



Finding Firmer Ground

A Report on U.S.-China Relations
Produced by The Carter Center

Finding Firmer Ground: The Role of Civil Society and NGOs in U.S.-China Relations

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Produced by The Carter Center and
the Grand View Institution

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The Grandview Institution

Introduction by Zhao Minghao

Can US-China Strategic Competition Be Managed?

By **Minghao Zhao**

A New Window of Hope for U.S.-China Relations?

It is widely expected that as president of the United States, Joe Biden will usher in a reset of U.S.-China relations and that any further escalation of tensions between the world's two largest economies will be averted. Beijing says the confrontational approach pursued by the Trump administration has brought unprecedented damage to U.S.-China ties. China seeks to work together with the Biden administration in recalibrating, if not resetting, the bilateral relationship. As China's Foreign Minister Wang Yi stated in January 2021, "China-U.S. relations have come to a new crossroads, and a new window of hope is opening." Wang also stated, "We hope that the next U.S. administration will return to a sensible approach, resume dialogue with China, restore normalcy to the bilateral relations, and restart cooperation."¹

In contrast to the Trump administration, Biden and his core foreign policy advisors believe that, while China is not the biggest threat confronting the U.S., it is the U.S.'s most consequential strategic competitor in the long run.² From Chinese perspectives, the U.S. under Biden's presidency does not intend to engage in a new Cold War with Beijing, which former Secretary of State Mike Pompeo, among other key policymakers in the Trump administration, sought to advance. Although the Biden administration will continue to understand U.S.-China relations through the lens of great power competition, Biden's goal will be to make the U.S. more competitive and engage in positive-sum competition with China.³ While it is true that under Biden, tensions between the U.S. and China will moderate somewhat, there should be no illusion that the current "red alert" state of relations will unwind automatically with Biden in the White House. This is the perspective of most Chinese policy elites and strategic thinkers.

¹ Shi, Jiangtao. "China-US Relations: Beijing Says 'New Window of Hope' Is Opening as It Offers Biden Administration an Olive Branch," January 2, 2021.
<https://www.scmp.com/news/china/diplomacy/article/3116203/china-us-relations-beijing-says-new-window-hope-opening-it>.

² Biden, Joseph R. "Why America Must Lead Again." FOREIGN AFFAIRS, March 2020.
<https://www.foreignaffairs.com/articles/united-states/2020-01-23/why-america-must-lead-again>

³ Mead, Walter Russell. "Dialogues on American Foreign Policy and World Affairs: A Conversation with Former Deputy Secretary of State Antony Blinken." Hudson Institute, July 9, 2020.
<https://www.hudson.org/research/16210-transcript-dialogues-on-american-foreign-policy-and-world-affairs-a-conversation-with-former-deputy-secretary-of-state-antony-blinken>.

Indeed, unrealistically high expectations will be counterproductive for U.S.-China relations going forward. Beijing should realize that the Biden administration has its job already cut out when it comes to recalibrating this key relationship. Biden will have to deal with the foreign policy legacies of both the Obama and Trump administrations simultaneously, meaning that he will make sure not to be perceived as "soft on China." Therefore, he will selectively inherit some of Trump's rationale and approach concerning U.S. policy toward China. As the Trump administration drew to an end, the Policy Planning Staff of the U.S. State Department released a report called "Elements of the China Challenge." This document, guided by Mike Pompeo, aimed to harden narratives concerning China and constrain the incoming administration.⁴

Furthermore, as Biden is occupied with his top priorities of managing the pandemic and its associated economic challenges, he will have limited capacity and political wherewithal to pursue a policy agenda with China. The U.S. is experiencing an internal cold war, wherein "a deeply divided nation, Democrats and Republicans don't just disagree, they hate each other."⁵ The political polarization in America will add more complexities to U.S.-China relations. Even if Biden inclines to remove any single pressure-inducing measure, he may make himself vulnerable to backlash if he is perceived as being soft on China. Without any doubt, both the Republican and Democratic parties now share substantial common ground when it comes to taking tougher policy approaches to China. This is borne out by the China-related content of the National Defense Authorization Act for Fiscal Year 2021. In a report released in September 2020 by the House Republicans' China Task Force, more than 400 proposals were laid out to advance U.S. competitive policy toward China.⁶ While the group is composed only of Republicans, the report did consult and does reflect the views of some Democrats.

More importantly, Biden will face pressure from within the Democratic Party when it comes to China policy. Jake Sullivan, Biden's national security advisor, along with a cohort of new-generation Democratic political high flyers, has hardline views on China — views that are even on the same page as Republicans, whose attitude toward the CPC is even more ideologically driven. Additionally, progressive Democrats, such as Sens. Bernie Sanders and Elizabeth Warren, do not view China favorably and have stated that China's trade practices are unfair and have harmed U.S. workers and the American middle class. The foreign policy approach championed by progressive Democrats puts a premium on geopolitical implications of international economic policies. They are wary that China or other powers may weaponize their economic heft.⁷

⁴ "The Elements of the China Challenge." Policy Planning Staff. U.S. State Department, November 2020. <https://www.state.gov/wp-content/uploads/2020/11/20-02832-Elements-of-China-Challenge-508.pdf>.

⁵ Milligan, Susan. "Democrats, Republicans and the New Politics of Hate." U.S. News & World Report, October 19, 2019. <https://www.usnews.com/news/elections/articles/2019-10-21/democrats-republicans-and-the-new-politics-of-hate>.

⁶ "China Task Force Report." Chaired by Michael McCaul, U.S. House of Representatives. 116th Congress, September 2020. <https://gop-foreignaffairs.house.gov/wp-content/uploads/2020/09/CHINA-TASK-FORCE-REPORT-FINAL-9.30.20.pdf>.

⁷ Sitaraman, Ganesh. "The Emergence of Progressive Foreign Policy." War on the Rocks, April 15, 2019. <https://warontherocks.com/2019/04/the-emergence-of-progressive-foreign-policy/>.

Given the above constraints, it will be very challenging for the Biden administration to readjust U.S. policy towards China over the next four years. However, allowing the relationship to drift through inaction may lead to a more disastrous situation. In Beijing's view, the Trump administration has pushed U.S.-China relations into dire straits. As Wang Yi admitted, the bilateral ties face "unprecedented difficulties."⁸ Many American policy elites are also worried about the gloomy prospects of U.S.-China relations. In November 2020, former U.S. Secretary of State Henry Kissinger even cautioned against military conflict between the two nations and said the risk of such conflict should not be underestimated. In Kissinger's words, "America and China are now drifting increasingly toward confrontation, and they're conducting their diplomacy in a confrontational way."⁹ How the Biden administration crafts and implements its China policy will not only influence relations over the next four years, but also determine whether the two powers can achieve "competitive coexistence" in the decades to come. Over the next four years, the shared challenge for Chinese and U.S. leaders is twofold — first, leaders need to properly handle short-term risks and confrontation; second, they need to determine a framework and rules for managing strategic competition between the two countries in the coming decades.

Major Drivers of U.S.-China Strategic Competition

In December 2017, the Trump administration unveiled its National Security Strategy report and proffered that the U.S. was entering a new era of major power competition. The report stated that China is a "revisionist power" and "strategic competitor" that wants "to shape a world antithetical to U.S. values and interests."¹⁰ Besides such a rhetorical shift, the Trump administration has exerted much more pressure on China with a series of actions across all aspects of American policy toward China.¹¹ In particular, Trump launched an unprecedented trade war against China and engaged in a trend of "decoupling" in the U.S.-China economic relationship.¹² New tensions have also flared over the Taiwan issue. U.S.-China frictions concerning maritime Asia, particularly in the South China Sea, still carry the risk of escalation.¹³ Furthermore, the United States continues to advance its "Free and Open

⁸ Shi, Jiangtao. "China-US Relations: Beijing Says 'New Window of Hope' is Opening as It Offers Biden Administration an Olive Branch." *South China Morning Post*, January 2, 2021. <https://www.scmp.com/news/china/diplomacy/article/3116203/china-us-relations-beijing-says-new-window-hope-opening-it>.

⁹ Martin, Peter. "Kissinger Warns Biden of U.S.-China Catastrophe on Scale of WWI." *Bloomberg*, November 6, 2020. <https://www.bloomberg.com/news/articles/2020-11-16/kissinger-warns-biden-of-u-s-china-catastrophe-on-scale-of-wwi>.

¹⁰ The White House, *National Security Strategy of the United States of America*, December 2017, 2-3, 25.

¹¹ Sutter, Robert. "Pushback: America's New China Strategy." *The Diplomat*, November 2, 2018.

¹² Heath, Timothy R., and William R. Thompson. "Avoiding US-China Competition Is Futile: Why the Best Option Is to Manage Strategic Rivalry," *Asia Policy*, Vol. 13, No. 2 (April 2018): 105-107.

Kennedy, Scott. "Protecting America's Technology Industry from China: Tariffs Aren't the Answer," *Snapshot, Foreign Affairs*, August 2, 2018.

¹³ Tellis, Ashley. Testimony before Senate Armed Services Committee, Hearing on "Protecting American Primacy in the Indo-Pacific," April 25, 2017.

Indo-Pacific Strategy,” which largely aims to counterbalance the Belt and Road Initiative promoted by China in recent years.¹⁴

However, U.S.-China strategic competition did not originate with the Trump administration. The American side began to ponder this issue during President Obama’s second term. Key figures, such as Kurt Campbell, who is now serving in the Biden administration, played important roles at the time. To find ways to manage U.S.-China strategic competition requires a deep and nuanced understanding of Chinese perspectives. Many Chinese observers contend that the 2008 global financial crisis was a watershed moment for U.S.-China relations. The crisis, originating from the core of the capitalist world — the United States — not only led to economic difficulties and political dysfunction in the country but also damaged America’s soft power by exposing the flaws in the “Washington consensus.” More importantly, it marked a profound transformation in the international order and set out the global context of simmering competition between China and the United States.¹⁵

Soon after the global financial crisis, Chinese scholars noticed the changing nature of U.S.-China relations and highlighted the possibility of increasing competition between these two nations. In 2010, a leading Chinese expert on America from China Institute of Contemporary International Relations (CICIR), Yuan Peng, offered his moderate but shrewd assessment. He contended that the United States remains the only superpower in the world, but that its hegemonic foundation had evidently eroded. Despite U.S.-China collaboration in addressing the consequences of the global financial crisis, the two sides also began to compete in an inexplicit manner. As Yuan noted, the structure of U.S.-China relations would become “No. 1 vs. No. 2” rather than “superpower vs. major power.” Yuan even warned of a possible new Cold War between China and the United States.¹⁶

Different from their American counterparts, Chinese scholars and policy elites tend to take the global context of U.S.-China strategic competition as the starting point of their analysis. In the decades following the global financial crisis, many profound changes have occurred across the international strategic landscape, affecting the global context of U.S.-China relations. In 2018, Peking University Professor Wang Jisi noted that economic globalization has lost its momentum, while nationalism and populism have surged across many countries, particularly in the developed world. World politics was entering a “new era” in which division and competition may extend further.¹⁷ Former Vice Foreign Minister Fu Ying, now serving as chairperson of the Center for International Security and Strategy at Tsinghua University, contended: “Globalism and multilateralism are under attack. The

¹⁴ The White House, National Security Strategy of the United States of America, December 2017, 25, 45-46.

Swaine, Michael D., “A Counterproductive Cold War with China,” Snapshot, Foreign Affairs, March 2, 2018.

¹⁵ Tao, Wenzhao. “Jinrong weiji yu zhongmei guanxi (The Financial Crisis and Sino-US Relations),” *Heping yu fazhan (Peace and Development)*, No.4 (2009): 28-30.

¹⁶ Yuan, Peng. “Zhongmei guanxi xiang hechuqu? (The Prospects of US-China Relations),” *Waijiao pinglun (Foreign Affairs Review)*, No.2 (2010): 2-7.

¹⁷ Wang, Jisi. “Shijie zhengzhi jinru xinjieduan (The New Era of World Politics),” *Guoji zhanlue yanjiu jianbao (International and Strategic Studies Report)*, No.62 (2018), Institute of International and Strategic Studies, Peking University: 1-4, <http://www.iiss.pku.edu.cn/research/bulletin/3138.html>.

resurgence of geopolitical and power competition, mixed with populism and protectionism, are weakening the bonds built among countries in recent decades.” She highlighted these puzzling changes on the international level when elaborating on U.S.-China tensions.¹⁸

Regarding the major drivers of U.S.-China strategic competition, there are four approaches in Chinese scholars’ analysis. The first approach is realist in nature and underscores that the closing power gap between China and the United States is a decisive factor in the relationship. This power-centered thinking is closely related to “structural contradictions” (结构性矛盾), which is an important term often used by Chinese scholars in their analysis of U.S.-China strategic competition. For instance, Tsinghua University Professor Yan Xuetong contends that U.S.-China strategic competition is inevitable because of structural contradictions between the hegemon and the rising power. China is closing the gap in its comprehensive national strength, which may be the root cause of increasing competition between the two nations. He attributes the instability of China-U.S. relations to the two powers’ policy of “pretending to be friends.”¹⁹

The second approach emphasizes how “mutual perceptions” shape U.S.-China strategic competition. Among other Chinese scholars, Nanjing University Professor Zhu Feng contends that mutual perceptions are critical in impacting the dynamic between China and the United States.²⁰ For example, many Chinese scholars believe there has been a new wave of China threat perception in the United States, which has deepened the anxieties of the American elite toward the rising power China. As Wang Jisi notes, “The Americans are alarmed by China’s expansion of global influence, exemplified by the Belt and Road Initiative, and its reinforcement of the role of the state in economy and society, as well as the consolidation of the Communist Party leadership with its ideology.”²¹ From a Chinese perspective, American politics has become more divided and polarized, which may further amplify negative perceptions of China in the country.

The third approach attaches more importance to the ideological differences between China and the United States. Most Chinese scholars admit that there are fundamental differences in the political institutions and value systems of the U.S. and China, which is an important source of “structural contradictions” in the bilateral relationship. In discussing China-U.S. relations, “Cold War mentality” (冷战心态) and “hegemon mindset” (霸权思维) are terms often used by Chinese analysts and are closely related to ideological factors. These ideological factors will play an increasingly important role in fueling U.S.-China strategic competition, and this trend has become increasingly evident after the 19th National

¹⁸ Fu, Ying. “Can US-China Relations Step Back from the Edge?”, Oct. 31, 2018, <https://www.bloomberg.com/opinion/articles/2018-10-30/can-china-u-s-relations-step-back-from-the-edge>.

¹⁹ Yan, Xuetong. “Dui zhongmei guanxi buwendexing de fenxi (The Instability of China-US Relations),” *Shijie jingji yu zhengzhi (World Economic and Politics)*, No.12 (2010): 29-30.

²⁰ Zhu, Feng. “Zhongmei zhanlue jingzheng yu dongya anquan zhixu de weilai (Sino-US Strategic Competition and the Future of East Asian Security),” *Shijie zhengzhi yu jingji (World Economics and Politics)*, No. 3 (2013): 9-12.

²¹ Wang, Jisi. “America and China: Destined for Conflict or Cooperation?” *National Interest*, July 30, 2018.

Congress of the Communist Party of China.²² Given that the Trump administration set its priority on major power competition, some Chinese scholars worry that ideological rivalry like the one during the Cold War might re-emerge. As CASS senior researcher Zhao Mei warns, a new “political correctness” can be found in spreading anti-China discourse in the United States. America’s “neo-McCarthyism” toward China is a truly disturbing trend, and it will bring far-reaching negative impacts on U.S.-China relations.²³

The fourth approach views “conflicts of policy agenda” between these two countries as a key driver of their strategic competition. Many Chinese scholars find that the policy goals pursued by the American side are at odds with the ones sought by the Chinese side. This perspective is particularly evident with regard to American and Chinese regional policies toward the Asia-Pacific. Former President of CICIR Cui Liru argues that the “Pivot to Asia” promoted by the Obama administration in high profile has directly made U.S.-China relations more difficult and complicated. America regards itself as the protector of the Asia-Pacific regional order, and it views China as a natural challenger to this regional order. Therefore, U.S.-China strategic competition in Beijing’s home region has to be stormy.²⁴ The differences and conflicts on the policy priorities between the United States and China go beyond the regional dimension. Guided by the “America First” principle, the Trump administration has brought profound changes to America’s domestic and foreign policies. It takes “repressive retrenchment” as its grand strategy, which not only exerts far-reaching impacts on the liberal international order but also further complicates U.S.-China relations.²⁵

What Do the United States and China Compete For?

Most Chinese analysts recognize that there is an emerging consensus across the American political spectrum in revising U.S. China policy and adopting a more competitive strategy toward China, but some disagreements at the tactical level remain. The shifting mood in favor of a post-engagement policy toward China goes well beyond the Trump administration. To some extent, it is a counter-China coalition composed of far-right populists, security hawks, and hard-to-impress radicals that calls for a bellicose approach in dealing with China. U.S. strategic competition against China is extending into all domains. Moreover, in light of profound changes in world politics, such as the greater importance of geo-economics, U.S.-China strategic competition could be full-fledged and cross-domain.

²² Zhao, Minghao. “Telangpu zhizheng yu zhongmei guanxi de zhanlue zhuanxing (The Trump Doctrine and the Strategic Transformation of US-China Relations),” *Meiguoyanjiu (The Chinese Journal of American Studies)*, No. 5 (2018): 34-37.

²³ Zhao, Mei. “Jingtai Maikaxizhuxi zai meiguo chenzhifanqi (Neo-McCarthyism may be on the rise in the United States),” *Xiandai guoji guanxi (Contemporary International Relations)*, No.6 (2018): 5-7.

²⁴ Cui, Liru. “Guanli zhanlue jingzheng: zhongmei xin guanxi geju de tiaozhan (Managing Strategic Competition: Challenges with New Sino-US Relations),” *Meiguoyanjiu (The Chinese Journal of American Studies)*, No. 2 (2016): 9-12.

²⁵ Zhao, Minghao. “Telangpu zhizheng yu zhongmei guanxi de zhanlue zhuanxing (The Trump Doctrine and the Strategic Transformation of US-China Relations),” *Meiguoyanjiu (The Chinese Journal of American Studies)*, No. 5 (2018): 28-42.

Chinese scholars identify several major domains in which U.S.-China strategic competition is arising. First, economic relations between the two countries have become the focal point of U.S.-China rivalry. In the four decades after the normalization of U.S.-China relations, economic cooperation has formed the core pillar of American engagement policy toward China, which is described by Chinese scholars as the “ballasts” (压舱石) of the bilateral relationship. However, as exemplified by aggressive American trade actions toward China adopted by the Trump administration, the competition between the two nations in the economic arena has been heightened substantially.²⁶ The rise of China is based on its ever-growing economic clout, and it is understandable for the American side to increase its pressure on China on the economic front when Washington is determined to halt rather than manage China’s ascendancy.

Zhang Yuyan, a prominent economist and expert on U.S.-China relations at CASS, uses the term “confinement” (规锁) to describe U.S. competitive strategies toward China. For America, China is a kind of rival unlike Nazi Germany, Imperial Japan, and the Soviet Union. Given that China is the second-largest economy and an influential trading power in the world, the Cold War-style “containment” strategy will not work with China. The central goal of the United States is to prevent China from moving up the global value chains and becoming an advanced manufacturing power.²⁷ Most Chinese analysts assert that the “trade war” launched by the Trump administration is in essence a “technology war” with China.²⁸ Technology is vital not only for China’s quest for strength and wealth but also for long-term competition between major powers. Another focal point in U.S.-China economic competition is their contest on international rules and institutions governing global trade, investment, and finance. The United States, Europe, and Japan might forge a new economic bloc that adopts more coordinated measures to press China, especially as regarding China’s state-owned enterprises.

Second, on the geostrategic level, Chinese analysts hold that the Asia-Pacific, particularly the Western Pacific, is the focal area for US-China strategic competition. Under the Obama administration, the United States implemented the “Pivot/Rebalancing to Asia” strategy, which is viewed by many Chinese strategists as a move to encircle China. In particular, with America’s aggressive intervention in the South China Sea disputes, the prominence of the maritime domain in U.S.-China strategic competition in the region has been raised significantly. Hu Bo, director of the Center for Maritime Strategy Studies at Peking University, analyzes the changes in the balance of power in maritime Asia. He contends that a new strategic equilibrium between the two powers along the waters near the first island chain has emerged, which will be maintained in the coming 10-20 years. Both sides have been increasingly taking tit-for-tat military strategies. The United States has to accept

²⁶ Li, Ruogu. “Zhongmei guanxi fasheng le shizhixing bianhua (The Substantive Changes upon China-US Relations),” *Jingji daokan (Economic Herald)*, No. 1(2019).

²⁷ Zhang, Yuyan, and Weijiang Feng. “Cong jiechu dao guisuo: meiguo duihua zhanlue yitu ji zhongmei boyi de sizhong qianjing (From Engagement to Confinement: US Strategic Intentions towards China and Four Scenarios of Sino-US Competition),” *Qinghua jinrong pinglun (Tsinghua Financial Review)*, No. 7 (2018): 1-2.

²⁸ Yu, Yongding. “Dui zhongmei maoyizhan de jidian kanfa (Some Observations on China-US Trade War),” *Qinghua jinrong pinglun (Tsinghua Financial Review)*, July 2018: 21.

China's military advantage in China's coastal waters, and that China cannot diminish the U.S. military preeminence in the vast waters beyond the first island chain.²⁹

In recent years, the interplay between China's Belt and Road Initiative (BRI) and America's Indo-Pacific Strategy (FOIP) has also become a manifestation of U.S.-China strategic competition on a regional level. Although China sees the BRI as a development-oriented endeavor, the United States, among other regional players, is wary of a China-centric regional order stemming from the project. In Chinese scholars' analysis, the FOIP is a counterbalancing strategy against the BRI. The FOIP is backed up by a distinct underlying current of maritime power and aims to check the emergence of any potential hegemon from the Eurasian continent from both the eastern and western front lines of the Pacific and Indian oceans.³⁰ The Trump administration has made substantive efforts to implement the FOIP. In particular, the security-based grouping known as the "Quad," which comprises America, Japan, Australia, and India, is likely to grow in the future, even to the point of becoming an Asian-style NATO that some Chinese analysts believe Washington wishes to see.³¹

Third, many Chinese scholars contend that there is an emerging competition between the United States and China over international leadership and prestige, which is vital for the evolution of the world order in the coming decades. The "withdrawal diplomacy" (退出外交) undertaken by the Trump administration has brought about not only challenges in sustaining the momentum of international cooperation, but also opportunities for Beijing to enhance its influence in global governance by seeking collaboration with European Union and other major actors.³² As Fudan University Professor Chen Zhimin, among other Chinese scholars, notes, global governance needs international leadership, but a deficit in international leadership has been lamented for a long time. The Trump doctrine of "America First" rendered the international leadership deficit more acute. Chen argues that China should pursue a facilitative leadership in international affairs while avoiding the mistake of confusing this kind of leadership with hegemonic, self-serving, or coercive strategies.³³

Other scholars like Nankai University Professor He Kai assert that a quest for greater international prestige might rest at the core of U.S.-China strategic competition. The international prestige of one country is based not only on the capabilities it has but also on

²⁹ Hu, Bo. "Zhongmei zai xitai pingyang de junshi jingzheng yu zhanlue pingheng (Sino-US Military Competition and Strategic Balance in the Western Pacific)," *Shijie jingji yu zhengzhi (World Economics and Politics)*, No. 5 (2014): 78-84.

³⁰ Zhao, Qinghai. "Xinping jiujiu: telangpu zhengfu de yintai zhanlue (Old Stuff with a New Label: The Trump Administration's Indo-Pacific Strategy)," *Xueshu qianyan (Academic Frontiers)*, No. 15 (2018): 8-10.

³¹ Lin Minwang. "Yintai de jiangou yu yazhou diyuanzhengzhi de zhangli (The Indo-Pacific Narrative and Asia's Geopolitics)," *Waijiao pinglun (Foreign Affairs Review)*, No. 1 (2018): 25-35.

³² Liu, Zhenye. "Meiguo quanqiu zhili zhanlue xindongxiang jiqi dongyin (The New Turn of American Global Governance Strategy and Its Motivation)," *Xueshu qianyan (Academic Frontiers)*, No. 11 (2018): 25.

³³ Chen, Zhiming, and Zhou Guorong. "Guoji lingdao yu zhongguo xiejinxing lingdao juece de goujian (International Leadership and China as a Facilitative Leader)," *Shijie jingji yu zhengzhi (World Economics and Politics)*, No. 3 (2017): 25-34.

the status and respect it gains. In the context of Chinese traditional political thought, international prestige is similar to “rule by virtue” (王道), with “rule by coercion” (霸道) as the opposite.³⁴ Moreover, “balancing with the international institution” (制度制衡) has become a new feature of U.S.-China relations since the Obama administration. Chinese scholars have attached more attention to the competition between the two nations over international institutions such as the Asian Infrastructure Investment Bank (AIIB). Evidenced by an emphasis on global governance in Chinese foreign policy discourse, Beijing has realized that it is imperative to use its institutional capabilities to effectively protect its economic and investment interests. China’s pursuit of institutional power meets resistance and impediment from the American side. Renmin University Professor Li Wei proposes a theoretical concept, “realist institutionalism,” to analyze competition among major powers, particularly US-China competition, and that at the core of institutional competition is a contest over the provision of public goods.³⁵

Managing U.S.-China Strategic Competition

As Director of the Institute of American Studies at CASS Ni Feng notes, America’s National Security Strategy report released in December 2017, as well as a series of policy statements and moves adopted by the Trump administration, marks “the new era of the comprehensive and strategic competition between the United States and China.”³⁶ Indeed, most Chinese analysts agree that overall U.S.-China strategic competition is very likely to intensify in the long term. To use the words of China National Defense University Professor Tang Yongsheng, U.S.-China strategic competition will be a “prolonged battle”.³⁷

It is noteworthy that the new Cold War narrative does serve as an important warning for the long-term development of relations between the two powers.³⁸ The new Cold War has several similar features to the original one, such as rivalry between great powers and ideological clash, but there are obvious differences between the two. First, the U.S. and Soviet Union belonged to two different international systems during the Cold War, with no economic links between them; whereas, under the so-called new Cold War, the major powers are part of one international system with mutually dependent economic ties. Second, the confrontation between the major powers during the Cold War was manifested in contests of military force. The new Cold War, however, is characterized by geo-economic competition between the major powers. Third, the Cold War was framed as a struggle

³⁴ He, Kai, and Feng Huiyun. “Zhongmei guoji lingdaoquan de jingzheng he gongxiang (Competition and Sharing of International Leadership Between China and the United States),” *Zhanlue juece yanjiu (Journal of Strategy and Decision-making)*, No. 2 (2018): 42-46.

³⁵ Li, Wei, “Guoji zhixu zhuanxing yu xianshi zhiduzhuyi lilun de shengcheng (The Transformation of International Order and the Theory of Realist Institutionalism),” *Waijiao pinglun (Foreign Affairs Review)*, No. 1 (2016): 36-39.

³⁶ Ni, Feng, “Changgui yinsu yu feichanggui yinsu huihe: meiguo duihua zhengce de zhibian (Qualitative Change Caused by Regular and Irregular Factors: US China Policy Adjustment),” *Xiandai guoji guanxi (Contemporary International Relations)*, No. 7 (2018): 22.

³⁷ Tang, Yongsheng, “Zhongmei zhanlue jingzheng jiqi keneng zouxiang (China-US Strategic Competition and Its Prospects),” *Shijie zhishi (World Knowledge)*, No. 24 (2018): 35-36.

³⁸ Da, Wei, “Zhongmei guanxi zouxiang xinlengzhan haishi zhanlue wending (China-US Relations: Toward New Cold War or Strategic Stability),” *Zhongguo guoji zhanlue pinglun 2015 (China International Strategy Review 2015)*, Beijing: Shijie zhishi chubanshe (World Knowledge Publishing House), 2016, 35-38.

between the ideologies of capitalism and communism, but the new Cold War is more of a struggle between different development models, with social media and other technologies allowing major powers to exert political influence over rivals. Fourth, there were clear divisions between the two opposing camps during the Cold War, but in the new Cold War rivals can also be friends, and economic partners can be security rivals. Moreover, the new Cold War is characterized by intense competition among the major powers for control of global commons such as the internet and outer space, with contests largely associated with controlling connectivity rather than occupying territory.³⁹

Most Chinese scholars contend that U.S.-China strategic competition is unlikely to slide into a new Cold War.⁴⁰ Some pundits are relatively pessimistic, such as Renmin University Professor Shi Yinhong and Tsinghua University Professor Yan Xuetong. Shi predicts that the “structural contradictions” between China and the United States might become much deeper, and the possibility of U.S.-China major confrontation and armed conflicts cannot be ruled out.⁴¹ Yan Xuetong emphasizes that ideological rivalry is a key factor that will continue to define the trajectory of US-China relations across the next few decades. In his view, if the ideological rivalry can be managed well, U.S.-China strategic competition could concentrate on pursuing material power, mainly through economic competition and arms racing. If the ideological rivalry becomes a core component of U.S.-China strategic competition, proxy wars would break out. It is quite like the U.S.-USSR clash during the Cold War era.⁴²

Therefore, both sides should be fully aware of the possible hazards of the “Thucydides Trap.” America and China have a mutual need to avoid conflict and confrontation, and both need to work together to prevent the relationship from being derailed. Both sides must manage their competition with conceptual innovation and practical measures. In 2012, Chinese senior officials proposed the framework of “New-type major power relationship” (新型大国关系) for guiding U.S.-China bilateral relations. Chinese scholars admit that American responses to such Chinese initiatives were not positive. Nevertheless, Beijing and Washington have to find a plausible framework to manage their competitive coexistence in decades to come, even if it is doomed to be very difficult.⁴³

To begin with, both America and China need to adjust their “strategic mindset” and related policies. In other words, mutual accommodation based on a redefinition of their respective

³⁹ Zhao, Minghao, “Cong xinlengzhanlun kan zhongmei guanxi mianlin de zhuyao tiaozhan (New Cold War Narrative and New Challenges Facing China-US Relations),” *Xiandai guoji guanxi (Contemporary International Relations)*, No. 6 (2018):17-19.

Xue, Li. “Zhongmei guanxi de xingzhi: lengchandou erfei xinlengzhan (The Nature of China-US Relations: Cold Rivalry Rather Than Cold War),” *Shijie zhishi (World Knowledge)*, No. 21 (2018): 73.

⁴⁰ Zhu, Feng. “Zhongmei zhanlue jingzheng yu dongya anquan zhixu de weilai (Sino-US Strategic Competition and the Future of East Asian Security),” 8, 11.

⁴¹ Shi, Yinhong. “Zhongmei guanxi de shuangchong xingshi (Two Trends in US-China Relations),” *Guoji wenti yanjiu (China International Studies)*, No. 3 (2009): 3.

⁴² Yan, Xuetong. “Zhongmei liangjihua qushi de sikao (The Bipolarization of China-US Relations),” *Xiandai guoji yanjiu (Modern SOEs Studies)*, No. 17 (2018): 84-85.

⁴³ Fontaine, Richard, and Ely Ratner. “The US-China Confrontation is Not Another Cold War. It’s Something New,” *The Washington Post*, July 2, 2020.

national interests and rules for U.S.-China interactions is a necessity.⁴⁴ Second, China and the United States should draw a red line for their strategic competition and respect each other's "core interests."⁴⁵ Third, the economic decoupling between China and the U.S. might result in greater confrontation between the two countries, and U.S.-China economic relations consequently need to be mended. There is great potential for U.S.-China cooperation in strengthening global economic governance.⁴⁶ Fourth, China and the U.S. should step up efforts to develop positive interactions in the Asia-Pacific region. Both need to realize that most regional countries are reluctant to pick a side in the event of a China-U.S. standoff.⁴⁷

More importantly, China and the United States should have sustained exchanges on their visions for the international order and make joint efforts to address global governance challenges. In Chinese policy elites' views, China and the United States have the responsibility to establish an inclusive, open, and rules-based international order, which can guarantee the long-term and healthy development of U.S.-China relations.⁴⁸ Shared leadership between the two nations is required for making international institutions updated and efficient. The United States should review its knee-jerk negative response to new international institutions like AIIB initiated by China, while China must ensure such institutions do not become a tool to narrowly serve Chinese national interests. Moreover, the United States and China should work together in areas that suffer from a lack of internationally accepted norms and rules. In particular, cyberspace and outer space are important domains where U.S.-China competition could be aggravated. China and the United States should strive to develop a habit of cooperation and explore new ways to cope with other challenges, such as the weaponization of artificial intelligence. Both countries need to promote new types of cooperation in international peacekeeping, counterterrorism, and public health, among other areas.⁴⁹

It must be a long-term and formidable maneuver to manage U.S.-China strategic competition. Both sides must work with a sense of urgency. There is indeed no evidence indicating that U.S.-China relations will turn for the better simply because Joe Biden has taken over the presidency. But the opposite is true as well, as there is no reason that we

⁴⁴ Yang, Jiemian. "Zhongmei waijiao hudong moshi de yanbian, jingyan, jiaoxun he qianjing (The Evolving Model of China-US Diplomatic Interaction: Practices, Lessons and Prospects)," *Meiguo yanjiu* (The Chinese Journal of American Studies), No. 4 (2018): 21-22.

⁴⁵ Wang, Honggang. "Gongtong jinhua: dui zhongmei zai yatai guanximoshi de zaisikao (Co-evolution: Reconsideration on Sino-US Interaction in Asia-Pacific)," *Xiandai guoji guanxi* (Contemporary International Relations), No. 1 (2013): 60.

⁴⁶ Zhang, Monan, and Guang Yang. "Zhongmei guanxi xinjieduan jidai kaiqi maoyi xinmoshi (New Phase of China-US Relations Needs New Model of Their Trade Ties)," *Hongguan jingji guanli* (Macroeconomics and Management), No. 1 (2018): 28-29.

⁴⁷ Zhao, Qinghai. "Xinping jiujiu: telangpu zhengfu de yintai zhanlue (Old Stuff with a New Label: The Trump Administration's Indo-Pacific Strategy)," 11.

⁴⁸ He, Yafei. "Zhongmei guanxi liangxing hudong jiang youli tuidong quanqiu zhili tixi de tiaozheng yu wanshan (The Positive Interaction of Sino-US Relations will Strongly Promote the Adjustment and Improvement of Global Governance)," *Dongnanya yanjiu* (Southeast Asian Studies), No. 1 (2018): 10-12.

⁴⁹ Meng, Honghua. "Xinshidai de zhongguo duimei fanglue (China's Strategy toward the United States in New Era)," *Dangdai shijie yu shehuizhuyi* (Contemporary World and Socialism), No. 1 (2019): 23-24.

should let slip the opportunity to ease the tensions and strive for a reset. Given the magnitude of the challenge, combined with the difficulties Biden will encounter in carrying out his office, both sides need to work on realistic goals and a road map for resetting bilateral ties. They must put in the time, energy, and political capital needed. Proposed steps include the following:

- **Repair U.S.-China relations by reversing the extreme approaches pursued by the Trump administration.** Severing cultural and people-to-people exchanges will fundamentally harm ties, as any cultural decoupling will only serve to aggravate the current rift. China and the U.S. should take measures in tandem to create conditions for bilateral talks, starting with reopening closed consulates, lifting visa restrictions, and ending bans or expulsions of resident journalists.
- **Restart bilateral dialogues and strengthen their ability to efficiently handle specific issues.** Apart from continuing economic and trade negotiations, strategic dialogues on the diplomatic track should be reinstated after their hiatus sparked by the Trump administration. The U.S. hopes to pursue a results-oriented relationship with China, but for that to happen, the U.S. must make compromises as well, not just unilaterally make demands of China. Both sides need to improve the quality and professionalism of bilateral dialogues, which is a shared challenge for officials in both countries.
- **Push forward pragmatic bilateral cooperation.** This should be carried out in light of the domestic political and economic agendas of the respective countries. China has taken proactive steps in market access and intellectual property rights protection. China is also favorable toward the idea of joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. Both sides should also work out specific plans for cooperation in enforcing the Paris Agreement, developing clean energy, maintaining global financial stability, and advancing nonproliferation. Furthermore, infrastructure, data use and protection, anti-money laundering, and counterterrorism also present room for U.S.-China cooperation.
- **Strengthen crisis management mechanisms and avoid military confrontation.** This is crucial in the Taiwan Strait, the South China Sea, and other areas. Communication between China's Joint Staff Department of the Central Military Commission and the U.S. Joint Chiefs of Staff should be enhanced with multilevel crisis communication channels. Both sides need to enhance the crisis control consciousness and ability of frontline military personnel. Under the Obama administration, a consultation mechanism for Asia-Pacific affairs was set up between China and the U.S. Similar arrangements should be organized to avoid miscalculation; otherwise, they face a scenario in which the two countries will slide into conflict because of some "third party factor."

Methodology

The primary goal of this report is to provide recommendations to Chinese and American civil society about how the bilateral relationship can be preserved and how engagement can be expanded. Although civil society is understood differently in the U.S. and China,⁵⁰ it can be broadly defined as organizations which are “generally non-profit distributing and self-governing, and operate in the public sphere.”⁵¹ For the purposes of this report, these include nongovernmental organizations, business and trade associations, think tanks and research institutes, philanthropic and religious missions, and educational institutions. Notably, the Chinese authors involved in this report felt strongly that their research should focus on recommendations for the Chinese and American governments.

In developing these recommendations, this report employed a unique framework inspired by the American and Chinese diplomatic communities to identify, classify, and prioritize bilateral and international matters of concern. This intellectual exercise helped guide the authors in selecting which issues were analyzed.

Academics, professionals, and researchers from both the U.S. and China were first recruited into two independent teams to draft the report in parallel. One team consisted of authors residing in the People’s Republic of China, while the other team consisted of authors residing in the United States of America. Each team was tasked with identifying and categorizing bilateral and international issues into three broad categories: (1) issues over which the U.S. and China have mutual interest in cooperation; (2) issues over which the U.S. and China should conduct dialogue; and (3) issues over which the U.S. and China must commit to peaceful management of their disagreements. Each team identified the issues categorized independently of one another, and items in each category were left unranked.

Once categorized by both teams, the lists were exchanged, and mutually convergent issues were identified. Convergent issues constituted the foundation of this report. Each list can be found in the next two pages.

⁵⁰ We acknowledge that the Chinese conception of civil society differs somewhat from that of the U.S.; see pages 3-4 of Elizabeth Knup 2019, “The Role of American NGOs and Civil Society Actors in an Evolving US-China Relationship,” <https://www.cartercenter.org/resources/pdfs/peace/china/china-program-2019/knup.pdf>

⁵¹ *Ibid.*, 3.

Table 1
American-side Categorizations

Cooperation (合作)	Dialogue (对话)	Management (管控)
Environmental Protection [climate change, pollution, sustainability]	Legal Systems [foreign NGO laws and civil society engagement, intellectual property, law enforcement]	Taiwan Strait [Taiwan status, arms sales]
Public Health & Infectious Disease Prevention [COVID, vaccine distribution, supply chains]	Global Governance [public health, development finance, infrastructure, regulations over emerging technology, de-risking, Arctic, United Nations reform and treaty implementation]	South China Sea [militarization, freedom of navigation]
Drug Trafficking [narcotics, fentanyl]		Hong Kong [autonomy]
Global Financial Governance [debt, transparency, coordination]	Great Power Relations [gray zone operations, freedom of navigation, nuclear doctrine, space demilitarization, military-to-military communication, BMD, redlines]	Human Rights [Xinjiang, Tibet, ethnic minorities]
Korean Peninsula Stability [sanctions, denuclearization]	Trade Relations (market access, tariffs)	Ideology/Regime Type [doctrine, political appointments, elections, internet governance, propaganda]
People-to-People Exchange [language, culture, arts]	Cybersecurity [hacking, cybercrime]	Cybersecurity [hacking, cybercrime]
Afghanistan Peace Process Crisis Stability and Communication	Human Rights [Xinjiang, Tibet, ethnic minorities]	
	Journalism/Media Policy [reciprocity]	Crisis Stability [military-to-military dialogue, communication, hotlines]
Sustainable Development [including the African continent]	Maritime Domain [Grey Zone Operations, Rules of Engagement, Freedom of Navigation]	
Nonproliferation/Arms Control	Korean Peninsula Stability [sanctions, denuclearization, redlines]	East China Sea [Senkaku/Diaoyu Islands]
Terrorism and Piracy	Consular Relations [visas]	
Natural Disasters [including military-to-military engagement]	Education [codes of conduct, engagement]	

Table 2
Chinese-side Categorizations

Cooperation	Dialogue	Management
Public Health & Infectious Disease Prevention [COVID-19, vaccine development and distribution, global warning and prevention system]	Trade and Investment Rebalancing [tariffs and sanctions, market access, currency manipulation subsidies, competition neutrality, BIT]	South China Sea [COC, FONOPs]
Sustainable Development and Environmental Protection [Renewable energy, quality infrastructure, climate change, Sustainability Goals by UN, carbon pricing]	Tech Decoupling [entity list and export control, 5G, dual use tech, investment restrictions, emerging tech standards and regulations]	Taiwan Strait [One China Principle, arms sales, TAIPEI Act, military deterrence]
Nonproliferation/Arms Control [Korean Peninsula stability, denuclearization, reconciliation, Iran nuclear issue]	Digital Economy and Cybersecurity [digital tax, digital data security, cybercrime, privacy]	Hong Kong [sovereignty, security, democracy, autonomy, sanctions]
Humanitarian Aid and Disaster Relief [Peacekeeping in Crisis areas, Afghanistan, Syria, Africa etc.]	Global Governance Reform and Improvement [WTO, WHO, World Bank, IMF, UNCCC, Arctic Council]	Nationalist & Populist Rhetoric and Abuse of “National Security” [conspiracy theories, propaganda, mutual popular resentment]
Counterterrorism, Piracy, Drug and Human trafficking and Corruption [fentanyl, money laundering, modern slavery]	Human Rights and Disinformation [human rights dialogue, social media management, racial and ethnic relations, Xinjiang issue]	Ideological/Institutional Attacks [defame leadership, delegitimizing governance, promoting color revolution, facilitating internal strife]
Macroeconomic Coordination and Global Financial Governance [fiscal and monetary policy, debt control and relief, financial transparency]	People to People Exchange [educational and academic exchanges, student and visiting scholar visas, journalists and diplomats, “foreign influence operations”]	General Demilitarization [missiles, various drones, space, cyber, close surveillance, excessive and provocative exercises]
Trade Investment Expansion and Protection of IPR [Phase II trade deal, agriculture and energy trade, ipr and tech transfer legal framework]		

Cooperation

China-U.S. Cooperation on Climate Change: History and Future Agenda

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Lessons of China-U.S. Cooperation on Climate Change

In the past 30 years, from the United Nations Framework Convention on Climate Change, to the Kyoto Protocol, to the Paris Agreement, the world has gone through a winding road to building a U.N.-centered global governance structure and action plan on climate change. Any progress requires consensus-building as well as strong leadership to overcome the challenges of collective action.

China's carbon-neutral goal and emission control actions are a solid foundation for global cooperation on climate change, particularly with the United States. The two countries are the biggest greenhouse gas emitters in the world; China and the U.S. must work together to find solutions for the gap between developed and developing countries. It would have been almost impossible to reach the Paris Agreement of limiting global warming to below 2°C in December 2015 if it weren't for the U.S.-China Joint Announcement on Climate Change in November 2014 and the bilateral Joint Presidential Statement on Climate Change in September 2015.

On top of the Paris Agreement, China also worked with the Obama administration to accomplish the Kigali Amendment of the Montreal Protocol and the ICAO Carbon Offset and Reduction Scheme for International Aviation resolution, both in October 2016. The former was an agreement by 197 countries to phase down hydrofluorocarbon refrigerants, and the latter was aimed at capping aviation emissions at 2020 levels by 2027. The significant progress of bilateral cooperation on climate change during President Barack Obama's second term provided at least five lessons for the future.

Mutual Respect Is Essential.

In Kenneth Lieberthal and David Sandalow's report, "Overcoming Obstacles to U.S.-China Cooperation on Climate Change," published 12 years ago, the first recommendation was to "acknowledge the legitimacy of each other's perspectives." The authors explained that the U.S. and China bring very different perspectives to the issue, reflecting their different histories and circumstances, and each should recognize the legitimacy of the other's viewpoint and avoid making these differences barriers to pragmatic cooperation.⁵²

⁵² Lieberthal, Kenneth, and David Sandalow. "Overcoming Obstacles to U.S.-China Cooperation on Climate Change." John L. Thornton China Center Monograph Series, No.1, January 2009. https://www.brookings.edu/wp-content/uploads/2016/06/01_climate_change_lieberthal_sandalow.pdf.

Another Pew Center and Asia Society report also stated that “a meaningful U.S.-China partnership on climate change issues can be forged based on equity, taking into account the respective stages of development, capacities, and responsibilities of each country.”⁵³ This argument should continue to guide the bilateral cooperation on climate change, for it was precisely this spirit of mutual respect that ensured trust between the two countries, from the top leadership to the parties involved in the process.

Over the Obama years, disagreements between China and the U.S. have often frustrated efforts to reach consensus on an effective international response to the problem of climate change. Key disputes have centered on the “common but differentiated responsibilities” principle, or more specifically on the appropriate prioritization of economic development versus climate mitigation, responsibility for historic emissions versus contribution to current and forecasted emissions, and total emissions versus emission per capita.

However, both Chinese and American leaders maintained constructive attitudes despite intense debates due to their respect for the other side’s perspectives and needs. Common interests, effective communication, and determination led to necessary compromises and brought the two parties over the finish line of climate change agreements.

Working Mechanism Is Critical.

The U.S.-China Climate Change Working Group (CCWG), the premier mechanism for facilitating constructive China-U.S. dialogue and cooperation on climate change, was established in April 2013. This mechanism played a critical role in promoting climate change cooperation between China and the U.S. because it directly reported to the Strategic and Economic Dialogue for cross-country policy coordination, and it included nearly a dozen concrete action initiatives covering major sectors of the economy.

The ambition of China-U.S. cooperation can be reflected in these areas: heavy-duty and other vehicles; smart grids; carbon capture, utilization, and storage; energy efficiency in buildings and industry; collecting and managing greenhouse gas emissions data; climate change and forests; industrial boiler efficiency and fuel switching; climate-smart/low-carbon cities; green ports and vessels; and zero-emission vehicles. These action-oriented initiatives were guided by joint implementation plans and led by interagency actors on both sides. The CCWG also hosted a regular Enhanced Policy Dialogue that covered the international climate negotiations and respective domestic plans for achieving climate targets. Also, China and the U.S. founded the Clean Energy Research Center in Beijing and reached the Ten-Year Framework for Cooperation on Energy and Environment.⁵⁴

Domestic Politics Matters.

⁵³ “Common Challenge, Collaborative Response: A Roadmap for US-China Cooperation on Energy and Climate Change.” Pew Center and Asia Society, January 2009.

https://asiasociety.org/files/pdf/US_China_Roadmap_on_Climate_Change.pdf.

⁵⁴ “Report of the U.S.-China Climate Change Working Group to the 7th Round of the Strategic and Economic Dialogue.” U.S. Department of State. U.S. Department of State, June 24, 2015. <https://2009-2017.state.gov/e/oes/rls/rpts/244467.htm>.

China experienced a dramatic change of domestic view and political economy on climate change. The U.S. also went through domestic political swings. At the federal level, the Obama administration saw climate change as one of its core issues on the political agenda. Greenhouse gas reduction was central to Obama's economic recovery and job-creation plan. However, the prioritization of health care reform cost the Democratic Party the control of Congress, and the administration lost legislative and budgetary leverage to promote climate change legislation.

Obama took a different approach in his second term by fully deploying the executive power to drive the climate agenda. In the summer of 2013, he updated the Presidential Climate Action Plan (CAP), since the plan was first prepared at the beginning of his first term. The CAP called for cutting carbon pollution in America, preparing the U.S. for the impacts of climate change, and leading international efforts to address climate change. Among many proposals, the CAP directed the Environmental Protection Administration to raise carbon pollution standards on U.S. power plants, accelerate clean energy permitting, and raise fuel economy standards for the transportation sector.⁵⁵

Concurrently, the U.S. was experiencing a fracking revolution that delivered record oil and gas production throughout the Obama years, directly undermining political support for climate change policies. Donald Trump, on his first day as president, abandoned Obama's CAP, calling it "harmful and unnecessary." Trump also quit the Paris Agreement, leaving other countries — including China — greatly disappointed. But gradually ample supply of American oil and gas caused a nosedive in energy prices, putting the debt-laden fracking industry in retreat. In his inaugural address on Jan. 20, 2021, President Joe Biden announced he would rejoin the Paris Agreement and revoked Trump's order by signing an executive order reinstating the Obama CAP.⁵⁶ In eight years, climate change policy has run a full circle in the U.S. due to the polarization of domestic politics.

Local and Pragmatic Cooperation Is Enduring.

One of the most salient features of China-U.S. climate change cooperation is vibrant local and pragmatic exchanges and projects based on common interests among the two peoples. In the past decade, the two sides have been working together on clean coal, electric car technology, renewable energy, smart grids, carbon sequestration, and green building, efforts that have effectively improved both countries' energy efficiency and reduced emissions. From the environment, energy, and transportation ministries and departments in the two countries to provincial, state, and municipal governments, multilayer policy exchanges, multiple pilot projects in many industrial sectors are sprouting up.

This pragmatic local cooperation has produced two important results. First, it has helped local governments acquire the knowledge, experience, data, and capability to analyze their

⁵⁵ "President's Climate Action Plan," June 2013.

<https://obamawhitehouse.archives.gov/sites/default/files/image/president27sclimateactionplan.pdf>.

⁵⁶ "Executive Order on Protecting Public Health and the Environment and Restoring Science to Tackle the Climate Crisis." The White House. The United States Government, January 20, 2021.

<https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-protecting-public-health-and-environment-and-restoring-science-to-tackle-climate-crisis/>.

environmental situation so they can make better plans for energy production, environmental standards, and emission targets. Second, it has enlisted social and business actors like environmental nongovernmental organizations, research institutions, enterprises, and even celebrities to join hands in specific projects. The increased coordination and mobilization in both societies have helped to consolidate public support for bilateral cooperation on climate change.

Indeed, local, business, and social cooperation on low-carbon sustainable development between China and the U.S. were so strong and mutually beneficial that it endured during the Trump administration but failed to flourish. Today, the cooperation is ready to move into a higher gear.

One Plus One Is Greater than Two.

When China and the U.S. work together on climate change, the ripple effect is truly global. On top of the Paris Agreement, Kigali Amendment, and CORSIA, joint efforts by the two countries greatly reinforced the leadership of rule-making for climate change, setting the stage for global growth of renewable energy, green financing, and low-carbon technologies and industries. Green-tech transfer and joint development between China and the U.S. also reduced the cost and accelerated the wider application of alternative energy solutions in the least developed countries.

Meanwhile, China and the U.S. recognize the importance of mobilizing climate finance to support low-carbon, climate-resilient development in countries that have limited financial resources. As part of the Obama-Xi Joint Statement in 2015, China pledged 20 billion yuan to the South-South Climate Cooperation Fund within the framework of the 2030 Agenda, and the U.S. made an equivalent pledge of US\$3 billion to the Green Climate Fund (GCF), which accounted for 29% of the fund's total amount announced.⁵⁷ China continued with the commitment and followed the plan to fund 10 low-carbon demonstration projects, 100 climate change adaptation and mitigation projects, and 1,000 training places in developing nations (the "10-100-1000" plan).⁵⁸ When the U.S. quit the Paris Agreement, Trump stated that the U.S. would not honor the \$2 billion that remains to be paid to the GCF. Now that Biden has rejoined the agreement, it is hoped the U.S. will recommit to the GCF and contribute more to mitigation finance and help to reduce the huge adaptation finance gap.

In addition, with the U.S. ending public financing for new conventional coal-fired power plants except in the poorest countries, China also updated low-carbon policies and regulations to restrict public investment flowing into projects with high pollution and carbon emissions both domestically and internationally. As a result, the green concept was adopted and integrated into China's Belt and Road Initiative (BRI) and China made additional financial and material contributions to U.N. country climate change initiatives.

All in all, despite a troubled start, China-U.S. cooperation on climate change before the Trump administration was a great accomplishment and that proved the viability of genuine bilateral

⁵⁷ "Status of Pledges and Contributions Made to the Green Climate Fund," July 31, 2020. https://www.greenclimate.fund/sites/default/files/document/status-pledges-irm_1.pdf.

⁵⁸ Binbin, Wang. "After China's Ministerial Shake-up, What's next for South-South Climate Cooperation?" China Dialogue, May 14, 2020. <https://chinadialogue.net/en/climate/10685-after-china-s-ministerial-shake-up-what-s-next-for-south-south-climate-cooperation>.

cooperation on pressing global challenges based on common interests and real political leadership. There was no shortage of disputes between China and the U.S. in the climate change negotiations and on the geopolitical and security issues such as the Diaoyu Islands, South China Sea, and cybersecurity. However, the distrust, tension, and friction within the bilateral strategic relationship did not deter both sides from deepening cooperation on climate change. On the contrary, they highlighted the urgent need for a fulcrum for building trust and seeking collaboration to prevent a zero-sum interaction between the two largest economies in the world.

China's Goal of Carbon Neutrality by 2060

In the past 40 years since China's opening and reform, the Chinese economy has been growing at an incredible speed, lifting tens of millions of people out of poverty and making it the world's second-largest economy. The downside of this unprecedented growth is that China is also becoming the world's largest polluter, with carbon dioxide emissions exceeding 9.8 billion tons in 2017, or 28% of the global total. Due to the economic development stage and industrial structure of China, 90% of the carbon emissions come from electricity generation, industrial production, and transportation. However, China's economic structure has been changing, and the government is leading the way to transform the economy.

China's Carbon Neutral Commitment

President Xi Jinping has addressed the importance of "ecological environment" numerous times in his speeches. "Ecological environment is a critical political issue, also a major social issue related to people's livelihood," Xi said. He coined the popular phrase "Green is gold" to highlight the value of sustainable development.

During the United Nations General Assembly in September 2020, Xi announced that China will strive to reach peak carbon dioxide emissions before 2030 and achieve carbon neutrality before 2060. This pledge not only laid down a clear target for carbon reduction but also put China in line with carbon-neutral commitments made by developed countries, sending a strong signal to the world that China will play a leading role in implementing the Paris Agreement.⁵⁹ Now, these lofty goals will be integrated into China's 14th Five-Year Plan and the 2030 Development Vision.

Such a high bar to curb emissions would require an overhaul of China's current energy structure. In addition to switching from fossil fuel to renewable energy sources, this target-driven energy revolution must also rely on the digital transformation of the electric systems. Research shows that it is technically, economically and financially feasible to achieve the carbon-neutral objective and its impact on China's GDP per capita in 2050 will be minimal.⁶⁰ If China's carbon neutrality is realized in the next 40 years, it is estimated that China will reduce carbon dioxide emissions 215 billion tons in total. Even if other countries do not increase their carbon reduction commitments,

⁵⁹ "中国国家主席习近平联大致辞：中国积极投身国际抗疫合作 争取 2060 年前实现碳中和 | 联合国新闻." United Nations. Accessed March 8, 2021. <https://news.un.org/zh/story/2020/09/1067222>.

⁶⁰ "China 2050: A Fully Developed Rich Zero-Carbon Economy." Energy Transitions Commission, November 2019. <https://www.energy-transitions.org/publications/china-2050-a-fully-developed-rich-zero-carbon-economy/>.

global temperature will rise an estimated 2.59°C, which is 0.25°C below the level currently expected.⁶¹

Solving the Problem of Coal

One of the greatest challenges ahead for China is its dependency on coal. China's economy in the next decade will maintain a medium-high growth rate and the energy demand will continue to increase. Decarbonization in the industrial and transportation sectors poses a great technological and cost challenge, but it also creates unprecedented opportunities for new industries and markets.

During the “Thirteenth Five-Year Plan” period, China's power generation installed capacity increased by an average annual rate of 7.6%, of which non-fossil energy installed capacity increased by 13.1% annually. The proportion of non-fossil energy installed capacity increased from 34.8% at the end of 2015 to 44.8% at the end of 2020. The average annual growth rate of coal-fired power installed capacity was 3.7%, and its share of total installed capacity dropped from 59% at the end of 2015 to 49.1% at the end of 2020. Still, mere reduction of coal in electricity generation is not likely to bring China to carbon neutrality. China needs more solutions to transform energy consumption and carbon dioxide control, particularly through electrification of transportation, a shift toward a high-level circular economy, decarbonization of heavy industries, carbon capture and storage, state-of-the-art building insulation, and other technological innovations.

In the Paris Agreement, China pledged to adhere to the nationally determined contributions (NDC) of 60-65% reduction of carbon dioxide emissions per unit GDP from the 2005 level, and to increase non-fossil energy to 20% of total energy consumption. On Dec. 12, 2020, President Xi announced at the U.N. conference that by 2030, China will aim at NDC of 65% and non-fossil energy at 25% of the total and will triple solar and wind power capacity of their 2019 levels by 2030.⁶² The application of newer technology and a larger scale of deployment are leveling the cost of energy between fossil fuels and renewables. The cost of solar and wind energy has on average decreased 82% and 39% respectively in the past decade, and 56% of newly deployed large-scale renewable energy cost is lower than traditional fossil fuel energy.⁶³

New National Guidelines on Climate Change

On Jan. 11, 2021, China's Ministry of Ecology and Environment (MEE) published the Guideline on Coordinating and Reinforcing Responses to Climate Change and Protection of Ecological Environment. Following up Xi's carbon peak and neutral pledges, the guideline made it clear that countering climate change will be a critical part of China's macroeconomic governance. Carbon reduction must be coordinated throughout the entire economy with unified planning,

⁶¹ Pollitt, Hector. “Carbon Neutral in China by 2060 Will Make China Richer.” Carbon Brief, September 29, 2020. <https://www.carbonbrief.org/https-www-carbonbrief-org-2060-tan-zhong-he-ke-shi-zhong-guo-geng-fu-zu>.

⁶² Xi, Jinping. “继往开来，开启全球应对气候变化新征程 ——在气候雄心峰会上的讲话。” Xinhua Net, December 12, 2020. http://www.xinhuanet.com/politics/leaders/2020-12/12/c_1126853600.htm.

⁶³ IRENA. “Renewable Power Generation Costs in 2019,” 2020. https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2020/Jun/IRENA_Costs_2019_CH.PDF.

implementation, and reviewing systems. The guideline stated that China will accelerate the compilation of action plans for peak carbon emission, including specific plans for energy, industry, transportation, and construction. The steel, cement, nonferrous metals, chemicals, petrochemicals, electricity, and coal mining industries are encouraged to set targets and make action plans. Climate change legislation will be promoted, particularly the Regulations on Carbon Emission Exchange, and climate change standards will be amended to better evaluate carbon emission reduction.⁶⁴

Also, the MEE and National Development and Reform Commission, People's Bank of China, China Banking and Insurance Regulatory Commission, and the China Securities Regulatory Commission together issued another guideline on Promoting Climate Change Investment and Financing (PCCIF) on Oct. 21, 2020. It aims at leveraging social capital to invest in areas related to climate change such as energy structural change, industrial optimization, production, and consumption modes, to meet the target of Nationally Determined Contributions and creation of a low-carbon society. One key part of the PCCIF is to encourage private and foreign capital to enter into climate investment and financing, in which carbon emission trading mechanisms will be further developed and foreign holding of green financial assets will be facilitated. Bilateral and multilateral cooperation on climate change investment and financing are also welcome.⁶⁵

To answer China and other member countries' call, Asia Infrastructure Investment Bank has promised to stop financing any coal-fired power plant or coal-related projects. By 2025, AIIB plans to allocate 50% of its loans to clean energy, energy conservation and efficiency, and climate change projects. Private capital will also be leveraged to participate in green projects.⁶⁶

Biden's Climate Change Plan and China

Since the term "Green New Deal" (GND) was first used by Thomas Friedman in January 2007 to describe the massive and comprehensive work that the U.S. government must do to avert climate calamity, the United Nations, President Obama, and Green Party candidates have all borrowed the concept to summarize their own climate policies that aim to make systemic changes. The Trump administration's negligence and obstruction of climate policies has prompted the Democratic left, represented by U.S. Rep. Alexandria Ocasio-Cortez, to push for an epic Green New Deal to overhaul the American economy.⁶⁷ Though Joe Biden did not endorse the plan while a presidential candidate, he and his climate change team agree with the goals and principles contained in the GND.

⁶⁴ "关于统筹和加强应对气候变化与生态环境保护相关工作的指导意见." Ministry of Ecology and Environment of the People's Republic of China, January 11, 2021.

http://www.mee.gov.cn/xxgk2018/xxgk/xxgk03/202101/t20210113_817221.html.

⁶⁵ "关于促进应对气候变化投融资的指导意见." Ministry of Ecology and Environment of the People's Republic of China, October 21, 2020.

http://www.mee.gov.cn/xxgk2018/xxgk/xxgk03/202010/t20201026_804792.html.

⁶⁶ Jin, Liqun. "金立群：碳中和目标是改革开放 40 年来最重要的政策举措之一." The Paper, December 4, 2020. https://m.thepaper.cn/newsDetail_forward_10267302.

⁶⁷ Ocasio-Cortez, Alexandria. "H.Res.109 - 116th Congress (2019-2020): Recognizing the Duty of the Federal Government to Create a Green New Deal." Congress.gov, February 12, 2019. <https://www.congress.gov/bill/116th-congress/house-resolution/109>.

During the campaign, Biden's "Clean Energy Revolution" on climate change also took a bold stand, just on a less ambitious time frame and at a lower cost than the GND. It promised to take detailed climate actions in the transportation, electricity, construction, and agricultural industries, and to invest a total of US\$2 trillion for job creation and environmental justice. The Biden plan commits the U.S. to reach carbon neutrality by 2050, achieve complete carbon-pollution-free electricity generation by 2035, adopt rigorous greenhouse gas and fuel economy standards for vehicles, establish an Energy Efficiency and Clean Electricity Standard for buildings and construction, create a new Advanced Research Projects Agency for Climate to support low-carbon technologies, plug abandoned oil and natural gas wells and reclaim abandoned mines, make American agriculture the first in the world to achieve net-zero emissions, create a climate and economic justice screening tool to identify disadvantaged areas, and establish an Environmental and Climate Justice Division within the Justice Department.⁶⁸

Internationally, the Biden plan touches on the U.S.-China relationship in some detail, but the undertone of the plan is competitive, not cooperative. It specifically ties trade and climate policy, raising the concept of a carbon adjustment tax or quota on carbon-intensive goods. It even suggests conditioning future trade agreements on China's commitment to meeting the Paris Agreement targets. On green technology and supply chain, John Kerry, the newly appointed presidential envoy for climate, argued in December 2019 that the U.S. is in a "green race" with China and it would be a geopolitical failure if China were to outrun the U.S. in innovation and green technology.⁶⁹ The plan extends and reinforces the "Buy American" policy with a view to build a more resilient supply chain domestically, including for electric vehicles. The Biden plan also takes a hardline on the Belt and Road Initiative, recommending alternative financing for low-carbon investments in BRI projects to replace Chinese sources. The plan seeks to hold China to high environmental standards for BRI's infrastructure projects and to stop China from exporting or subsidizing coal-fired power plants to BRI countries.

The lack of a positive and cooperative plan with China on climate change in the Biden agenda shows the pervasive influence over American politics of the "tough on China" mentality. But in professional circles, the discussion of bilateral climate change cooperation is extensive, and hope resides in the fact that many China experts on the Biden team came from the Obama administration that used to be quite constructive on climate collaboration issues. Biden's long political career and experience as well as his personal relationship with Xi may prove vital in overcoming the obstacles to climate change cooperation between the U.S. and China. Besides, local governments, NGOs, and businesses are all waiting and calling for the restoration of bilateral cooperation on climate, adding pressure to the two governments to act as soon as possible.

Recommendations for Climate Change Cooperation

On Aug. 7, 2020, when China-U.S. relations were rapidly deteriorating, Yang Jiechi, Politburo member and director of the Central Foreign Affairs Commission of the CPC, published an article on bilateral relations. Yang listed energy, law enforcement, drug control, local exchanges, and

⁶⁸ "THE BIDEN PLAN FOR A CLEAN ENERGY REVOLUTION AND ENVIRONMENTAL JUSTICE." Joe Biden for President: Official Campaign Website, October 29, 2020. <https://joebiden.com/climate-plan/>.

⁶⁹ Kerry, John, and Ro Khanna. "Don't Let China Win the Green Race." The New York Times, December 9, 2019. <https://www.nytimes.com/2019/12/09/opinion/china-renewable-energy.html>.

people-to-people as potential areas for bilateral cooperation, and the Korea peninsula, Afghanistan, the Middle East, cybersecurity, climate change, and public health as potential global issues for cooperation.⁷⁰ Since climate change and public health are top priorities for the Biden administration, China has identified climate change as a forefront issue for bilateral cooperation. As Chinese State Councilor and Foreign Minister Wang Yi said in a virtual meeting on Dec. 18, 2020, China will not only firmly implement its Paris Agreement commitments, but also seek to work together with the U.S. to jointly contribute to the global response to climate change.⁷¹

However, the Trump administration has burned the bridge on climate cooperation over the past four years. It suspended the China-U.S. Ten-Year Framework for Cooperation on Energy and the Environment (2008–2017), canceled the CCWG, and froze the China-U.S. Clean Energy Research Center. Moreover, U.S. tariffs and sanctions against China in the name of “national security” are so extensive, it becomes a web of barriers that are blocking progress on climate cooperation. Under the icy diplomatic relationship and poisonous political environment, any talk of cooperation with China in Washington, D.C., will be met with a long list of Chinese wrongdoing and the claim that the past policy of U.S.-China engagement was a fiasco. Therefore, how and when China and the U.S. can resume bilateral climate actions remains uncertain.

Climate change, on the other hand, is not waiting for human disagreements to dissolve. The year 2020 tied with 2016 as the hottest year on record, making the last decade the hottest on record as well. Temperatures soared the most in the Arctic and northern Siberia, reaching more than 6°C above average and causing weather abnormalities all around the world.⁷² The cost of inaction or weak response is no longer bearable to humankind, and such a global emergency demands a decisive global response, particularly a China-U.S. coordinated one.

Recommended Bilateral Actions

The Biden administration is opening a window of opportunity for the U.S. and China to resume and upgrade their climate change cooperation. On one hand, Biden didn't waste any time moving forward with his climate agenda by signing two executive orders, one to return to the Paris Agreement and the other to rescind permits for the Keystone XL pipeline, on his first day in office. On the other hand, Biden's goal of making the U.S. carbon-neutral by 2050 has realigned America with all major countries in the world, particularly China, which aims for carbon neutrality by 2060. The reversal of climate change policy in the U.S. coupled with the pursuit of high quality and sustainable development by China may lay the foundation for a durable cooperative relationship on climate. Considering the current situation of bilateral relations, solid progress on climate cooperation could help rebuild mutual trust and provide a model for cooperation in other areas. From the good lessons of the past cooperation, China and the U.S. could start with the following actions.

⁷⁰ Yang, Jiechi. “杨洁篪署名文章：尊重历史 面向未来 坚定不移维护和稳定中美关系-新华网.” Xinhua News, August 7, 2020. http://www.xinhuanet.com/politics/2020-08/07/c_1126339837.htm.

⁷¹ “王毅同美国亚洲协会举行视频交流.” 中华人民共和国外交部, December 18, 2020. <http://new.fmprc.gov.cn/web/wjbzhd/t1841285.shtml>.

⁷² Newburger, Emma. “2020 Was One of the Hottest Years on Record, Tied with 2016.” CNBC, January 8, 2021. <https://www.cnbc.com/2021/01/08/climate-change-2020-one-of-the-hottest-years-on-record-tied-with-2016.html>.

- **Rebuild Diplomatic Ties and Confirm Cooperative Intentions**

During the last days of the Trump administration, almost all meaningful communications between the two countries were cut off or stalled: The U.S. consulate in Chengdu and the Chinese consulate in Houston closed, diplomats' activities severely limited, journalists expelled, officials and companies blacklisted and sanctioned. Before there is any form of cooperation, it is extremely urgent to reopen channels of communication and to rebuild the basic working relationship between China and the U.S.

In the meantime, the two sides need to arrange for high-level climate change officials to talk over the phone or through online meetings, and meet in person when possible. U.S. climate envoy John Kerry and Chinese climate envoy Xie Zhenhua should discuss and confirm each side's intention for cooperation, the scope of that cooperation, the mechanism for negotiation and coordination, and short-term goals for confidence-building.

- **Restart the US-China Climate Change Working Group (CCWG)**

Presidents Xi and Biden could either renew the Obama-era CCWG and grant the group wider authority or establish a new cross-agency comprehensive platform to cover the growing range of climate change issues. Either way, it is important that senior politicians who are heading the two teams directly report to the top leadership in each country.

The CCWG was created under the Strategic and Economic Dialogue, but it is not clear what kind of high-level framework will be established during the Biden administration. The CCWG or the new platform should have an independent mechanism. It will also be a plus if both teams could have advisory bodies consisting of top scientists, business leaders, and professional civil servants from both countries to provide constructive advice. Other climate change agreements like the China-U.S. Ten-Year Framework for Cooperation on Energy and the U.S.-China Clean Energy Research Center should be reinstated and fully funded.

- **Focus on Rule-Making and Global Standard-Setting**

Previous U.S.-China climate change cooperation focused on detailed action plans and environmental projects. Both countries developed and updated their domestic environmental rules and climate change-related standards over the years. With climate change policies entering a new stage, it is more important now to focus on formulating international standards for green buildings, transportation emissions, electricity generation emissions, industrial pollution, and so on. At the center of the carbon-neutral revolution is the question of carbon pricing and carbon emission exchange. Without global negotiation and collaboration on rulemaking for pricing and exchange, it is hard to imagine how to set up a large and efficient global market to drive down greenhouse gases.

In addition, intellectual property protection on green technology and financial rules specifically designed to encourage green investment are also indispensable for the proper function of the market to transition societies to a low-carbon footing. The key content of the Phase One trade deal between China and the U.S. is intellectual property protection. China has modified domestic laws to enhance IP protection accordingly. Both countries could preserve and improve on the terms of the Phase One agreement and make them more relevant

to green technologies. China and the U.S. could also lead such efforts in other international forums and institutions, such as the G20, World Bank, development banks, Asia-Pacific Cooperation, and the World Trade Organization.

- **Empower Local Governments and Non-State Actors**

China-U.S. exchanges on the local level (provincial/state, municipal) were very active before the COVID-19 pandemic, and local climate change cooperation was a critical component in the overall climate actions framework. The two countries need to renew and increase not only channels of dialogue to support continued local governments' cooperation, but also promoting think tank dialogues, people-to-people exchanges, and public-private green projects. Back in 2015 and 2016, the U.S.-China Climate Leaders Summits, which connected major states, provinces, and cities in the two countries through shared climate goals, is a good example of how local and nonstate actors can grow more active and find innovative ways to counter climate change with the support of the two countries. More conferences, exhibitions, green tech tours, and training programs should be developed to sustain close ties between the two societies, which in time will generate higher and wider popular support in both countries for their climate change cooperation.

- **Promote Joint Research on Next-Gen Green Tech**

Technological competition between China and the U.S. is one of the most talked-about topics in the past couple of years. In response to real or imagined threats from China, the Trump administration launched a crusade against bilateral ties in science and technology. Scientists were prosecuted, federal funding to collective works was cut, Chinese students' visas were restricted, and Chinese mergers and acquisitions of U.S. tech companies were scrutinized. Many believe that the so-called "decoupling" in high tech is inevitable. But without the flow of knowledge and know-how, green innovation will be delayed or disrupted, and the dissemination of green tech will be slow and costly. If both countries want to accelerate the implementation of the Paris Agreement, they must exempt the majority of next-gen green tech researchers from excessive national security or military control lists. A negotiated negative list on certain types of tech should be published and the rest should switch back to normal research cooperation in both countries. There should also be a joint program to finance the deployment of new green tech to the poorest developing countries in addition to the existing programs.

Lasting cooperation between China and the U.S. will bring a wide range of changes in green tech innovation, electric grid decarbonization, green financing standardization, and green trade regulation, giving the private sector, R&D facilities, global financial institutions, and multilateral organizations more incentives to collectively invest in a great transition toward a low-carbon future. To prevent more climate catastrophe, China and the U.S. must work together closely and look beyond the short-term political fluctuations due to trade friction and geopolitical competition. In the end, we share the same fragile habitat, and nothing surpasses the utmost importance of preserving it for posterity.

Dialogue

How to Restore China-U.S. Dialogue

By Ying Liu

Introduction

During President Donald Trump's term in office, China-U.S. relations deteriorated. In 2018, The Trump administration announced sweeping tariffs on Chinese imports, worth at least \$50 billion. China also imposed retaliatory measures, and then the China-U.S. trade war started and escalated in the following years.⁷³ The two sides signed Phase One Economic and Trade Agreement (POETA) in 2020, and the trade war mitigated temporarily. The United States and China also had frequent conflicts in terms of democracy and human rights,⁷⁴ technological exchanges,⁷⁵ and personnel mobility⁷⁶ during the last few years. In July 2020, the two countries even closed each other's consulates, and the conflict between the two countries further escalated.

Despite the growing tension between the two countries, the United States basically cut off bilateral dialogue at all levels. However, China-U.S. dialogue and cooperation is needed to fight COVID-19, tackle climate change, promote world economic recovery and address

⁷³ Council on Foreign Relations, *U.S. Relations with China*, <https://www.cfr.org/timeline/us-relations-china>, visited Feb. 22, 2021.

⁷⁴ On Nov. 27, 2019, President Trump signs the Hong Kong Human Rights and Democracy Act after it passes Congress with overwhelming majorities. The legislation authorizes the United States to sanction individuals responsible for human rights abuses in Hong Kong. On July 14, 2020, two weeks after Beijing makes a new national security law for Hong Kong, Trump signs an executive order ending the city's preferential trade status with the United States. *Ibid.*

⁷⁵ On Aug. 6, 2020, Trump signs Executive Order 13942, Addressing the Threat Posed by TikTok, and E.O.13943, Addressing the Threat Posed by WeChat. On Sept. 18, 2020, U.S. Department of Commerce announces prohibitions on transactions relating to mobile applications (apps) WeChat and TikTok to safeguard the national security of the United States. <https://www.commerce.gov/news/press-releases/2020/09/commerce-department-prohibits-wechat-and-tiktok-transactions-protect>, visited Feb. 23, 2021.

⁷⁶ After the U.S. government's decision to limit the number of Chinese journalists from five state-run media outlets in the United States to 100, down from 160, and designate those outlets as foreign missions, the Chinese government also announced that it would expel at least 13 journalists from three U.S. newspapers—the New York Times, Wall Street Journal, and Washington Post—whose press credentials were set to expire in 2020. *U.S. Relations with China*, <https://www.cfr.org/timeline/us-relations-china>, visited Feb. 22, 2021.

other global issues.⁷⁷ On Jan. 20, 2021, Joe Biden became president. It is imperative that he restart the dialogue between China and the United States. In addition, a normalized dialogue mechanism needs to be established, and the dialogue should be timely and frequent. The phone call between Chinese President Xi Jinping and Biden on Feb. 11, 2021, was a positive step in that direction.⁷⁸

This report will focus on the following two topics:

- How to carry out the dialogue: China and the United States need to establish dialogue mechanisms at all levels, modeled on the historical dialogue mechanism.
- Specific content of the dialogue: The content of the dialogue must involve not only the bilateral concerns of China and the United States, but also global governance issues. Although the two countries have many differences and points of conflict, they also have common interests that should be discussed and pursued for their mutual benefit.

Dialogue Mechanism

In the past couple of years, the official high-level dialogue between China and the United States has almost stopped, and the danger of miscalculation in China-US relations is heightened. Normally, differences can eventually be resolved through communication based on understanding the two sides' common interests.⁷⁹

The purpose of dialogue is to clarify facts, eliminate misunderstandings, avoid misjudgments, and curtail misinformation in order to maintain space for improvement of China-U.S. relations in the future.⁸⁰ If the dialogue is timely and effective, it may affect the Biden administration's policy and attitude in certain areas. Only communication can dispel

⁷⁷ Wang Yi urged the U.S. side to achieve three "abandonments," http://news.china.com.cn/2021-02/22/content_77235460.htm, visited on Feb. 23, 2021.

⁷⁸ Reuters, "China calls for a reset, but U.S. says Beijing trying to 'avert blame,'" <https://www.reuters.com/article/us-usa-china-wang-yi-idUSKBN2AM018>, visited on Feb. 23, 2021.

⁷⁹ An Gang, *The Power of Communication*, (13) China-US Focus Digest 29-30 (2020).

⁸⁰ An Gang, *The Power of Communication*, (13) China-US Focus Digest 31 (2020).

falsehoods, and only dialogue can prevent miscalculation. That is why it is necessary to make timely arrangements and adjustments to the dialogue content and strategies.

“China and the United States should re-establish various dialogue mechanisms, accurately understand each other’s policy intentions, and avoid misunderstanding and misjudgment,” Xi said during the Feb. 12 phone call with Biden.

Before the creation or re-establishment of any dialogue mechanism, three matters should be taken into consideration:

- **When to have a dialogue:** In theory, the dialogue between the two governments needs to be ongoing and uninterrupted. Nongovernmental organizations such as think tanks, trade associations, and businesses in both China and the United States can also engage in dialogue.
- **Whom to talk to:** The conversation should not be confined to China and the United States. In the future of global governance and international affairs, Western countries that share the same values as the United States should also be involved.
- **How to have a dialogue:** The main body of the dialogue should be broad, it could take a variety of forms, and the issues addressed should be comprehensive.

There are two principal approaches the nations could take:

On the one hand, China and the United States could restore previously established strategic high- level dialogue mechanisms and add others where needed.

The best-known mechanisms is the Strategic Economic Dialogue initiated by Presidents George W. Bush and Hu Jintao in 2006. A total of five meetings were held between 2006 and 2008. On April 1, 2009, Hu and President Barack Obama announced the establishment of the U.S.-China Strategic and Economic Dialogue (S&ED), replacing the SED. The Comprehensive Economic Dialogue (CED) was established by Trump and Xi in April 2017 to address and resolve many economic issues. This high-level bilateral economic forum was abandoned after Trump initiated a trade war with China.⁸¹

⁸¹ Reuters, “US., China agree to semi-annual talks aimed at reforms, resolving disputes,” <https://cn.reuters.com/article/instant-article/idUSKBN1ZA0HY>, visited Feb. 20, 2021.

China and the United States also have dialogue through the Joint Commission on Commerce and Trade Meeting, and the Joint Commission on Science and Technology Cooperation Meeting.

Other dialogue mechanisms like the trade framework groups, macroeconomic meetings and the bilateral assessment and dispute resolution offices⁸² should be maintained. To further improve the dispute settlement mechanism under POETA, China and the United States should allow disputes to be submitted to an expert group or an independent third party for adjudication.

On the other hand, China and the United States could make full use of dialogue platforms and channels established by civil society, including:

Think tanks and other nongovernmental organizations, which have high flexibility and can effectively communicate and convey intentions because of their unofficial nature and professionalism.

The China-U.S. Great Mekong Subregion (“GMS”) Cooperation Dialogue Forum established by Kunming South Asia and Southeast Asia International Logistics Research Institute and U.S. Stimson Center to discuss transportation and logistics, water resources development and international cooperation, energy and infrastructure projects, environmental protection, regional foreign policy and regional security, and other topics concerning international regional governance.

There should be more youth exchange mechanisms to inject vitality into China-U.S. relations. Young people, especially young leaders, should play more roles in China-U.S. exchanges.⁸³

To sum up, by establishing a multilevel, point-to-point communication mechanism and making it the norm, the two countries can better reduce specific differences, achieve common goals, and avoid potential conflict.

⁸² Art 7.2 of POETA.

⁸³ Wang Huiyao, “There are four breakthroughs in the resumption of China-U.S. cooperation,” <https://opinion.huanqiu.com/article/41PmXGrqWYu>, visited on Feb. 21, 2021.

Issues to Address through Dialogue

WTO Reform

The United States, Japan and the European Union have agreed on the need for World Trade Organization reform.⁸⁴ The Office of the U.S. Trade Representative has made it a major priority. China has always supported the role of the WTO in international trade and endorses necessary reforms to ensure the the WTO's survival.⁸⁵ However, the United States and other members have defined too many controversial issues as “China problems,” such as forced technology transfer, nonmarket economy practices, etc.

Recommendation: Starting from the common willingness to promote WTO reform, China may, through dialogue, suggest the United States distinguish between Chinese and non-Chinese factors and put forward corresponding solutions.⁸⁶ The discussion should prioritize non-Chinese issues through bilateral dialogue mechanisms, reconcile differences and divergences outside the WTO framework, and set aside matters with Chinese issues that are currently irreconcilable because of differences in economic models and values.

Digital Trade and E-Commerce

At the informal ministerial meeting on e-commerce on Jan. 25, 2019, 76 WTO members, including China and the United States, signed the Joint Statement on Electronic Commerce, confirming their intention to launch plurilateral negotiations on trade-related electronic commerce issues.⁸⁷ On April 24, China, the United States and eight other members, issued the first round of proposals through the WTO.⁸⁸ Seven rounds have been held since, and some consensus has been reached on improving the facilitation and transparency of e-

⁸⁴ Joint Statement on Trilateral Meeting of the Trade Ministers of the European Union, Japan and the United States, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/joint-statement-trilateral-meeting>, visited on Nov. 30, 2020.

⁸⁵ Ministry of Commerce, China and the World Trade Organization White Paper, p.4, <http://www.scio.gov.cn/zfbps/32832/Document/1632334/1632334.htm>, visited on Nov. 30, 2020.

⁸⁶ *China and Global Governance: a round table on China and WTO reform*, the Shanghai Institute of International Studies on the WeChat platform, Dec. 25, 2020.

⁸⁷ China Ministry of Commerce, “WTO Members Sign Joint Statement on Electronic Commerce,” <http://chinawto.mofcom.gov.cn/article/ap/o/201901/20190102831485.shtml>, visited on Dec. 6, 2020.

⁸⁸ Ministry of Commerce's routine press conference question and answer on May 9, 2019, <http://wss.mofcom.gov.cn/article/sy/201908/20190802894099.shtml>, visited on Dec. 6, 2020.

commerce, protecting online consumers, and promoting the participation of small and medium-sized enterprises.⁸⁹ As large players in digital trade and e-commerce, China and the United States have some consensus on the protection of intellectual property rights and technological innovation, income distribution (collection of digital taxes), network security, and national security. But there are still differences on some specific issues such as the definition and scope of e-commerce⁹⁰ and the treatment of network equipment and products.⁹¹

Recommendation: In spite of some differences, both countries have incentive to make a new agreement, thus their consensus can serve as the basis for dialogue to bridge differences and to jointly promote a standardized, convenient, secure, and credible e-commerce trading and market environment.⁹² China can respond positively to the expansion of digital trade and to strengthening the protection of intellectual property rights in digital trade.⁹³ The United States could partly respect China's insistence on the nondiscriminatory treatment of Chinese enterprises and the development orientation.⁹⁴ Taking the protection of national security as the bottom line, the two countries may set national security exceptions while establishing a digital trade relief system with a high standard of rules.⁹⁵

⁸⁹ Ke Jing, *WTO E-Commerce Negotiations and Global Digital Trade Rules*, (3) *International Outlook* 47 (2020).

⁹⁰ Compared with the United States, China's digital trade liberalization is lower, and the concept of digital trade has not been used in its international documents. The United States pays more attention to the digital nature of trade, the core of which is cross-border data flows, which does not specifically distinguish between trade in goods or services, and tends to replace "electronic commerce" with the term "digital trade." See WTO, INF/ECOM/5. China defines e-commerce as cross-border trade in goods supported by internet platforms and related services such as payment and logistics, the core of which still lies in trade in goods, focusing on reducing border trade barriers. See WTO, INF/ECOM/19. E-commerce defined in the Law of the People's Republic of China on Electronic Commerce is in the same as that in China's proposal under WTO.

⁹¹ In September 2019, China proposed in its second e-commerce proposal that members should be prohibited from engaging in discriminatory practices without legitimate public policy objectives and due process, restrictive measures such as disconnection of network equipment and products shall not be imposed, and the choice of such equipment, products and technologies should not be interfered with. See WTO, INF/ECOM/40.

⁹² Ministry of Commerce May 9, 2019, routine press conference.

⁹³ Song Ruichen, *The United States' Claims, Measures on WTO Reform and Policy Choices of China*, (8) *International Trade* 49 (2020).

⁹⁴ Ministry of Commerce May 9, 2019 routine press conference question and answer.

⁹⁵ Tian Feng et al., *Issues Related to WTO Reform: The Positions of Main Members and China's Negotiation Strategy*, 5 (4) *Financial Minds* 99 (2020).

The Coordination of Digital Tax

A report on a special investigation of trade barriers, issued in December 2019 by the Office of the U.S. Trade Representative, found that France's taxation practices regarding digital services discriminated against American businesses⁹⁶ in violation of Articles 2 and 17 of the General Agreement on Trade in Services (GATS).⁹⁷ In the "Belt and Road Initiative" (BRI), Chinese digital enterprises also face the problem of collecting digital tax.⁹⁸ More and more countries with underdeveloped digital economies may levy digital service taxes on foreign digital enterprises, so China and the United States have broad consensus and interests in the international coordination of digital service taxes.

Recommendation: The two countries should actively participate in meetings and forums related to digital trade rule formulation under the United Nations, the Organization for Economic Co-operation and Development (OECD) and the WTO, oppose the abuse of digital taxes and the discriminatory imposition of unilateral digital tax measures, and safeguard the interests of consumers and digital enterprises.

Reforms that Dialogue Could Bring

WTO Reform

Special and Differential Treatment

Both the United States and China recognize that special and differential treatment (SDT) rules are no longer in line with current reality and SDT for underdeveloped members is an urgent problem that needs to be improved through negotiation. In the view of the United

⁹⁶ U.S. Trade Representative, Report on France's Digital Services Tax Prepared in the Investigation under Section 301 of the Trade Act of 1974, https://ustr.gov/sites/default/files/Report_On_France%27s_Digital_Services_Tax.pdf, visited on Dec. 6, 2020.

⁹⁷ Because the digital service tax is levied on income from the cross-border provision of services under the first service model of GATS, Cross-border Supply. See Zhang Zhiyong, *Digital Services Taxation: A Justified Levy or Barrier to Trade in Services?*, (4) *International Taxation in China* 33 (2020).

⁹⁸ Bigger digital companies mentioned by the European commission in its report "Fair Taxation of the Digital Economy" include China's Alibaba, iqi yi, Didi Chuxing, and Qzone, which means at least these companies have been taken into consideration under the European Union digital services tax.

States, the applicable basis of SDT no longer exists.⁹⁹ The U.S. argues that China, India, and other advanced economies should follow the same rules that bind America, the European Union, and Japan.¹⁰⁰ Having made the definition of developing members and related SDT rules a key priority for WTO reform, the United States also proposed four criteria.¹⁰¹ Furthermore, it suggested that SDT should not be applied automatically.¹⁰² The U.S. proposal aroused strong opposition from developing members. China, India, South Africa, and other countries put forward counterproposals, suggesting that the North-South gap has not been substantially narrowed and developing members continue facing difficult development problems.¹⁰³ In China's view, debate on the criteria for distinguishing developing members is meaningless, and WTO should continue to support the better integration of developing members into global value chains and continue to guarantee the SDT that developing members deserve.¹⁰⁴

Recommendations

- **For the United States**, developing member status is a political issue. If the United States wants to break through the current impasse, it needs to separate developing membership from SDT in future negotiations¹⁰⁵ and temporarily maintain the original “self-identification” approach. A proposal by members such as Norway suggested that reform should proceed in a direction that balances the rights and obligations of the 164 members with different levels of development.¹⁰⁶

⁹⁹ WTO, WT /GC/W/757 .

¹⁰⁰ Robert E. Lighthizer, *How to Set World Trade Straight*, (8) The Wall Street Journal, Aug. 20, 2020: <https://www.wsj.com/articles/how-to-set-world-trade-straight-11597966341>.

¹⁰¹ First, countries that are members of the OECD; second, countries that are members of the G20; third, High Income Countries as defined by the World Bank; and fourth, countries that account for more than 0.5% of global imports of goods. Once one of the above criteria has been met, it cannot be self-identified as a developing country and no longer enjoys SDT.

¹⁰² WTO, WT /GC/W/757 .

¹⁰³ WTO, WT /GC/W/765 /Rev. 1; WT/GC/W/765/Rev.2.

¹⁰⁴ China Finance Ministry, Wang Yi talks about the reform of the international trade system: We should insist on three “must not lose,”

https://www.fmprc.gov.cn/web/wjzb_673089/xghd_673097/t1594907.shtml , visited on Dec. 1, 2020.

¹⁰⁵ Wang Zhongmei, *On the Classification of the Developing Countries and its Relevance to the Special and Differential Treatment*, 36 (6) International Economics and Trade Research 96 (2020).

¹⁰⁶ Norway, together with Canada, Iceland, Mexico, New Zealand, Singapore, and Switzerland, submitted to the WTO Council on May 7, 2019: “Pursuing the development dimension in WTO rule-making efforts,”

- **For China**, the separation of developing members from SDT would be more conducive to the current North-South conflicts easement within the WTO frame. On this basis, China can consider accepting reform proposals on adjusting the content and application of SDT, such as narrowing the scope of application of SDT, introducing a graduation mechanism.¹⁰⁷ After all, a clear definition of developing members is inevitable. While still insisting on developing member status and advocating SDT, China needs to respond to the concern of the United States and assume more international obligations in line with level of development.¹⁰⁸

Notification and Transparency

It is of great importance to strengthen and enhance transparency and improve the operation and effectiveness of notification requirements, and all members should contribute to it. However, the United States proposed that punitive measures¹⁰⁹ should be imposed on members that fail to provide required notification on time,¹¹⁰ and counternotification should be applied. China disagreed.

Recommendation

- **Formulate more specific rules for counternotification.** What needs more attention is how to avoid the abuse of counternotification and improve the quality of notification. China and the United States should communicate to formulate more specific rules. For example, let prior communication, discussion, or attempts to resolve the matter bilaterally be the precondition of counter-notification;¹¹¹ require the member that

<https://www.norway.no/en/missions/wto-un/our-priorities/trade/wto-world-trade-organization/pursuing-the-development-dimension-in-wto-rule-making-efforts/>, visited on Nov. 21, 2020.

¹⁰⁷ Graduation Clause proposed by EU. EU Concept Paper,

http://trade.ec.europa.eu/doclib/docs/2018/september/tradoc_157331.pdf, visited on Dec. 1, 2020.

¹⁰⁸ Liu Xiaotong, *American Attitude to WTO Reform under China-US Trade Friction*, (7) Journal of Taiyuan City Vocational and Technical College 207 (2020).

¹⁰⁹ The United States specifically defines them as “administrative measures” in its proposals. WTO, JOB/GC/204/Rev.2, JOB/CTG/14/Rev.2.

¹¹⁰ WTO, JOB/GC/204/Rev.2, JOB/CTG/14/Rev.2, para.10, 11.

¹¹¹ Aileen Kwa & Peter Lunenborg, “Notification and Transparency Issues in the WTO and the US,” November 2018 Communication, South Centre Research Papers 92, March 2019, p.17.

conducts counternotification to provide sufficient and material evidence.¹¹²

- **Abandon punishment mechanisms.** It's not feasible to formulate a new punishment mechanism due to the current overwhelming obstacles,¹¹³ and no punishment mechanism can fundamentally solve the problems in the practice of transparency and notification. Therefore, it would be better for the United States to abandon its punishment mechanism proposal and work with China to seek more practical methods, such as procedures for bilateral or multilateral consultations and the review of declared measures after counternotification.
- **Simplify procedures.** Due to the complexity of current rules of notification, less stringent notification obligations and simplified procedures may improve the implementation of WTO notification obligations.¹¹⁴ China and the United States should cooperate in this area.
- **Establish a specific institution.** The two countries could jointly propose to establish a working group on notification obligations and procedures responsible for managing transparency and notification affairs, as mentioned in the United States' proposal.¹¹⁵

State-owned Enterprises

China and the United States both recognize the importance of a fair and free competitive environment. State-owned enterprises (SOEs) should participate in international trade on a commercial basis in conformity with the principle of nondiscrimination. The U.S. National Security Strategy Report, released in 2017, alleged SOEs obtained advantages through unfair trade. Since 2017, seven trilateral ministerial meetings driven by the United States have been held to reach a consensus on addressing other countries' so-called market distortions, pointing directly to China and its SOEs. From the Trans-Pacific Partnership

¹¹² WTO, G/C/M/134, para.9.89.

¹¹³ There are still some questions to be answered: 1. Who has the authority to decide punishment measures involving the deprivation of the rights of members? 2. Who will implement punishment decisions? 3. What is the procedure for the implementation of punishment measures?

¹¹⁴ WTO, G/C/M/134, para.9.64.

¹¹⁵ WTO, JOB/GC/204/Rev.2, JOB/CTG/14/Rev.2.

Agreement (TPP) to the U.S.-Mexico-Canada Agreement (USMCA), the United States tightens SOE rules and strengthens the discipline of SOEs at the international level. China believes that SOEs are commercial entities in essence. China cannot accept the establishment of additional rules for SOEs, nor should there be discrimination or additional restrictions based on ownership differences.¹¹⁶ Subsidies on SOEs are another focus of the disputes between China and the United States.

Recommendations

The conflict between China and the United States on the issue of SOEs cannot be reconciled, but in the context of WTO reform, it is necessary for the two to increase dialogue to prevent the whole process from being delayed by the differences on SOEs.

- **The United States** has the right to propose new rules for SOEs, but it needs to recognize that China is not the only WTO member with a large number of SOEs; it must take into account the interests of other relative members when making reform proposals. The United States could try to address some of its concerns through bilateral agreements with China.
- **China** should agree to negotiate the rules of SOEs under the WTO framework to make full use of its discourse power to avoid the unfavorable situation of passive acceptance. It also should consider adopting different negotiating positions in each specific area. China can commit to some obligations in line with its SOE reform goals step by step, such as “competitive neutrality.”¹¹⁷ Meanwhile, China should advocate ownership neutrality and oppose tailoring a set of rules to restrict the development of SOEs.¹¹⁸ A fairer allocation of subsidies rather than an allocation designed to favor SOEs is needed. China could distinguish SOEs whose main business involves essential national economy and people’s livelihood from those in the fully competitive industries and fields that should

¹¹⁶ He Xiaoyong & Chen Yao, “Seeking Common Ground while Reserving Differences”: Evaluation of WTO Reform Proposals and China’s Counterproposal, 26 (2) Journal of Shanghai University of International Business and Economics 35 (2019).

¹¹⁷ He Xiaoyong & Chen Yao, “Seeking Common Ground while Reserving Differences”: Evaluation of WTO Reform Proposals and China’s Counterproposal, 26 (2) Journal of Shanghai University of International Business and Economics 34 (2019).

¹¹⁸ Tian Feng et al. *Issues Related to WTO Reform: The Positions of Main Members and China’s Negotiation Strategy*, 5 (4) Financial Minds 88 (2020).

not be granted subsidies, while continuing its traditional measures and providing preferential policies to them.¹¹⁹

Subsidies

The rules of subsidy need to be clarified and improved, and all members need to gradually reduce subsidies. The United States attempted to expand the range of prohibited subsidies and actionable subsidies, while China argued that non-actionable subsidies should be reinstated and its coverage should be expanded. On overcapacity, the United States argued that China's subsidies led to overcapacity and even distorted the market, which should be directly included in the scope of "Serious Prejudice" mentioned in Article 6.3 of the Agreement on Subsidies and Countervailing Measures (ASCM). However, in China's view, the reasons for overcapacity were diverse, and it was wrong and one-sided to blame the overcapacity problem solely on subsidies.¹²⁰

Recommendation

- **Each country should review its own subsidies and gradually eliminate those that are not in compliance with WTO rules. China** needs to formulate more systematic subsidy regulations. In particular, China should improve the statistics and notifications of subsidies granted by sub-central entities since the insufficient notification of such subsidies has been strongly criticized by the United States. **The United States** has both incomplete and excessive notification.¹²¹ Some subsidies in

¹¹⁹ See Yu Ying, *New Rules of Industrial Subsidies Pushed by the United States and Europe—China's Position and Countermeasures*, 34 (1) *China Business and Market* 27 (2020). See also Yang, Ruilong, *The logic, Dilemma and Future Reform of State-owned Enterprises*, <https://new.qq.com/omn/20190719/20190719A047LS00.html>, visited on Nov. 21, 2020.

¹²⁰ Chen Xi, *Research on China's Trade Remedy Response Under the Background of WTO Subsidy Reform*, 24 (4) *Journal of Yangzhou University (Humanities & Social Sciences)* 39 (2020).

¹²¹ Incomplete notification: Some subsidy programs have not been notified. Comparing the subsidy programs announced (<https://www.USAspending.gov/>) with the subsidy notification provided by the United States to the WTO (G/SCM/N/343/USA), at the federal level, the Certified Development Loan Program in charge of Small Business Administration, the Scientific Office Financial Aid Program in charge of Department of Energy, etc. are not listed in the notification.

Excessive notification: For example, the Digital Media Tax Incentive Program in Louisiana is not required to be notified according to WTO rules but it is still notified. See Yang Rongzhen, Shi Xiaojing, *Main Characteristics and Compliance of the United States' Subsidy Policy —Analysis Based on the 2019 United States Subsidy Policy Notification*, (4) *International Economic Review* 149-150 (2020).

the United States still belong to actionable subsidies and may even fall into the scope of prohibited subsidies. Besides, the huge agricultural subsidies in the United States cause market distortions. The United States needs to adjust the scale and structure of its subsidies.¹²²

- **Focus on promoting subsidy reforms under WTO.** China and the United States should focus on cooperating to promote subsidy reforms under the WTO, including establishing more detailed and specific subsidy rules, preventing abuse of trade remedy measures, and maintaining normal trade order.

National Security

National security exceptions are a necessary “safety valve” reserved in the WTO Agreements, and members’ right to resort to the exception should be respected. However, the United States has frequently sanctioned Chinese companies on the grounds of national security recently, seemingly in violation of WTO obligations. China called on the United States to act in good faith and exercise restraint in resorting to national security exceptions.¹²³ Besides, while China believed that the panel and appellate body had jurisdiction over such issues,¹²⁴ the United States opposed such jurisdiction.¹²⁵ China claimed the United States used national security provisions to undermine WTO rules.¹²⁶

Recommendation

- **China** should continue supporting the jurisdiction of of the Dispute Settlement Body (DSB) on national security exceptions and the principle of acting in good faith, and attempt to promote its views to be more widely recognized among members. The **United States** should apply national security exceptions prudently, especially when the measures it takes are not consistent with WTO Agreements. At any time,

¹²² Chen Xi, *Research on China’s Trade Remedy Response Under the Background of WTO Subsidy Reform*, 24 (4) *Journal of Yangzhou University (Humanities & Social Sciences)* 39 (2020).

¹²³ WTO, WT/GC/W/773, para.2.5, 2.6.

¹²⁴ WTO, Russia-measures concerning traffic in transit, Report of the Panel, WT/DS512/R, para. 7.41.

¹²⁵ WTO, Russia-measures concerning traffic in transit, Report of the Panel, WT/DS512/R, para. 7.51.

¹²⁶ Zhou Hanmin, “The WTO faces three major crises,” *The Paper*, https://www.thepaper.cn/newsDetail_forward_10125354, visited on 26 November 2020.

unilateralism and protectionism run counter to global cooperation. Dialogue is the best way to settle disputes. Even if it fails, the two countries should resolve their disputes through existing dispute resolution mechanisms such as the DSB rather than imposing unilateral sanctions.¹²⁷

Market Economy

The United States demanded that the WTO formulate new rules with “like-minded” members to prevent economic distortions caused by China’s state capitalism, and continues to invoke Article 15 of the Protocol on the Accession of the People’s Republic of China (the Protocol) after its expiration.¹²⁸ The United States, Japan, and the European Union not only do not recognize China’s market economy status, but also coordinated their positions and set seven new marketing standards.¹²⁹ China stated that “common sense issues like market orientation do not need to be discussed at the General Council”¹³⁰ and opposed any denial of the diversity of development models and any discrimination against different development models in WTO reform. “We should take concrete actions to address the above wrongful practices which undermine the fair competition and market-oriented conditions,” China declared, and welcomed consultation and dialogue instead of chanting the empty slogan of “market-oriented conditions.”¹³¹

¹²⁷ Gong Baihua, *United States Unilateral Economic and Trade Sanctions and Their Legal Responses against the Background of Sino-US Economic and Trade Friction*, (6) Business and Economic Law Review 6 (2020).

¹²⁸ Robert E. Lighthizer, *How to Set World Trade Straight*, (8) The Wall Street Journal (2020).

¹²⁹ 1. Decisions of enterprises on prices, costs, inputs, purchases, and sales are freely determined and made in response to market signals; 2. Decisions of enterprises on investments are freely determined and made in response to market signals; 3. Prices of capital, labor, technology, and other factors are market-determined; 4. Capital allocation decisions for or affecting enterprises are freely determined and made in response to market signals; 5. Enterprises are subject to internationally recognized accounting; 6. Enterprises are subject to corporation law, bankruptcy law, and private property law; and 7. There is no significant government interference in enterprise business decisions described above. Joint Statement on Trilateral Meeting of the Trade Ministers of the United States, Japan, and the European Union, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/may/joint-statement-trilateral-meeting>, visited on Nov. 19, 2020.

¹³⁰ At the WTO General Council on Oct. 13, 2020, Ambassador Zhang Xiangchen of China and Ambassador Dorothy Shea of the United States held a heated debate on the treatment and market-oriented conditions of developing countries, <http://wto.mofcom.gov.cn/article/xwfb/202010/20201003007643.shtml>, visited on Oct. 10, 2020.

¹³¹ Press Briefing on Issues Related to WTO Reform convened by Ministry of Commerce, <http://www.mofcom.gov.cn/article/j/jyj/1/201811/20181102810560.shtml>, visited on Dec. 1, 2020.

The WTO has never required members to be a market economy system, and never even defined what a market economy is.

Recommendation

- **China** could bring the relevant provisions of the Protocol in relation to market economy¹³² to the WTO General Council or ministerial meeting for clarification. Additionally, China could unite some members concerned about the very strict standards set by the United States. China should also carefully study the legislation and measures of the United States on the “non-market economy” and make a positive response, and strive to obtain more official recognition of its market status by other members.¹³³
- **The United States** should abandon its seven criteria under the WTO framework, since there is no concept of a “non-market economy country” in the WTO rules or direct link between “non-market country” identification and the performance of obligations under WTO. The differences in economic models and values between the two countries have always been huge and difficult to bridge effectively in a short term. The two countries should not continue to argue on this issue, and more attention should be paid to urgent issues with more mutual interests, such as the reform of the Appellate Body.

Reform of the Appellate Body

China and the United States both are willing to reform the Appellate Body; specifically, they both want to resolve the problem of overdue reports. They and other members may, through successful dialogue on this issue, exchange their views and concerns on other problems, especially those criticized by the United States, such as domestic law, de facto precedent, judicial ultra vires in trade relief, etc.

- **Consequences of overdue report**

¹³² For example, Article 15 of the Protocol.

¹³³ Song Ruichen, *The United States' Claims, Measures on WTO Reform and Policy Choices of China*, (8) International Trade 54 (2020).

The United States advocated a change in adoption means from negative consensus to consensus once an Appellate Body report is overdue. However, its proposal would lead to more delay and complexity in the adoption of the report, and even a change in the DSB mechanism. China and most other members stressed that the report should be adopted by the DSB under Article 17.14 of the DSU.

Recommendations: It is suggested that the United States abandon the proposal on the change of adoption means and work with other members to find ways of ensuring an on-time report. In fact, the Multi-Party Interim Appeal Arrangement (MPIA) has introduced two innovative provisions: One is to allow the disputing parties to agree to an extension of the 90-day period, based on the recommendation of the arbitral tribunal;¹³⁴ the other is to allow the arbitral tribunal to take appropriate measures to streamline the proceedings, including page limits for submission of documents and decisions, effective control of the time of arbitration proceedings, and limitations on the number and duration of hearings, etc.¹³⁵

● Domestic law

According to the United States, the Appellate Body had no right to review the meaning of the domestic law of WTO members,¹³⁶ which is a matter of fact and does not fall within the jurisdiction of the Appellate Body.¹³⁷ Members such as China, European Union, Canada, and India agreed.¹³⁸

¹³⁴ MPIA, Annex 1, Agreed Procedures for Arbitration under Article 25 of the DSU in Dispute DS X, JOB/DSB/1/Add.12, April 30, 2020. para. 14. The requirement to obtain the consent of the disputing parties not only respects the autonomy of the parties, but also indicates that the appeal arbitration should improve the efficiency of the report without affecting the substantive decision of the case as far as possible. Shi Jingxia, *WTO Multi-Party Interim Appeal Arbitration: An Alternative to Appellate Review Based on Arbitration*, 42(6) Chinese Journal of Law 180 (2020).

¹³⁵ MPIA, Annex 1, Agreed Procedures for Arbitration under Article 25 of the DSU in Dispute DS X, JOB/DSB/1/Add.12, April 30, 2020. para. 12.

¹³⁶ WTO, Minutes of the DSB Meeting, https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=233206,233115,232524,232330,231963,231754,231034,231002,230905,230808&CurrentCatalogueIdIndex=1&FullTextHash=&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True, visited on Dec. 1, 2020.

¹³⁷ Li Xiaoling, *Negotiation Process of WTO Appellate Body Reform and Crossroad Choices*, 36 (4) International Economics and Trade Research 102 (2020).

¹³⁸ Peng Delei, *The WTO Appellate Body at the Crossroads: Reform Observation and Recent Practice*, 36 (9) International Economics and Trade Research 91 (2020).

Recommendation: China and the United States should together suggest clarification of the legal issues and the legal interpretation in Article 17.6 of DSU,¹³⁹ and make clear the jurisdiction of the Appellate Body under Article 11 of the DSU should include objective review by the Panel, but not of the domestic law itself.¹⁴⁰

- **De facto precedent**

The United States challenged the Appellate Body's request to follow a precedent, arguing its report should not be parallel with WTO rules. China believed that a de facto precedent could guarantee uniformity in the application and interpretation of WTO rules, satisfy the objectives of reliability and predictability of the multilateral trading system, and protect the reasonable expectations of its members. The essence of the U.S. objection is to seek justification for the Panel's departure from the Appellate Body's decision at the legal level.¹⁴¹

Recommendations: Except for the United States, almost all other members agreed with the de facto precedent approach.¹⁴² It is suggested that China and the United States can learn from the experience of the precedent application by the International Court of Justice.¹⁴³ Attention should be paid not only to the rules themselves but also to the differences of the case and the explanation in individual cases.

- **Judicial ultra vires in trade relief**

The United States strongly criticized the so-called "ultra vires" interpretation in trade relief cases by the Appellate Body and explicitly proposed to amend the DSU to strengthen the

¹³⁹ Marc Lynedjian, *Reform of the WTO Appeal Process*, (6) *Journal of World Investment & Trade* 809 (2005).

¹⁴⁰ Zheng Wei & Guan Jian, *The Situations, Focuses and Responsive Suggestions of WTO Reformation*, (1) *Review of international law in Wuhan University* 80 (2019).

¹⁴¹ Song Ruichen, *The United States' Claims, Measures on WTO Reform and Policy Choices of China*, (8) *International Trade* 52 (2020).

¹⁴² WTO, WT/DSB/M/250; WT/DSB/M/265.

¹⁴³ As long as there is a clear precedent in the relevant dispute, the International Court of Justice usually does not initiate new legal research unless there are valid reasons to distinguish the new case from the precedent, or there are obvious errors in the precedent, or the precedent is no longer adapted to the new situation of the international community. Wang Tao, *Precedent effect of judicial decisions of the International Court of Justice*, (8) *Newspaper of People's Court* (2020).

control of WTO members.¹⁴⁴ However, the U.S. proposal did not receive a positive response from other WTO members. China hasn't expressed any view on this issue.

Recommendations: China and the United States should propose a special review mechanism upon those challenged ultra vires reports.¹⁴⁵ It is also suggested to delete the obligation of the Appellate Body in Article 3.2 of DSU to “clarify” the provisions of the Agreements under WTO, or to change Article 3.2 so that the Appellate Body can “clarify” the application of the relevant provisions only to resolve the current dispute.¹⁴⁶

China-U.S. Agreements on Trade and Investment

While the views by China and the United States do not fully represent the position of all WTO members, they have significant impacts on promoting consensus on reform. Numerous issues, such as SOEs, subsidies, market economy, technology transfer, and national security, are related to both China-U.S. bilateral relations and WTO reform. Consultations on these issues are not confined to the WTO negotiating table; bilateral dialogue mechanisms can also provide a venue for negotiations on matters related to global governance.

Continue to Implement the Phase One Economic and Trade Agreement

China and the United States have a consensus on continuing to implement POETA.

¹⁴⁷However, the United States believes that China is still a long way from the purchase commitment. The obstacles for China to fulfill the commitment are the outbreak of the COVID-19 epidemic and the improper measurement standards¹⁴⁸. The United States will

¹⁴⁴ WTO, TN/DS/W82/Add.1.

¹⁴⁵ Yang Guohua, *Legal Problems in the Crisis of WTO Appellate Body*, (1) *Journal of International Law* 76 (2019).

¹⁴⁶ WTO, WT/CG/W/760.

¹⁴⁷ Dong Yan, *POETA promotes the dynamic balance of China-the United States economic and trade*, (3) *Economic and Trade Observations* 14-16 (2020). Zhou Mi, *POETA opens a new stage of China-the United States economic and trade cooperation*, (4) *World Affairs* 16-17 (2020).

¹⁴⁸ The commitments are measured in dollars, not volume (e.g., barrels of oil). As a result, lower oil prices in 2020 have made it even more unlikely that China could reach the goal.

keep tariffs imposed on Chinese goods by the former Trump administration in place but will decide how to proceed after a thorough review.¹⁴⁹

Recommendation: Based on dialogue, **China** shall continue to implement POETA, and it is hoped that the **United States** may further and sincerely consider the issues of tariff reduction.

Consider the Phase Two Economic and Trade Agreement

Biden's attitude toward signing a new agreement is uncertain since he has prioritized domestic economic recovery in the first weeks of his presidency.¹⁵⁰ China has not yet made a clear statement on the Phase Two Economic and Trade Agreement (PTETA) negotiation, but Chinese Foreign Minister Wang Yi made it clear that China and the United States should strengthen dialogue and economic and trade cooperation.¹⁵¹ However, the prospect of PTETA is dark. The formation of an independent Asia Pacific Industrial Chain under the Regional Comprehensive Economic Partnership Agreement (RCEP) reached this year may reduce China's willingness to compromise to a certain extent.¹⁵² Biden has said that POETA "cannot solve the core issues in dispute, including industrial subsidies, support for state-owned enterprises, cyber theft and trade and technology plunder."¹⁵³ It can be deduced that these issues are what Biden hopes to negotiate, but also the issues where the two countries are deeply divided.

Recommendation: It can be expected that the economic and trade dialogue between China and the United States will gradually resume in 2021. PTETA negotiations may also have an opportunity to begin. China and the United States should prepare for possible negotiations

¹⁴⁹ Reuters news, "Yellen says U.S. will keep tariffs on China in place for now," <https://www.reuters.com/article/us-usa-trade-china-idUSKBN2AI34D>, visited on Feb. 20, 2021.

¹⁵⁰ Simon Lester, "Biden Responds to Steelworkers on Trade," International Economic Law and Policy Blog, <https://ielp.worldtradelaw.net/2020/07/biden-responds-to-steelworkers-on-trade.html>, visited on Nov. 28, 2020.

¹⁵¹ Wang Yi: a framework for the healthy development of China US foreign relations, <https://www.fmprc.gov.cn/web/wjzbzhd/t1839415.shtml>, visited on Dec. 13, 2020.

¹⁵² Fang Xiaoqiang, *Specific requirements and realistic challenges of import of goods and services in the first phase of Sino-U.S. economic and trade agreements*, (11) Practice in Foreign Economic and Trade Relations 29-30 (2020).

¹⁵³ Jennifer Epstein, Biden Slams Trump-China Trade Deal as Lacking on Key Dispute, Bloomberg News, <https://www.bloomberg.com/news/articles/2020-01-15/biden-slams-trump-china-trade-deal-as-lacking-on-key-disputes>, visited on Nov. 28, 2020.

by listing in advance what issues they want to discuss and hold all-level dialogues before the formal negotiation.

Motivate the Signing of China-US BIT

The complementarity of the Chinese and U.S. economies is the driving force for China-US Bilateral Investment Treaty (BIT). With the signing of the China-US BIT, both sides can use each other's strengths to achieve long-term and sustainable development. But China and the United States have divergences on the negative lists, transparency, the availability of information, and national security review. Also, the United States has accused China of oppressing foreign enterprises and forcing them to transfer technology in exchange for market access and has been trying to expand the prohibition of performance requirements under the Agreement on Trade-Related Investment Measures (TRIMs). China's Foreign Investment Law stipulates the implementation of the "list of negative admissions," establishes "transparency" as the basic principle, and proposes equal treatment of foreign-funded enterprises and voluntary technology transfer. Compared with the negative list in 2019, the negative list in 2020 reduces the number of restrictive measures from 40 to 33, with a reduction of 17.5%; in 2020, the negative list of free trade zone reduces the number of restrictive measures from 37 to 30, with a decrease of 18.9%.¹⁵⁴ In the past, China rarely mentioned performance requirements, and it has made great concessions¹⁵⁵ on the issue of performance requirement; thus it is almost impossible for China to adopt even stricter prohibition of higher performance requirements.¹⁵⁶ The United States advocated that there should be clear clauses on labor and environment and the standards should be continuously improved. In recent years, China has realized that it is unsustainable to

¹⁵⁴Qian Zhou, "China's 2020 New Negative Lists Signal Further Opening-Up," China Briefing, July 1, 2020, <https://www.china-briefing.com/news/chinas-2020-new-negative-lists-signals-further-opening-up/>, visited on Oct. 15, 2020.

¹⁵⁵ Recently signed *Investment promotion and protection agreement between Japan, Republic of Korea and China* (Hereinafter "Trilateral Investment Agreement") and *Canada-China Promotion and Reciprocal Protection of Investments Agreement* both contained revised TRIMs Articles about prohibition of performance requirements.

¹⁵⁶ Chen Huiping & Karl P. Sauvant, *Negotiations on the Bilateral Investment Treaty between China and the United States: Consensus, Controversies and Prospects*, (4) *International Economic Law Journal* 107-117 (2020).

develop by harming the environment and therefore has put more emphasis on improving labor and environment.

Recommendation: EU-China Comprehensive Agreement on Investment (EU-China CAI) negotiation was completed on Dec. 30, 2020, while China-US BIT negotiation started in 2008 but it is still unfinished. China and the United States should try to eliminate the divergences on investment. On the above-mentioned issues, China has made great concessions, but there are still great divergences, especially about SOEs. The United States advocated “ensuring State-owned enterprises compete with private enterprises on a commercial basis”¹⁵⁷ and hoped that all obligations under the future China-US BIT could be effectively applied to state-owned enterprises. SOE is the feature of China’s characteristic development model. China highly respects the important role of the market in allocating resources, but also allows state-owned enterprises to play an important role in economic development. Centralizing national advantageous resources and tackling strategic innovation projects with the help of SOEs precisely reflect the efficiency and vitality of market economy with Chinese characteristics.¹⁵⁸

Technology control

Limit the scope of technology control

China and the United States have different views on the control of technology. The U.S. believes the extraterritorial jurisdiction effect of its domestic law is authorized by the principle of person and is for national security. China believes the United States excessively expanded the principle of person by excessively defining national security and implementing long-arm jurisdiction over China. Restricting the application of technology control and reducing the restrictions on product export are beneficial for domestic enterprises to obtain a larger foreign market. Expanding the market is of great significance for enterprises to overcome the blow of the epidemic, to create more employment

¹⁵⁷ US-China Economic and Security Review Commission, Policy Consideration for Negotiating the United States-China Bilateral Investment Treaty.

¹⁵⁸ Lipeng Sun, American scholars expose Trump: Why force China's SOEs to reform?, <http://www.kunlunce.com/myfk/fl1111/2019-05-31/133827.html>, visited on Feb. 19, 2021.

opportunities, to attract foreign investment, and to improve innovation ability. It is also beneficial to restore the normal operation of the supply chain, whose upstream and downstream enterprises are interdependent and inseparable. What's more, developing the technological advantages of the United States and the production capacity of China is conducive to dealing with issues concerning global governance.¹⁵⁹ Dialogue is needed to find a balance point.

Recommendation: Both sides should delimit the scope of national security and improve the transparency of the national security review process, including the review basis and detailed procedures. Both sides must try to reach a consensus to adopt the practice of the trilateral investment agreement among Japan, the Republic of Korea and China, which reiterates the obligations in TRIMs and limits performance requirements to certain specific investments. Both parties should apply restrictive technology regulation prudently. The United States should not broaden the concept of national security and expand the application of domestic laws excessively. China should adhere to the principles of prudence, appropriateness, nondiscrimination, and transparency, and strive to strike a balance between safeguarding national security and achieving win-win global cooperation.

Capital Market

While more and more Chinese enterprises list in the United States to raise funds, the American capital market also needs to list Chinese companies. Recently, American regulators have frequently accused Chinese enterprises of falsification of financial reports and insufficient disclosure of audit reports and have proposed effecting a transparency and disclosure act. On Dec. 18, 2020, Congress passed the Holding Foreign Companies Accountable Act and President Trump signed it into law. A bill called the Ensuring Quality Information and Transparency for Foreign Listed Companies on our Exchanges Equitable Act (Equity Act), a sister act of the Foreign Holding Company Liability Act, is pending approval in Congress. Both acts directly affect the Chinese companies that have been listed or intend to list in the United States. If they fail to meet the requirements of the Holding

¹⁵⁹ Climate change, new epidemic and situation network security etc.

Foreign Companies Accountable Act, Chinese companies will be excluded from trading or will not be allowed either to apply for listing or to issue new shares. The China Securities Regulatory Commission sincerely pursues dialogue with the Public Company Accounting Oversight Board about the transparency criteria, joint on-site inspection in listing Chinese corporation and treatment for misconduct.

Recommendations: China should actively negotiate with U.S. regulatory authorities to meet the requirements of the Holding Foreign Companies Accountable Act and the Equity Act through joint inspection, and to urge the U.S. authorities to respond to the joint inspection plan proposed by Chinese authorities. At the same time, China should seek to delay the implementation of the Holding Foreign Companies Accountable Act and passage of the Equity Act. Both the U.S. Securities and Exchange Commission and the U.S. stock exchanges have pointed out that the two acts against Chinese companies listing in the United States may lead to a great loss of Chinese companies, weaken the confidence of global investors in the United States capital market, and impair the international status of the United States as a global financial center. They believe that the market-driven approach, including stricter supervision of the U.S. branches of accounting firms, is a more viable option. Under the severe impact of the COVID-19 epidemic, the United States government may not want to drive away an existent \$2.2 trillion investment and potential high-quality Chinese enterprises. Many American investment funds have also expressed their concern about the U.S. securities market without Chinese enterprises. Based on dialogue, China and the United States may achieve the outcome that the prohibition under Holding Foreign Companies Accountable Act will not be implemented and the passage of the Equity Act will be delayed.

Management

Two Cases for Risk Management: Restoring Restraint and Trust Over the Taiwan and South China Sea Issues

By **Jin Kai**

Part I: The Taiwan Issue

Under President Donald Trump's administration, U.S. policy toward Taiwan became increasingly radical and has resulted in a more belligerent standoff between Beijing and Washington over the island. By holding Taiwan as an increasingly important partner in its global and regional strategies,¹⁶⁰ Washington has undertaken a more hawkish approach to demonstrate its political resolve in viewing China as a strategic competitor over a wide range of political, economic, and ideological issues across the Asia-Pacific region and beyond.

The Democratic Progressive Party administration in Taiwan led by Tsai Ing-wen, who came to power in the election of 2016, has followed Washington's lead by taking a more antagonistic approach with Beijing, dragging cross-strait relations into a more confrontational and precarious situation.

Considering that the fundamental principles of China's Taiwan policy, which ultimately seek Taiwanese unification with the mainland, have remained largely unchanged, it is important for Beijing and Washington to jointly identify the changes in policies of the Trump administration and their subsequent impacts. A high-level dialogue mechanism should be established based on the original bilateral consensus reached in the three China-U.S. Joint Communiqués (1972, 1978, and 1982) to prevent the Taiwan issue from becoming a flashpoint or catalyst for any further deterioration of China-U.S. relations in the years to come.

Restoring Restraint and Trust: A Common Objective for Risk Management

Why does the Taiwan issue matter? For China, it is about the ultimate unification of the Chinese nation. Beijing has always claimed the Taiwan issue is a matter of national sovereignty and a domestic issue that can only be resolved among the peoples on either

¹⁶⁰ For example, Taiwan was given a special credit in the revived Indo-Pacific Strategy by Trump's administration, which touts "strengthening and deepening our relationship with Taiwan." See "A Free and Open Indo-Pacific: Advancing a Shared Vision," U.S. Department of State, <https://www.state.gov/wp-content/uploads/2019/11/Free-and-Open-Indo-Pacific-4Nov2019.pdf>, accessed Nov. 2, 2020.

side of the Taiwan Strait. For the United States, the logic of why Taiwan matters is very different. A policy recommendation report on the U.S.-Taiwan relationship conducted by the Center for Strategic & International Studies (CSIS) in October 2020 explains that Taiwan matters to the United States in three aspects:

1. The future of Taiwan is important to American *values*;
2. The future of Taiwan is pivotal to *peace and stability in the Indo-Pacific*;
3. The future of Taiwan is important to *U.S. economic competitiveness and prosperity*.¹⁶¹

The question then becomes: Is the ultimate unification of Taiwan that Beijing has long sought destined to clash with the American values of peace and stability in the Indo-Pacific accompanied by U.S. economic competitiveness and prosperity?

The diplomatic consensus and principles about Taiwan's status articulated in the three Joint Communiqués have made it clear that peaceful resolution and unification serve the best interests of all parties. It is the "variations" in the U.S. position on Taiwan, articulated in several congressional and executive policies, that are offering different voices and sending mixed and confusing messages, which is unusual. Richard Bush, nonresident senior fellow in the Center for East Asia Policy Studies at the Brookings Institution, believes the U.S.-Taiwan tie is "a unique relationship" that seems "perfectly normal" in "economic, functional and people-to-people areas" but "not so normal" in "diplomatic and security arenas."¹⁶²

By contrast, Beijing's policies toward Taiwan have remained holistic and consistent. Beijing's relatively more hardline approach toward Taiwan in recent years has been a reaction to the more visible pro-independence movement on the island.

Therefore, Beijing and Washington must restore comprehensive restraint and, at a minimum, establish mutual trust on the Taiwan issue. Peaceful unification with Taiwan is still the best option for Beijing. Given tensions at this current moment, Washington particularly needs to reassess its previous policy of arms sales and diplomatic approaches to Taiwan. Restoring restraint based on the spirits and principles of the three Joint Communiqués is a timely mandate for both Beijing and Washington.

Recent Updates and the Consequent Impacts

The status of Taiwan has remained a crucial issue in China-U.S. relations for the past four decades. A series of official documents, including the three China-U.S. Joint Communiqués¹⁶³ have all specified that "Taiwan is part of China" and the government of the United States "acknowledges the Chinese position" of "One China." However, dark

¹⁶¹ *Toward a Stronger U.S.-Taiwan Relationship*, CSIS, <https://www.csis.org/analysis/toward-stronger-us-taiwan-relationship>, accessed Nov. 11, 2020.

¹⁶² Richard C. Bush, "U.S.-Taiwan Relations in the Trump administration: No Big Fixes Needed," *Asia Policy*, Number 23, January 2017, pp. 29-35. <https://muse.jhu.edu/article/647781/pdf>.

¹⁶³ China-U.S. Joint Communiqués, Embassy of the People's Republic of China in the United States of America, <http://www.china-embassy.org/eng/zmgx/doc/ctc/>, accessed Nov. 25, 2020.

clouds are gathering across the Taiwan Strait and between China and the United States, particularly as U.S. policy toward Taiwan has undergone significant changes in the past few years, undoubtedly due in part to the island's internal political shift.

Key Updates

One of Washington's significant actions was the passage of the Taiwan Travel Act in late February 2018 after the Trump administration had already signaled a "whole-of-government" pushback on China with an unprecedented trade war. The act, which was signed into law by Trump in March 2018, has made it more open and convenient for high-ranking officials from Taiwan and the U.S. to make official visits to either side. After the act became a U.S. domestic law, Tsai Ing-wen made a "transit visit" to the U.S. in July 2019, and two high-ranking U.S. officials, the U.S. Health Secretary Alex Azar and the U.S. Under Secretary of State Keith Krach, paid high-profile visits to Taiwan in August and September 2020. In return for such "goodwill," the Tsai Ing-wen administration decided to lift U.S. beef and pork import restrictions as an "important start for economic cooperation" between Taiwan and the United States.¹⁶⁴

Other recent legislative efforts in the U.S. Congress (either signed into law or pending passage) to support Taiwan include the Taiwan Allies International Protection and Enhancement Initiative (TAIPEI) Act of 2019, Taiwan Invasion Prevention Act, Taiwan Fellowship Act, Taiwan Assurance Act of 2019, Taiwan Envoy Act, and Taiwan Relations Reinforcement Act of 2020. In addition, the White House recently made public the details of the "Six Assurances" confidentially made to Taiwan by former U.S. President Ronald Reagan in the 1980s.¹⁶⁵ U.S. legislators have referred to these released cables in their recent efforts to introduce a number of Taiwan-related laws and resolutions, including those mentioned above.

Perhaps one of the most truculent moves made by the Trump administration on the Taiwan issue is the significant increase in U.S. arms sales to Taiwan. By late October 2020, the Trump administration approved nine packages of arms sales to Taiwan in less than four years, with total sales exceeding \$17.4 billion. By contrast, President Barack Obama approved three arms sales packages to Taiwan in his two terms (eight years), with a total sum of about U.S.\$14 billion.¹⁶⁶

Another potentially "uneasy" change stems up from the "revised" attitude and approaches toward Taiwan by the Democratic Party, which was revealed in its party platform during

¹⁶⁴ "Taiwan lifting US beef, pork import restrictions an 'important start for economic cooperation', Tsai Ing-wen says," South China Morning Post, <https://www.scmp.com/economy/china-economy/article/3099288/taiwan-lifting-us-beef-pork-import-restrictions-important>, accessed Nov. 10, 2020.

¹⁶⁵ U.S. Assistant Secretary of State for East Asian and Pacific Affairs David R. Stilwell has portrayed the declassification decisions as part of an effort to bolster Taiwan and "prevent and reverse (the) PRC's squeezing of ... Taiwan's international space." <https://2017-2021.state.gov/The-United-States-Taiwan-and-the-World-Partners-for-Peace-and-Prosperity/index.html>, accessed Nov. 1, 2020.

¹⁶⁶ Source: U.S. Federal Register, U.S. Defense Security Cooperation Agency.

2020.¹⁶⁷ This strategic guidance dropped “One China” in its language on the Taiwan issue, making the Democrats’ position on Taiwan more like that of the Republicans, and certainly leaving enough room for everyone to imagine in the years to come.

Nevertheless, it is interesting to note that there was no direct contact between President-elect Joe Biden and Tsai Ing-wen after the Biden team claimed victory in the 2020 presidential election. Trump, however, received a direct call from Tsai Ing-wen in 2016, making him the first U.S. president-elect to speak directly to the leader of Taiwan since 1979. A possible unspoken message by the Biden team is that “Biden’s goal will not be to threaten Chinese interests for its own sake but to maintain the status quo across the Strait.”¹⁶⁸

Major Impacts

Unfortunately, substantive changes in the U.S.-Taiwan relationship undertaken by Washington during the Trump presidency have significantly complicated the Taiwan issue. The possible impacts of these changes could devastate the “delicate balance” across the Taiwan Strait that Beijing and Washington have subtly acquiesced to over the past four decades. In a number of aspects, the ultimate consequences could be destructive to any efforts to “reaffirm” or “re-establish” even a minimum level of mutual trust and understanding. Should restraint on the Taiwan issue not be restored, these lasting impacts might not go away at both the strategic and policy levels.

First, there will be an impact on the consensus and mutual understanding between China and the United States over the Taiwan issue. In both qualitative and quantitative terms, the increased arms sales approved by the Trump administration have far exceeded the levels of the previous administration, and represent the *de facto* abandonment of the road map of reduction in arms sales to Taiwan mutually agreed to in the Joint Communiqué of 1982. It certainly raises deep concerns when Beijing assesses Washington’s genuine willingness to uphold the cornerstone principles settled in the three Joint Communiqués. Nobody expects political acquiescence and diplomatic appeasement on the Taiwan issue from Beijing, no matter how the bilateral, regional, and global winds are changing.

Second, should Washington continue to directly or indirectly encourage Taiwanese independence, Tsai Ing-wen’s administration may undertake more hazardous moves to advance its incremental and substantial pursuit of Taiwan’s ultimate independence. Does this genuinely serve the best interests of the United States?¹⁶⁹ Should Washington return to

¹⁶⁷ The 2020 Democratic Platform, <https://democrats.org/where-we-stand/party-platform/>, accessed Nov. 10, 2020.

¹⁶⁸ Oriana Skylar Mastro, Emily Y. Young Carr, “Biden Will Speak Softer but Act Stronger on Taiwan,” *Foreign Policy*, Nov. 10, 2020, <https://foreignpolicy.com/2020/11/10/biden-taiwan-election-trump-china/>, accessed Nov. 20, 2020.

¹⁶⁹ Chinese scholar Yana Zuo believes that “Washington backs up Taiwan only when the latter serves its strategic interests. Hence, Washington is expected to abandon Taiwan to avoid entrapment.” Gang Lin and Wenxin Zhou claim that “‘abandoning Taiwan’ as well as the Cold War mind-set of playing wildly the ‘Taiwan card’ are far from the mainstream view in U.S. policy circles today, which favors maintaining the status quo.”

the original consensus between China and the United States that seeks to preserve peace across the Taiwan Strait? Or, should it continue to take more aggressive moves to make Taiwan a “weapon” in its overall pushback on China and even abet the growth of pro-independence movements in Taiwan in the name of the so-called “moral responsibility,” and possibly put itself in a total conflict with China? It certainly raises many questions for Washington when it seems to be re-defining its ultimate interests in Taiwan against the overall U.S.-China relationship. Simply put, Washington’s messaging toward Taiwan, no matter how it is articulated, might be significantly reinterpreted by Taiwan leaders for various political ends.

Third, the *de facto* “strategic ambiguity” of U.S. policy on Taiwan’s status has been eroded by recent policy changes made by the Trump administration. The policy of “ambiguity” is derived primarily from original policy designs by the United States which not only acknowledge the three China-U.S. Joint Communiqués, but also The Taiwan Relations Act, the “Six Assurances,” and a number of related acts, resolutions, and U.S. domestic laws. However, the plethora of policy choices taken by Washington that often contradict the three Joint Communiqués do not necessarily provide Washington the best policy choices, especially when the DPP administration in Taiwan has been increasingly pro-independence.

Recommendations

Although Beijing remains resolved to seek ultimate unification with Taiwan, there have been significant “improvements” in U.S.-Taiwan relations since the Obama administration, and particularly in the last two years of the Trump administration. The worst scenario would arise from an uncontrolled, escalatory spiral of power interactions when miscalculation continues to overtake even the minimum-level mutual trust.

Ideally, both sides should join hands to maintain a workable communication mechanism to talk through a wide range of critical issues concerning Taiwan — for example, through existing bilateral dialogue channels. There are many issues, disputes, and obstacles between China and the United States over the Taiwan issue, but restoring restraint should be the first and foremost step.

1. Send and mutually confirm clear messages.

To maintain the stability of the situation across the Taiwan Strait, both sides urgently need to send and mutually confirm clear messages to each other. Both sides also need to stop introducing new policies and measures that may further complicate the already tense situation and cause instability across the Taiwan Strait. President Biden, and especially his diplomatic team, may find Beijing more willing to talk over a wide range of issues should the right message be clearly conveyed.

2. Reassess and eventually cease U.S. arms sales to Taiwan.

See Yana Zuo, “The U.S. Global Strategy and Its Taiwan Policy,” *The China Review*, Vol. 18, No. 3 (August 2018), pp.149-176; Gang Lin and Wenxin Zhou, “Does Taiwan Matter to the United States? Policy Debates on Taiwan Abandonment and Beyond,” *The China Review*, Vol. 18, No. 3 (August 2018), pp.177-206.

Washington should reassess its arms sales policy toward Taiwan, particularly the sales approved in the last four years. The significant increase in U.S. arms sales to Taiwan yields little to Taiwan's "self-defense" capability, yet it facilitates unrealistic and unnecessary political adventurism on the island.

3. Be wary of any intention or move to substantively change U.S.-Taiwan relationship.

Both sides cautiously deal with the desire of Taiwanese authorities (and some Americans) to substantively enhance the U.S.-Taiwan relationship. To make a strong case that Taiwan's status is undetermined and make substantial changes to U.S.-Taiwan relations would only further undermine the already not very solid foundation of the U.S.-China consensus on the Taiwan issue.

4. Restructure U.S.-Taiwan security cooperation under a U.S.-China security consensus.

Beijing understands Washington's security concerns in the region. However, Washington must carefully reassess Taiwan's role in the U.S. Indo-Pacific strategy while Beijing should provide more options for China-U.S. security cooperation in the Asia-Pacific region. In fact, Beijing and Washington are fully capable of conducting practical cooperation in regional security issues, such as anti-piracy, maritime law enforcement and rescue, and resource protection.

5. Examine Taiwan's claims for participation in the international community within the framework of the "One-China Principle".

Both parties may conduct candid discussions on Taiwan's involvement in the international community, such as Taiwan's participation in international cooperative efforts to fight the COVID-19 pandemic, under the condition of abiding by the fundamental spirit of "One-China Principle" and the three China-U.S. Joint Communiqués.

6. Create a good atmosphere for the promotion of cross-strait economic, trade, and people-to-people exchanges.

In the area of technology development and economic cooperation between mainland China and Taiwan, Washington should not impose any (or further) restrictions on companies or individuals involved in such businesses. Normal economic and trade exchanges across the strait should not be affected by recent changes in China-U.S. economic and trade relations.

Conclusion

The Taiwan issue should not be such a liability (if not an obstacle) to China-U.S. relations as it is at the moment. "Strategic ambiguity" by Washington in the past years may have played a certain role of "inhibitor," for example, in time of crises. However, such "ambiguity" was also constantly re-elaborated and magnified by Taipei in its quest for more international autonomy, substantial upgrades to Taipei-Washington political and diplomatic ties, and incremental independence.

Moreover, recent policy changes and moves by the Trump administration have exacerbated tensions between the U.S. and China. Although enduring obstacles over the Taiwan issue between China and the United States may not be easily overcome in the foreseeable future, restoring restraint is nevertheless a critical starting point. It requires not only political and practical wisdom, but also dedicated and skillful diplomacy from both sides.

Part II: The South China Sea Issue

Amid intensifying political, economic, and ideological competition between China and the United States, continued enforcement of respective claims concerning overlapping or disputed territories in the South China Sea by multiple parties has significantly complicated U.S.-China bilateral relations. In the past few years, the United States has kept an increasingly high-profile presence in the South China Sea by sending a large number of planes and vessels, which have, contrary to what Washington may have expected, generated limited outcomes.

China has adopted a more restrained but comprehensive approach to solidify its sovereign position by applying military, civilian, and law-enforcement countermeasures targeted at different parties in the South China Sea, giving Beijing more maneuverability in its disagreements, for example, with Washington. It is interesting to note that under such circumstances, the Trump administration decided to deploy U.S. Coast Guard cutters in the West Pacific as new leverage to both signal U.S. presence and to diversify its policy measures in the disputed waters. Washington is also seeking more attention and substantive involvement from its traditional allies to encourage solid, multilateral, political, and diplomatic pressure on China.

Claimants among Southeast Asian countries, in addition to hardening their respective positions on South China Sea disputes, are closely watching the rising tension between Beijing and Washington. The two giants are caught in a strategic duel in which neither will easily give in, particularly in the current atmosphere.

Hence, the South China Sea issue, at the strategic level, crystallizes the conflicts between China and the United States, especially when Washington has viewed island construction and the expanded military presence of the Chinese in the South China Sea as an unbearable wedge to its absolute predominance in the West Pacific region. Consequently, disputes between China and other claimants are relatively resolvable, and at a certain level, the key to calming the South China Sea conundrum is still in the hands of Beijing and Washington.

Restoring Restraint and Trust: A Common Objective for Management

Although the United States is not a direct claimant in the South China Sea disputes, it has various strategic and policy resources and capabilities to impose substantial influence in the region. At the strategic and geopolitical level, the South China Sea issue is a matter between China and the United States. At the practical level, it is an issue between China and the other direct claimants in Southeast Asia. Hence, the South China Sea resembles a “two-tier structure.”

However, as Susan Thornton, senior fellow at Yale Law School and nonresident senior fellow at the Brookings Institution, put it, the current U.S. approach in the South China Sea is “provocative, escalatory, and unlikely to be effective, given the changing military balance in the region.”¹⁷⁰ Also, the absence of a clear and solid common objective between China and the United States could make it possible for spiraling escalation to draw both parties into an unfortunate conflict.

As a result, the suggested common objective starts with relinquishing the endless and pointless activity of “testing bottom lines,” because both Beijing and Washington are quite clear about what the other side wants in the South China Sea. Suppose either side does not favor an immediate military clash or even a total war, and in that case, immediate restoration of restraint is undoubtedly the top priority for both parties. Trust, even at the minimum level, can only be achieved between adequately self-restraining parties.

Recent Updates and the Consequent Impacts

Tensions in the South China Sea have surged despite the COVID-19 pandemic from 2019 to 2021. Amid disputes across almost all fronts under rapidly deteriorating bilateral relations, both China and the United States built up their presence in the South China Sea to demonstrate their uncompromising resolve — but in different ways. These new changes could bring about some potential and profound consequences.

Key Updates

China sent many survey vessels and fishing ships, conducted several naval exercises, and deployed maritime patrol aircraft in the South China Sea. In April 2020, the Chinese government approved the creation of two new administrative districts in Sansha city, which signifies another move to prove its effective control and governance in the region, despite long-lasting disputes.¹⁷¹ These are, of course, part of China’s consistent approach to demonstrate and safeguard its firm stance on sovereignty over disputed areas in the South

¹⁷⁰ Susan Thornton, “Averting Conflict in the South China Sea: Steps to Restore Rules and Restraint,” <https://www.brookings.edu/wp-content/uploads/2020/11/Susan-Thornton.pdf>, accessed Nov. 26, 2020.

¹⁷¹ Xinhua News Agency, http://www.xinhuanet.com/local/2020-04/18/c_1125874572.htm, accessed Nov. 19, 2020.

China Sea. The moves and acts adopted by Beijing, especially from a historical view, have been largely reactive if examined in a larger picture that includes other claimants.¹⁷²

The United States, which takes no position on the sovereignty issue but cares deeply about its predominance, status, and allied responsibilities, has intensified its military patrols, passages, overflights, and drills in recent years to assert its presence. According to Ian Storey, senior fellow and co-editor of *Contemporary Southeast Asia* at the Yusof Ishak Institute, in the first seven months of 2020, the U.S. Navy conducted seven freedom of navigation operations (FONOPs) in the South China Sea, compared to eight in 2019, five in 2018, and four in 2017.¹⁷³ Meanwhile, the Trump administration has also decided to send U.S. Coast Guard ships to the West Pacific to conduct regular patrols after a number of short but high-profile passages across China's neighboring waters by several U.S. Coast Guard cutters.¹⁷⁴

Meanwhile, a number of recent official documents, strategies, and legislative bills have proved the "strategic weight" of the South China Sea issue in Washington's overall global and regional strategies. In May 2020, the Trump administration released its guiding document for its China policy, "United States Strategic Approach to the People's Republic of China," which clearly states that "the United States military will continue to exercise the right to navigate and operate wherever international law allows, including in the South China Sea."¹⁷⁵ Other strategic reports, report series, and proposed legislation by the White House and Congress that give descriptions of the U.S. stance on the South China Sea issue include "National Security Strategy," "National Defense Strategy," "National Intelligence Strategy," "China Military Power Report," National Defense Authorization Act, South China Sea and East China Sea Sanctions Act of 2019 (introduced), South China Sea Freedom of Navigation Act (introduced), and so on.

At the administrative level, high-ranking U.S. government officials have escalated their criticisms of Beijing's position on the South China Sea dispute. In a statement released on July 13, 2020, then U.S. Secretary of State Mike Pompeo criticized China for its "unprecedented threat" and claimed that China "has no legal grounds to unilaterally impose

¹⁷² According to Greg Austin, "In 1996, Vietnam occupied 24 features in the Spratly Islands. At that time, according to the same source, China occupied nine. By 2015, according to the United States government, Vietnam occupied 48 features, and China occupied eight." See the testimony by then U.S. Assistant Secretary of Defense David Shear before the Senate Committee on Foreign Relations on May 13, 2015, https://www.foreign.senate.gov/imo/media/doc/051315_Shear_Testimony.pdf accessed Nov. 25, 2020; and Greg Austin, "Who Is the Biggest Aggressor in the South China Sea?," *The Diplomat*, June 18, 2015, <https://thediplomat.com/2015/06/who-is-the-biggest-aggressor-in-the-south-china-sea/>, accessed Nov. 25, 2020.

¹⁷³ Ian Storey, "The South China Sea Dispute in 2020-2021," *Perspective*, Issue: 2020 No. 97, Sept. 3, 2020, https://www.iseas.edu.sg/wp-content/uploads/2020/08/ISEAS_Perspective_2020_97.pdf, accessed Nov. 22, 2020.

¹⁷⁴ Md. Monjur Hasan, He Jian, "Spratly Islands Dispute in the South China Sea: Potential Solutions," *Journal of East Asia and International Law*, Vol. 12, No. 1 (2019), pp.145-168.

¹⁷⁵ White House, "United States Strategic Approach to the People's Republic of China," <https://trumpwhitehouse.archives.gov/articles/united-states-strategic-approach-to-the-peoples-republic-of-china/>, accessed Nov. 10, 2020.

its will on the region.” As usual, Pompeo referred to the United Nations Convention on the Law of the Sea in his statement to criticize China’s claims, even though the United States has not ratified the convention.

Meanwhile, introducing more multilateral interventions in the South China Sea from America’s traditional allies was an important policy aim of the Trump administration. In August 2020, then U.S. Secretary of Defense Mark Esper called on countries to work with the United States to more effectively counter China in the Indo-Pacific, saying that “the region has become an epicenter of power competition with Beijing.”¹⁷⁶ As Asia Time explained in September 2020, “Major European powers are weighing how to step up their presence in China’s adjacent waters, including the contested South China Sea.”¹⁷⁷

The above changes at both the strategic and policy levels, unfortunately, have aggravated the long-running confrontation over the South China Sea, especially between China and the United States.

Major Impacts

As a nonclaimant party, the United States has been driven by a deep motivation to intervene in the South China Sea issue. Washington, honestly, may not care much about the sovereignty issues, but it fears China’s ever-expanding influence in the West Pacific that may significantly challenge U.S. predominance in the region. It is still about concerns brought by a rapidly rising challenger to the incumbent power that seeks preemptive measures to preserve the status quo.

However, this brings the U.S. stance on the South China Sea issue into a strange circle: Washington tends to constantly test Beijing’s bottom line rather than maintaining the stability of the South China Sea from a truly neutral standpoint. One of the consequences of such a biased approach is the absurd effect of “the smalls bullying the big,” which suggests that China’s claims are wholly and naturally unlawful, whereas other small claimants’ propositions are automatically justified, and the United States has a responsibility to help the small ones. Naturally, with direct and indirect U.S. support, other claimants may be emboldened to take firm stances in the regional geopolitics involving China.

First, although the intensified FONOPs by U.S. planes and ships may not necessarily lead to direct military clashes, they do significantly lower the bar for unexpected encounters, confrontations, and even low-intensity conflicts. The bottom line is that China will not be deterred by U.S. FONOPs, and the People’s Liberation Army has adopted a more active (or maybe in the future a more confrontational) approach to responding to intensified U.S.

¹⁷⁶ Sarah Zheng, “US-China relations: Mark Esper urges allies to help counter China in Indo-Pacific,” South China Morning Post, Aug. 27, 2020, <https://www.scmp.com/news/china/diplomacy/article/3099118/us-china-relations-mark-esper-urges-allies-help-counter-china>, accessed Nov. 20, 2020.

¹⁷⁷ Richard Javad Heydarian, “European powers weigh wading into South China Sea,” Asia Times, Sept. 16, 2020, <https://asiatimes.com/2020/09/european-powers-weigh-wading-into-south-china-sea/>, accessed Nov. 25, 2020.

military activities in the South China Sea. As mutual trust between China and the United States has dropped to a historical low, it is almost impossible to truly avoid potential conflicts merely by relying on the existing crisis prevention and management mechanisms that may not even be fully functional at present.

Second, the United States is trying to encourage and probably expecting more countries far from the South China Sea region to get involved in the disputes, indicating that the possibility of protraction is still very high. The problem is that no matter how the issue plays out, it cannot change China's fundamental position. On the contrary, it may significantly complicate the South China Sea issue by blending in other non-claimant countries' more or less irrelevant claims and interests.¹⁷⁸ Other protracted (if not failed) examples include multilateral efforts and mechanisms to deal with nuclear issues or crises in Iran and North Korea.

Third, repeatedly testing Beijing's bottom line by conducting more frequent military activities is not conducive to reaching a final settlement of the South China Sea issue based on negotiation and consultation between China and the Southeast Asian claimants. Examples include the full and effective implementation of the Declaration on the Conduct of Parties in the South China Sea and steady advancement of the negotiation of the Code of Conduct in the South China Sea. The point is that if the strategic issues are not resolved, there will be no way to resolve the tactical and practical policy issues. Therefore, in the South China Sea, the U.S. containment policy on China has done "more harm than good."¹⁷⁹

Recommendations

In a situation where interests cannot be fully aligned, for the time being, finding the greatest common denominator of interests is a wise choice for both sides. Overall peace and stability are vital for free and open sea lanes, preservation and protection of resources and environment, cooperation over maritime security and rescue, and joint development projects. None of these can be fully realized should the tension between two great powers keep rising.

Given the enduring tension and lack of substantive mutual trust, stability based on respective self-restraint should be the greatest common denominator, and it must be realized through a series of verifiable mitigation processes.

¹⁷⁸ In fact, the United Kingdom, France, and Germany have openly rejected China's claims in the South China Sea by citing the Philippines' victory at the Permanent Court of Arbitration in The Hague. See "UK, France, Germany refute China's expansive South China Sea claims," <https://www.fr24news.com/a/2020/09/uk-france-germany-refute-chinas-expansive-south-china-sea-claims.html>, accessed Jan. 10, 2021; also "Global Britain' takes aim at China in South China Sea," <https://asiatimes.com/2021/01/global-britain-takes-aim-at-china-in-south-china-sea/>, accessed Jan. 10, 2021.

¹⁷⁹ Victor Teixeira, "The United States' China Containment Strategy and the South China Sea Dispute," *Central European Journal of International and Security Studies*, Issue 13, No. 3 (2019), pp.166-193.

1. Seek a rational and pragmatic restraint.

Acknowledging the lack of solid mutual trust between the two sides, both Beijing and Washington must maintain overall self-restraint in the South China Sea, not only by reducing the intensity and frequency of operations in the area but also by significantly easing up on propaganda and media offensives against each other.

2. Relax muscles rather than keep them unduly tense.

Washington should reduce its significantly intensified operations in the South China Sea, including close-up reconnaissance, overflight, and freedom of navigation operations. Reciprocally, Beijing may respond by exercising restraint in the mass island-constructions in the South China Sea.

3. Keep communication channels open, effective, and, most importantly, responsive.

Both sides should keep military-to-military communication channels open, effective, and responsive despite possible impacts of the pandemic and other political or ideological obstructions. In the event of an unexpected crisis, designated personnel from both sides should know who will pick up the calls at the other end of the line, along with a handful of other supplementary options.

4. Prevent further internationalization of the South China Sea issue.

Washington should reassess the potential impacts that the Indo-Pacific Strategy and other multilateral mechanisms like the Quadrilateral Security Dialogue may bring to the South China Sea issue. Moreover, further internationalization would only complicate the existing two-tier structure of the South China Sea issue, introducing more variables and significantly reducing chances of building mutual trust.

5. Welcome Beijing's leadership in preserving the environment and joint development.

In the spirit of multilateral cooperation, Beijing should take the lead in proposing a long-term regional survey of maritime resources and the South China Sea environment. The survey results could be used as a common reference for environmental preservation and joint maritime resource development by all relevant parties, including the United States. This would help Beijing and Washington find more "binding rules," which would help maintain peace and stability despite their competition.¹⁸⁰

6. Washington should reaffirm a truly neutral stance in the South China Sea.

Pragmatism would serve the best interests of the United States on the South China Sea issue. Blindly supporting claimants just because those countries are smaller in size and weaker in power will only make China's attitude and position stronger or even more confrontational. Under the premise that the situation is relatively de-escalated, China and the United States may even discuss the possibility of jointly issuing a statement on the South China Sea issue based on a new consensus.

¹⁸⁰ Song Xue, "Why Joint Development Agreements Fail: Implications for the South China Sea Dispute," *Contemporary Southeast Asia*, Vol. 41, No. 3, (2019), pp.418-446.

Conclusion

The South China Sea issue's complexity goes far beyond disputes over maritime sovereignty, natural resources, and waterway passages. It is about great power competition at the strategic level. The United States finds it increasingly challenging to keep the Chinese navy in China's adjacent waters, especially when China has been exerting a "reactive assertiveness" by utilizing its comparative advantages such as massive civilian resources and geographical proximity. The truly constructive course is first to restore stability. It primarily requires the self-restraint of both China and the United States, the two main players in the South China Sea disputes.

However, the resolution of the South China Sea issue is not merely about ending great power competition. It is also about the maritime environment, natural resources, sea-lane security, disaster relief, and more. None of these can be realized without all involved parties' self-restraint. Beijing and Washington should take the initiative. The rationale is simple and explicit, though challenging: If both China and the United States have enough time and energy at the current moment for a duel, a possible or even better course is to step away from pointless and dangerous confrontation and attend to the survey, maintenance, and joint development of natural resources and maritime environment in the South China Sea.