

Managing the US-China Strategic Rivalry

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OVER THE PAST year, the US-China strategic rivalry has intensified. The US government is taking a significantly harder line in its approach to China policy. In December 2017, the US National Security Strategy labelled China a revisionist power seeking to change the international order. The Trump administration, in an attempt to reduce the US trade deficit, subsequently imposed tariffs on hundreds of billions of dollars of Chinese goods, leading to a spiraling trade war. Furthermore, in an October 2018 speech at the Hudson Institute, Vice President Mike Pence severely criticized China for unfair trade practices, predatory investment rules, and military aggression.

The meeting between President Donald Trump and President Xi Jinping on the sidelines of the G20 in Argentina in late November saw a temporary truce in the trade war. Yet, short of a substantial breakthrough in the negotiations, there is a risk that the US-China trade war will drag on indefinitely. The arrest of Huawei's chief financial officer, Meng Wanzhou, further complicates the fragile foundations of the temporary truce. While the US-China relationship has seen many ups and downs in recent years, if measures to mitigate tensions are not taken soon, the United States and China risk stumbling into a new and entrenched form of severe strategic rivalry that

would fundamentally undermine regional stability in Asia Pacific.

So, what can be done to mitigate the US-China strategic rivalry? Four key points need to be kept in mind. First, history has shown that the management of US-China-Japan trilateral relations is the key to realizing regional stability and shared prosperity. Second, US-China tensions go beyond the current trade war and are rooted in competition for global technological supremacy and between their state-led and free market-led systems. Third, a number of military-strategic issues require careful management to avoid further inflaming tensions. And fourth, Japan should position itself to help mitigate US-China tensions and return to a more balanced policy focusing on engagement backed by deterrence.

The History of US-China-Japan Relations

Over the last 150 years, the US-China-Japan triangle has been the key to regional stability in East Asia. When all three countries have prioritized stability, the region has experienced shared peace and enhanced prosperity. However, when conflict has arisen between a rising and an established power, the consequences have been dire.

When US Navy Commodore Matthew Perry arrived in Japan in 1853 to open up Japan to trade and

establish a supply base for the United States to conduct trade with China, Japan realized that 250 years of isolation had left it well behind the West in terms of technological developments. Subsequently, Japan embarked on a wholesale program of national modernization through the Meiji Restoration and adopted the mantra of “rich nation, strong army” (*fukoku kyohei*).

Japan’s rapid rise saw it go to war with China in the first Sino-Japanese War of 1894–1895, which erupted after only 40 years of industrialization. Japan’s victory in that war demonstrated an astonishing change in the regional balance of power. Previously, China’s Qing dynasty had been the overwhelming power in the region and the center of an extensive tributary system.

As Japan continued to rise, it intruded into Mainland China, beginning with the Mukden Incident in Manchuria in 1931 and the Marco Polo Bridge Incident in 1937. This sparked the Second Sino-Japanese War (1937–1945). Ultimately, Japan was defeated by the United States, China came under the control of the Chinese Communist Party (CCP), and the Second World War ended, only to be followed by the Cold War.

In the postwar era, Japan was transformed into an ally of the United States and US support enabled Japan to quickly recover from the devastation of the war. Japan grew to become the second largest economy in the world in less than a quarter of a century, overtaking West Germany in 1967. Although Japan’s rapid growth meant that it was, for a fleeting moment, considered a challenge to US economic supremacy, it was clear to both Americans and Japanese that their alliance continued not just to benefit their countries but also to underpin regional security and stability.

In the early part of the Cold War, China, as a communist country, was considered a rival. However, Sino-Soviet rivalry within the communist bloc in the latter part of the Cold War opened the door for the United States and Japan to pursue détente with China. US President Richard Nixon started the process when he visited China in 1972 and the two countries subsequently normalized their diplomatic relations. Japan followed suit, normalizing relations with China and concluding the Japan-China Treaty of Peace and Friendship in 1978.

These developments ushered in an era of relative stability between all three countries, which served to promote regional peace and prosperity and set the foundation for China’s rise. This included the Japanese provision to China of large-scale official development

assistance that was critical in assisting the development of the Chinese economy. China embarked on economic opening and reforms in the 1980s and entered the World Trade Organization (WTO) in 2001, which enabled it to achieve rapid economic growth and to overtake Japan in 2010 as the second largest economy in the world. The rise of China as both an economic and military power and the US response to it, however, has now brought East Asia to a critical juncture where the long-term future of regional stability is at stake.

Mitigating Security Tensions

The need to mitigate strategic rivalry and promote regional stability and prosperity demands the careful management of a number of key strategic security issues. This includes issues such as North Korea denuclearization, relations with Taiwan, maritime security in the South and East China Seas, and the Belt and Road Initiative (BRI).

Progress on achieving the denuclearization of North Korea requires US-China cooperation, but that has been undermined by tensions surrounding the trade war. Mainland China’s relations with Taiwan have taken a confrontational turn since the change of government in Taiwan from Ma Ying-jeou to Tsai Ing-wen and China’s success in convincing Panama, the Dominican Republic, and El Salvador to switch their diplomatic relations from Taipei to Beijing. China’s increasingly assertive maritime activities—especially its island-building and the installation of military assets in the South China Sea, its construction of aircraft carriers, and its anti-access and area denial (A2AD) strategy—appear to be geared toward pushing the US Navy’s freedom of navigation operations out of the Western Pacific. In addition, China’s BRI has raised concerns that China seeks to use infrastructure funding as a means of expanding its strategic influence.

These issues will increasingly be a source of tensions unless the international community can persuade China to soften its attitude. The question, though, is how to manage these strategic differences. In contrast to the US-USSR rivalry during the Cold War, disengagement and decoupling between the United States and China is not a realistic option. A return to a more balanced approach that includes strong engagement and deterrence must be found. As a starting point, greater and more constructive US-China strategic dialogue is needed, both bilaterally as

well as multilaterally through forums such as the East Asia Summit.

Resolving the Trade War

The most visible manifestation of US-China tensions in 2018 has been the trade war. The Trump administration, which is focused on revitalizing American manufacturing, perceives the trade deficit as being the result solely of China's unfair trade practices. Ignoring the role of US economic behavior as a factor in trade balances, the US has imposed tariffs intended to punish China and restore balanced and reciprocal trade patterns.

This is not the first time the United States has wielded Section 301 as a mechanism to impose discriminatory tariffs. It was used against Japan in the 1980s and 1990s, when 40 percent of the total US trade deficit came from US trade with Japan. As a result, Japan agreed to a currency realignment under the 1985 Plaza Accord, market opening measures, and voluntary export restraints in areas such as automobiles and steel. However, this came not solely from US pressure and a Japanese desire to avoid undermining the security alliance, but also out of a Japanese recognition of the importance of economic liberalization.

A prolonged Sino-American trade war benefits no one. US tariffs and China's retaliatory measures are bound to raise domestic prices in China and decrease its exports. Even though domestic consumption has significantly increased over the last decade, exports still make up a large percentage of China's GDP. A lengthy trade war has the potential to seriously depress China's economic growth, which in turn will hurt the global economy given the fact that the Chinese economy is currently the biggest driver of global growth.

At the same time, the most likely path to avoid a trade war—namely, symbolic purchases of US goods by China—may give President Trump a short-term win but would do little to reduce the trade deficit over the long term because it does not address the fundamentals of the US-China economic relationship, including American savings and investment behavior. Ultimately, discriminatory tariffs will not only fail to reduce the deficit but they will also undermine the rules-based global trading system. The only lasting way to resolve such trade disputes would be to enhance the rules-based global trading system, for example by strengthening the WTO.

The Deeper Roots of the US-China Rivalry

The roots of US-China tensions beyond the trade war are to be found in systemic competition between China as a rising power under "communist, state-led capitalism" and the United States as the established global power under "democratic, market-led capitalism." In particular, innovation and technological supremacy are shaping up as a key battlefield in this competition for global influence.

US frustrations center on China's means of acquiring new technology and the rules surrounding how technological innovation is advanced. The United States and other advanced economies bemoan China's lax intellectual property rights and its investment laws, which require joint ventures and forced technology transfer. This Chinese behavior is often seen as a threat to America's position as the global leader in technological innovation. China, by contrast, emphasizes that its investment rules are normal for developing countries and are necessary to overcome the middle-income trap.

Chinese innovation tends to be led from the top down. Resources for innovation are concentrated in cutting-edge and future-oriented industries through generous state subsidies to favored companies, which many argue is done in a way that is a violation of WTO rules. The "Made in China 2025" state-led industrial policy seeks to transform China into a global leader in high-tech manufacturing. This entails reducing China's dependence on the import of strategic high-tech goods, such as semiconductors, as well as developing cutting-edge industries that will form the basis for future economic growth, such as robotics and artificial intelligence.

Moreover, demographic trends dictate that China is set to get old before it gets rich, so technological innovation will be key in order for the country to maintain productivity and economic growth. As the CCP looks toward its 100th anniversary in 2049 and seeks to guide China toward national revitalization as espoused in the "Chinese dream," maintaining high economic growth will be critical for the party's domestic political legitimacy. But while China is on course to overtake the United States as the largest economy in the world within the next 30 years, it will still lag behind the United States in terms of GDP per capita and overall standard of living. At the same time, there is a distrust of Chinese intentions to challenge the United States as the global leader in

technological innovation and concerns regarding the ramifications such a development could have for the international order.

US innovation, by contrast, tends to be led from the bottom up thanks to its democratic and free-market principles that unleash individual freedom, creative power, and unbridled competition. The prolific innovation that has come out of Silicon Valley is a testament to this. The danger now for the United States is the growing monopoly power of a small number of leading technology giants and a political system that seems to incentivize short-term political gains at the expense of long-term statesmanship and policy vision.

As such, the battle between US “democratic, market-led capitalism” and Chinese “communist, state-led capitalism” has far-reaching political, social, and economic implications. In this contest, the United States needs to remain confident that the creative dynamism of its system gives it a long-term advantage and, thus, that its traditional approach of championing an open, rules-based order still serves American interests best. Seen in this light, it is clear that the United States would do well to try to mitigate tensions and engineer a soft landing in its trade war with China. Deep engagement with China is critical in order to persuade it to embark on wholesale systemic changes around the way it absorbs and innovates new technology while still maintaining its strong economic growth. And it will require the United States to stay true to its liberal democratic principles.

Japan’s Response

Japan, with the United States as its security guarantor and China as its biggest trading partner, must also support the United States in mitigating tensions, eschewing a decoupling from China and finding the right balance of engagement backed by deterrence.

For most of Abe’s term as prime minister, there has appeared to be too much focus on deterrence and not enough focus on engagement with China. The Abe government concluded the April 2015 revision of the US-Japan Defense Cooperation Guidelines, passed the September 2015 security-related bills to enable the Japan Self-Defense Forces (SDF) to engage in limited forms of collective self-defense, and has gradually expanded security cooperation with other partners beyond the United States, such as Australia, India, ASEAN, and EU countries. Japan should continue to build on this

security foundation, continue to incrementally expand its defense capabilities, and continue to bolster its security cooperation with the United States and with other friends and partners around the region and the world. This should not be viewed as a policy of containment against China, which would be both unrealistic and undesirable, but as a necessary hedge while also pursuing engagement measures.

More recently, Japan and China have put to the side the territorial and history issues that had been allowed to spoil cooperation in areas of shared interest and are deepening cooperation in a number of key areas. In May 2018, Chinese Premier Li Keqiang visited Japan for a Japan-China-ROK trilateral summit as well as a bilateral summit with Prime Minister Shinzo Abe. Abe and Li concluded an agreement on the Japan-China Maritime and Aerial Communication Mechanism, which provides communication channels between China’s People’s Liberation Army and Japan’s SDF in order to prevent accidental clashes between vessels or aircraft at sea. In October 2018, Prime Minister Abe met with Chinese President Xi Jinping in China for a leaders’ summit, where the two governments agreed to cooperate on 52 joint infrastructure projects in third countries. This includes the flagship project of upgrading an industrial park in Thailand’s Chonburi Province into a smart city. This infrastructure cooperation is a key example of positive engagement that is aimed not only at forging connectivity between infrastructure investment projects across the region but also at ensuring that Chinese investment in infrastructure is of high quality based on international best practices and standards.

In addition to striking a better balance between engagement and deterrence, Japan must work proactively with like-minded countries in order to reform the WTO and to urge the United States to recommit itself to rules-based economic institutions. The recent G20 Summit resulted in a joint statement calling for WTO reform, and as the chair nation of next year’s summit in Osaka, Japan should play a leading role in shaping and implementing this reform agenda. Japan can also play a meaningful role by expanding the membership of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) while also promoting the early conclusion of the Regional Comprehensive Economic Partnership (RCEP) so that the region may demonstrate to the rest of the world that its trade is governed by a shared set of rules.



The intensification of US-China tensions risks undermining the shared stability, peace, and prosperity that has been forged since the normalization of US and Japan diplomatic relations with China in the 1970s. This is not just an issue for the United States and China, but also for Japan and the rest of Asia. Sensitive security issues such as North Korea, Taiwan, maritime security, and the BRI must be carefully managed in order to avoid exacerbating tensions. If we are to avoid stumbling into a severe and entrenched form of strategic rivalry, we must be clear about the current nature of US-China relations, which are shaping up as a battle for global influence between China as a rising power and the United States as the established global

power. Given these roots of the US-China strategic rivalry, it is clearly a long-term issue that will impact the future shape of the global order, and it cannot be resolved simply by ending the current trade war. Yet disengagement and decoupling is not a realistic option given the high level of interdependence between China and the world. The United States and Japan must work together to mitigate tensions with China and must return to a more balanced hedging policy focused on engagement backed by deterrence.

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