



# **Special project of IISRT\* for the improvement of US- China relations**

**Frank Owarish, Ph.D. Executive  
Director, \*International Institute for  
Strategic Research and Training;  
former Director of Training, UN  
Institute for Training and Research**

# Objectives of presentation



- **Evaluate the dynamics of what is often described as the most complex set of bilateral relations of our time**
- **Underscore the importance of such relations and explore possibilities of improving these relations**
- **Establish a blog to foster ongoing constructive discussion on the subject**

# **A compilation paper**



- **Uses available original sources; the originality is in the analysis**
- **Provides the links/resources for more exploration**
- **Uses information both objective and subjective**
- **Uses author's own conclusions**

# Limitations

- **May not be exhaustive**
- **Uses mostly literature from western sources**
- **Balance between US and China's viewpoints: 'tricky'**



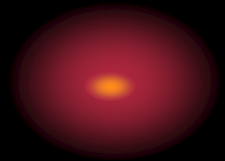
# Caveats



- **Difficult to deal with such complex issues in 40 slides or so; the paper has more information including background and food for thought items; but the advantage of the presentation is that it concentrates on the big picture, the ‘forest’ rather than the ‘trees’; on the other hand, the paper and the blog challenge the leaders and scholars on both sides to look deeper into fundamental issues which underpin growth or stagnation, cooperation or conflict**

# China: a world unto itself

- **For those in the western world, China has always been a world of mystery**
- **It has a rather complex history**
- **Its recent opening up is significant, for China itself and for the world**
- **The 2008 Olympic Games did for China what the 1988 Games did for South Korea i.e. catapult it to the world stage as a major player**



# **The US is an open book**



- **Much more is known about the US through books, magazines, newspapers, movies**
- **Is considered as the world leader, looked to for dealing with the complexities of the world; 'global cop'**
- **Stands for and promotes and supports democracy and free market economy**

# Current issues: US viewpoint



- **Alleged role of China in (a) cyber espionage (b) currency manipulation (c) adventurism in the South China Sea (d) human rights violation (e) reckless pursuit of economic growth (f) damage to the environment ...**

# Current issues: China's viewpoint



- **Susan Rice's (US National Security Adviser) was told in China in September 2014, by Yang Jiechi: "countries needed to truly respect each other's core interests and major concerns and constructively manage our differences and sensitive issues"**
- **Chinese media: Great urgency for the United States to reaffirm its commitment and sincerity to Beijing by treating it as a true partner**

# 2014 a turning point in world history



- **A 2007 OECD report stated that “if using PPP conversions, China will overtake the United States by 2015”\*** **However, China did so late 2014, hailing ‘The Chinese Century’\*\***
- **\* Source: Chinese Economic Performance in the Long Run By Angus Maddison, Organisation for Economic Co-operation and Development. Development Centre, 2007**
- **\*\* [http://www.vanityfair.com/business/2015/01/china-worlds-largest-economy?mbid=social\\_twitter](http://www.vanityfair.com/business/2015/01/china-worlds-largest-economy?mbid=social_twitter)**

# Largest economy



- **“China is reemerging as a major power after one hundred and fifty years of being a weak player on the world stage”... “For two thousand years, until the late nineteenth century when it was overtaken by the United States, China had the largest economy in the world” (Susan L. Shirk)**

# Over the course of history



- **The two nations have cooperated, competed and conflicted**
- **There is a new mood of cooperation so as to compete fairly and to resolve conflicts**

•

# Quick review of US China relations



- **After World War II ended in 1945, the hostility between the Republic of China and the Communist Party of China exploded into open civil war. The Kuomintang (KMT) lost effective control of mainland China in the Chinese Civil War in 1949 and moved to Taiwan. The US supported the ROC and did not recognize the government set up by the Communist Party under Mao Zedong, who created the People's Republic of China**

# Quick review of US China relations



- **The US formally recognized China (PRC) in 1979 which became recognized as a member state at the UN replacing the ROC.**
- **However, the US maintained relations with the ROC and whenever there were tensions between PRC and ROC which could lead to war between the two entities, the US showed open support for the ROC; relations between the US and PRC at times tense with suspicion on both sides**

# Rapprochement



- **In the 1970s US President Nixon turned the situation around by creating a ‘rapprochement’ despite the fact that PRC continued on its communist ideology path**
- **President Carter formally established diplomatic relations with China**
- **Since then cooperation grew between the two nations**

# **End of the Cold War: pragmatism**



- **Reagan and the advent of normalcy (Kissinger)**
- **At the end of the Cold War, relations between China and the US intensified with substantial increase of investment by US companies in China which started 'opening up' transforming its economy**

# Tension anew



- **The US imports from China grew significantly and so the trade balance in favor of China**
- **Are there currency factors which make Chinese products more competitive?**

# Use of China's surplus



- **China has been using its surplus to buy a significant amount of US financial instruments as well as to invest in the US**

# On the other hand

- **US companies presence albeit investment has also grown significantly in China**



# **China suspicion of the US and counteraction**



- **China has mixed feeling regarding the so-called US pivot policy in Asia;**
- **“China’s Silk Road and Maritime Silk Road initiatives (APEC 2014) are widely regarded as strategic moves by Beijing to checkmate US Pivot to Asia and US plans to develop a silk road through Afghanistan” The Hindu (Nov 8, 2014)**

# US suspicion of China

- **US Defense Secretary Hagel made a statement in September 2014 to the effect that China was pursuing a military technology strategy which warrants attention**

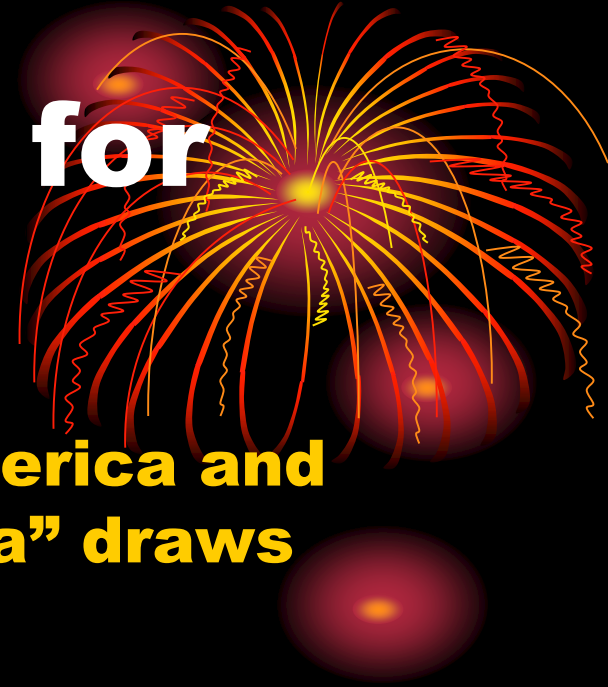


# China's development policy



- **Some in the US have drawn attention to China's policy of large scale borrowing to build up its infrastructure and its economy often disregarding human factors as well as ecological considerations**

# Is there a contest for supremacy



- **Aaron L. Friedberg: “China, America and the struggle for mastery in Asia” draws attention to several issues**
- **“Rivalry”**
- **“From containment to alignment”**
- **Obama Administration: “Congagement” (containment, engagement)**
- **Is China pursuing hegemony?**

# Learning from US Japan relations



- **A long story short: from bitter enemies to best friends over a few decades**
- **Key points: Japan military operations over Hawaii; US retaliation Hiroshima and Nagasaki; After end of war, US helped Japan reconstruct both the country and its economy**

# Learning from US Japan relations



- **Japan learned from US example of world business expansionism, product manufacturing inc quality control**
- **Japan developed its own business model from which during the economic lows of the US in the 80s US companies learned, particularly in business strategy formulation**
- **Japan made the mistake of entering the US too visibly**
- **Trade and investment advantage of Japan created resentment in the US**

# Improving US Japan relations



- **Several efforts were made; Author served as a member of a team gathered by Global Consultants who met with high level officials of MITI and LDP leading to the establishment of foreign access zones in Japan thus an opening to foreign products and investments inc those of the US, creating a better balance**

# **Improving US Japan relations: key ingredients**



- **Cross investment; in effect the two nations became partners so closely linked that they will never go to war**
- **The two business cultures have similarities and also differences; the two countries apply the principle of mutual respect**
- **Japan economy grew to become number two (now third) in the world**

# Improving US China relations



- **The November 2014 visit of President Obama to China absolutely crucial (APEC Meeting)**
- **Need for confidence building measures**
- **Partners have agreements and also differences**
- **Opportunity for much needed dialogue**

# Factors affecting US China relations



- **Realism on both sides**
- **Economic system: China has made efforts to open its economy adopting the so-called 'state capitalism'; most countries of the world have a so-called mixed economy with varying size and role of the public sector**
- **China's political/government system: key role of the communist party**

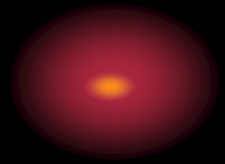
# **China has to face many challenges**



- **China is a huge country with different ethnic groups**
- **Disparity in wealth; the urban-rural challenge**
- **Tibet**
- **Taiwan**
- **Hong Kong**

# Dealing with challenges

- **All countries have challenges of some sort to deal with; what's important is to have legal and political mechanisms to deal with these and resolve them openly and fairly; it helps if people have their say; repression is not an easy way out**



# Author's thoughts



- **Democracy is great without any doubt; most of the countries of the world have democratic regimes; democratic system of government can have temporary setbacks (e.g. gridlock; shutdown) which should be addressed and resolved**
- **Empirically economic socialism communism has failed**
- **Political socialism/communism based on authoritarianism has serious limitations**
- **The correlation of strong leadership and strategic decision making warrants attention; Is Lee Kwan Yew's leadership in Singapore a special case?**

# **China's good neighbor policy vs expansionism**



- **“Over the 80s/90s China developed a coherent, integrated and omni directional Asia regional policy, consisting of improved ties with all the countries surrounding it” (Susan L. Shirk)**
- **Recent tensions with countries over the South China Sea (Philippines and Vietnam) inc Japan**

# **APEC 2014 and follow up**



- **China fostering regional cooperation including the establishment of a free trade zone; are the countries in the region going along? US has a counter proposal**
- **Possible dialogue to develop one all encompassing formula (win-win instead of zero-sum)**

# **China's new 'soft' style cooperation for globalization is remarkable**



**Agreements with:**

**Australia**

**Russia**

**Mongolia**

**India**

**Spain**

**Several African countries**

**Several Latin America countries**

# **Improvement in Japan-China relations**

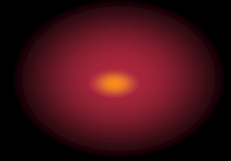


- **PM Abe overture to China (Sep 2014)**
- **High level meeting at the presidential level enhancing dialogue between the two nations (Nov 2014)**

# Cooperation, competition, conflict



- **Can be positive if properly managed (Kissinger)**
- **Dialogue: US and China Discuss Avoiding Military Incidents (Sep 2014 news)**



**A picture is worth a thousand words**

**September 2014 Rice and Xi Jinping**

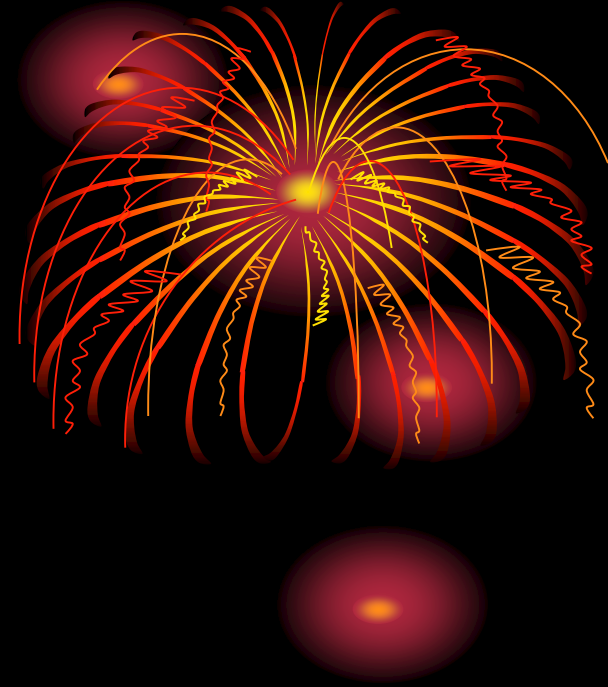
# China and hi-tech sector

- **China is no longer just known for its products at low cost**
- **China has gone hi-tech**



# Competition in the supercomputer world

- **1. Tianhe-2 (China)**
- **2. Titan (US)**
- **3. Sequoia (US)**
- **4. K Computer (Japan)**
- **5. Mira (US)**
- **6. Piz Daint (Switzerland)**
- **7. Stampede (US)**
- **8. Juqueen (Germany)**
- **9. Vulcan (US)**
- **10. SuperMuc (Germany)**



# Competition fosters progress



- **US involved in building two new fastest supercomputer in the world**
- **US still way ahead in the total number of supercomputers**

# Competition in the PC world



- **Lenovo jumped ahead of HP**
- **Pendulum can swing any time**

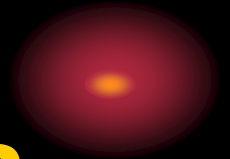
# On the other hand

- **When it comes to tablets, smart phones and phablets (both hardware and software) US companies are way ahead**



# **Competition and cooperation in the eCommerce world**

- **Ali Baba became a giant with the help of the US**
- **Ali Baba issued IPO in the US and now issuing bonds in US financial markets**



# **Economic growth: size matters**



- **US economic growth spurred by the size of its own market with add-ons from world markets**
- **China has a super size market and thus its growth potential is enormous, however developing its own internal market is challenging (very low GDP/per capita) requiring long term effort; it would help to empower civil society to grow and prosper**
- **Socio-political growth matters**
- **China working on gaining outside markets not just for its exports but also for strategic import of raw materials**

# China and BRICS



- **Will BRICS (Group consisting of a cooperative alliance of Brazil, Russia, India, China, South Africa) give an added advantage to China as well as to other countries in the group? Most likely**
- **BRICS creating its own development bank likely to compete with World Bank**

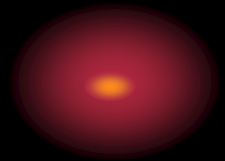
# US has its own challenges



- **Aging infrastructure**
- **Saturated markets**
- **Less competitive in manufacturing except for some high tech products**
- **Debt of the public sector**
- **Are individuals and families over extended in credit?**
- **Financial crisis of 2008 and ensuing economic recession**
- **Tax inversion**
- **...**

# However US bouncing back

- **The US has a track record of resilience and tremendous creativity in both public and private sectors and can deal with its challenges; US is already bouncing back (economic growth rate, reduction in unemployment)**



# US and EU



- **Useful partnership: they cooperate, they compete, they conflict**
- **An interesting model for US and China to look at**

# **Global shift: Asia as new center of gravity?**



- **ASEAN smart growth strategy**
- **Japan will come out of recession**
- **India growth**
- **China growth**
- **Taiwan=technological giant**
- **South Korea growth**

# China US at APEC



- **Did China miss an opportunity during Obama's visit to Beijing (APEC 2014)? Prof. Shi Yinhong states that "Xi does not want to give Obama any big gift, because he knows Obama can't give anything back"**  
**International New York Times, Nov 9, 2014**

# **The fact is (empirically)**



- **US Presidents in their last years in office seek to build up their legacy**
- **Enhanced China US dialogue can be mutually beneficial**
- **Policy of mutual respect**

# Conclusion 1



- **Susan L. Shirk: “I believe that China’s leaders sincerely desire for China to rise peacefully, without provoking conflict with the United States or other countries”**
- **Finesse of Xi Jinping’s leadership (clearly Dale Carnegie’s)**

# Conclusion 2



- ***Realpolitik* policy formally introduced to the Richard Nixon White House by Henry Kissinger, i.e. dealing with other powerful nations in a practical manner rather than on the basis of political doctrine**
- **This principle is perhaps even more relevant in the 21<sup>st</sup> century**
-

# Conclusions 3, 4, 5



- **There is more to gain by peaceful cooperation: win-win**
- **Climate change diplomacy: US and China agree to work together and provide leadership**
- **“Metaphor meets reality: US and China are clearing the air” Elizabeth Cobbs Hoffman\*, Nov 17, 2014**
- **\*author of ‘American Umpire’**

# Resources to further explore the subject



- **Friedberg, Aaron I: A Contest for Supremacy: China, America and the struggle for mastery in Asia (W. W. Norton & Company, 2011)**
- **Kissinger, Henry: On China (Penguin Books, 2012)**
- **Shambaugh, David: China goes global: the partial power (Oxford University Press, 2013)**
- **Shirk, Susan L: China: fragile superpower (Oxford University Press, 2008)**
- **Starr, John Bryan: Understanding China (Hill and Wang, 2010)**