



RESPONSE TO PACNET #34, “THE GROWING US-CHINA TENSIONS: DO WE SEE LIGHT AT THE END OF THE TUNNEL?”

BY RALPH COSSA

Ralph Cossa (ralph@pacforum.org) is WSD-Handa Chair in Peace Studies and President Emeritus at the Pacific Forum.

To answer Zhiqun Zhu’s question (The Growing US-China Tensions: Do we see light at the end of the tunnel?), the answer is yes. Unfortunately, it’s the light from an oncoming train.

I share his concern about the current status and future development of this “most consequential bilateral relationship” but disagree with his analysis as to why it has been deteriorating. I am not arguing in favor of President Trump’s tariff-happy approach. If we want to argue about Dr. Trump’s bedside manner, I am prepared to join the chorus. But his diagnosis is correct. China is not playing by the rules it agreed when it began playing (and profiting from) the game. While some may be disappointed that China has not become “more like us,” the real problem is that China has not kept its promises. That is the real root cause.

Zhu argues that “it has been a mutually agreed-upon practice for some foreign companies to share certain technologies and management skills with Chinese collaborators in exchange for access to the China market.” “Mutually agreed upon”? Others would call it “extortion.” He further notes that “these businesses have the option to say no and leave China.” He is absolutely right – and many are beginning to do so.

This has led to Chinese accusations about politically-induced decoupling. But US (and Japanese, and Korean, and other Western) companies came to China for two main reasons: inexpensive labor and access to a billion Chinese consumers. Labor costs have been

rising and the access has failed to materialize as the promised phase-out of state-owned enterprises has been replaced by Made in China 2025. Meanwhile, Goggle, FaceBook, and others have been denied access to Chinese consumers, who have no option other than to use Chinese alternatives. This sounds suspiciously like decoupling to me.

It is true, as a general observation, that this (and other) US administrations have demonstrated a “lack of understanding of Chinese culture.” But losing face is a concern that is not unique to China or Asia. Nowhere is face more important than it is for democratically-elected politicians (especially those running for re-election). When a national leader announces “we are close to an agreement” only to have what was presumed to be a mutually agreed upon 150-page draft returned with fully one-third of the paragraphs redlined (if rumors are to be believed), one should expect a negative reaction. The real problem is the two “lead negotiators” (Presidents Xi and Trump) are too much alike. Both are oncoming trains.

These disagreements notwithstanding, my friend and colleague Professor Zhu makes a number of key points with which I fully agree. As he notes, “even if a trade agreement is reached, competition between liberalism and authoritarianism will continue.... The most difficult challenge for Washington and Beijing is to manage the global power transition as a result of China’s rise.”

The real question, however, is not “Is the US willing to accommodate China’s rise?” It was a clear and deliberate US strategy that helped China to rise in the first place, just as the US helped Japan and Germany to rise after the Second World War through political and economic engagement.

The point missed by Zhu and Hugh White (whom he cites) and others is that the US has long accepted and actually facilitated China’s rise. Past administrations have long been willing to “allow China to have a greater say in shaping global rules” not just “to avoid a prolonged clash,” but because it made good strategic sense.

Zhu is absolutely right that “It is time for the US and China to write trade and other rules together to

safeguard a more just, inclusive, and sustainable international system, in which both powers play a constructive leadership role.” But to do this, Beijing needs to live up to its agreements and play by mutually agreed-upon rules.

President Obama extended an outreached hand to China and Beijing saw this, not as a sign of friendship to be capitalized upon, but as a sign of weakness to be exploited. This led to the more heavy-handed approach followed by Washington today (which would likely have been followed, if perhaps a bit more consistently and coherently, had Hillary Clinton prevailed in 2016). It remains to be seen if either national leader has the wisdom and courage to get us out of the mess they have both helped create.

Zhiqun Zhu responds:

I always enjoy reading Ralph Cossa’s sharp analysis, including his response to my article (PacNet #34). I fully agree with most of the points he raises, but I have different views on two issues. The first is the diagnosis of the problem, and the second is the outcome of the current tensions.

Cossa points out that the real problem is “China is not playing by the rules.” I agree that China has fallen short of its own promises in areas such as SOE subsidies and intellectual property rights protection. The primary reason for Trump’s trade war is to fix the trade deficit and force China to fully abide by the rules. However, my argument is not just about trade and business; it’s about the overall US-China relationship, specifically how the US can handle China’s rise. Are current tensions caused by China’s disregard of international rules or triggered by US anxiety about and mishandling of China’s rise? In China, I hear people asking, what exactly does the US want? If the US just wants China’s money (钱) – meaning a reduction of the trade deficit and a level playing field for US businesses, the problem will be easy to resolve and China appears willing to work with the US. But if the US wants China’s life (命) – meaning blockage of China’s technological advance and containment of China’s continued growth, as in the case of Huawei, then the two countries are on a collision course. I doubt that there is a consensus in Washington about what it wants from China.

Regarding the result of current tensions, Cossa sees the light in the tunnel from an oncoming train. I

understand his genuine concerns, but I’m a little more optimistic. The US and China have experienced many ups and downs in history, and the relationship has continued to grow and expand. Most importantly, the societal bonds are solid, and no one from either side wants war. Even the two strong-willed leaders have surprisingly maintained a close and cordial relationship through frequent meetings, phone calls and letters. Yes, they helped create the current mess, but apparently they are also working to step out of it, including their planned meeting later this week at the G20 in Osaka. Despite the heat generated by hawks on both sides, it seems that cooler heads are slowly but steadily prevailing. One probably does not have to be so pessimistic about the future as my distinguished colleague and friend Ralph Cossa.

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