the era of Deng Xiaoping that the party produced a formal resolution on party history, which now officially defines Xi's political position within the Chinese Communist pantheon.

There have only been three such resolutions in the party's 100-year history, and they are always major, epoch-defining events. With this resolution, the party has elevated Xi and "Xi Jinping Thought" to a status

that puts them beyond critique, because both are now entrenched as objective historical truth, to criticize Xi is to attack the party and even China itself. Xi has rendered himself politically untouchable.

With this resolution, the party has elevated Xi and "Xi Jinping Thought" to a status that puts them beyond critique, because both are now entrenched as objective historical truth, to criticize Xi is to attack the party and even China itself. Xi has rendered himself politically untouchable.

In the hard world of political practice, this has five implications. First, Chinese Communists, as historical materialists, have an ideological fetish for periodizing, trying to identify where they are in their relentless march toward a socialist society and the restoration of China as the most powerful country on earth. Officially, there are now three periods in Chinese Communist history: the

Mao Zedong era, when China restored national unity and expelled foreign colonialists; the Deng era, when China became prosperous; and now the Xi era, when China is to become globally powerful.

Second, the resolution reconfirms Xi's position as the core of party leadership and emphasizes that this is of "decisive significance" – a critical phrase – for China. The plenum communiqué is replete with praise for Xi's leadership, demonstrating a cult of personality that would have been political anathema under Deng. Internal disagreement will not be tolerated as Xi campaigns to be reappointed (effectively as leader for life) at the party congress next fall.

Third, to buttress Xi's leadership claim, the resolution asserts that Xi Jinping Thought is "the Marxism of contemporary China and for the twenty-first century," "a new breakthrough in adapting Marxism" that plays a "guiding role" for the new era. Xi has long emphasized that the party must never repudiate the ideologies of Mao and Deng, as both served their historical purpose. Xi Jinping Thought is likely to become a hybrid – drawing from Mao's emphasis on ideology, politics, and struggle while retaining Deng's priority on economic development, even while redressing the resulting inequalities. Most important, Xi Jinping Thought is a malleable ideological tool to legitimize whatever political course Xi deems necessary in the future.

Fourth, Xi Jinping Thought is not devoid of policy content. At a broad level, it takes Chinese politics to the left by establishing a more powerful role for the party over the professional apparatus of the Chinese state – and over the previously expanded freedoms of academics, artists, religious believers, minorities, and members of civil society. It also takes China's economics to the left, with a greater role for the party over the market, greater power for state-owned enterprises, a renewed doctrine of national self-reliance, more constraints on the private sector, and more redistribution of wealth. And it takes Chinese nationalism to the right, in a more assertive Chinese foreign and security policy. But Xi Jinping Thought will remain politically elastic in the real world of domestic and international politics, depending on the practical challenges of the day.

Fifth, there is the resolution's effect on China's place in the world. Here the language becomes more expansive. It offers the developing world a new model that China believes works, as opposed to the democratic world's model that it says does not – as demonstrated by what China argues is its superior response to COVID-19. It boasts of the Marxist basis of that model. And in launching the communiqué, officials lambasted a crumbling America by citing U.S. public opinion, contrasting it with alleged public support in China for the Chinese model, thereby reinforcing Xi's political narrative on the correctness of Marxism-Leninism, the decline of the West, and the rise of the East.

Xi Jinping Thought is a malleable ideological tool to legitimize whatever political course Xi deems necessary in the future.

We have not yet seen the final text of the historical resolution. At this stage, however, it seems clear Xi has had a major political win. He is on track to rule China through at least five American presidencies, which is why the United States urgently needs to establish a long-term, bipartisan national China strategy through to 2035 and beyond.



> 9 PREVENTING A U.S.-CHINA NUCLEAR ARMS RACE

An op-ed originally published in *Project-Syndicate* • December 4, 2021

Stock photo of a rocket launching into a desert sky. Mint Images/Getty Images.

NEW YORK – China’s recently reported tests of a nuclear-capable hypersonic missile in July and August 2021, though officially denied, are threatening to undermine strategic nuclear stability. They have already added to escalating tensions between the United States and China.

Throughout the summer, satellite images revealed that China was in the process of building as many as 300 new missile silos in its northern deserts. Some of these silos are likely to be used merely as empty decoys. But if even half of them become sites for nuclear-armed missiles, it would represent a near tripling of China’s nuclear arsenal.

Following these revelations, the U.S. State Department warned in October that “The rapid buildup of the PRC’s nuclear arsenal is concerning and threatens international security and stability.... We encourage Beijing to engage with us on practical measures to reduce the risks of destabilizing arms races and conflict.” But Chinese Ambassador for Disarmament Affairs Li Song fired back the same day, describing the new pact by the United States, Australia, and the United Kingdom (AUKUS) to help Australia acquire nuclear submarines as a “textbook case” of nuclear proliferation spurring a regional arms race.

To date, China has steadfastly refused to engage in talks with the United States on strategic arms control (whether bilaterally or trilaterally with Russia) until the United States makes substantial reductions in its own arsenal of nearly 4,000 active warheads. Yet by pursuing its own rapid expansion, China has begun to undermine this argument, making the need for talks increasingly urgent.

In September 2021, former Chinese Ambassador for Disarmament Affairs Sha Zukang became the latest prominent voice in Beijing to argue that China’s no-first-strike nuclear policy is “no longer suitable.” The “strategic pressure on China is intensifying,” noted Sha, “as [the United States] has built new military alliances and as it increases its military presence in our neighborhood.” The policy should no longer apply, he said, “unless China and the US negotiate a mutual understanding on no first use of nuclear weapons, or unless the US ceases to take any negative measures that undermine the effectiveness of China’s strategic forces.”

Satellite images revealed that China was in the process of building as many as 300 new missile silos in its northern deserts. Some of these silos are likely to be used merely as empty decoys. But if even half of them become sites for nuclear-armed missiles, it would represent a near tripling of China’s nuclear arsenal.

Sha’s intervention is serious. Chinese officials do not randomly engage in the Chinese public debate. They are authorized to do so, especially regarding an issue as existential as nuclear security.

A new Chinese nuclear posture would represent a destabilizing shift. But Sha’s comments also serve to highlight the root of the current standoff. The United States needs to clearly understand the Chinese government’s deeply anxious view of its own nuclear and wider geostrategic vulnerability. Chinese President Xi Jinping has repeatedly characterized the situation as a decades-long “struggle” against a power that is determined to contain China’s rise by any means.

But the same insight also provides the key to breaking the current impasse. China's strategic culture is deeply realist. Moral appeals to China about doing the right thing will not get American negotiators anywhere, but cold, pragmatic arguments can. The deepening U.S.-China rivalry may itself create an incentive for Beijing to come to the table, provided that the United States can convince the Chinese that they would be less vulnerable with an arms-control agreement than without one.

How can this be done? China may not be willing to jump into large-scale talks right away, but it is clearly concerned about U.S. capabilities and, therefore, may be willing to begin with smaller-scale bilateral talks

on strategic transparency and crisis management. A series of "Track-1.5" dialogues – unofficial talks between government officials – focused on such issues was suspended in 2019. Re-launching this or a similar process, possibly after the Biden administration completes its ongoing Nuclear Posture Review in early 2022, would be a good first step.

Next could come modest confidence-building measures designed to increase predictability, reciprocity, and trust. These could include a notification system for ballistic missile tests, joint technical assessments of missile-defense capabilities, and eventually even

The deepening U.S.-China rivalry may itself create an incentive for Beijing to come to the table, provided that the United States can convince the Chinese that they would be less vulnerable with an arms-control agreement than without one.

Chinese participation in the New START Treaty's monitoring regime.

To make real progress, the developments that most perturb China – including U.S. missile defenses, the development of low-yield tactical nuclear weapons, hypersonic conventional precision-strike systems, and America's ambiguity about its nuclear posture – will also have to be discussed. And the same goes for U.S. concerns over China's rapid modernization of its nuclear arsenal and its ambiguity about moving to a less restrictive "launch on warning" doctrine.

While starting with bilateral efforts would be valuable in itself, the eventual aim should be to pursue a multilateral arms control agreement that at least includes Russia. The ultimate goal would then be to agree on force limitations at the lowest possible level for each country, thereby forestalling the slide toward an Indo-Pacific nuclear arms race.

Even in the depths of the Cold War, the United States and the Soviet Union managed to establish real safeguards and limits on nuclear arms. They had good reasons for cooperating. Both had experienced the harrowing weeks of the Cuban Missile Crisis, when the world came perilously close to catastrophe. Today, the United States and China – and the world – cannot afford to wait for another such crisis before taking similar precautions.



> 10 THE COMPREHENSIVE GLOBAL IMPACT OF COVID-19

An article originally published in *Time* • December 29, 2021

In the world of international affairs, nontraditional security threats are not new. Many of us have spent decades analyzing and conducting contingency planning for the sudden advent of developments like a pandemic. And yet, despite all the time and resources invested, the COVID-19 pandemic still caught the world woefully unprepared.

Beyond learning from the distressing manner in which this COVID-19 pandemic has been handled both nationally and internationally, there are several significant ramifications for global politics, the economy, and the U.S.-China relationship that warrant serious consideration.

First, COVID-19 has damaged global institutions while strengthening the power of national governments. Without delving into a political debate, the World Health Organization (WHO) could have done much better in responding to the COVID-19 crisis than it did. Instead of the WHO taking the lead on effective early warning, establishing early mechanisms for global tracking and notifications, and coordinating global vaccine distributions, national governments have reasserted themselves as the only reliable mechanism to shield their citizens from harm. Indeed, across the board, on both the pandemic and the faltering economic recovery, we are witnessing the fundamental return of the nation-state to the absolute forefront of international politics. This is a phenomenon that bears watching because COVID-19 has created new powers and potential new intrusions by the state into society, including new digital surveillance technologies that

were previously the province of authoritarian political systems. This has implications not just for China but also for democracies around the world.

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A byproduct of this burgeoning of the power of the nation-state is the further rise of nationalism itself. This nationalism has primarily taken two forms:

“COVID nationalism” and “vaccine nationalism.” With people around the world looking to their national and provincial governments for confidence and security, the consequence is that societies turn inward and become more guarded, more selfish, less globally oriented, and more nationalist. We also see that reflected in the rolling obscenity of global vaccine distribution, where vaccines have been allocated in a non-coordinated fashion, oblivious to human need and often driven by foreign policy imperatives. The losers from vaccine nationalism are the most vulnerable, who have fallen off the world's political radar screen.

Second, COVID-19 has also wrought havoc on the global economy. Economists are still measuring this, in terms of lost production, economic “scarring” – particularly on employment – and a burgeoning and re-legitimized protectionism as global supply chains have failed on distributing both PPE and vaccines. For example, America's workforce is 8.5 million people smaller than it was 12 months ago. That provides just one snapshot of the economic impact in terms of lost employment. Global foreign direct investment also fell 35 percent in 2020; while around two-thirds of that loss was recovered in 2021, the recovery remains uneven. The same difficult picture is emerging for many economies around the world.

Third, COVID-19 has accelerated the preexisting strategic dynamics between China and the United States, fostering a relationship even more problematic than before. COVID-19 provided a strategic opportunity for bilateral cooperation and global leadership. Both governments failed. Instead, Beijing went into political hyperdrive to try and prevent being blamed for the original outbreak in Wuhan so as to protect the party's political legitimacy at home and abroad. As for Trump's interest in dealing effectively with the pandemic

– either at home or abroad – the less said the better. But the collapse in bilateral public health collaboration in the midst of a genuine global crisis was both tragic and avoidable. Thirteen years ago, at the onset of the global financial crisis, the international community did work together, through the G20 and under the leadership of both U.S. presidents George W. Bush and Barack Obama. By and large, that approach worked. It is appalling that we have now forsaken both the political spirit and the essential public policy machinery that was deployed so effectively just over a decade ago.

One last dimension to the current crisis that confronts us all is the question of what sort of world has now emerged from the public health, economic, and foreign policy ruins of COVID-19. China has sought to deal with COVID-19 by imposing a zero tolerance policy. It is now the only country of the 193-member UN to have a strategy of total virus elimination and suppression. Although there has been some internal debate in Beijing on whether this remains a cost-effective and realistic strategy amid the emergence of new variants, so far the Chinese leadership has squashed any change of policy. How this works out will have implications for how the rest of the world is able to engage with the China of the future. This is not just a practical question of future travel, diplomacy, and business. It is also a question of hardening mind-sets, as China cuts itself off from the rest of the world and runs the risk of becoming a second “hermit kingdom” similar to North Korea. We do not know yet the full consequences of China’s self-isolation on how Beijing now views the world, and how the rest of the world views Beijing. But it is certainly not going to help.

Isolation will also serve to underscore the radical differences between the two countries’ competing political ideologies and systems. The Communist Party proclaims virus suppression as evidence of the superiority of its system in 2021 (while ignoring its systemic failures in containing it at the

source in early 2020, when there was still time to do so, because local officials were too fearful of political retribution from the top to deliver bad news). At the same time, the freedom-loving West has, by and large, been shambolic in its floundering efforts at suppressing one variant after another. Meanwhile, as Gordon Brown has recently reminded us, neither China nor the West seems to have politically grasped the central fact that the world will remain vulnerable to mutation (as with the Omicron variant) until we recognize that we must inoculate, contain, and eliminate COVID-19 in the developing world as well as the developed world.

The ramifications of the COVID-19 pandemic on international politics and the global economy are therefore very real. We are witnessing the reemergence of the state, the rising appeal of nationalism, the discrediting of international institutions, the deep scarring of the global economy, and the greatest setback in global poverty reduction in decades. And on top of that, it has reduced U.S.-China relations to their rawest state in half a century.

We thus now find ourselves in a decade of living dangerously. This is all the more reason for China and the United States to learn from the mistakes of the past two years and establish a new diplomatic framework to effectively manage their strategic competition; create the political space for effective dialogue; and enable collaboration to handle both future viral mutations as well as other crises facing the global commons, such as climate change.

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