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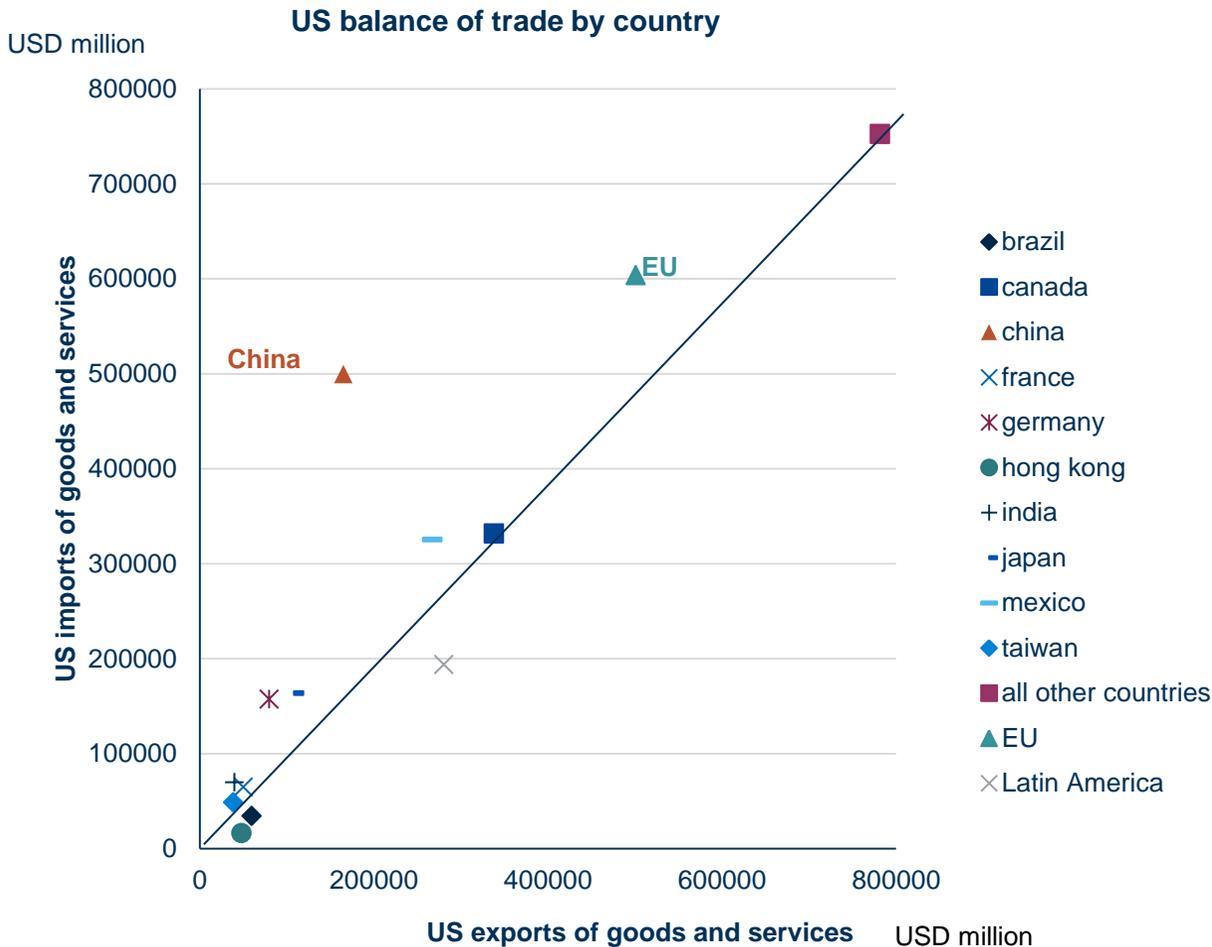
US – China Relations in the Trump Era

Can America First and the China Dream Coexist

Asia Geopolitics: 2017 Risks

- ▶ Nationalistic policies in the US and China risk destabilising the region
- ▶ While still unclear, Trump's America First policy is leanings towards unilateralism and protectionism
- ▶ Xi's China Dream is expansionist and protectionist, despite overtures towards globalisation
- ▶ Multiple pressure points: trade/currency; SCS; North Korea; Taiwan
- ▶ Will China and the US avoid Thucydides trap?

US – China: Washington’s view

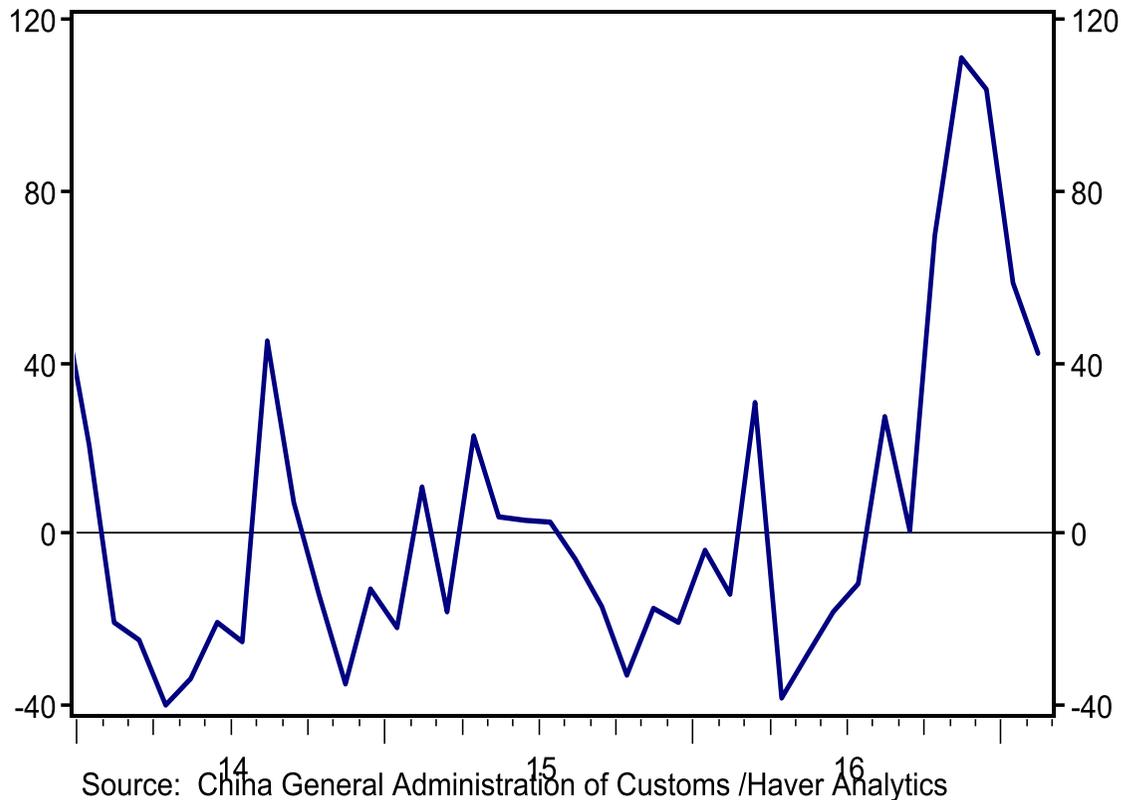


- Even before Trump there was a growing consensus that China policy needed recalibration
- Views from Washington: economic relationship becoming unbalanced; Obama’s “pivot” largely a failure; realization that economic liberalism will not beget political reform
- Tensions are likely to increase; the biggest questions remain to be who is influencing US policy, and how will the Chinese react in a politically important year?
- Who will moderate hawkish policy? In the past US business lobby pushed for peaceful ties and Chinese establishment refrained from provoking US. Now, conditions are much different

2017's biggest risk: North Korea

China: coal imports from North Korea

% Change - Year to Year BilUS\$



- It is clear 20+ years of efforts have failed
- US increasingly views NK as a direct threat to the homeland
- US expects China to solve the problem, China does not see it as their problem
- Differing viewpoints explain why: China thinks the US is to blame for NK's nuke program; the US thinks China is supporting the regime
- No easy answers

US-China: Beijing's view



- China sees itself as highly vulnerable for two reasons:
 - Dependence on Strait of Malacca for energy imports
 - US alliances that control the First Island Chain
- These are motivating forces behind China's foreign policy since 2012
 - Secure the straight through control of SCS
 - Weaken alliance structure
- Beijing sees historic opportunity to establish leadership role

What does America First mean for Asia

- ▶ Protectionism – US will not drive globalisation
- ▶ Lack of leadership and reassurance
- ▶ No clear policy framework – mixed signals
- ▶ More pressure externally, less internally – greater chance of a clash but also hope for “grand bargain”
- ▶ New Cold War – countries forced to choose

China: A champion for globalization?

- ▶ Will China-led globalization be as beneficial as the previous era?
- ▶ The Regional Comprehensive Economic Partnership, AIIB, and One Belt One Road represent a potential boost to stagnating globalization, but China will need to open domestic markets



Avoiding the Thucydides trap

- ▶ Thucydides trap: the phrase coined to describe the dangers of a period in which an established great power is challenged by a rising power
- ▶ 12 out of 16 historic cases resulted in open conflict
- ▶ Xi Jinping’s “China Dream” and Donald Trump’s “America First” are both inherently hawkish *and* protectionist
- ▶ Xi’s policy is clear, the China Dream promises to restore China as an economic, military, and cultural power with significant influence over international affairs
- ▶ Obama’s “pivot” was largely a failure, it implemented no practical change but served to deepen suspicion of Washington’s intentions
- ▶ Views that Washington is retreating emboldens Chinese leaders; lack of clarity from the WH increases chance of miscalculation
- ▶ On the positive side, both sides are aware of history’s lessons...and nuclear weapons have changed the calculus

Implications

▶ Good outcome

- Renegotiation of trade and investment restrictions accelerates domestic reform
- China works with US/SK to denuclearize NK, ceases militarization of SCS
- China opens domestic markets to foreign investment and competitions, reciprocity is key

▶ Bad outcome

- Tit for tat trade frictions, restrictions on capital flows and investment
- Asian Cold War
- Open conflict
- No cooperation on key issues

▶ Key Question: If status quo is untenable, what is each country willing to give up?

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