



Think Tank Dialogue: Balancing Competition and Cooperation in China–US Relations

A Dialogue with Adam S. Posen, J. Stapleton Roy,
John L. Thornton, and Zhu Guangyao

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Sometimes, when bilateral tensions are high or global issues are too contentious for governments to navigate successfully alone, informal or Track II diplomacy can provide a valuable channel to maintain channels for communication and find common ground. In recent years, as frictions between China and the US have risen, CCG has increased its efforts

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H. Wang and L. Miao (eds.), *Understanding Globalization,
Global Gaps, and Power Shifts in the 21st Century*,
https://doi.org/10.1007/978-981-19-3846-7_10

to build bridges and promote understanding between the two countries through Track II diplomacy. This includes outreach missions to engage counterparts in the US, hosting visiting delegations in China, and developing new platforms for exchange between think tanks, scholars, and business leaders.

On July 30, 2021, CCG continued these efforts by hosting a special dialogue between experts from Chinese and US think tanks as part of CCG's annual China and Globalization Forum. The discussion featured experts from CCG, the think tank of China's Ministry of Finance, and four leading US-based institutions: the Peterson Institute for International Economics, The Wilson Center, the Brookings Institution, and The Asia Society.

Adam S. Posen is President of the Peterson Institute for International Economics, recognized as the world's leading independent think tank for international economics. Over his career, Adam has contributed to research and public policy regarding monetary and fiscal policies in the G20, the challenges of European integration since the adoption of the euro, China-US economic relations, and developing new approaches to financial recovery and stability.

Ambassador J. Stapleton Roy is the Founding Director Emeritus and a Distinguished Scholar at the Wilson Center's Kissinger Institute on China and the United States. He was born in China, speaks fluent Mandarin, and has spent his life studying the development of the country. J. Stapleton Roy holds the rank of Career Ambassador and has served as the top US envoy to Singapore, China, and Indonesia. After retiring from the State Department, he went on to head the newly created Kissinger Institute on China and the United States at the Wilson Center.

John L. Thornton is the Chair Emeritus of the Brookings Institution and Co-Chair of The Asia Society. Thornton has had a distinguished career in finance. He is currently Executive Chairman of Barrick Gold and Chairman of PineBridge Investments and was previously President of Goldman Sachs. Thornton has a long-standing relationship with China and is Professor and Director of global leadership at Tsinghua University.

For this dialogue, we were also joined by CCG Advisor Zhu Guangyao. Zhu was a former Vice Minister at China's Ministry of Finance, where he

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oversaw the Customs Tariff Department and helped to coordinate the economic track of the China–US Strategic and Economic Dialogue. He also works for a think tank under the Ministry of Finance.

This dialogue took place approximately six months into Biden’s presidency, shortly after US Deputy Secretary of State Wendy Sherman visited China and Ambassador Qin Gang, the new Chinese envoy to the US, arrived in Washington. The representatives of Chinese and US think tanks began by sharing their views on the current state of China–US relations and went on to have a wide-ranging discussion covering economic ties, political factors shaping the bilateral relationship, the need for cooperation to address shared global challenges, economic integration through vehicles such as the WTO and CPTPP, and the importance of maintaining people-to-people ties between the two countries.

Huiyao Wang: I’m very pleased to be able to host this dialogue between Chinese and US think tanks tonight. I would like to start with Adam. What are your thoughts on the US and Chinese economy and how we get out of this pandemic, US–China relations, and trade?

Adam S. Posen: I think the big message on the questions you raise is that US–China frictions are not about economics, even though they currently take place in economics. This has been a major preoccupation under Trump and again under Biden. As I argued in my recent article in *Foreign Affairs* titled “The Price of Nostalgia,” [current frictions] are mostly being driven by politics in both China and the US, where basically the males working in industry in non-urban centers are blackmailing the rest of society. And we see this with the state-owned enterprises in China, we see this with the trade bailouts of heavy industry in the US. In both countries, those parts of the economy are the shrinking part of the economy and a shrinking part of employment. They also are industries that are toxic to our environment as well as to our politics.

So, what we are seeing is that both the American and Chinese peoples are being ill-served by the trade conflict. It’s not about economics. What we’ve seen under the Biden administration, partly of its own initiative and partly in response to the Xi government, is a shift now from trade to worrying about technology. Obviously, there have been frictions for many years, and others on this panel have been dealing with them directly for even longer than I have, over issues of intellectual property and government subsidies. But for the most part, these have not been issues that should have imperiled the broader relationship on an economic basis.

What has escalated it now is the sense in the US and China that [the other country] poses a genuine threat, in the geopolitical sense, and in a sense a threat to their system or their legitimacy. This is now a reality among the official class in both Washington and Beijing. There's some good reason for [this view], but it's mostly exaggerated, and it colors every interaction. So, the question is, what can we do from here? Let me make three very brief points, so you can get to the others on the panel.

First, remember that both the US and China have led the world in recovery from the COVID crisis and are now both growing above-trend growth rates by a large margin. So, this is not a question of either country depriving the other of economic recovery. There is no conflict over currency right now. There is no issue of Chinese [trade] surpluses coming at US expense. There is no issue of financial instability being promoted from one to the other or back and forth. So, we have to focus on the non-economic issues, which is funny for an economist like me to say.

Second, the biggest opportunity for collaboration between China and the US is on climate change issues. That was the case under President Obama when our friend Minister Zhu was very active in the G7 and the G20, and that remains the best place for us to collaborate at this time.

Third, since you were generous enough to convene a group of think tankers, I just want to say that we—CCG, the Peterson Institute, Brookings, the Kissinger Center, and the Ministry of Finance's own think tank—all have a role in continuing to say that we should not be afraid of honest dialogue among experts. We have a common enemy in conspiracy theories and disinformation. We think tanks should be binding ourselves together to emphasize the possibility of objective analysis and honest, frank talk. Thank you very much for this opportunity.

Huiyao Wang: Thank you, Adam. I agree it seems that now economic issues have deterred us from talking of things of real substance at a time when we need to collaborate on addressing the pandemic, climate change, and many other things.

Now, let's have some opening remarks from Ambassador Roy. As a seasoned diplomat that has known China since childhood, what is your take on the past, present, and future of China–US relations? This year is the 50th anniversary of Kissinger's visit to China. We recently had a dialogue with Dr. Kissinger to mark this event and your institute [the Kissinger Institute on China and the United States] at the Wilson Center is named after him. This year also marks 50 years since the People's

Republic of China resumed its membership in the UN, 20 years since joining the WTO, and 30 years since joining APEC. So, there are lots of reminders of the past this year.

J. Stapleton Roy: Thank you Dr. Wang and good evening to all of you who are in China. When President Trump lost the November 2020 presidential elections in the US, some people hoped that President Biden would adopt a less confrontational approach to relations with China. They have been disappointed. Early steps by the new American administration toward China seemed to be a continuation of President Trump's hardline policies. Shortly after the administration took office, the new Secretary of State echoed the charge of his predecessor that China was engaged in genocide against the Uighurs in Xinjiang. The tariff barriers on bilateral trade have been left in place. Senior officials in the Biden administration bluntly stated that US engagement strategies toward China had failed and that competition is now the principal driver in the bilateral relationship.

For much of the last 50 years, the US was confident that China's growing wealth and power did not threaten the vital interests of the United States and that their differences could be managed by diplomacy and engagement. That is no longer the case. The question is why.

A starting point to understanding what has happened is to recognize that the US and China are both in the midst of fundamental transitions that affect their respective places in the world. The US is seeking to adjust to an international situation in which it is no longer the sole superpower. This is not so much because of a decline in power, but because other countries have risen to major power status. China, of course, is the first and foremost example of that. A new multipolar world is emerging. Not surprisingly, the US is reluctant to give up the dominant position that it has occupied since the end of the Cold War and to accept the adjustments that it must make in order to establish a new equilibrium. At the same time, there is no question that the social and political polarization that has been a prominent feature of the US domestic scene over the last half-decade has damaged the international image of the US and the perception of its reliability as a great power.

China, in turn, in a remarkably short period of time, has regained the wealth and military strength that are the attributes of major powers. This has altered the psychology of the Chinese people. This is what Zheng Bijian didn't take into account when he came up with the concept of "peaceful rise." The Chinese people now are demanding a more muscular foreign policy consistent with China's growing power. This has changed

Chinese behavior patterns, which have become more assertive. As a result, regional countries, including the US, find less and less credible China's assurances that it will rise peacefully and never bully its neighbors.

These are two of the key background factors that have influenced the sharp plunge in the bilateral US–China relationship to the lowest depths in half a century. This has created a dangerous situation where missteps by either side or by both could plunge the world into an unprecedented crisis. I use the term “unprecedented” because China and the US are both major nuclear powers, making confrontations between them particularly dangerous.

Repair work by both sides is vitally necessary. Fortunately, despite some superficial similarities, the Biden administration is fundamentally different from its predecessor. President Biden has more foreign policy and national security experience than any American president since the first President Bush 30 years ago. In contrast to the Trump Administration, President Biden has appointed capable and experienced officials as secretary of state and national security advisor. These are officials who could sit down without talking points and talk for hours with Chinese counterparts about any issue in the world. This was totally missing in the last administration. The Biden administration is moving carefully to iron out internal differences and adopt sustainable policies that will not simply reflect the whims of one man. Of particular importance for US–China Relations, the administration has reaffirmed that it will adhere to the One-China policy and that it does not support independence for Taiwan. It is also seeking a pattern of regular consultations between Beijing and Washington.

The recent consultations between US Deputy Secretary of State Wendy Sherman and State Councilor and Foreign Minister Wang Yi, together with Vice Minister Xie Feng [in July 2021], were surrounded by a barrage of charges by each side against the other. However, if one reads carefully the public reports regarding the consultations, it is evident that there were constructive elements. According to the Chinese account of the meeting, Deputy Secretary Sherman called the US–China relationship “the most important bilateral relationship in the world,” noted the many times that the two sides have had contact with each other since President Biden was sworn in, expressed US’ willingness to have open and candid contacts and dialogues with China, declared that the US’ hopes that the two countries could coexist peacefully, said that the US has no intention of restricting Chinese development, and affirmed that the US does not want to contain China and would like to see China develop

further. [She also] noted that the two sides could engage in healthy competition, cooperate on climate change, drug control, and international and regional hotspots, strengthen crisis management capacity, and avoid conflicts. American accounts of the meetings are consistent with the above statements. These are encouraging words that you would not have heard from the previous administration.

However, the reality is less positive. President Biden needs congressional support for his domestic programs, and congressional attitudes toward China are hostile. Changing these attitudes will be difficult but not impossible. A hardline American approach to China does not mesh well with the interests of US allies and friends in East Asia, who do not wish to see the region polarized. In other words, a US that tries to work with our friends and allies will discover that they do not support a hardline approach to China. I think that will have an impact over time. But as the first step, it would be useful for both China and the US to tone down their rhetoric toward each other. Governments have the responsibility not only to formulate wise foreign policies, but also to talk in ways that develop public support for those policies. We are not doing that. We are talking publicly in ways that undermine the wise policy that we should be pursuing. So as a starter, let's get our rhetoric under control. I hope that we'll have some chance to exchange views about other steps that could be taken.

Huiyao Wang: Thank you, I agree that it's a deep concern on both sides that we seem to argue and quarrel with each other all the time. Trump has done quite a lot of damage to existing relations. One of the problems with the Trump administration was that its core team was not that savvy on China. In contrast, President Biden has a lot of knowledge of foreign policy, as you said, and has spent more time with President Xi than perhaps any other leader in the world.

Now I'd like to invite Minister Zhu who is a CCG advisor and works for the think tank of the Ministry of Finance. As an expert on China-US relations that previously led the Strategic and Economic Dialogue and served as a shepherd for the G20, what's your take on this issue?

Zhu Guangyao: Thank you very much. I'll try my best to discuss and give some responses to the points from Adam and Ambassador Roy.

Unfortunately, as described, China-US relations are now at a critical juncture, and I think the big issue is mutual trust. As Adam said, it's something that goes beyond economics. As two important countries, we must maintain communications, increase our understanding of each other, and

try our best to restore mutual trust. I know this is not easy to do, but I still think that economic ties are the anchor for our bilateral relationship. Last year, China–US trade volume reached \$580 billion and in the first half of this year, that number increased more than 50 percent year on year, reaching \$340 billion. So, despite political pressure and negative public opinion on both sides, we see trade still increasing, which is a good thing, because our integrated economies have also closely connected our interests. I agree with Adam that trade tariffs and the technology war have had a very negative impact. Now, it is important to restore basic communication.

Ambassador Roy mentioned that the Biden administration’s team is professional, which I agree with, as I used to deal with many of the officials in Biden’s team. But I must point out some key issues that the Biden administration should correct immediately since it is in the US interest. This includes tariffs, which as [US Treasury] Secretary Yellen said, are not in US interests and harm US consumers. However, six months have now passed and there hasn’t been any single change. On the political side, Ambassador Roy mentioned the genocide issue, which was absolutely a wrong judgment made by the last administration in its last two weeks in office. They used this as a reason to block the import of all cotton and tomatoes produced in Xinjiang. Unfortunately, Biden’s Secretary of State has adhered to the previous policy and continued to claim that in Xinjiang there is genocide of Uighurs. This kind of standpoint is definitely wrong and creates danger in China–US relations—in Ambassador Roy’s words, “an unprecedented risk.”

Adam raised some points which I think are very important. The first was that [current frictions are] something beyond the economic situation. Yes, we should have more a comprehensive discussion and find a way to expand our discussion beyond the economy. Also, I think that everything is connected in terms of economic relations because US entrepreneurs need a good environment for their investments in China, and likewise for Chinese investments in the US. Second, climate change is certainly a practical way forward for cooperation, including environment, social, and governance (ESG). I think this has already become broader than just the climate change issue. Think tanks can also be a real channel for cooperation.

In this regard, I have four points or suggestions. The first is that China and the US must find ways to deal with our challenges and develop peaceful coexistence. Based on communication and mutual

understanding, we should enhance our cooperation to realize peaceful coexistence. Second, both China and the US need to keep on opening and reforming. China is deepening its structural reform and opening to the outside world—for our own domestic interests, of course—and this is also in line with global cooperation. The third point is we must have real cooperation on our multilateral system for trade and financial institutions, the WHO, the IMF, the World Bank, and other UN special agencies. We need to maintain and enhance this network of global institutions to ensure continued peace and development.

The last suggestion is that for effective dialogue and communication, we need real mechanisms such as the S&ED (US–China Strategic and Economic Dialogue) and the BIT (US–China Bilateral Investment Treaty), on which I participated in negotiations under the Obama administration and is now 90 percent finished. The most important issue that has not been resolved is the digital economy, including data flows across the world and data privacy issues, which have become more important today. The US, China, the EU, and others are emphasizing domestically how important the development of the digital economy is while enhancing security and privacy. Addressing these issues requires global action and global negotiations. One possible breakthrough could come with e-commerce negotiations in the WTO. It will be difficult, but we should try, for the sake of future growth and cooperation between China and the US.

Huiyao Wang: Thank you, Minister Zhu, you raised many good points. Now I would like to invite John Thornton to comment. During last year's CCG Annual Forum, you talked about the deficit of trust between the US and China and how we can build up the trust. Now we are half a year into the new Biden administration, what more can be done? John, you have the floor, please.

John Thornton: Thank you Henry and thank you for inviting me to participate in this very interesting and important dialogue. I'm honored to be a member of this particular panel. We've already heard quite a bit of wisdom from my three colleagues and I will try to make a modest contribution. What I'd like to do is to step back from the breathless statements of doom, which dominate much of the immediate commentary in the media, among politicians, and among so-called experts, or even the thoughtful observations of concern, which may be overly influenced by specific current actions by one party or the other.

The US–China relationship is and will be both the most important bilateral relationship of this century, and the one which will drive or create in large measure the world in which we all will live. In general, I am skeptical of the statements about “inflection points” or “decoupling” or Cold War analogies. For me, these kinds of statements are mostly emotional, provocative, not helpful, and wrong. I think we’re better off looking at the long-term trajectory and the dynamics, trends, and forces creating that long-term.

Recently, I have taken to looking at the mid-twenty-first century, the year 2050 or thereabouts. The best estimates are that the world’s population in 2050 will be about 10 billion people. Today we are approximately 7.8 billion. Of the incremental 2.2 billion, more than half will come from nine countries: India, Nigeria, the Democratic Republic of the Congo, Pakistan, Ethiopia, Tanzania, the US, Uganda, and Indonesia. In 2050, as now, a small percentage of the world’s countries will represent 65–70 percent of the global GDP—maybe the top 10 countries will represent that [share]. In that world in which very few countries dominate the global GDP, and in which the incremental 2 plus billion people come from very poor countries, does any serious thinking person believe the world would be better off with the rich countries primarily arguing or even fighting amongst themselves, while the rest of the vast percentage of the world remains poor, malnourished, victims of climate change, and sources of migration, disease, and poverty? Or do the wealthy, most powerful countries have a responsibility to work together to lead the world to a safer, more prosperous, harmonious place? Isn’t the answer obvious? If the answer is so obvious, then why does it feel or seem that at least some, maybe many, of the world’s richest and most powerful countries do not seem to be animated or motivated by such a collective goal?

There are a myriad of answers to this question, but it certainly includes a penchant for being captured or trapped by the past and old ways of thinking, as well as a fear of change, of losing one’s place. Whatever the reasons, surely the world’s two most powerful countries, the US and China, have a disproportionate responsibility to lead the world, of course, with others. There is no reason why they cannot do this. In fact, we have a unique asset at this very moment in history, which we have never had before. The newly elected US President Joe Biden has a pre-existing relationship with the Chinese President Xi Jinping. When President Biden and Xi were vice presidents of their countries, they spent

extensive, continuous, informal time with one another, probably more genuine private time than any two US and Chinese presidents have ever spent with one another. This is a gift from providence. We cannot throw this asset away. Indeed, we must use it to its fullest extent.

Knowing the two presidents, Biden and Xi, as people, as human beings, as leaders, does anyone think that a well-conceived meeting, one on one, between the two of them, would be anything other than a strong, good, healthy, warm, and productive meeting? Knowing what we know about the two countries and their positions in the world, does anyone think such a good meeting would not be well-received by the American and Chinese people, or by people all over the world? Of course, it would. This is not that difficult, and there is a screamingly obvious place to start: climate change in the G20 meeting in Rome.

The issue of climate is a global one; it is larger and more important than the US and China. The entire thinking world wants it to be solved or well-managed. The two leading countries must lead on the solution or it will not be solved. Everyone knows this. Tellingly, the two presidents are following the only path, the only *modus operandi*, that works in US-China relations; one might call this the Zhou Enlai-Kissinger model, or, more recently, the Liu He-Lighthizer model. The only model that we know works is when the US and Chinese presidents appoint a very senior, serious, experienced, and highly trusted individual, and together the two presidents instruct the two people to get into a metaphysical room, truly work together, build a relationship of trust, and not to come out until they have solved the problem. The two presidents have done just that with the appointment of John Kerry and Xie Zhenhua [as climate envoys]. Meanwhile, it would be helpful while the two are doing their work if the two sides moderated their language about all other matters. Or as [J. Stapleton Roy] said, “tone down the rhetoric.”

By definition, no other matter is as important as the existence of the planet. Mankind has to exist for all other matters to have an opportunity to flourish and or be addressed. This is a point of simple compelling priority. Both presidents have publicly said that they will cooperate on climate irrespective of other issues. Both should instruct their senior leaders to give the existential issue a real chance to get resolved. Finally, to state the obvious, success on climate will demonstrate yet again that the US and China working together can lead the world to a better safer, healthier, more harmonious existence. This is good for both countries and the world and gives hope and a concrete model, that all other gnarly

complex problems can likewise be addressed by the two leading countries working together with others for the collective benefit of their countries, their peoples, and the world. Thank you.

Huiyao Wang: Thank you very much, John, you have outlined an excellent proposal. I agree that the relationship between China and the US is the most important in the world and that we must work together on many issues, given that the world is going through the profound changes you mentioned.

I have a follow-up question, since you are part of the investment community and led Goldman Sachs for many years. As you said, developing countries are going to see a lot of population growth and many lack adequate infrastructure. During this [2021] CCG annual forum, former Vice Minister of Commerce Chen Jian, who looked after Chinese outbound investment for many years, said there is scope for cooperation between the B3W proposed at the G7 conference [in June 2021], the BRI, and EU infrastructure investment plans. Recently, President Xi had a video conference with French President Macron and German Chancellor Angela Merkel [in July 2021] when they talked about China–EU collaboration in Africa. What do you think about opportunities for cooperation?

John Thornton: First of all, I want to remind people that when the BRI was first conceived back in 2013. There was a G20 meeting and President Xi met with a very senior American who was standing in for President Obama as President Obama was not present. In that meeting, President Xi told the Americans about the concept he had for the BRI. The senior American said to President Xi, “What a fantastic idea, maybe we can do this together?” And President Xi said, “That would be an excellent idea, let’s do it together.” The senior American went back to the US and in the next six months or so, the Mandarin technicians decided it wasn’t a good idea, and the idea got killed in the US before it ever got to President Obama’s desk, and so the cooperation never occurred. Since then, as you know, the BRI has been characterized by many people in the US as some kind of nefarious geostrategic plan to take over the world, which it’s not.

To your question, of course, the B3W, BRI, and similar efforts should be coordinated globally by the wealthy countries to build the infrastructure necessary for the rest of the world, so that we build a safer, more prosperous world. We all know these projects are very difficult to execute, it’s not as though anyone’s got a monopoly on how to do this well.

They are hard. We would be doing ourselves a great service if we, the world, became expert at building important infrastructure in an efficient manner for the benefit of countries across the world. So obviously we should [cooperate on infrastructure], there's no question about that.

Huiyao Wang: After the first round of discussion, allow me to come back to our other distinguished panelists. Adam, I know the Peterson Institute has been studying the Trans-Pacific Partnership (TPP) for many years. When President Trump withdrew the US from the TPP, CCG *was the first think tank* in China to propose that China should join TPP. We issued several reports on this topic and have constantly been advocating for [China to join].

Premier Li mentioned at last year's National People's Congress [in May 2020] that China is interested in joining CPTPP and President Xi announced at the APEC summit that China will "actively consider" joining CPTPP. Given PIIE's expertise on this topic, what is your take on CPTPP? Its rules cover issues such as data flow, IPR protection, environmental protection, labor standards, SOE reform, and comparative neutrality. The US designed the TPP [the predecessor to CPTPP], so why doesn't Washington come back to the table to talk about these important issues? Building on this foundation, maybe the US and China could promote reforms of the WTO based on experience in regional integration through agreements like RCEP, CPTPP, and others. Adam, your take, please.

Adam S. Posen: Let me pick up on what you and Minister Zhu were saying about reform. The most important thing about CPTPP, especially as it has evolved since President Trump withdrew, is that it is a high-standard agreement and it is an open agreement. As you say, the Peterson Institute has been doing work on economic agreements and free trade areas, particularly in Asia, for decades. Previously, there was a debate between my predecessor, Fred Bergsten, and the distinguished Columbia economist Jagdish Bhagwati about trade blocs—"stumbling blocks" versus "building blocks." The basic message that we took, that I have altered slightly, is that regional agreements can be useful if they genuinely open things up and if they genuinely encourage reform and high standards in the countries that are members, and if you are not biasing them by political factors. So, I'm going to go out on an unusual limb here and say, for the time being, it would be good if CPTPP continues to succeed and grow without either China or the US being involved.

In the current context, there are a number of people in both the Chinese and American governments looking to line up various developing countries around the world, including but not solely in East and South Asia, as being on one side or the other. This relates to what Professor Thornton was saying about the BRI. I think it was very good to have a live, high-standard, open entity that is neither Chinese nor American, something that offers a way forward without asking people to commit to one side or another in some sense. We can see this in the extension of CPTPP, potentially to the UK and to Korea. In both cases, this would send an important message to the rest of the world—that you can have high-standard commerce on the issues you raised, including labor rights, environmental standards, data privacy, state subsidies, and so on, all the things that the Obama administration and former US Trade Representative Mike Froman argued for, but also the Japanese, Singaporean, Australian, and New Zealand governments. That can be a standard that then puts pressure on both the US and China to raise their own games. This goes with something I wrote almost a year ago, where I encouraged the Australians and the Japanese to pursue what I call “principled plurilateralism”—that is, they should be willing to engage in these plurilateral deals, but the deals have to be based on quality and standards.

I think this will disappoint some people in both Beijing and Washington, particularly in Washington, where the arguments for [TPP] initially and to now bring CPTPP back to Washington are all about aligning the trading system against China or having a bloc that puts pressure on China by exclusion. I also think that it’s preferable to go this route, having an independent strong CPTPP that’s not dominated by China or the US, because, frankly, we know that once trade agreements are made, you’d have issues of enforcement, and China and the US would probably make as conditions of their accession changes to the CPTPP or changes to enforcement. It will not be entirely reliable; we’ve seen this in the way the US has repeatedly renegotiated the USMCA and the US–Korea trade agreement. We’ve seen this in other ways in China’s deals.

If we keep it open to everyone but China and the US, without saying so, CPTPP is big enough that anybody who accedes, including South Korea or the UK, would have to be an accession country. Now, my friend Zhu Guangyao mentions the importance of multilateral institutions, and obviously, the WTO is lurking in the background here. I think there are ways of keeping [principled plurilateralism] compatible with the WTO,

but plurilateral deals “of the willing” are necessary to keep moving reform forward; we cannot have India and Brazil blocking all progress on trade. Though I should put in one footnote—the above view [about CPTPP] is not Peterson Institute’s position, it is my own.

The final point I would make, in light of Guanyao and Stapleton Roy rightly raising this point, is that the pandemic response is far more important than any other thing we have talked about [...] The world is incredibly divided, with the poor countries being excluded from vaccine distribution and likely to suffer for a long time, both economically and socially. This isn’t just about public health, this has much more long-lasting implications.

I think a CPTPP with China and/or the US would reinforce the message to the rich countries or the countries already integrated, that they can get on with their business and ignore what happens in the rest of the world. That message is already coming through strongly on the vaccination and aid front. So, at this time, I would much rather see China and the US put their efforts into being helpful [with pandemic response] rather than into CPTPP. I want Japan, Australia, Singapore, Canada, and all the members of CPTPP to move forward, but not China and the US.

Huiyao Wang: So, you mean that we should let CPTPP run for a while and experiment with that. But what about the WTO? The WTO Ministerial Conference is coming up this year and we have a new director-general in post.¹ What do you think of the prospects for WTO reform? We have these plurilateral meetings for the digital economy and trade and investment facilitation. Also, the G7 and OECD have proposed a global minimum corporate tax, to which China is one of the 130 countries that has agreed. How can bodies like the G20 turn their efforts to fighting the pandemic and addressing economic issues?

Adam S. Posen: On the WTO, as with so many things, the rhetoric has outstripped the reality. All the talk about WTO reform and WTO dysfunction, especially in Washington, is exaggerated and unjustified. I think the frustrations with large-scale trade rounds are real and there are some tweaks to be had to the WTO body. But the new Director-General Ngozi Okonjo-Iweala, who I admire greatly, has come in with the right attitude, which is don’t try to fix everything at once, don’t get caught up in procedures, try to get deliverables, and show the world that the WTO

¹ At the time of this discussion, this meeting was scheduled for November 2021, but was later postponed due to COVID-19.

can deliver things that matter to people. She is rightly focusing on trade issues, dealing with the pandemic, fisheries, and direct limited appellate body reforms. I think this is the right way to go. There are too many things to be done. What's important is that the WTO leadership gets the membership, in time for the end of this year's Ministerial Conference, to make meaningful progress on two or three of these issues. One is the pandemic, otherwise, it doesn't matter which of the [other] issues, you just need to demonstrate that the WTO can do something useful. I think if we go off in too many directions at once, it's not going to be helpful.

On a minimum corporate tax, it was wonderful to see China and other major economies agree on this. I think it is critically important for the legitimacy of taxation in all societies, as well as providing revenues on a stable basis for all societies, that we get the international corporations, notably but not solely the US digital giants, under this regime and to not have base erosion and profit shifting. Again, Minister Zhu was involved in the first rounds of those discussions, and I praise him and I praise [US Treasury] Secretary Yellen for leading us. My fear, speaking frankly, is that this may be a repeat "League of Nations moment." [...] You have a progressive Democrat, the American leadership gets agreement on something at the global level and comes back and finds an isolationist Republican US Senate prevents it from being enacted, and then the world has to go forward somehow, without the US participating. I think it could be disastrous if the US Congress does not take up what the US Treasury Secretary rightly negotiated on behalf of the US and the world.

The second point [about the global corporate minimum tax] is that it's not perfect, going back to the themes we've all hit. This was an OECD agreement because that's where the multinationals are and that's where the expertise was, and it makes sense. But as my colleagues Gary Hufbauer and Simeon Djankov have written for the Peterson Institute, there are a lot of small countries in the world that are not purely tax havens, that are not Ireland or the Netherlands, that are going to be affected by this development. Again, it's wonderful to see China and the US willing to cooperate on something substantive, but there has to be some engagement of the needs of developing countries and small countries. So, it's not a done deal. My biggest fear, as I said, is the US [...] doing the right thing internationally and failing to deliver domestically.

Huiyao Wang: Thank you, Adam. I think, particularly, China's accepting the G20 proposal for a global minimum tax is really a good

sign. If we do sit down and really analyze the global economic situation, we can collaborate.

Ambassador Roy—you are a seasoned diplomat and spent many years in China, including during your childhood. I still vividly remember a few years back when we went to Dunhuang together and then when you accompanied us to visit Seattle in the US. After four decades of engagement between the US in China, some in the US are now saying, “China has not converged with us, has not become one of us.” But China has 5000 years of history and its own development path. Given your experience in China, how do you see future developments between China and the US?

J. Stapleton Roy: I referred in my opening remarks to the fact that the US was having difficulty adjusting to the need for a new equilibrium in East Asia. I think that’s a real problem for us. If you read American speeches and writings on the subject, we still have many people who think that dominance in air and naval power, for example, is necessary for the US. You can’t have a new equilibrium if either China or the US is setting dominance as a goal because the other side will not accept it. Therefore, if we’re going to have a dialogue with China, we have to begin addressing the question of how to strike a military balance in which each country feels it can meet its defense needs—for the US, that includes the defense needs of our allies—but is not so powerful that we appear to have the capability to engage in aggression against the other side. We are not yet there, and we are not yet mentally prepared to try to undertake that task, and it is absolutely necessary. Because you have to have a balance of power in East Asia; otherwise we’re going to be continually in strategic rivalry with each other. That’s one reason why I think it is absolutely wrong to think that [the dominant factor in the bilateral relationship] has to be strategic rivalry. Because strategic rivalry always focuses on the military component and that ends up generating an endless arms race in which resources are diverted away from economic development into military development.

I think the US has to stop thinking in terms of “dominance” and I think the Biden administration was wrong when it introduced the concept of “dealing with China from a position of strength.” Anybody would understand that China would never accept that as a basis for the US to deal with China. The same term cropped up during the Cold War when I worked on Soviet affairs. The Soviets were very sensitive to the idea of the US dealing with them “from a position of strength.”

But China is making an enormous mistake by not defining its defense needs strictly in terms of China's defense requirements. Now, China has linked its defense needs to its international status as a great power. At the 18th Party Congress in 2012, the first part of the military portion of the work report talked about China needing a powerful military commensurate with its international standing and appropriate for its defense and development needs. At the 19th Party Congress, [the work report] talked about requiring a "world-class" military power. Well, if China has a world-class military power when it has no global military responsibilities—China has no allies beyond its immediate periphery in which it has the military capability to meet those requirements—so when Americans look at China, we don't see any ceiling in terms of where China wants to develop its military power. In my opinion, China has to rethink how it is talking about its military requirements. Because if every country tries to develop military capabilities in terms of their international status, what size of military does Japan need? What size of military does India need, et cetera? It's the wrong way of looking at the issue.

Military requirements should be linked to defense requirements. The US and China need to be thinking in terms of, as President Xi himself has said, "a Pacific in which China and US can both function together." Xi said the Pacific is large enough for both China and the US. In his earlier speeches, Xi has specifically referred to the defense dilemma, which is that if China has absolute security, then its neighbors have no security. He has used that exact language in his speeches, so he understands the issue—that there has to be a limit on China's defense capabilities, or its neighbors will all lack security. This is an area where the US and China, sooner or later (and the sooner the better), need to start engaging in a dialogue to see if there is a possibility for a strategic equilibrium in East Asia that is compatible with the national interests of both sides. And that means that national interests also have to be defined in a way that doesn't exclude that possibility.

So, I think there is enormous scope for China and the US to stop looking at the world in terms of their own domestic driving factors. I understand that they have to look at the external circumstances in the world in an objective way and then formulate foreign policies that are compatible with the international circumstances in which they have to operate. And they each have to gain domestic support for that approach. The US is not yet doing that. For example, if we look at East Asia, where all of the countries of East Asia have more trade with China than with

the US, it is clear that if we ask Asian countries to choose between China and the US, they are not going to want to do so, because they have very important interests with China. So, we have to understand that in our foreign policy approach to China, and in the way we talk about China, we must not describe our approach in ways that require countries to choose between the “good” US with our democratic system and the “bad” China with its authoritarian system—that’s the wrong way to formulate our foreign policy concepts.

China, as I’ve already illustrated, in my judgment is making the same mistake as it is talking about needing global military power because of its status as a great power. Going back to the nineteenth century, when China talked about the need for China to regain “wealth and power,” the power was so that China would no longer be the object of aggression by stronger countries. It was a defensive concept, not an aggressive concept. That has been lost now because China is talking about how a powerful military is needed because of its international standing. So, this is an area where I think both of our countries need to do a lot more serious thinking.

Huiyao Wang: Thank you, Ambassador Roy, you explained really well that countries should not use ideology or outdated mindsets to assess twenty-first-century realities. We need a new narrative, and you are right that we should not seek dominance over each other.

Minister Zhu, I remember in 2016 at the Hangzhou G20, you were the G20 coordinator for the Ministry of Finance. I saw an interview with you on CCTV shot next to West Lake in Hangzhou when you were saying that the BIT was almost agreed between China and the US. Another story I heard you tell is how during the 2008 financial crisis, you had a call from the US Treasury office on how China and the US could work together to deal with the crisis, after which China launched a CNY 4 trillion revival plan. At that time, the US and China worked together through the crisis. What do you think about this current crisis amidst the pandemic, how can we work together?

Zhu Guangyao: Before I answer your question, I just want to respond to Ambassador Roy’s idea regarding military strategy and military intention. To be honest, in modern history, China has suffered a lot from foreign invasions. The Chinese people deeply understand that, so it’s the peoples’ willingness that China becomes a stronger country. However, for strategy and the real situation, when China talks about its core interests, it’s always three points. One, sovereignty, two, territorial integrity, and three, the right to development. We hope that China can become a

modernized socialist country, a united country, and a country that can improve people's living standards.

Regarding the 2016 G20 meeting and the China–US BIT talks, which occurred under the strong leadership of President Xi Jinping and President Obama. Before the G20 Hangzhou Summit, the Chinese team and the US team worked very hard. The leader of the US team [US Trade Representative], Michael Froman, maintained very close communications with the Chinese team, nearly every day, sometimes even three or four times a day. At that time, we could say publicly that the BIT was nearly 90 percent complete. We understood that some key challenges remained on the digital economy, particularly data privacy and movement of data across borders, and we just needed more hard work to address these. Unfortunately, as we know, the US administration then changed and even abandoned TPP, which delayed the continuation of negotiations.

Another case was in 2008. I remember that during the international financial crisis, in October 2008, at 3 a.m. in the morning, I received a phone call from my counterpart in the US Treasury. She immediately arranged a meeting between Treasury Secretary Hank Paulson and his Chinese counterpart to talk about the possible upgrading of the G20 format from being between finance ministers and central bank governors to national leaders. I think it was around 10 a.m. Beijing time, and we [resolved to do this] over a three or four-hour phone call, which really forged the path for the G20 summit in November in Washington DC, chaired by President Bush and joined by Chinese President Hu. That was a very successful meeting that paved the way for the next G20 meeting in London to build up a real firewall for the IMF, where we struck a deal to pool one trillion US dollars to face the challenge of the international financial crisis. That really demonstrated what a positive impact China–US cooperation can have.

Huiyao Wang: Thank you, Minister Zhu. We should draw lessons from our cooperation in tackling the global financial crisis. We could really use that spirit to fight the current pandemic as well.

At the end of this second round of discussion, I'd like to ask John to comment. You've taught at Tsinghua University's Economics and Management School for many years, have served as an honorary chair of Brookings Institution for over a decade, and have been with the Asia Society in the US for several years. Currently, there is an issue with student exchanges between China and US. I heard that the US Embassy is issuing 1000 visas a day and that by the end of summer, it is going to issue

200,000 visas for Chinese students going to the US. But looking at the numbers, there is still a refusal rate of about 2 or 3 percent.

How do you think we can promote people-to-people exchange, business exchange, tourism, cultural exchange, and of course, exchange between think tanks during this special time? How can we work with travel bans, as we are probably going to have to live with this virus for a long time?

John Thornton: Thank you, Henry, I can be succinct on this point. To state the obvious, the ties between American and Chinese people are absolutely essential to getting the relationship where it needs to be. I'm hopeful that the younger people who have a vested interest in the long-term future of their countries and the world will be forces for good in the relationship. One way of thinking about China, for example, is to think about the roughly 400 million millennials, how they have grown up, and how they think about the future. The Chinese leadership needs to be responsive to that group. And the same thing is true in the US. The ties between those groups are absolutely central to forward progress and I'm pleased to see that this is one area where [the Biden administration] is moving quickly to rectify the policy of the previous administration, to open back up again, and to support people-to-people exchange. We all know that the ties are deep and broad, they are state-to-state, universities-to-universities, NGOs-to-NGOs, individuals-to-individuals. It cannot be overstated, the sort of societal trust that needs to be built, was being built, and can be built. This is probably the single best insurance policy against untoward policy on the part of the leadership. I think in some ways, the wisdom or common sense of ordinary people can act as a kind of a break against the occasional unwise policies of elites.

Huiyao Wang: Thank you. We've had a very good discussion today. During our final round of concluding remarks, maybe you can add any further thoughts on our theme of "balanced competition and cooperation."

Adam S. Posen: It's been such a rich discussion, and you gave me plenty of opportunities to speak. All I would say is that as we're trying to balance competition and cooperation, the key point for both countries, or at least both economies, is to allow for some openness and allow the businesses, people, and scholars to cooperate, even if the governments choose to compete. We know from history, including the McCarthy era and parts of the Cold War in the US, that when societies close down, they

create their own corruption and their own abuse of power, as well as the obvious economic and human costs. I think this is where the think tanks, to the extent that we are allowed to do so, have to be out there reminding people that even if the top government officials in Washington and Beijing want to emphasize the competition, that usually gets distorted into abuse of power internally in those countries, and we should be calling people out on that.

Huiyao Wang: Good. Ambassador Roy?

J. Stapleton Roy: I think the visit to Beijing by Dr. Kissinger 50 years ago is well worth commemorating. Because it illustrated that when national interest is served by cooperation, differences in political and social systems do not have to block that cooperation. The problem with differences in systems, which has become a big issue in the US in terms of thinking about China, is that at some level, it does influence cooperation, but it shouldn't block it if it's in the national interest to cooperate. The problem is illustrated by our ability to cooperate with Joseph Stalin when we were opposing Hitler. But when Hitler had been defeated, our ability to cooperate with the Soviet Union broke down. So, in some ways, that's the type of issue we face with China.

There are forces in the US that want to block our cooperation with China because of the differences in our political systems. We need to remember the Nixon and Kissinger opening to China at a time when there couldn't have been bigger differences between our domestic systems. China was at the height of the Cultural Revolution when that occurred, and yet we set that aside because of the importance of cooperating with China against the Soviet threat. In my judgment, if we look at what the world requires, and at our responsibilities as great nations, it is clear to me that the lesson of Kissinger's visit to China is that when it is necessary to have cooperation between China and the US, we should not let the differences in our systems block that type of cooperation. So, I think it was a very important visit. Historically, it created the possibilities for the US and China to create enormous common interests, and those common interests, in my judgment, continue and we have to find ways to cooperate in promoting them.

Huiyao Wang: Thank you, Ambassador Roy. So, Minister Zhu—your concluding remarks.

Zhu Guangyao: Thank you Huiyao. Today's situation and the relationship between China and the US is something different from that of 50 years ago. One key point is that the Chinese and American economies

are so closely connected. Not only is there more than \$500 billion in bilateral trade each year, but also investment, and coordination on global governance.

However, we also face new challenges with domestic public opinion, such as populism in both America and China. At this time, we really need strong leadership from the two presidents. I think that we must follow the spirit that President Xi and President Biden embraced during their conversation on the eve of Chinese New Year. Just as Ambassador Roy said, we should expand our common ground and make our cooperation broader. As John said, we also need to enhance interactions between our two societies, including academic and people-to-people exchange, and to help our two great countries understand each other and cooperate more. Thank you.

Huiyao Wang: Thank you, Minister Zhu. Now we will have a few final words from John, we'd really appreciate your final comments.

John Thornton: There's so much to say, I'll try to be very succinct. I was admiring the efforts on the part of Jeff Bezos, Richard Branson, Elon Musk, and others to go to space. If you can imagine being on those space-ships looking down on the planet, when you're up there looking down, there's no difference between people living in China, people living in the US, and people living in Africa. I think that we need to hold ourselves to a higher standard and be more conscious of the fact that we live on one planet and the issues are only going to get more complicated and more complex as we go forward. The US and China, which are the two leading countries now and will be for a very long time, have a very big burden. The burden is that they are responsible to lead the world to a safer and better place. Therefore, when we talk about competition and cooperation, I can understand and be comfortable with both of those ideas between the countries. But when we add the idea of confrontation, to me, that's absolutely out of the question and we shouldn't even be considering that as a concept. The world simply can't take it. We shouldn't waste any time on it. As I said in my earlier comments, should the leading countries of the world really be spending their time arguing and trying to do each other down, or should they be spending their time trying to get the world to a better place? To me, the answer is very obvious. And the sooner we recognize that the better. We have a right to demand of our leaders that they get the big things right, as Nixon, Mao, Kissinger, and Zhou Enlai did 50 years ago. Thank you.

Huiyao Wang: Thank you, John. You talked about the recent space trips and looking down to the Earth from outer space to see that we are all really one. I remember the 2008 Beijing Olympics' slogan was "One World, One Dream." This year, the Tokyo Olympics enriches the Olympics motto "Faster, Higher, Stronger" by adding "Together." I think it's great we are adding this new dimension. I really appreciate your time and I look forward to continuing our conversation, as we have at the Wilson Center in the past, and as we hope to do with the Peterson Institute, Brookings, and the Asia Society. So once again, I thank all of you, thank our viewers and we appreciate our speakers' time. Thank you all very much.

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