

## **From partners to foes? The changing U.S.-China relationship in the post pandemic world.**

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### *Executive summary*

The Wuhan-originating COVID-19 pandemic has accelerated a tectonic shift in the U.S.-China relationship. The victory of Joe Biden in the U.S. presidential election will likely bring about subtle changes in American policy under the new administration but without affecting U.S. resolve to stem the China challenge, including by pursuing a managed and selective decoupling in key areas. In fact, China's aggressive expansionism is driving even distant powers like Germany, France and Britain to view a pluralistic, rules-based Indo-Pacific as central to international security. The European Union is finally waking up to the China challenge, although it needs to more closely integrate economic ties with China in its political strategy and to focus on the Indo-Pacific beyond trade and investment. The likely demise of the "free and open Indo-Pacific" strategy under Biden adds a layer of uncertainty in the region because it is not clear how his proposed "secure and prosperous Indo-Pacific" policy will be different. Meanwhile, given the international pushback against it, China can no longer discount the specter of international isolation and supply disruptions, which may explain Chinese President Xi Jinping's new strategy of "dual circulation," with its emphasis on domestic demand, and Xi's plan to hoard mammoth quantities of mineral resources and agricultural products. China, however, remains very vulnerable to U.S.-led trade actions, given its heavy dependence on the U.S. and its allies for semiconductors and other high-end products. The U.S.-led squeeze on Huawei shows that U.S. policymakers, however, need to address one issue — their policies have counterproductively fostered an expanding partnership between Russia and China. If left unaddressed, the growing Sino-Russian alliance could crimp U.S. policy's paradigm shift on China.

Ties between the United States and China constitute the world's most-important relationship, one that affects almost every aspect of international relations — from peace and security to trade and climate-change challenges. The U.S.-China relationship was already undergoing transformation before the China-originating COVID-19 virus created a paralyzing global pandemic. The pandemic appears to be accelerating that transformation. That relationship today is undergoing fundamental change that holds long-term implications for power equilibrium, stability and security in the world, particularly the Indo-Pacific region. The defeat of U.S. President Donald Trump's reelection bid is unlikely to arrest that change.

The complexity of the U.S.-China relationship is underscored by the fact that the two powers, to quote the Harvard University professor Graham Allison, share one similarity: “Both have extreme superiority complexes. Each sees itself as without peers.”<sup>1</sup> In the case of China, the superiority complex is compounded by another fact — racism is innate to the Chinese culture; indeed, it is in the Chinese DNA. According to the old Asia hand Philip Bowring, “Belief in the uniqueness of Chinese genes — and hence the widespread rejection of the ‘out of Africa’ thesis of human descent — still has many adherents in China. President Xi Jinping himself claims Han people lack ‘the invasion gene,’ blaming past aggression on Manchu and Mongol emperors. The people of Hong Kong are urged by Beijing to remember that blood and patriotism go together. The sense that China is entitled to possession of the South China Sea lies deep in the nation's history of viewing its neighbors, especially those untouched by Chinese culture, as inferiors.”<sup>2</sup>

For decades, successive U.S. administrations worked for a stronger China. But when a stronger China emerged, it became gradually seen in Washington and a number of other international capitals as a threat to

international security and to a rules-based order. The plain fact is that a stronger China has aggressively pursued economic and military expansion. This is in keeping with what the famous British plant collector Frank Kingdon-Ward warned in the early 20th century. While trekking along the Yunnan-Burmese border, Kingdon-Ward said that history attests that when China is weak, it can be kind, but when China is strong, it tends to be the worst neighbor imaginable. It is thus no wonder that China's neighbors are now at the receiving end of its manipulative foreign policy.

When China needed Western investment and technology to modernize, it worked hard to present a benign "peaceful rise" image in the post-Cold War period. However, under the sway of the Communist Party's atavistic nationalism, China had no interest in being a "responsible stakeholder" in the international system, as the U.S. had hoped when the theory of China's "peaceful rise" was popular.

China was merely buying time to reshape the international order to its advantage. In fact, until Chinese President Hu Jintao began using the term "peaceful rise," China had followed Deng Xiaoping's dictum: *tao guang yang hui*, or "hide our capabilities and bide our time." China used its "peaceful rise" claim as a ruse to rapidly build up brute power and start using it. It advocated multilateralism while working to mold its policies in unilateralism. While singing "peaceful rise" lullabies to lull the rest of the world into complacency, it also began gradually asserting its interests far beyond its borders. When the pretense could no longer be sustained, it abandoned its "peaceful rise" rhetoric.

Now, winning for China all too often means a loss for the interests, freedoms and independence of other countries. For example, China's debt-trap diplomacy, redolent of colonial-era practices, claimed its latest victim in the fall

of 2020 — the small, resource-rich nation of Laos. Struggling to pay back Chinese loans, Laos handed China majority control of its national electric grid at a time when its state-owned electricity company's debt had spiraled to 26% of its gross domestic product. Beijing's power to dim all lights in Laos leaves little wiggle room for its tiny neighbor.

In fact, the communist regime in Beijing now routinely rationalizes the irrational. Rationalizing the irrational has become intrinsic to China's political culture under Chinese President Xi Jinping, who has embraced a totalitarian ideology. In his scheme of things, individuals don't matter. They exist to serve the Chinese state. The state does not exist to serve them.

No less significant is another development: By progressively cutting its roots in Marxist dogma, which was imported from the West, the Chinese Communist Party has put Chinese nationalism at the core of its ruling ideology and political legitimacy.

### *How the U.S. aided China's rise*

The United States has played a key role in China's rise. For example, rather than sustain trade sanctions against China after the Tiananmen Square massacre of pro-democracy protesters in Beijing in 1989, the U.S. decided instead to integrate the country into global institutions. It was Deng Xiaoping — the “nasty little man,” as Henry Kissinger once called him<sup>3</sup> — who ordered the tank and machine-gun assault that came to be known as the Tiananmen Square massacre.

In this light, China's spectacular economic success — illustrated by its emergence with the world's biggest trade surplus, largest foreign-currency reserves, and highest steel production, along with a thirteenfold expansion of its economy just between 1980 and 2010 — owes a lot to the U.S. decision not to sustain the trade sanctions imposed after the Tiananmen Square massacre, in which hundreds, perhaps thousands, of demonstrators and bystanders perished. According to a British government estimate, at least 10,000 people were massacred.<sup>4</sup>

In fact, it was after the Chinese Communist Party (CCP) crushed the pro-democracy movement in 1989 that the U.S. helped turn China into an export juggernaut, which over the years accumulated massive trade surpluses and became the principal source of capital flows across the world. Year and year, the U.S. pledged to aid the rise of a prosperous China. For example, according to its 2006 official National Security Strategy, the U.S. said it remained committed to accommodating “the emergence of a China that is peaceful and prosperous and that cooperates with us to address common challenges and mutual interests.”<sup>5</sup>

For more than a century now, America's strategy in the Indo-Pacific region has sought a stable balance of power to prevent the rise of any hegemonic power. Yet, by aiding China's rise, the U.S. has undercut its own strategy. In fact, the U.S. actively contributed to the rise of a peer rival that is today seeking to supplant it in the Indo-Pacific. This shows that America's Indo-Pacific policy was in some ways at war with itself.

One reason for this is the long tradition of a China-friendly approach in U.S. policy that dates back to the nineteenth century. In 1905, U.S. President Theodore Roosevelt, who hosted the Japan–Russia peace conference in

Portsmouth, New Hampshire, argued for the return of Manchuria to Manchu-ruled China and for a balance of power in East Asia, even if it undermined Japan's war victory over Russia. The Russo-Japanese War actually ended up making the United States an active participant in China's affairs.

In more recent times, U.S. policy aided the integration and then ascension of Communist China, which actually began as an international pariah state. Indeed, until Donald Trump's election in 2016, there was a succession of overtly China-friendly U.S. presidents over nearly half a century — a significant period that coincided with China first coming out of international isolation and then embarking on the path of modernization and ascension.

America's policy toward Communist China has traversed four stages. In the first phase, America courted Mao Zedong's regime, despite its 1950-1951 annexation of Tibet and domestic witch hunts, such as the Hundred Flowers Campaign, the brief liberalization that was just a ploy designed to flush out opponents and exterminate them. In fact, after the Communists seized power in China in 1949, the U.S. openly viewed Chinese Communism as benign, and thus distinct from Soviet Communism.

Courtship gave way to estrangement, and U.S. policy for much of the 1960s sought to isolate China. The third phase began immediately after the 1969 Sino-Soviet military clashes, as the U.S. actively sought to exploit the rift in the Communist world by aligning China with its anti-Soviet strategy. Although China clearly instigated the bloody border clashes, America sided with Mao's regime. That helped to lay the groundwork for the China "opening" of 1970-1971, engineered by U.S. National Security Adviser Henry Kissinger, who until then had no knowledge of China.

President Richard Nixon introduced a conscious policy of aiding China's rise. Subsequently, President Jimmy Carter sent a memo to various U.S. government departments instructing them to help in China's rise.<sup>6</sup> China, however, began flexing its muscles early on. No sooner had Deng Xiaoping embarked on reshaping China's economic trajectory than he set out to "teach a lesson" to Vietnam. The February-March 1979 military attack on Vietnam occurred just days after Deng — the "nasty little man," as Henry Kissinger once called him — became the first Chinese communist leader to visit Washington.

Indeed, even China's firing of missiles into the Taiwan Strait in 1996 did not change U.S. policy toward China. If anything, the U.S., since those missile maneuvers, started gradually withdrawing from its close links with Taiwan, with no U.S. cabinet member visiting Taiwan for many years. The U.S. broke diplomatic relations with Taiwan in 1979, when it accepted a one-China policy. America's China-friendly approach remained in effect until Barack Obama's presidency, even as America sought to hedge against the risk that the accumulating Chinese power could slide into arrogance.

The fourth phase started under President Donald Trump, who introduced a paradigm shift in U.S. policy toward China. This shift, enjoying bipartisan support, holds major implications for the Indo-Pacific region and the wider world. In fact, it promises to reshape global geopolitics and trade. According to the investor and philanthropist George Soros, "The greatest — and perhaps only — foreign policy accomplishment of the Trump administration has been the development of a coherent and genuinely bipartisan policy toward Xi Jinping's China."<sup>7</sup> Washington is more polarized and divided than ever before. Yet it is highly significant that, in this environment, a bipartisan consensus has emerged that the decades-old U.S. policy of "constructive engagement" with China has failed and must be replaced with active and concrete counteraction.

Against this background, China's spectacular economic success, including the world's largest trade surplus and foreign-currency reserves, owes much to U.S. policy under successive presidents, from Richard Nixon to Barack Obama. Without the significant expansion in U.S.-Chinese trade and financial relations, China's growth would have been much slower and more difficult to sustain.

Allies of convenience during the second half of the Cold War, the US and China emerged from it as partners tied by interdependence, with America depending on China's trade surpluses and savings to finance its outsize budget deficits and China relying on its huge exports to the U.S. to sustain its economic growth and finance its military modernization. By plowing more than two-thirds of its mammoth foreign-currency reserves into U.S. dollar-denominated assets, China gained significant political influence in Washington. Even on the important issue of human rights, the U.S. over several decades chose to lecture other dictatorships rather than the world's largest autocracy.

Indeed, even as China pursued its not-too-hidden aim to dominate Asia — an objective running counter to U.S. security and commercial interests and to the larger goal of securing a balance in power in the Indo-Pacific — Washington maintained a China-friendly approach. To be sure, under presidents George W. Bush and Barack Obama, the U.S. began to build countervailing influences and partnerships, without making any attempt to contain China.

During the Bush and Obama presidencies, China's growing power actually helped the U.S. to validate its forward military deployments in Asia, maintain existing allies in the region, and win new strategic partners. In fact, an

increasingly assertive China proved a diplomatic boon for the U.S. in strengthening and expanding its Asian security relationships.

This showed that the muscle-flexing rise of a major power can strengthen the strategic relevance and role of a power in relative decline. When Bush took office, the U.S. was beginning to feel marginalized in Asia, owing to several developments, including China's "charm offensive." But thanks to China's muscle-flexing, America returned firmly to center-stage. South Korea beefed up its military alliance with the U.S.; Japan backed away from an effort to persuade the U.S. to move its Marine base out of Okinawa; Singapore has allowed the U.S. Navy to station ships; Australia began hosting US Marine and other deployments; and India, Vietnam, Indonesia, and the Philippines, among others, drew closer to the U.S. as well.

Yet, few could have any illusions about U.S. policy. Even after Obama unveiled to his "pivot" to Asia, his administration sought to stick to a two-track approach: seek to maintain a balance of power with the help of strategic allies and partners, while continuing to accommodate a rising China.

As a succession of U.S. presidents paved the path to China's rapid economic modernization and political ascent, Beijing clout grew steadily. To be sure, there was another factor at play: In contrast to Beijing's clever use of economic tools to achieve strategic objectives, the U.S. too often reached for the gun instead of the purse. Consequently, the U.S. got mired in endless wars in the Middle East. Moreover, China has since the 1990s relied on large trade surpluses and foreign-exchange reserves to fund an expansion of its global footprint. It still mobilizes vast state funds in support of, for example, Belt and Road projects abroad — an advantage the U.S. cannot match because it must rely on drawing private funds.

### *Trump's legacy on China*

As the 2020 presidential and congressional elections underscored, the United States is more polarized and divided than ever before. Trump's divisive governance, Twitter rants and personal flaws hamstrung his foreign policy, alienating allies in Europe if not in the Indo-Pacific and sowing doubts about America's commitments. This was compounded by his transactional view of foreign policy and a belief in his own persuasive charm in dealing with dictators, from China's Xi Jinping to North Korea's Kim Jong-un.

Yet it is highly significant that, in this environment, a bipartisan consensus emerged under President Trump's somewhat chaotic presidency that the decades-old U.S. policy of "constructive engagement" with China has failed and must be replaced with active and concrete counteraction. What is now being described as "the worst state in U.S.-China relations since Nixon began the process of rapprochement," to quote a recent front-page report in the *Washington Post*, is actually the end of America's China fantasy that lasted over 45 years — a period in which the U.S. actively aided China's rise. It is the Trump presidency that initiated a fundamental shift in U.S. policy.<sup>8</sup>

The bipartisan backing for a U.S. policy shift on China became clear by the second year of the Trump presidency. One example were the separate presentations in the same month of 2018 by U.S. Vice President Mike Pence and Ash Carter, who served as Obama's last defense secretary. In a landmark speech at the Hudson Institute, Pence said that "previous administrations all but ignored China's actions. And in many cases, they abetted them. But those days are over."<sup>9</sup> At around the same time U.S. Secretary of State Mike Pompeo said

something similar, telling a radio interviewer that the U.S. has “recognized the difference in China’s behavior and the requirement for an American response to that changed behavior.”<sup>10</sup>

From the other side of the political aisle, Ash Carter wrote in a Harvard University essay that, “Washington since the end of the Cold War has often backed down in the face of Chinese bullying ... China has violated core international norms time and again with little repercussions beyond scolding American speeches.”<sup>11</sup> Carter, in his essay, highlighted Obama’s soft approach toward China, saying Obama, “misled” by his own analysis, “viewed recommendations from me and others to more aggressively challenge China’s excessive maritime claims and other counterproductive behaviors as suspect.” For a while, according to Carter, Obama even bought Beijing’s idea of a G-2 style condominium. Carter went on to recommend that, “when China behaves inappropriately on the international stage, the U.S. must firmly push back and stand up for the principles of international order.” That is precisely what the Trump administration began doing.

When the Trump administration unveiled its “free and open Indo-Pacific” strategy, it was largely seen as part of the evolving paradigm shift in America’s China policy. After all, the new challenges in the Indo-Pacific are largely linked to China’s muscular rise and its territorial and maritime revisionism. China has become the main catalyst of the changing Indo-Pacific power dynamics. From the South Pacific to the Indian Ocean, China is seeking to change the status quo. It has been positioning itself in strategic ports along key shipping lanes in what has come to be known as a “string of pearls” strategy. China’s Belt and Road Initiative, for its part, is a stalking horse for Chinese mercantilism and global expansionism. The BRI’s implications extend to the military sphere. The Pentagon’s annual report in 2020 on the Chinese military described the Chinese

network of commercial ports as part of overseas basing and access for the People's Liberation Army (PLA). China "is seeking to establish a more robust overseas logistics and basing infrastructure to allow the PLA to project and sustain military power at greater distances," the report said.<sup>12</sup>

China's aggressive and expansionist footprint in the Indo-Pacific region has emboldened its use of "sharp power" against democracies. Sharp power is a new concept. In contrast with "hard power" in military and economic terms or "soft power" to help win friends and influence, sharp power, in the words of the former Australian prime minister Malcolm Turnbull, digs deeply and deceptively into the soft tissues of democracies, seeking to subvert and sway them in ways that are "covert, coercive or corrupting."

America's "free and open Indo-Pacific" strategy was unveiled by Trump barely 11 months after he took office. He unveiled it at the Vietnamese beach resort of Da Nang while delivering his speech at the Asia Pacific Economic Cooperation (APEC) forum in November 2017.<sup>13</sup> Trump said his vision for a free and open Indo-Pacific is "a place where sovereign and independent nations, with diverse cultures and many different dreams, can all prosper side-by-side, and thrive in freedom and in peace." Then days later, speaking in the Philippines, Trump called for a "truly free and open Indo-Pacific region."<sup>14</sup> In December 2017, the U.S. National Security Strategy report detailed the "free and open Indo-Pacific" vision. The report declared that, "A geopolitical competition between free and repressive visions of world order is taking place in the Indo-Pacific region."<sup>15</sup> While stating that "Chinese dominance risks diminishing the sovereignty of many states in the Indo-Pacific," the report held out a warning: "We are under no obligation to offer the benefits of our free and prosperous community to repressive regimes and human rights abusers."

Significantly, the concept of a “free and open Indo-Pacific” was originally authored by then-Japanese Prime Minister Shinzo Abe, who had been pushing since 2007 for the use of the term “Indo-Pacific” in place of the traditional expression “Asia-Pacific.” Rarely has the U.S. adopted a foreign-designed concept as the linchpin of its foreign policy.

Months before Trump was elected, Abe unveiled his “free and open Indo-Pacific” concept. Abe’s “Free and Open Indo-Pacific Strategy” speech in Nairobi, Kenya, was delivered at the Tokyo International Conference of African Development (TICAD).<sup>16</sup> Abe’s Indo-Pacific vision grew out of his 2012 proposal to create a “democratic security diamond” in Asia. Citing “the confluence of the Indian and Pacific Oceans,” Abe said in 2012 that “it is imperative” for democratic nations in the region to work together, suggesting “a strategy whereby Australia, India, Japan and the U.S. state of Hawaii form a diamond to safeguard the maritime commons from the Indian Ocean to the western Pacific.”<sup>17</sup> Partly a response to China’s Belt and Road Initiative (BRI), Abe’s “free and open Indo-Pacific” vision was based on the principles of free trade, freedom of navigation, the rule of law, and freedom from coercion. Those very principles came to define America’s own “free and open Indo-Pacific” strategy.

The fundamental shift in America’s China policy, which spawned the new “free and open Indo-Pacific” strategy, however, led to the question whether this shift was occurring too late to stop China’s global expansionism or to compel it to respect international norms and rules. Some American analysts have contended that the U.S. can no longer stem China’s rise and thus must seek to accommodate Chinese interests.

The fact is that, even as Beijing cheated on trade rules, stole technology and flexed its military muscle, the U.S. looked the other way under successive American presidents, in the naïve hope that a more prosperous China would liberalize economically and politically. A classic example was China's creation and militarization of artificial islands in the South China Sea on President Barack Obama's watch. China's massive land reclamation in the South China Sea began in late 2013, when Beijing pressed Asia's largest dredger, the 127-meter-long Tianjing, into service at Johnson South Reef.<sup>18</sup> This action provided a preview of the speed and scale with which China went on to create more manmade islands and then turn them into forward operating bases.

Simply put, it was on Obama's watch that China launched cost-free expansionism, including redrawing the geopolitical map in the South China Sea. Yet, just months before he left office, Obama contended that “we have more to fear from a weakened, threatened China than a successful, rising China.”<sup>19</sup> It was precisely this outlook that allowed China — without firing a single shot or incurring any international costs — to gain de facto control over a strategic sea corridor through which one-third of global maritime trade passes.

To be sure, this outlook predated the Obama presidency. It was America's decades-long “China fantasy,” as a book called it, that facilitated the assertive rise of its main challenger.<sup>20</sup> Such was the fantasy that President Bill Clinton got China into the World Trade Organization by citing Woodrow Wilson's vision of “free markets, free elections, and free peoples” and saying the admission would herald “a future of greater openness and freedom for the people of China.”<sup>21</sup> If anything, allowing China's entry into the WTO backfired, costing the U.S. countless manufacturing jobs and trillions of dollars in amassed trade deficits. Instead of the liberalization the U.S. expected, China's dictatorship entrenched itself through greater centralization. And instead of the

Internet undermining Beijing's control, China has not only tamed the Internet but built an Orwellian surveillance state.<sup>22</sup> Most importantly, the economic behemoth that the U.S. helped create is now seeking to supplant its benefactor as the global superpower.

What is surprising is that it took more than 45 years for America's Nixon-initiated China fantasy to shatter. Under President Trump, the U.S. finally began shedding its China blinkers with a new policy approach stipulating that it will no longer enable China's rise. The policy change started to crystallize only after the U.S. labeled China a "revisionist power"<sup>23</sup> and "strategic competitor."<sup>24</sup> The international spotlight on the U.S. tariff war against China, however, helped obscure the far-reaching structural shift in America's China policy that could reshape global geopolitics and trade.

While Trump used tariffs as leverage to clinch deals with allies, the tariffs he imposed against China could last for years as they were designed to compel Beijing to shed its mercantilist behavior. Indeed, his administration sought to use revised trade deals with allies, like Canada and Mexico, to isolate China and to force Beijing to abandon egregious trade practices, including forced technology transfer. Isolating Beijing through a coordinated effort by the U.S. and its allies ("a trade coalition of the willing," as Trump's economic adviser Larry Kudlow put it) could make things difficult for the Chinese economy. Trump also set in motion the decoupling of the world's largest two economies.

Trump's ending of the 46-year-old U.S. conciliatory approach to China, however, did not come with an overtly confrontational policy. The policy shift appeared more about finding economic levers to blunt China's strategy of global expansion and dominance, which aims to insidiously undermine U.S. power and influence, like death from a thousand cuts. In Asia, for example,

China has sought to displace the U.S. as the dominant power by employing geo-economic tools and territorial and maritime revisionism to enforce a 21st-century version of the Monroe Doctrine — an American policy of the 19th century that warned other powers to stay away from Latin America.

It is against this background that many have asked if the U.S. policy change constitutes an attempt to shut the barn door after the horse has bolted. China is already challenging the U.S. for technological and geopolitical primacy, and flaunting its authoritarian capitalism model as an alternative to democracy. Communism was never a credible challenge to liberal democracy but authoritarian capitalism is, despite its communist origins. In that sense, it represents the first major challenge to liberal democracy since the rise of Nazism.

Having become rich and strong at the expense of others, including by flouting international rules and pilfering technology, China is unlikely to fundamentally change its behavior in response to the new American pressure. President Xi Jinping, having declared himself China's new emperor, would undermine his position — and his “Chinese dream” of global dominance — by yielding to American demands. Xi thus far has sought to bear the American pressure — at some cost to Chinese interests — without materially altering his policies or global ambitions. Even if the U.S. pressure were to escalate significantly in the coming years, Beijing will likely adopt a “two steps forward, one step back” strategy to advance its ambitions.

The blunt fact is that, by aiding China's rise, the U.S. created a Frankenstein that has come back to haunt it. It was the greatest mistake of U.S. foreign policy since the end of World War II. The U.S. actively contributed to

the creation of its most formidable peer competitor. This will be remembered as a historically unprecedented act.

Trump himself acknowledged that the United States created a monster by aiding China's rise: "They (China) took advantage of us for many, many years. And I blame us, I don't blame them. I don't blame President Xi. I blame all of our presidents, and not just President Obama. You go back a long way. You look at President Clinton, Bush — everybody; they allowed this to happen, they created a monster."<sup>25</sup> In the Trump administration's perspective, since the U.S. created the monster, it was incumbent on the U.S. to concentrate on taming that monster before it undermined the free world. In a major speech in July 2020, Secretary of State Mike Pompeo said, "The free world must triumph over this new tyranny."<sup>26</sup>

In that speech, Pompeo declared: "President Nixon once said he feared he had created a 'Frankenstein' by opening the world to the CCP, and here we are. Now, people of good faith can debate why free nations allowed these bad things to happen for all these years. Perhaps we were naive about China's virulent strain of communism, or triumphalist after our victory in the Cold War, or cravenly capitalist, or hoodwinked by Beijing's talk of a 'peaceful rise.' Whatever the reason — whatever the reason, today China is increasingly authoritarian at home, and more aggressive in its hostility to freedom everywhere else. And President Trump has said: enough."

In mid-2020, separate speeches by four top U.S. officials underscored a paradigm shift in America's thinking and approach on China. The four declared the United States in deeply ideological, even existential, conflict with the Chinese Communist Party. The speech by Secretary of State Pompeo, in which

he called for an “alliance of democracies” against authoritarian China, was the fourth in that series.

National Security Advisor Robert O’Brien was the first speaker in the series, focusing on the CCP’s ideology and global ambitions. He declared that the “days of American passivity and naivety regarding the People’s Republic of China are over.”<sup>27</sup> O’Brien was followed by Christopher Wray, the F.B.I. director, who declared in his speech: “The greatest long-term threat to our nation’s information and intellectual property, and to our economic vitality, is the counterintelligence and economic espionage threat from China. It’s a threat to our economic security — and by extension, to our national security.”<sup>28</sup> Wray revealed that, “We’ve now reached the point where the FBI is opening a new China-related counterintelligence case about every 10 hours. Of the nearly 5,000 active FBI counterintelligence cases currently underway across the country, almost half are related to China.”

Wray was followed by Attorney General William P. Barr, who in his speech warned, “The CCP has launched an orchestrated campaign, across all of its many tentacles in Chinese government and society, to exploit the openness of our institutions in order to destroy them.”<sup>29</sup> Barr charged American companies with “[corporate appeasement](#),” saying, “If individual companies are afraid to make a stand, there is strength in numbers ... If they stand together, they will provide a worthy example for other American companies in resisting the Chinese Communist Party’s corrupt and dictatorial rule.”

The final speech in the series, by Secretary of State Pompeo, proclaimed that the U.S.-China relationship should be based on the principle of “distrust and verify,” saying that the Nixon-Kissinger diplomatic opening almost half a century ago had ultimately undermined American interests in a serious manner.

Pompeo continued on that theme in several subsequent speeches and interviews and also underlined the costs of America's appeasement of China.

For example, in October 2020, Pompeo said, "The Chinese Communist Party had become accustomed to, frankly, for an awfully long time, was watching America bend a knee, turn the other cheek, and appease them. That only encouraged their bad behavior, their malign activity. Our push back, they understand we're serious... We are going to confront them and impose costs upon them."<sup>30</sup> In a separate interview in the same month, Pompeo said, "For decades, the West allowed the Chinese Communist Party to walk all over us."<sup>31</sup>

In the same vein, Robert O'Brien, the president's national security adviser, pointed out in October 2020 that the U.S. turned a blind eye to China's widespread theft of technology and downplayed its human rights abuses, banking on the idea that through cooperation China would change. "The reality is we were wrong," O'Brien declared in keynote speech in Salt Lake City.<sup>32</sup> "The time has come to accept that dialogue and agreements will not persuade or compel the People's Republic of China to change," O'Brien noted. "Weakness in the face of Chinese assertiveness and aggression is provocative and will only invite further encroachments on our national interest, potentially leading to conflict," adding: "Peace through strength has been proven throughout history."

The U.S. shift from cooperation to competition in relations with China marks Trump's most consequential foreign policy legacy. There's now a trade war, there's a technology war, and there's a geopolitical war. The strategic and ideological confrontation between the world's two largest economies is transforming global geopolitics.

By embracing a more realistic, clear-eyed approach, the U.S. under Trump signaled that China's creeping expansionism would no longer go unchallenged. Among the actions by the Trump administration against China include:

1. Tariffs on \$550 billion worth of Chinese products. (China, in turn, imposed tariffs on \$185 billion worth of U.S. goods).
2. Sanctions on senior Chinese officials, including a member of the ruling CCP Politburo, over the mass internment of Muslims in Xinjiang.
3. Special status of Hong Kong in diplomatic and trade relations revoked.<sup>33</sup>
4. A formal U.S. declaration that China's maritime claims in the South China Sea are illegal.<sup>34</sup>
5. A travel ban on Chinese students at graduate level or higher with ties to military institutions in China.<sup>35</sup>

In addition, Trump is the first U.S. president to force China to pay a price for breaking international norms. Other U.S. presidents complained openly but did little. Trump, for example, has globally isolated Huawei, China's high-technology behemoth. Furthermore, with the support of the Trump White House, the U.S. Congress since 2017 passed several bills relating to Taiwan, Tibet, Xinjiang and Hong Kong, including the [Taiwan Travel Act](#) of 2018, the [Taiwan Allies International Protection and Enhancement Initiative \(TAIPEI\) Act](#) of 2019, the [Hong Kong Autonomy Act](#), the [Hong Kong Human Rights and Democracy Act](#) of 2019, the [Reciprocal Access to Tibet Act](#) of 2018, and the [Uyghur Human Rights Policy Act](#) of 2020.

The policy shift effected by the Trump administration appears designed as a last-ditch U.S. effort to stop China before it builds critical technologies and gains the upper hand geopolitically in the Indo-Pacific and beyond. Even if the policy change cannot make Beijing respect international rules and human rights,

it has meant an end to the free ride that China has long enjoyed — a free ride that has undercut American power and brought the wider democratic world under pressure. In fact, the shift in America’s China policy is likely to prove the Trump administration’s most lasting legacy. As the investor and philanthropist George Soros put it in September 2019, “The greatest — and perhaps only — foreign policy accomplishment of the Trump administration has been the development of a coherent and genuinely bipartisan policy toward Xi Jinping’s China.”<sup>36</sup>

### ***Enter Joe Biden***

When history is written, the year 2020 will go down as the watershed year in U.S.-China relations. China’s initial coverup of the coronavirus outbreak in Wuhan that gifted the world a horrendous pandemic, followed by its unchecked expansionism, including its crackdown in Hong Kong and aggression in the Himalayas, were signal moments that spurred a tectonic shift in views across the political spectrum in the U.S. and helped change global opinion on China. Negative views of China reached historic highs in many countries in 2020, according to a global survey by the Washington-based Pew Research Center.<sup>37</sup>

In addition to the COVID-19 shock and a moment of reckoning for China, the year 2020 will also be remembered for the election defeat of Donald Trump, setting in motion the end of his U.S. presidency. Will Trump’s exit help relieve pressure on China? Will the administration of Joe Biden return to the softer approach toward China of the Obama period? And what will be the future of the Quad and the “free and open Indo-Pacific” strategy after Trump’s departure?

Polarized and virulent U.S. politics will likely weigh down Biden's domestic agenda. But Biden will face no real constraint in reshaping U.S. foreign policy, including shoring up alliances and, as he wants, rejoining the Paris climate accord and the World Health Organization. However, Biden's biggest foreign-policy challenge relates to the world's economic and geopolitical hub — the Indo-Pacific region, which unites the Indian and Pacific oceans. An expansionist China is injecting greater instability and tensions in the Indo-Pacific through its territorial and maritime revisionism and heavy-handed use of economic and military power.

When Trump took office, he replaced Barack Obama's floundering "pivot" to Asia with the broader "free and open Indo-Pacific" strategy. Trump also changed course fundamentally on China by designating that communist giant as a strategic competitor and threat. Will America's Indo-Pacific and China policies flip again during Biden's presidency?

The "Malabar" Australia-India-Japan-U.S. naval war games in the Bay of Bengal and the Arabian Sea in November 2020 showed that the Quad — a loose coalition of the Indo-Pacific region's four leading democracies — is beginning to take concrete shape in response to China's muscular policies. A concert of democracies in the Indo-Pacific seems closer than ever. But just when the four powers appear on the cusp of formalizing their coalition, the impending change of U.S. government has added a new layer of uncertainty in the Indo-Pacific. At the heart of the uncertainty is the question whether America's Indo-Pacific and China policies will structurally shift under Biden, as they did under Trump.

Nowhere will this question generate greater concerns than in India, the host of the Malabar naval war games. Formally known as the Malabar Exercise after an area on India's southwestern coast, this series of complex annual war

games aimed at building military interoperability on the high seas now features even aircraft carriers. India elevated Malabar in 2020 from a trilateral to quadrilateral event by finally acceding to Australia's pending request to rejoin an exercise from which it dropped out 12 years ago in a bid to appease Beijing.<sup>38</sup> The Chinese communist mouthpiece *Global Times* had said Australia's inclusion would "signal that the Quad military alliance is officially formed."<sup>39</sup>

China's aggressive expansionism has driven a dramatic shift in India's security calculus, leading to its building closer defense and intelligence-sharing collaboration with the U.S. and concluding military logistics agreements with Japan and Australia in 2020.<sup>40</sup> The Trump administration helped midwife such a tectonic shift by placing India at the center of its Indo-Pacific strategy and seeking to forge a "soft alliance" with it. The U.S., Japan and Australia are already tied by bilateral and trilateral security alliances among themselves, making India's co-option pivotal to building a constellation of democracies. After establishing an Indo-Pacific strategy and resurrecting the Quad, which had been lying dormant for nine years, the Trump administration — in a symbolic nod toward India — renamed the U.S. military's Pacific Command as the Indo-Pacific Command.<sup>41</sup> Chinese territorial aggression in the Himalayas has been a huge boon for America's efforts to co-opt India, as highlighted by the October 2020 agreement to share geospatial data from airborne and satellite sensors.

In 2019, Biden stunned many with his apparent strategic naïveté by declaring, "China is going to eat our lunch? Come on, man. I mean, you know, they're not bad folks, folks. But guess what? They're not competition for us."<sup>42</sup> The blowback compelled Biden to backtrack and admit China was a threat. To be sure, Biden made a habit during the election campaign of reversing

his positions on major policy issues. Flip-flops are to Biden what egomania is to Trump.

Still, the “free and open Indo-Pacific” strategy’s days seem numbered. Even the term “Indo-Pacific,” whose use expanded America’s regional framework to include India as a major power, was conspicuously absent in Biden’s campaign statements and the 2020 Democratic Party Platform. In fact, the 2020 Democratic Party Platform accused the Trump administration of launching “a reckless trade war with China that cost more than 300,000 American jobs and sent farmers into bankruptcy, decimating the American heartland.” In fact, the 2020 Democratic Party Platform reverted to the use of the old term “Asia-Pacific.” This is a term China strongly prefers, with its state media urging the Biden team after the U.S. presidential election to replace “Indo-Pacific” with “Asia-Pacific.”

Under a section titled “Asia-Pacific,” the 2020 Democratic Party Platform pledged that the “Democrats will be clear, strong, and consistent in pushing back where we have profound economic, security, and human rights concerns about the actions of China’s government.”<sup>43</sup> But it added an important caveat: “Democrats will pursue this strategy without resorting to self-defeating, unilateral tariff wars or falling into the trap of a new Cold War. Those mistakes would only serve to exaggerate China’s weight, over-militarize our policy, and hurt American workers.” And, echoing Biden’s view that the U.S. and China should cooperate where their interests converge, it said, “America must approach our relationship with China with confidence — the confidence to lead international efforts to push back on malign behavior while also pursuing cooperation on issues of mutual interest like climate change and nonproliferation and ensuring that the U.S.-China rivalry does not put global stability at risk.” In an essay in the March-April 2020 issue of the *Foreign*

*Affairs* journal, Biden said, “The most effective way to meet that challenge is to build a united front of U.S. allies and partners to confront China’s abusive behaviors and human rights violations, even as we seek to cooperate with Beijing on issues where our interests converge, such as climate change, nonproliferation, and global health security.”<sup>44</sup>

After his election, Biden has started referring to the “Indo-Pacific” in calls with foreign leaders but not to “free and open.” Instead, Biden has [coined](#) a new phrase — “secure and prosperous Indo-Pacific.” He used the new expression in calls with the leaders of Australia, India and Japan.<sup>45</sup> Biden, however, has given no indication how his “secure and prosperous Indo-Pacific” policy will be different from the current “free and open Indo-Pacific” strategy.

Today, a rules-based and democracy-led order in the Indo-Pacific has become more important than ever to ensure a stable power balance. If the region’s major democracies, from Canada and South Korea to Indonesia and India, leverage their growing strategic bonds to generate progress toward a broader concert of democracies, the vision of a free and open Indo-Pacific may be realized.

Biden has offered little clarity on another subject — America’s toughest challenge, China. Prime Minister Yoshihide Suga said that, during a congratulatory call, he received an assurance from the U.S. president-elect that American security guarantees apply to Japan’s administration of the disputed Senkaku Islands.<sup>46</sup> But, in apparent deference to Beijing, the Biden office readout left out that assurance.<sup>47</sup>

Biden’s pick for secretary of state, Anthony Blinken, said at a Hudson Institute event in July 2020 that a Biden administration would seek to make the

U.S. more competitive and values-centered and “reengage China and work with China” from a position of strength.<sup>48</sup> That meshes with Biden himself has said. Finding ways to cooperate with Beijing, however, would mark a break with the Trump administration’s approach, which sees the U.S. in deeply ideological, even existential, conflict with the Chinese Communist Party.

Biden’s pick for national security adviser, Jake Sullivan, in a 2017 lecture, warned against “containment” as a self-defeating policy, much like acquiescence, stating: “We need to strike a middle course — one that encourages China’s rise in a manner consistent with an open, fair, rules-based, regional order.”<sup>49</sup> Sullivan said, “This will require care and prudence and strategic foresight, and maybe even more basically it will require sustained attention. It may not have escaped your notice that these are not in ample supply in Washington right now.” During the same lecture, Sullivan said the China policy, extending beyond the bilateral relationship, “needs to be about our ties to the region that create an environment more conducive to a peaceful and positive sum Chinese rise.”

A fall 2019 essay in the *Foreign Affairs* journal co-authored by Biden’s NSA pick argued for managed coexistence with China, saying China is a “formidable competitor” but also “an essential U.S. partner.” So, containment is not tenable, it posited. The essay pushed for managed coexistence in these words; “Advocates of neo-containment tend to see any call for managed coexistence as an argument for a version of the grand bargain; advocates of a grand bargain tend to see any suggestion of sustained competition as a case for a version of containment. That divide obscures a course between these extremes — one that is not premised on Chinese capitulation or on U.S.-Chinese condominium.” According to the essay, “The need for cooperation between Washington and Beijing is far more acute, given the nature of contemporary

challenges. Leaders in both countries should consider cooperation on such transnational challenges not as a concession by one party but as an essential need for both.” But the essay argued that the key is for Washington to get “the balance between cooperation and competition right.”

The essay’s advocacy of “managed coexistence” with China must have been music to Chinese ears. In a November 2020 op-ed in *The New York Times*, Fu Ying, a vice chairwoman of the Foreign Affairs Committee of China’s National People’s Congress and an ex-vice foreign minister, called for “cooperative competition” between the U.S. and China. Ms. Fu wrote: “Both governments have heavy domestic agendas to attend to, and so even if competition between China and the United States is unavoidable, it needs to be managed well, cooperatively. It is possible for the two countries to develop a relationship of ‘coopetition’ (cooperation + competition) by addressing each other’s concerns.”<sup>50</sup>

The concept of “cooperative competition” sounds a lot like the “managed coexistence” idea. Both concepts imply a G2-style condominium defined by competitive-cum-cooperative elements. Make no mistake: U.S. cooperation with China will only strengthen the Chinese Communist Party internally and externally. Managed coexistence would mean China managing the bilateral relationship largely on its terms, including protecting the CCP. When Ms. Fu called for “addressing each other’s concerns” to build cooperative competition, she meant (to quote her own words) that the “United States should be respectful of China’s sense of national unity and avoid challenging China on the issue of Taiwan or by meddling in the territorial disputes of the South China Sea.” Addressing each other’s concerns also implies that the U.S. must respect the fact, as Ms. Fu said, that China has a “different political system.” China cannot, and will not, change because, without Xi Jinping’s pursuit of the “Chinese

dream” of global ascendancy and without ultranationalism as the CCP’s legitimating credo, its political system would likely unravel.

However, it will be a major surprise if “managed coexistence”/“cooperative competition” comes to define Biden’s policy. Such an approach could be a recipe for America’s unstoppable decline. The bipartisan consensus on China in the United States, reflected in the 2020 Democratic Party Platform, means that U.S. policy will likely stay tough. Biden, however, may pursue a more nuanced approach toward China.

After Biden’s win, the U.S. state department released a 72-page blueprint on how to checkmate China’s imperial ambitions to dominate the world.<sup>51</sup> The blueprint, which includes a section on China’s internal vulnerabilities, is in the style of a landmark 1947 essay by George F. Kennan (the founding director of its Policy Planning Staff) that helped institute the containment policy against the Soviet Union — a policy that defined the Cold War era. Kennan, a career Foreign Service Officer, published the essay anonymously in the journal *Foreign Affairs*, the so-called “X-Article.” “The main element of any United States policy toward the Soviet Union,” Kennan wrote, “must be that of a long-term, patient but firm and vigilant containment of Russian expansive tendencies.” Kennan’s ideas “became the basis” of the Truman administration’s foreign policy.<sup>52</sup>

The blueprint on how to deal with the China challenge is likely to guide the Biden administration. It advocates a multipronged approach to address the China challenge, an approach that is grounded “in America’s founding principles and constitutional traditions; invigorated by a bustling economy; undergirded by the world’s best-trained and best-equipped military; served by government officials who understand the American people and the American

political system, recognize the diversity and common humanity of the peoples and nations of the world, and appreciates the complex interplay of ideas and interests in foreign affairs; and fortified by an informed and engaged citizenry.”<sup>53</sup>

### *Looking ahead*

With its international reputation battered by the pandemic, and with pushback against its territorial overreach intensifying, China’s ability to pursue its geopolitical ambitions is coming under pressure. This, in turn, has sparked domestic criticism in China, however muted, of the Xi regime’s overambitious agenda. Some domestic critics have said that, by flaunting China’s ambitions openly, Xi’s regime has poked the American bear and provoked a counter-strategy. One of former leader Deng Xiaoping’s most famous sayings was, “Hide your strength, bide your time.” It meant that China shouldn’t talk about what it would do in the world until it managed to have its ducks in a row. But Xi has openly discarded Deng’s advice.

Thanks to COVID-19, many countries have learned hard lessons about China-dependent supply chains, and international attitudes toward Xi’s regime have started to harden. The tide began to turn when it was revealed that the Chinese Communist Party hid crucial information from the world about COVID-19, which was first detected in Wuhan. Making matters worse, Xi has attempted to capitalize on the pandemic, first by hoarding medical products — a market China already dominates — and then by stepping up aggressive expansionism, particularly in the Indo-Pacific region. This is driving rapid change in the region’s geostrategic landscape, with other powers preparing to counter China.

However, as long as the costs of expansionism remain manageable, Xi's regime will stay the present course, seeking to exploit electoral politics and polarization in major democracies. Will the Indo-Pacific's major democratic powers let that happen? The only effective way to stem China's expansionism is to ensure that the costs for China do not remain manageable for long.

Machiavelli famously wrote that, "It is better to be feared than loved." Xi is not feared so much as hated. But that will mean little unless the Indo-Pacific's major democracies get their act together, devise ways to stem Chinese expansionism, reconcile their security strategies, and contribute to building a rules-based regional order. Their vision must be clarified and translated into a well-defined policy approach, backed with real strategic weight. Otherwise, Xi will continue to use brute force to destabilize the Indo-Pacific further, possibly even starting a war.

Let's be clear: Trump may have weakened the trans-Atlantic alliance but, in the Indo-Pacific, his administration has built the Quad into a promising coalition and upgraded security ties with key partners, including Taiwan, Japan, South Korea, India, Australia and Thailand. It has also established new defense cooperation with Vietnam and the Indian Ocean archipelago of the Maldives.<sup>54</sup> The development of a genuinely bipartisan China policy under Trump to counter China's geopolitical, ideological and geo-economic challenges to American preeminence will be his most-consequential foreign policy legacy. Yet, paradoxically, his election loss could be linked to China's most-infamous export ever — the COVID-19 virus.

In this light, how the Indo-Pacific and China policies develop under Biden will have a bearing on the Quad's future. Thanks to U.S.-led efforts in the

past one year, the Quad today appears on the cusp of becoming a formal institution. Relations among its members are stronger than ever, characterized by intelligence-sharing and joint naval war games. Indeed, the Quad is at the center of America's Indo-Pacific strategy, which seeks to underpin the rule of law, freedom of navigation, freedom from coercion, respect for national sovereignty and existing frontiers, free markets and free trade. China represents a growing challenge to all these principles, which explains why the Quad has started to take concrete shape.

China's aggressive expansionism, meanwhile, is driving even distant powers like France, Germany and Britain to view a pluralistic, rules-based Indo-Pacific as central to international peace and security. France has [unveiled](#) its own Indo-Pacific strategy, which affirms the region's importance in any stable, law-based, multipolar global order. According to the strategy, "In an international context marked by uncertainty and the increase in unilateralism, France's priority is to propose an alternative: a stable, multipolar order based on the rule of law and free movement, and fair and efficient multilateralism. The Indo-Pacific region is at the heart of this strategy."<sup>55</sup> France has even appointed an ambassador for the Indo-Pacific region.

Germany, which currently holds the European Council's presidency, has sought to help build an Indo-Pacific strategy for the European Union by releasing its own Indo-Pacific policy guidelines, which call for measures to ensure that rules prevail over a "might-makes-right" approach in the region. The German policy guidelines state that the Indo-Pacific "region is becoming the key to shaping the international order in the 21st century ... With China, Japan and the U.S., the world's three largest economies have Pacific coastlines. India, another Indo-Pacific power, could become number four a few years from now. Twenty of the world's 33 megacities are located in this region. With growing

economic output, the countries in the region are becoming increasingly self-confident partners in international cooperation, including in the fight against climate change and against the global loss of biodiversity.”<sup>56</sup> Germany, meanwhile, has gradually stepped up its initiatives in the Indo-Pacific.

China’s strategy is to divide the trans-Atlantic alliance, and divide Europe itself, in order stem Western pressure and open more space for itself at the expense of the West. In an extraordinary achievement, China has become the European Union’s most important trading partner, although it only joined the World Trade Organization 21 years ago.

However, several European developments are making it difficult for China to pursue its divide-and-rule strategy. For starters, the European Union is waking up to the China threat. This has been underscored by the European Council’s adoption in October 2020 of conclusions on relations with China, including stressing “the need to rebalance the economic relationship [with China] and achieve reciprocity.” The Council expressed serious concerns about the human rights situation in China, including Beijing’s crackdown in Hong Kong and its treatment of ethnic minorities. It called on China to “deliver on previous commitments to address market access barriers, to make progress on overcapacity and engage in negotiations on industrial subsidies at the World Trade Organization.”<sup>57</sup> The EU is beginning to realize that the more it cedes to China economically, the more it will weaken itself politically. The EU, therefore, must make economic ties with China integral to its political strategy.

There is growing realization in Europe that the EU must look at the Indo-Pacific with a wider focus than just on trade and investment. European powers, reflecting the wider turn against China, have embraced the notion that a rules-based Indo-Pacific order is crucial to international peace and security. In

particular, France, which has a vast exclusive economic zone in the Pacific, has sought to project itself in the region as a credible force. These developments suggest that in the coming years, Quad members will increasingly work with European partners to establish a strategic constellation of democracies capable of providing stability and an equilibrium of power in the Indo-Pacific.

The likely demise of the “free and open Indo-Pacific” strategy under Biden, however, adds a layer of uncertainty in the region. Without a well-defined Indo-Pacific policy approach, backed with strategic heft, China’s expansionism will destabilize the region further, with Taiwan likely to be its next target after Hong Kong.

The gradual decoupling of the U.S. economy from the Chinese economy in key technology and industrial sectors, which was set in motion by the Trump administration, is likely to gain momentum in the coming years. The emphasis will be on technologies that are integral to America’s national security. In other words, the decoupling is to be pursued in America’s long-term national interest. The American tariffs that have targeted Chinese imports have included many tech products that the U.S. would like to see made outside of China. This illustrates that the U.S. tariffs have had strategic, and not just economic, objectives.

The U.S., however, may be underestimating China’s resilience to American pressure. In the 1980s and early 1990s, the U.S. managed to blunt the threat from Japan’s dramatic economic rise by forcing Tokyo to accept various export restraints and market openings. Japan caved in because of its security dependence on America. But China is no Japan. China’s economy today is more than 30 times larger than it was three decades ago. And in power purchasing parity (PPP) terms, China’s economy is already larger than America’s,

according to both the IMF and the World Bank. Yet it also true that China, besides engaging in predatory or unfair business and trade practices, still hides behind the argument that it remains a developing economy and that it thus is entitled to favorable treatment, including not living up to global norms.

The U.S., moreover, may be underestimating the costs of decoupling and overestimating the likelihood that its allies would follow its lead on developing economic distancing from China. Even small Singapore, for example, may find it very difficult to follow the U.S. lead. Several Indo-Pacific economies, from South Korea to Australia, are more integrated with China than with the United States.

Still, it is important to bear in mind two things. First, decoupling is planned in a gradual manner only in areas critical to national security. In that sense, setting in motion a long process to help cut dependence on China for critical supplies is significant in itself. This process, over time, will reshape bilateral relations with China.

For several major democracies, a managed and selective economic decoupling from China has become imperative. While encouraging other economies to depend on it, China has cleverly avoided dependencies other than for semiconductors. It has erected protective trade barriers and positioned “itself to control strategic areas from rare earths and pharmaceuticals to advanced manufacturing,” as one analyst put it.<sup>58</sup> Decoupling from China, according to this assessment, isn’t “a rejection of trade or the relationship but a rethinking of interdependence. The coronavirus crisis has exposed the fragility of just-in-time supply chains and the folly of relying on a single country for critical goods and infrastructure. Some economic separation is unavoidable and necessary.”

As part of a reassessment of the risks prompted by the COVID-19 pandemic, more and more companies in the coming years are likely to move supply chains out of China. Some countries like India and Vietnam are offering financial incentives to companies to relocate to their territories. And Tokyo has offered incentives to Japanese firms to move manufacturing from China to Southeast Asia, India or Japan. Companies moving some production out of China are likely to relocate to countries where wages are even lower than in China.

Indeed, moving some manufacturing out of China is seen by a growing number of multinationals as essential diversification to make their supply chains more resilient by spreading out facilities across the world. At least in one sector — drugs and medical equipment — decoupling is already starting in earnest. This sector-focused decoupling could advantage India, which has rolled out nearly \$1 billion worth of incentives to encourage pharmaceutical companies to manufacture 53 ingredients and key materials for making drugs locally. India is already the world's largest generic-drug supplier but currently relies on the products' raw materials from China.

The Chinese Communist Party may still be hoping that the all-consuming greed of Western businesses, which China has adroitly exploited for long, will prevent any meaningful decoupling. But President Xi Jinping's strategy of "dual circulation," as he called it, suggests that his regime is beginning to read the writing on the wall. In response to the U.S.-led decoupling efforts, Xi has underscored the imperative for China to retool its economy to be more self-sustaining. Xi's "dual circulation" strategy, which he first outlined in May 2020, calls for China to rely on a robust cycle of domestic demand and innovation as the primary economic driver, with foreign markets and foreign investments serving as a second engine of growth.<sup>59</sup> "The world has entered a period of

turbulence and transformation,” according to Xi. “We face an external environment with even more headwinds and countercurrents.”<sup>60</sup> Add to the picture the specter of international isolation and supply disruptions that now looms over China. This may explain why Xi’s regime has unveiled plans to hoard mammoth quantities of mineral resources and agricultural products.<sup>61</sup>

The plain fact is that, despite the launch of the “dual circulation” strategy, China remains vulnerable to U.S.-led trade actions, especially those that target supply of high-tech components, such as semiconductors. Silicon is the new oil for China, with semiconductors emerging as China’s biggest import by value, surpassing even crude oil. This shows that, for high-end products, China is heavily dependent on others, especially the U.S., Japan, the European Union, South Korea and Taiwan. As U.S. sanctions against ZTE and Huawei have exemplified, China is acutely vulnerable to sanctions-driven disruption in supply of semiconductors and other high-end products.

In fact, to address its vulnerabilities, China under Xi has been pursuing its own version of “decoupling.” Xi’s China 2025 program is effectively a “decoupling” program, because it is aimed at displacing foreign technology, especially from the U.S., by gaining sufficient self-sufficiency and thereby closing key strategic sectors to foreigners. The fact that Xi’s China 2025 program began much before Trump took office shows that China’s decoupling strategy predates the similar American strategy.

U.S.-China rivalry will prove costly for both powers, but more so for China. China’s rise, after all, has had much to do with international trade. China has benefited enormously from international trade. U.S.-led actions that curtail China’s international-trade benefits will impose major costs on Beijing. There are two additional reasons for this. One, China has relied on large

trade surpluses and foreign-exchange reserves to fund its expanding global footprint and fuel its domestic growth. This makes China vulnerable to other nations' use of economic levers against it. Second, the international pushback against Xi's regime, by threatening to stem its export earnings and foreign-exchange reserves, could undercut China's current advantage in mobilizing vast state funds in support of, for example, Belt and Road projects.

Even if the U.S.-led strategy does not trigger a new Cold War, it will carry broad implications for the Indo-Pacific region. As the strategy gains traction and the U.S.-China relations gets rockier, it might become difficult for Asia-Pacific nations to have their cake and eat it too — that is, balance their relations with America and China. Some U.S. regional allies (for example, Australia and South Korea, to give just two examples) currently view their economic relations with China to be as important as their security ties with the U.S. South Korea, Singapore and Thailand, for example, do not want American policy to force them to choose between the U.S. and China.

This is just one reminder that the U.S.-China competition is unlikely to mirror the U.S.-Soviet confrontation, in part because it will be difficult to divide the world in Cold War-style rival camps. Also, until both sides achieve a considerable degree of decoupling, economic interdependence will continue to limit U.S. and Chinese options. Moreover, unlike the Soviet focus on meeting the U.S. challenge in the military realm, China today is mounting a more insidious and multifaceted challenge to the U.S., in the style recommended by the ancient Chinese strategist Sun Tzu, who advised taking on an opponent not frontally but in ways that would break its resistance.<sup>62</sup> Clearly, China is likely to prove a trickier opponent for the U.S.

To be sure, the shifting U.S.-China equation will certainly stimulate nationalist impulses in both countries. And even if the U.S. and China are able to avert conflict over the South China Sea or Taiwan or another regional issue, their growing strategic rivalry could lead to gradually deteriorating bilateral relations. This is what happened to the U.S.-Soviet relationship. Indeed, the lesson from that Cold War was that strategic rivalry between two great powers is risky and costly. U.S. won the Cold War in part by co-opting China and turning the competition against Russia into two against one. Today, paradoxically, it is two against one again — but with the U.S. at the receiving end. Better U.S. relations with Russia can help to put discreet checks on China's overweening ambitions. But the sanctions-centered U.S. policy approach toward Russia has only compelled Moscow to pivot to China. A generation after the Cold War ended, the Washington power elites remain fixated on Russia, although Russia's economy today is less than one-tenth the size of China's and its military spending one-fifth of China. Thanks to U.S. policy, two natural competitors, China and Russia, find themselves in greater strategic alignment. This geopolitical reality, if left unaddressed, could crimp American policy's paradigm shift on China.

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<sup>1</sup> Graham Allison, "How Trump and China's Xi could tumble into war," *Washington Post*, March 31, 2017.

<sup>2</sup> Philip Bowring, "A sense of destiny inspires China's maritime claims," *Financial Times*, August 20, 2014.

<sup>3</sup> Brook Larmer, *Operation Yao Ming* (London: Penguin, 2005).

<sup>4</sup> BBC, "Tiananmen Square protest death toll 'was 10,000'," December 23, 2017, <https://www.bbc.com/news/world-asia-china-42465516>.

<sup>5</sup> The White House, *The National Security Strategy of the United States of America* (Washington, DC: White House, March 2006), p. 41, <https://j.mp/37ZCzlg>.

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<sup>6</sup> Brahma Chellaney, “China is at a crossroads,” *The Globe and Mail*, January 1, 2019.

<sup>7</sup> George Soros, “Will Trump Sell Out the U.S. on Huawei?,” *Wall Street Journal*, September 9, 2019.

<sup>8</sup> Anna Fifield, “China wasn’t wild about Mike Pompeo before the virus. It’s really gunning for him now,” *Washington Post*, April 30, 2020.

<sup>9</sup> The White House, “Remarks by Vice President Pence on the Administration’s Policy Toward China,” Transcript of his speech at the Hudson Institute, October 4, 2018, <https://www.whitehouse.gov/briefings-statements/remarks-vice-president-pence-administrations-policy-toward-china/>.

<sup>10</sup> More evidence of a structural (and momentous) shift in America's China policy: Pompeo says the Trump administration "has recognized the difference in China's behavior and the requirement for an American response to that changed behavior." <https://www.state.gov/secretary/remarks/2018/10/286926.htm>

<sup>11</sup> Ash Carter, “Reflections on American Grand Strategy in Asia,” Belfer Center for Science and International Affairs, Harvard University, October 2018, <https://www.belfercenter.org/publication/reflections-american-grand-strategy-asia#5>.

<sup>12</sup> Office of the U.S. Secretary of Defense, *Military and Security Developments Involving the People's Republic of China 2020*, Annual Report to Congress (Washington, DC: Department of Defense, September 2020), <https://media.defense.gov/2020/Sep/01/2002488689/-1/-1/1/2020-DOD-CHINA-MILITARY-POWER-REPORT-FINAL.PDF>.

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