

CHINA & US FOCUS DIGEST

Beyond Differences Towards Cooperation



Hong Kong Forum on
U.S.-China Relations
香港中美論壇



CHINA & US FOCUS

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Note:

From January 19 to 21, 2022 China-United States Exchange Foundation (CUSEF) partnered up with the China Center for International Economic Exchanges (CCIEE) for an online international forum on China-U.S. relations.

Against the stark backdrop of the ongoing global pandemic, the online forum — themed “Beyond Differences, Towards Cooperation” — brought together more than 30 global leaders and experts to examine key challenges and areas of cooperation facing the United States and China.

We aim to capture the forum in its entirety with the publication of all keynote remarks. The transcripts have been lightly edited for clarity.

An Interdependent World



Victor K. Fung

*Vice Chairman of China-United States Exchange Foundation
Group Chair of the Fung Group*

I strongly believe it is time for the trade war between the U.S. and China to be placed in abeyance. With inflation increasing in the U.S. and with the growth of China's domestic consumption slowing, I am sure the will must be there on both sides.



Year by year, our aim in this forum is to have a thoughtful dialogue on the state of relations between the U.S. and China, the single most important bilateral relationship in the world. With the help of world leaders and experts, we like to explore this relationship through a global, as well as a bilateral, lens. For we all recognize that this bilateral relationship is not played out in isolation. It is vital to understand and assess its impact on the rest of the world.

Our theme this year is “Beyond Differences, Towards Cooperation.” We will explore it from multiple angles: global economic recovery, trade and invest-

ment, global supply chains, cooperation on climate and people-to-people cultural exchanges.

One year into the Biden administration, significant differences and disagreements remain between the U.S. and China. During the previous administration, the framework for conducting the relationship was fundamentally changed. There are questions over what will happen next with trade between the U.S. and China, following last month's expiration of the Phase One trade deal.

While it is widely reported that relations between the two remain tense — or are even deteriorating — around certain high-profile issues, it is relevant to note that the two economies remain highly interdependent. Trade and investment data underscore this reality. In 2020, China was America's largest goods trading partner, third-largest export market and largest source of imports. Exports to China supported an estimated 1.2 million jobs in the U.S. in 2019. Recent surveys indicate that American companies remain committed to the China market over the

long term and count China among the top five priorities in the global strategy of their companies. At the same time, the U.S. is still China's largest export market.

Another positive is that predictions of decoupling between the U.S. and Chinese economies appear — like reports of Mark Twain's death — to be premature. We have indeed seen shifts in long-established trade patterns in recent years. But in my experience this has had far more to do with digital technology than decoupling. And transportation issues related to the pandemic have, by far, been the greater cause of disruption to global supply chains. Trade flows would have been even stronger had it not been for these bottlenecks.

The Glasgow Declaration is a victory for multilateral thinking.

It is encouraging to see meetings taking place between senior Chinese officials and American business leaders. China has recently acted upon the visa concerns of U.S. businesses by upgrading fast-track entry for executives and their dependents.

There are other green shoots as well. The leaders of both nations are communicating in earnest and are addressing substantive issues. In my mind, the tone of high-level exchanges has markedly improved.

Last month, the U.S. and China cooperated in a rare joint pledge by the five permanent members of the UN Security Council to reject nuclear war and avoid arms races. In November, the U.S. and China signed the Joint Glasgow Declaration on Enhancing Climate Action in the 2020s. Personally, I can think of no more urgent and important task for the people of the world. The Glasgow Declaration is a victory for multilateral thinking.

Looking ahead, we can expect a flurry of media coverage around the 50th anniversary of President Nixon's visit to China in February 1972. Of course, that took place in the Cold War era of U.S. superpower rivalry with the Soviet Union. But I believe we can still draw insights from what President Nixon described as "the week that changed the world."

To accelerate global economic recovery, I strongly believe it is time for the trade war between the U.S. and China to be placed in abeyance.

In the declassified U.S. transcript of his historic meeting with Chairman Mao, President Nixon says, and I quote: "What brings us together is a recognition of a new situation in the world. ... [W]e can find common ground, despite our differences, to build a world structure in which both can be safe to develop in our own way on our own roads."

Today, the world again faces new situations, new challenges.

In addition to the all-important climate issue, if as a businessman I am asked to identify two other priorities for cooperation between the U.S. and China, they are global economic recovery from the pandemic and upgrading the multilateral system for sustainable trade and investment flows.

I would like to offer two propositions for this Forum's consideration, and one observation:

First, to accelerate global economic recovery, I strongly believe it is time for the trade war between the U.S. and China to be placed in abeyance. With inflation increasing in the U.S. and with the growth of China's domestic consumption slowing, I am sure the will must be there on both sides. The pan-

demic has utterly changed the global economic landscape in which punitive tariffs and sanctions were first imposed on China in mid-2018. And in an interdependent world, all nations are affected when the two largest economies are at odds.

Continuing the trade war will, in my view, only be an impediment to restoring the full economic health of both nations and to maintaining economic stability at a global level, given the scale of devastation wreaked by the pandemic. Hopefully, going forward, the U.S. and China will work to resolve their trade issues in more constructive ways.

Second, the U.S. and China have a golden opportunity to lead much-needed efforts to upgrade the multilateral system for trade and investment. Having been conceived some 75 years ago, it must be made fit for purposes in the age of digital commerce, climate concerns, pandemics and inclusivity. Along these lines, a global dialogue is already underway to revitalize the World Trade Organization. That is welcome, but such a huge task cannot be left to Geneva alone.

Here in the Asia-Pacific two mega free trade areas are taking shape which, together, cover roughly one-third of the world's population and one-third of global GDP and trade. They are the Regional Comprehensive Economic Partnership (RCEP), which came into force on Jan. 1 this year, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which came into force three years ago. These two groupings have numerous overlapping members. China is a lead player in RCEP and has applied to join the CPTPP. The U.S., as you know, is in neither, having given up its earlier leadership of the CPTPP's forerunner.

What if the U.S. and China were now to work together to combine the two? For sure, it would take time to reconcile differences

in the approach to each bloc, perhaps with a reformed WTO facilitating that process. But the outcome could be far greater than the sum of its parts. I believe it could form the basis for a new multilateral system better able to serve the changing nature and needs of trade and investment for the next 75 years and beyond.

To close, the observation I wish to share is prompted by President Nixon's remark to Chairman Mao about nations developing in their own way on their own roads.

Companies today face ever-increasing complexity when they do business with both the U.S. and China. Many find themselves under intense pressure to make a choice, or risk falling foul of government policies and regulators. For most businesses it is not desirable — or even viable — to make such a choice, so many decades after U.S.-China economic interactions were first encouraged. Moreover, by operating across boundaries, companies deliver value and generate wealth for shareholders and other stakeholders in their respective countries. They have certainly helped to keep e-commerce going for consumers around the world during the pandemic.

Here in the Asia-Pacific two mega free trade areas are taking shape which, together, cover roughly one-third of the world's population and one-third of global GDP and trade.

In my view, therefore, the principle multinational businesses should follow when operating in any country is that of rigorously observing local laws. Where differences and contradictions arise in understanding each other's laws and systems, I further believe that these are best addressed through multilateral channels.

Executive Summary

In what has been one of the most challenging years in the history of China-U.S. relations, and against the stark backdrop of the ongoing global pandemic, world leaders gathered virtually January 19-21, 2022, to urge a reconciliation between China and the United States on important global issues. During the forum — themed “Beyond Differences, Towards Cooperation” and hosted by the China-United States Exchange Foundation and the China Center for International Economic Exchanges — more than 30 of the world’s most influential business leaders and political influencers came together to examine these challenges in details, and offered productive and optimistic solutions for the coming year. They noted where and how progress can be made, especially in economic recovery, trade, climate change and fostering people-to-people and cultural exchanges.

The forum featured speeches from past heads of state, including Mary Robinson, former president of Ireland; Jean Chretien, former prime minister of Canada; Yasuo Fukuda, former prime minister of Japan; Goh Chok Tong, former prime minister of Singapore; Helen Clark, former prime minister of New Zealand; and Zeng Peiyan, former vice premier of the State Council of China.

“Year by year, our aim in this forum is to have a thoughtful dialogue on the state of relations between the U.S. and China, the single most important bilateral relationship in the world,” said Dr. Victor Fung, vice chairman of the CUSEF, in his opening remarks. Fung emphasized that despite the seemingly deteriorating

political relationship, China and the U.S. have remained highly interdependent economically. The U.S. remains China’s largest export market and one of its largest trading partners.

Despite the challenging period in diplomatic relations, Former Vice Premier of the State Council of China Zeng Peiyan said that this relationship remains key to global success and stability, especially when it comes to strategic issues going forward, and should be underpinned by three principles: mutual respect, peaceful co-existence, and win-win cooperation. “A prosperous and stable China brings opportunities, rather than threats, to the world,” he said.

Speakers and panelists, noting the negative economic impact of the pandemic, said the success of China and the United States is essential in jump-starting global recovery. Former United States Treasury Secretary Jacob Lew explained the risks of inflation, the problem of tariffs and the need for climate change policy. He emphasized “the importance of the U.S. and China finding a pathway back to effective bilateral and multilateral engagement and economic policy for the good of each of our economies and for the sake of the global economy.”

Global supply chain issues are top of mind lately, having greatly affected both the U.S. and China, and consumers in both countries have experienced hardships. Wang Yiming, vice chairman of the CCIEE, discussed three concerns regarding global supply chains: the impact of the pandemic, recent changes

in horizontal and vertical integration, and ensuring stability. William Reinsch of the Center for Strategic and International Studies spoke primarily from the American point of view on the supply chain situation, saying that “politicians follow the polls in our country, and they’re taking their own increasingly hard line on China in both parties.” In his view, it’s unlikely that a more cooperative relationship between the U.S. and China will emerge to enhance supply chain and trade issues.

Many speakers, in addition to emphasizing the importance of economic cooperation, mentioned how mutual interest in combating climate change makes this an area in which the U.S. and China can work together. Mary Robinson, the former president of Ireland, discussed how “cooperation between China and the United States was crucial” in securing the 2015 Paris agreement on climate change and the wider UN 2030 Agenda for Development. She emphasized the power that future cooperation could have once again.

Helen Clark, former prime minister of New Zealand, agreed with this sentiment, saying it’s clear that both China and the United States are serious about combating climate change. Clark said that it “doesn’t matter what else our countries might be arguing about, we have to work together. It’s in the interests of humanity. And let’s also face it, both countries, like every country, have an interest in getting this right.”

China’s Special Envoy on Climate Change Xie Zhenhua listed several ways China and the U.S. plan to cooperate to reduce CO2 emissions under the China-U.S. Joint Glasgow Declaration on Enhancing Climate Action. Some areas of mutual cooperation include policies that support the effective integration of a high share of low-cost in-

termittent renewable energy, energy efficiency, standards to reduce electrical waste, and distributed generation policies that encourage the integration of solar, storage and other clean power solutions closer to electricity users.

The three-day forum ended with a session focused on the significance of people-to-people and cultural exchanges in the China-U.S. relationship. Speakers agreed that while the U.S. and China may face challenges on the political and economic fronts, the potential influence of cultural exchanges should not be underestimated. They have been powerful in the past, as noted by Zhang Xinsheng, former vice minister of education in China and former chairman of the UNESCO executive board. He described how people-to-people exchanges brought more than 30 years of hostility to an end in 1971 with “pingpong diplomacy,” which led to former U.S. President Nixon’s visit to China for a meeting with Chairman Mao Zedong.

Max Baucus, former United States ambassador to China, agreed that despite the challenges faced by the U.S. and China today, there are several areas in which both countries can continue to foster exchanges, such as encouraging positive business interactions and educational exchanges for students.

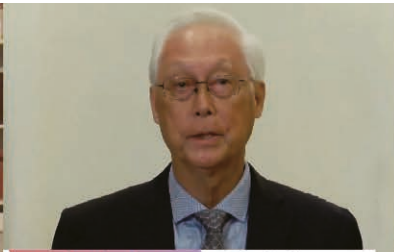
Wrapping up the event, Forum moderator James Chau, CUSEF’s editor-at-large, relayed to participants his hope that the ideas shared over the three days would transcend the forum. He concluded: “When you talk about values, ideas and ideals, it’s not just words that sound good or have a geopolitical strategy attached to them. They really count, and they really mean something for everybody.”



Victor Fung 冯国经



Mary Robinson 玛丽·罗宾逊



Goh Chok Tong 吴作栋



Zeng Peiyan 曾培炎



Jacob Lew 雅各布·卢



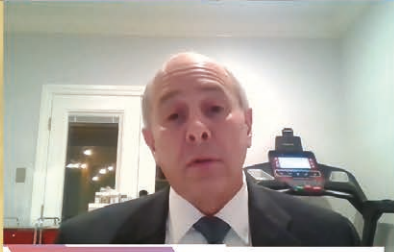
Bi Jingquan 毕井泉



Qian Yingyi 钱颖一



William Fung 冯国纶



Charles Boustany 查尔斯·布斯坦尼



Craig Allen 克雷格·艾伦



Andrew Tung 董立均



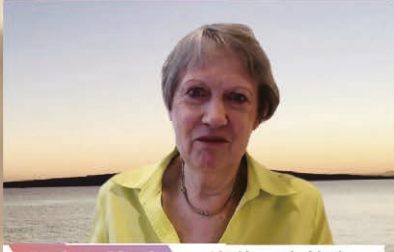
David Lampton 大卫·兰普顿



Christine Loh 陆恭蕙



Jeffrey Sachs 杰佛瑞·萨克斯



Helen Clark 海伦·克拉克



Max Baucus 马克斯·鲍卡斯



Charles Foster 查尔斯·福斯特



Zhang Xinsheng 章新胜



Jean Chretien 让·克雷蒂安



Yasuo Fukuda 福田康夫



Steve Orlins 史蒂夫·欧伦斯



He Yafei 何亚非



Stephen Roach 斯蒂芬·罗奇



Lawrence Lau 刘遵义



Zhang Xiaoqiang 张晓强



Peter Wong 王冬胜



John Zhao 赵令欢



William Reinsch 威廉·艾伦·赖因施



Wang Yiming 王一鸣



Zheng Li 郑力



Xie Zhenhua 解振华



Liu Yanhua 刘燕华



James Chau 周柳建成



Chen Wenling 陈文玲



Wang Dong 王栋



Hong Kong Forum on U.S.-China Relations 香港中美論壇

Challenges and Next Steps



The Importance of Teaming Up



Mary Robinson
Chair of The Elders
Former President of Ireland

There are and will continue to be differences between China and the United States. This is typical of humans, as any family knows. But the world needs China and the United States to be working together, marshaling and complementing their respective strengths.

At this time when global dialogue and collaboration have never been more important — and a good relationship between China and the U.S. is most important of all.

We are nearly two years into a devastating global pandemic that has exposed not just failures of global pandemic preparedness but wider weaknesses in the architecture of the rules-based international order.

The current Sino-U.S. tensions have undoubtedly made it harder to coordi-

nate a sustainable recovery from COVID-19 and address the wider existential challenges faced by all of us.

Open dialogue is essential to rebuilding trust between China and the United States and to tackling the existential threats facing humanity, from pandemics and the climate crisis to the ever-present risk of nuclear conflict.

I have always valued open and frank dialogue with senior leaders in China, including on the visits I made as UN high commissioner for human rights

and most recently with President Xi on a visit to Beijing in 2019 as chair of The Elders — just as I have on my many visits to the United States, including the two board meetings The Elders held in Washington, D.C., last year.

As the world’s most powerful nations, China and the United States should be leading the way to develop long-term solutions to common threats. Yet too often in recent years they have been locked in a dynamic of mutual suspicion and confrontation.

According to a survey conducted by the Pew Research Center in March 2021, 89 percent of American adults consider China to be a competitor or enemy rather than a partner.

Similar surveys of Chinese opinion undertaken by the China Data Lab at the University of California San Diego have also shown a rise in negative Chinese perceptions of the United States, with favorability on a scale of 1 to 10 dropping to 4.77 in May 2020 from 5.77 in June 2019.

Competition between nations can of course be helpful and dynamic, but not if it curdles into nationalist aggression and obscures common interests. More efforts need to be made by both countries to build relationships among young people, women, cultural groups and others. As an example, the 2021 Her Village International Forum links women leaders, and I spoke there at the invitation of Yang Lan, chairperson of Sun Media Group.

The pandemic has reminded us of the fundamental interconnectedness of our world and the extent to which we are all vulnerable to the health risks from changes to biodiversity and climate, and breaches of planetary boundaries.

These challenges do not fit into the ze-

ro-sum game paradigm that has traditionally defined foreign policy, but require sustained, intense cooperation.

In the face of such profound threats, it is crucial above all to uphold the right to freedom of debate and inquiry and to have challenging conversations, both in public and in private. It is only through these sometimes difficult exchanges that we can arrive at policies that work and endure.

This was the case in the aftermath of the Second World War, when the United Nations was founded and the Universal Declaration of Human Rights was agreed, forming the bedrock of the modern-day multilateral system.

The opening line of Article I of the declaration is as true today as it was in 1948: “All human beings are born free and equal in dignity and rights.”

There is much I could say about how both China and the United States understand and implement their human rights obligations as set out under international law, but this is not the priority for my remarks today.

The pandemic has reminded us of the fundamental interconnectedness of our world and the extent to which we are all vulnerable to the health risks from changes to biodiversity and climate, and breaches of planetary boundaries.

“We are resolved to free the human race from the tyranny of poverty and want, and to heal and secure our planet. We are determined to take the bold and transformative steps which are urgently needed to shift the world onto a sustainable and resilient path.”

Rather, I want to emphasize the particular responsibility that these two great nations have to work together to develop a new framework to tackle the existential threats of the 21st century.

Last November, I attended the COP26 climate summit in Glasgow, where I was pleased to see the bilateral U.S.-China declaration made by envoys John Kerry and Xie Zhenhua. The joint declaration at COP26 to “enhance climate action in the 2020s” was a good start, but much more needs to be done on both sides to translate summit words into concrete actions.

For China, this means a more ambitious near-term target in time for COP27 in Egypt this November. To speak frankly, peaking emissions by 2030 is too late. According to Climate Action Tracker, China’s current climate plan is consistent with a world where temperatures are 3 to 4 C higher than pre-industrial levels, with terrifying implications for life on Earth as we know it.

An earlier peaking date is essential to align with the Paris goals, and with President Xi’s 2060 net zero target. China has a crucial opportunity here to be a dynamic leader on climate, and I hope its leaders seize the moment, building on its already im-

pressive track record in renewable energy production.

The U.S. must also overcome its political deadlock to deliver on pledges already made, including concrete steps to reduce its emissions and accepting its fair share of the long-overdue \$100 billion in climate finance to developing nations.

Cooperation between China and the United States was crucial in securing the 2015 Paris agreement on climate change and the wider UN 2030 Agenda for Development, with the Sustainable Development Goals at its core.

The language in the preamble to the SDGs powerfully articulates the values behind this collective endeavor, and the obligations that the leaders of China, the U.S. and over 190 other UN member states committed themselves to in 2015:

“We are resolved to free the human race from the tyranny of poverty and want, and to heal and secure our planet. We are determined to take the bold and transformative steps which are urgently needed to shift the world onto a sustainable and resilient path.”

Such a need for bold and transformative steps applies just as much to debates on global peace and security as it does to climate and the SDGs.

These two great nations have to work together to develop a new framework to tackle the existential threats of the 21st century.

Again, China and the United States have particular responsibilities here as nuclear powers and permanent members of the United Nations Security Council. I cer-

tainly welcome the statement earlier this month by all P5 states reaffirming the Reagan-Gorbachev declaration that “a nuclear war cannot be won, and must never be fought,” but much more needs to be done, including at the upcoming review conference of the Non-Proliferation Treaty.

In this regard China offers a particular model of leadership: It is the sole P5 state to adhere to a “no first use” policy regarding its nuclear weapons.

At a time when growing mistrust between states, combined with technological advancements, raises the prospect of a new, destabilizing nuclear arms race, “no first use” is a critical doctrine that can defuse tensions, and I hope that China will continue to show leadership in this area, particularly in constraining the development of its own nuclear arsenal.

In this regard China offers a particular model of leadership: It is the sole P5 state to adhere to a “no first use” policy regarding its nuclear weapons.

Of course this would be facilitated by the current U.S. Nuclear Posture Review concluding in a way that furthers disarmament and de-escalation. As my fellow



The world needs China and the United States to be working together, marshaling and complementing their respective strengths and developing robust frameworks for 21st century governance, sustainability and prosperity.

Elder Gro Brundtland wrote last month in the Financial Times, “The solution is not to double down on a costly nuclear arms race but rather to seek dialogue and arms control negotiations to contain this threat.”

The challenges our world faces are legion, and too often in recent years we have not seen ethical and bold leadership that is commensurate with the task ahead.

But, inspired by the words of my dear friend and first chair of The Elders, the late Archbishop Desmond Tutu, I refuse to be a pessimist. Like him, I am a “prisoner of hope.” I am convinced that we can pool our collective talents and ingenuity to build a better world for future generations.

There are and will be differences, but that is typical of human beings, and any family knows it.

The world needs China and the United States to be working together, marshaling and complementing their respective strengths and developing robust frameworks for 21st century governance, sustainability and prosperity.

Beyond Differences, Toward Cooperation



Goh Chok Tong
Emeritus Senior Minister
Former Prime Minister of Singapore

The main deficit on the geopolitical ledger is mutual strategic distrust. If this cannot be overcome, the world will be condemned — like Sisyphus in Greek mythology — to roll the boulder of a contentious U.S.-China relationship uphill for eternity.

The world has changed beyond recognition since I last spoke at the inaugural forum in 2019. What remains unchanged is the global strategic importance of the U.S.-China relationship. Let me first speak on how I see the problem, before suggesting how best to move forward.

If trust is the currency of the realm, then the main deficit in the geopolitical ledger is the mutual strategic distrust between the U.S. and China. It stems from a difference in values, ideologies, worldviews, political systems and perspectives on global governance. If this distrust cannot be overcome, the world will be condemned, like Sisyphus, to roll the boulder of a contentious U.S.-China relationship up a hill for eternity.

The U.S. has assessed that China is, in President Biden's words, "deadly earnest about becoming the most significant, consequential nation in the world." It views China as its main strategic competitor and a threat to American national security and values. The U.S. has therefore bolstered its military capabili-

ties in the Asia-Pacific and strengthened its alliances and partnerships through platforms like the Quad and AUKUS. It has also drawn attention to alleged human rights abuses in Xinjiang and Hong Kong, as well as to what it views as China's coercive behavior in other parts of the world. From Washington's perspective, China is not following the established rules of the global order despite being a chief beneficiary. Instead, China is seeking to rewrite these rules in its favor.

The main deficit in the geopolitical ledger is the mutual strategic distrust between the U.S. and China. If this distrust cannot be overcome, the world will be condemned, like Sisyphus.

At best, China sees this as a U.S. containment strategy to prevent its rise as a global power. At worst, it sees this as a long-term strategy to weaken China and

break it up. It sees the U.S. framing of “democracy versus autocracy” as a move to undermine China’s political system and the dominance of the CPC. A similar ideological battle brought about the collapse of the Soviet Union.

The Chinese leadership take the view that foreign powers managed to exploit China in the past because it was not strong enough. Chinese leaders have frequently reminded the people of China’s century of humiliation, including on the 100th anniversary of the founding of the CPC. Hence, China is building up multiple defensive and offensive capabilities — at sea, in the air, in space and through cyberwar. The ultimate weapon will be nuclear. The threat of mutually assured destruction is the best deterrence.

China reasons that these capabilities are needed to protect its sovereignty and territorial integrity. To the U.S., China’s military build-up harbors offensive intent, particularly as it sees Beijing to be reluctant to engage in global discussions on managing the buildup of nuclear capabilities. To China, the U.S. should instead scale down its immensely superior nuclear capabilities.

I suggest that the U.S. and China should “avoid conflict over differences, embrace healthy competition and maximize cooperation.”

At their recent virtual summit, President Biden called for “common-sense guardrails,” while President Xi compared the two countries to two giant ships that must forge ahead together without colliding. Actions on the ground must now reflect the two leaders’ words. The U.S.

and China must see that it is in their own interest to maintain a stable and peaceful international environment. Both countries need to implement “trust but verify” agreements as they try to resolve outstanding bilateral issues while attaining their geopolitical ambitions.

Taiwan independence is its redline. But the big unknown is what is the tipping point that would force the mainland to act.

Secretary of State Antony Blinken has said that the U.S. approach to China will be “competitive when it should be, collaborative when it can be and adversarial when it must be.” Building on this frame, I suggest that the U.S. and China should “avoid conflict over differences, embrace healthy competition and maximize cooperation.”

My biggest concern is whether Taiwan becomes a *casus belli*. I do not think the mainland wants to invade Taiwan and reunify it through force. However, if it sees no prospect for eventual peaceful reunification, it may believe it has no choice.

Beijing has reiterated on countless occasions that Taiwan independence is its redline. But the big unknown is what is the tipping point that would force the mainland to act. The more international space Taiwan gains, which Beijing sees as the result of tacit encouragement from the U.S., the more the mainland will ratchet up pressure on Taiwan.

Given the high risk of miscalculation, the U.S. and China should indeed negotiate guardrails to avert conflict over Tai-



wan. It is better to create the 21st century equivalent of the red telephone than to risk spiraling escalation and military conflict through miscalculation.

Beyond merely avoiding conflict, the U.S.-China relationship should be underpinned by healthy competition and driven by cooperation where possible. President Xi has said that “We should advocate fair competition, like competing with each other for excellence in a race, not beating each other in a wrestling arena.” President Biden has also said that the U.S. would “insist that China play by the international rules of fair competition, fair practices and fair trade.” Taken at face value, there is common ground to work together.

The U.S. and China will have to address what exactly healthy competition will look like, in accordance with international law and the existing international rules-based order. There are many pressing global issues that require both the U.S. and China to cooperate closely as global powers. Free trade, climate change, global pandemic preparedness and religious extremism are a few of them.

Besides the two protagonists, what can the rest of us do? I have been speaking about the voice of moderation since 2019. This voice represents the concerned countries, leaders, institutions, media, businesses,

think-tanks and people who want to avert a catastrophic clash between the U.S. and China. It advocates strategic rationality, peace, growth and prosperity within an interdependent, open, inclusive, rules-based multilateral order. The moderate voice must urge the U.S. and China to play a “positive-sum game,” not a zero-sum game, and certainly not a negative-sum game. All countries in the world want a positive and constructive relationship with both the U.S. and China.

Peace through acceptance of differences is a practical way forward. ASEAN is a prime example of how countries with very different geographies, histories, languages and political systems can come together to share a common vision of a peaceful and prosperous Southeast Asia.

The moderate voice must urge the U.S. and China to play a “positive-sum game,” not a zero-sum game, and certainly not a negative-sum game.

ASEAN can be a substantive voice of moderation. We have consistently encouraged both the U.S. and China to remain productively engaged in the region across different sectors. Both countries are dialogue partners of ASEAN, and we hope to continue engaging both China and the U.S. at ASEAN meetings at the highest level.

Your forum, too, is a meaningful voice of moderation. I hope that when CUSEF and CCIEE convene the next forum, both major powers will have made good headway in managing their strategic distrust. Doing so will require wisdom and statecraft of the highest order. I believe both presidents Biden and Xi possess these qualities. I pray that they will be able to build up strategic trust between their countries and peoples.

Growth in the Midst of Problems



Jean Chretien

Former Prime Minister of Canada

This extremely difficult period could have included a terrible recession. Instead, we have seen growth around the world. Wealth is being created on a daily basis. What we need is better distribution wealth so that people have happier lives.

The problem that affects every one of us on a daily basis, and will for a long time, is the relation between China and the United States. And of course, there are problems.

I was involved in public life 60 years ago. And I followed the debate and read the newspapers and magazines all my life. And I've never seen headlines telling that the world was working well. It's always problems and problems and problems. But when you look back, you see the progress we have made.

In 1945, what was the place of China in world affairs? Not big. It was extremely difficult. You know, I was part of the Canadian government 51 years ago. We recognized China. It was a big political problem in North America when we did

that, but the Americans followed, and others. And now China has become a big, big, big power in the world. So necessarily that creates problems.

But when you look around the world, you realize the progress we've made collectively. Today, for example, we just went two years in a pandemic that we were afraid would cause fantastic economic problems around the world. And we have come out of it, so far, extremely well.

Take the case we have in Canada: What are the problems we're having that are the same as the United States and many other countries? We have problems with a shortage of labor. I've spent my life talking about how to cure the problem of unemployment in Canada — for

generations. Now the biggest problem is, we can't find people to fill the hundreds of thousands of jobs that are available in Canada.

And it's the same thing in the United States and the same thing in many countries in Europe — the growth of trade, for example, between Canada and the United States, because we are close neighbors and we have the same kind of economy. We also had a big increase in trade between Canada and China last year. And, we're apparently having a lot of political problems, but the trade has continued.

The Americans need China. And China needs America, China needs Canada, China needs Europe, and this vice versa too.

So, I tend to be an optimist. We have been able to go through this extremely difficult period — which could have been an extremely terrible recession — but we have seen growth around the world. Wealth keeps being created on a daily basis. The growth in Asia, the wealth that we see now, did not exist 30, 40 years ago. It has increased the wealth of the world. There is more money available in the world than we ever had.

We still have major problems. But there is a reality that, for example, there are around the globe a lot less people starving to death, as was the case 30, 40, 50 years ago. The people are getting an education, when it was a huge problem, improving every year. And there are less and less people around the globe who don't receive education, as was the case in years past.

So for me, of course, the Americans need China. And China needs America, China needs Canada, China needs Europe, and this vice versa too. So we need to work together. And we always will find some solution. There is always a rhythm. There will always be problems.

There is not a day in public life that I wouldn't make jokes when I was going to my office. I was saying, "If you cannot give me any good news, don't give me any bad news." Because news is never good. But we have managed to resolve the problem. What's important, as Madam Robison was saying before, and Mr. Goh said too, it's dialogue! It's what we're doing right now!

Fifty years ago, I thought that we would have a conference across continents, talking and seeing each other. And there are dozens and dozens of these types of meetings that build the mentality in every country to say, "Let's find solutions."

Of course, the problem of nuclear disarmament has existed since 1945. The equilibrium probably ensures that nobody will ever use it, because it would be absolutely stupid to use it.



If we want to maintain a good balance in the world, we have to work on one problem that affects every country: sharing the wealth that we are creating.

Climate change is a new challenge. But I look at that and I see the commitment that everybody is making. It will never be perfect. We have goals that we will probably not achieve neatly. But we're moving in that direction. And everybody wants to move in that direction.

And in science and new technology, the opportunities change on a daily basis. So my conclusion is very simple. We have to keep talking. Nobody wants a war; everybody wants to create wealth.

When people are happy, they are optimistic.

For me, if I can make one pitch, if we want to maintain a good balance in the world, we have to work on one problem that affects every country: sharing the wealth that we are creating. One of the problems of the last 10 years is the rich are getting richer on a daily basis, and the poor are not increasing accordingly. And if we don't attack this problem, it will create a lot of civil disturbances in many places around the globe.

So, we have to keep that in mind. If we don't solve this problem, we will have internal problems in every country around the world. But if we can do that, it is possible to be able to share more among the people of every country. There will be more happiness, and when people are happy, they are optimistic. There is no danger of finding out problems.

Lessons From Japan's Failure



Yasuo Fukuda
Former Prime Minister of Japan

The unfortunate Japanese experience in boosting domestic demand and setting trade policy can be drawn upon today. Hopefully, China will not repeat the mistakes of Japan. Frictions between China and the United States can be addressed if they are willing to meet each other halfway.

A global concern this year remains the China-U.S. relationship. Their rivalry and friction lead to anxieties at and even global levels. But I don't look at their relations in a pessimistic manner. Last year, the Chinese and U.S. heads of state held a virtual summit, and I think that both President Joe Biden and President Xi Jinping want to avoid head-on competition. I believe the two leaders agree with each other on this issue.

The United States wants to hold back China's development by hyping up clichés, such as issues related to the South China Sea, Taiwan, Hong Kong and human rights. At the same time, it asks its allies to build networks to contain the rise of China and fans the flames on the world stage to create an anti-China climate. In this context, what issues do we need to think about? Economic issues, and especially China-U.S. trade frictions.

As we know, the U.S. has a long-term trade deficit with China. This is a topic we can't afford to dismiss. Like China, Japan faced similar issues, and it suffered tragic consequences. I have consulted many documents and found that in the 1980s, a major issue of concern in Japan-U.S. relations was the trade deficit. Back then, the U.S. also had a trade deficit with Germany, although on a smaller scale.

Interestingly, both Germany and Japan, which were defeated in World War II, rose to a favorable economic status in the world after decades of growth.

To correct trade imbalances, the U.S. held a meeting in the Plaza Hotel in New York City in 1985 asking Germany and Japan to increase their exchange rates in an agreement known as the Plaza Accord. The Japanese yen appreciated significantly. The Japanese government sig-

ned the agreement because it wanted to reduce exports to address American concerns and maintain good relations with Washington.

Before the Plaza Agreement, one dollar was equivalent to 240 yen; at the end of 1986, the yen's value against the dollar had increased by 70 percent, and one dollar was equivalent to 160 yen. By the end of 1987 it was 120 yen. In other words, the Japanese yen's value vis-a-vis the dollar doubled in only about two years.

The dramatic increase seems incredible today. Japan's exports stagnated, and the domestic manufacturing sector, especially small and medium-sized enterprises, was gripped by a tremendous crisis. The sharp rise also led to a protracted period of low growth in Japan. To address this problem, the government reduced interest rates many times, and in an effort to boost domestic demand, banks channeled capital and assets into the real estate sector, which created a bubble.

At the height of the bubble economy, the financial sector in New York was dominated by Japanese capitalists. This fueled anti-Japanese sentiment across America in both the public and private sectors. To ease that, Japan provided military support worth \$13 billion, or 1.5 trillion yen, to the United States, which was busy with wars overseas at the time.

These stories tell us that trade deficits and trade surpluses are essential to state-to-state relations. It is important to address bilateral economic issues in the long run, but in the short term, some actions are needed. For example, we can make our economies more free. The trouble is that many financial and economic issues are beyond anyone's control, such as the 2008 financial crisis and the



bankruptcy of Lehman Brothers. These events are something we can do almost nothing about.

Over recent decades, China has grown stronger, and this is something not lost on America. Japan used to be formidable, but today China has taken its place. America has seen a need to contain its development. Thirty-five years ago, Japan increased the value of its currency forcefully and took a series of measures to boost domestic demand. Its economic policy didn't achieve much. It ended up in failure. So, what are the weaknesses of its policy? The answer to this question is relevant to China.

Generally speaking, exchange rates can rise, but a dramatic increase in the short term causes big trouble. The fact that the Japanese yen's value versus the dollar doubled in just two years seriously impacted the domestic economy. I think that such a dramatic rise should be achieved in 10 years, rather than two. To reverse the declining trend, the Japanese government repeatedly reduced interest rates, but doing so led to a bubble economy. Many banks grappled with massive non-performing loans; many commercial banks shut their doors; the entire financial system broke down; and Japan's industrial policy entered a protracted period of stagnation.

In the end, Japan's economic policy failed, fundamentally as a result of the dramatic appreciation of its currency in a short period of time. For China, therefore, an important issue is about finding the right way to increase interest rates and boost domestic demand. The issue is also relevant to the resolution of trade frictions.

At present, the biggest problem in China-U.S. relations is trade friction. In this regard, Japan's experience in boosting domestic demand and making trade policy can be drawn upon. Hopefully, China will not repeat the mistake of Japan and it can work with the United States to address frictions by meeting each other halfway.

In the name of spreading its so-called universal values, it wants to interfere in China's growth process. I hope that China will not back down on these issues and just focus all its energy on the resolution of trade issues.

When claiming to address bilateral trade issues, the United States has expressed concern over other matters in China, including human rights and democracy. In the name of spreading its so-called universal values, it wants to interfere in China's growth process. I hope that China will not back down on these issues and just focus all its energy on the resolution of trade issues. In fact, the two countries have what it takes to make their trade more balanced and to secure more stable economic exchanges.

Indeed, the United States is the dominant player on the world stage. It adopts its own solutions on immediate issues and imposes its values on others. I hope that all nations can think about the future from the perspective of freedom and equality. Only

in this way can we embrace a better future. Only in this way can we make the earth even more beautiful. This is what we all aspire to.

Nations don't act alone on the world stage; they have to work together with each other and take into account the interests of others. From climate change to water shortages and poverty, many issues need to be addressed that relate to the development of the planet. The resolution of issues between China and the U.S. has a bearing not only on the two countries but also on the wider world. China-U.S. trade and economic issues also impact the development of the Japanese economy. Therefore, Japan has to consider helping the two address their issues. We hope that China and the United States can move forward together. This is what I want to share with you. I hope there will be no dissonant voice in Japan's relations with both China and the U.S., because such noise casts uncertainty over the world.

Nations don't act alone on the world stage; they have to work together with each other and take into account the interests of others. China-U.S. trade and economic issues also impact the development of the Japanese economy. I hope there will be no dissonant voice in Japan's relations with both China and the U.S., because such noise casts uncertainty over the world.

Breaking the Fever of Hostility



Steve Orlins

*President of the National Committee on
United States-China Relations*

A self-described optimist says China and the United States should be developing “habits of cooperation” to get relations back on track — starting with tariffs, scientists, consulates, journalists and a reasonable definition of national security.

I’m remembering back to 50 years ago in 1972.

When I graduated college, I got on a plane and I went to Hong Kong. First thing I did, I took the train to Lok Ma Chau and with my binoculars I looked across the border to China. Americans could barely get in then. It would be seven years until I left the U.S. State Department and crossed that border. But I would say it has now been 50 years since I have been away from Hong Kong for two consecutive years, as I have been as a result of quarantine. I miss the food. I miss the company. I miss the discussions. I miss seeing so many of my friends who are on this call tonight in the United States and I hope that one day I can return without quarantine or with a more limited quarantine.

Late last year, in October, Foreign Affairs magazine asked 68 American foreign policy experts if U.S. policy had become too hostile to China. And only five, including me, strongly agreed that U.S. policy was too hostile. My initial re-

action was that while I was in the minority, agreeing with me were old friends like Jeff Bader, Dr. Cheng Li, and Ambassador Stapleton Roy, and that gave me a lot of comfort.

I recalled that this was not the first time I had been in a minority view on U.S. foreign policy. As an undergraduate at Harvard College, I stood with my classmates in opposition to the American government’s war in Vietnam, and watched as our minority view became the majority view of the American people. Years later, I stood in opposition to the American government’s war in Iraq, because as a former international lawyer (as you mentioned, James) in the U.S. State Department, I believed the invasion violated international law. So I’m comfortable in holding a minority view.

In our views toward China, I’m left wondering why and when my views stopped being the majority view. What happened and what can we do about it? I think back to the National Committee’s annual dinner in October 2005. When

then Deputy Secretary of State Robert Zoellick, who went on to become head of the World Bank, gave his now famous responsible stakeholder speech. He observed that the United States and China both benefit from working together and called on China to be a responsible stakeholder in the world system. He believed that engagement would lead to China's productive participation in the world system.

Last month, I went to Broadway, and I watched the play "Lehman Trilogy," the story of the 154-year history of my former employer, as Victor certainly knows and many others on this call. One of the times I lived in Hong Kong, I ran Lehman Brothers Asia. As I watched the play, I thought about how the United States and China cooperated during the financial crisis in 2007 and 2008. While Secretary Zoellick, me and a few others still believe in this concept, it is certainly a minority view today.

So what happened? Beginning in 2009, China's reclamation activities in the South China Sea began to shift attitudes in Washington. Many asked, were these the actions of a responsible stakeholder? Many years later, the arbitral tribunal's decision on the Philippine suit confirmed their views that these actions violated international law.

Around this time, China also began to limit media access and increase barriers for foreign workers and organizations operating in China. The blocking of Facebook, Twitter, YouTube in 2009, and Google in 2010 cut off a vital pathway for cultural and social exchange. It also increased distrust of China among Americans, especially the younger generation most active on social media.

The subsequent blocking of major news outlets like the New York Times and Wall Street Journal, beginning in 2012, only made matters worse. Alongside these media's restrictions, restrictions on research and a refusal to issue visas to American scholars also contributed to worsening relations. China's refusal to invite American scientists to Wuhan to understand COVID-19 fueled distrust and suspicion. Laws, like the 2017 Foreign NGO Management Law also restricted the space for people-to-people exchanges and stifled opportunities for collaboration. By some estimates, there were around 5,000 foreign NGOs operating in China in 2016. As of December last year, only around 600 have registered with the Chinese government. This is a tremendous loss not only for these organizations but for China.

The real threats to our societies are joint threats ... climate change, economic crises, instability, terrorism and the pandemic.

Now, of course, I don't mean to suggest the U.S. government hasn't had its share of mistakes. Those have been equally as devastating to the relationship. I could list them, the arrest of — I will list just some of them — the arrest of Meng Wanzhou; the beginning of the tariff war; calling COVID-19 the Chinese virus, starting what became known as the China initiative, emanating from the U.S. Department of Justice; restricting China's State owned media in the United States; pushing the envelope on unofficial relations with Taiwan; increasing freedom of navigation operations in the South China Sea; reducing CDC and National Science



Foundation personnel in China; closing the consulate in Houston; overusing and having too little transparency on our Entity List and military lists was banned from doing business with Chinese companies; delistings; ending the Fulbright program and the Peace Corps in China; denying visas to too many of my friends in China; and lying about China's interference in U.S. elections.

I am convinced that it will again become the majority who want more positive and constructive U.S.-China relations.

Well, you'd think with all these problems emanating from both governments, I would be a pessimist. But I'm not. I'm not because, fundamentally, I believe that the peoples of both the United States and China recognize that the real threats to our societies are joint threats. As has been mentioned here tonight many times, climate change, economic crises, instability, terrorism and the pandemic. But what we need to do today is what we've heard tonight — a lot about the overarching issues.

I'm a believer that we need to create what I would call habits of cooperation. We need to create them in the short term.

Victor Fung mentioned ending the tariffs that started on Jan. 20, 2017. We need to do it and we need to do it now. We need to agree on a definition of national security, so it doesn't become so broad that we can't do business with each other in areas that don't affect national security. We need to restart scientific and medical cooperation. We need to reopen the Houston and Chengdu consulates. We need to reaffirm the status quo on cross-strait relations. We need to go further down the road on readmitting American journalists to China so the American people can understand what is going on in China. I could go on with a number of other things we should be doing tonight — should be doing now — but I don't have enough time.

But as I said, I'm an optimist. And I agree with President Xi: There is no reason to spoil the relationship.

As I said at the beginning, just as my views on the Vietnam War went from the minority to the majority, I am convinced that it will again become the majority who want more positive and constructive U.S.-China relations. It is in the interest of the American people. It is in the interest of the Chinese people. And it is in the interest of the world.

We need to create what I would call habits of cooperation.

Strengthening the Partnership



Zeng Peiyan

Former Vice Premier of the State Council of China

Mutual respect, peaceful coexistence and win-win cooperation are the keys to the future, not only for China and the United States but for the whole world. Hegemony and ideological competition should have been tossed on the scrap heap of history long ago.

At present, dramatic changes and a pandemic on a scale unseen in a century are intertwined. Recovery of the world economy remains an uphill task. Inflation pressures and financial risks are growing. And the pandemic continues to surge worldwide, adding to uncertainty.

The China-U.S. relationship, the most consequential bilateral relationship in the world, has in recent years careened off course and entered its most difficult period since the establishment of diplomatic relations. The stability of China-U.S. relations is crucial for both countries and very much desired by others.

On Nov. 16, Chinese President Xi Jinping and U.S. President Joe Biden held their first virtual meeting and engaged in a comprehensive, in-depth dialogue on issues of fundamental strategic importance, along with other major issues of common concern. Based on his analysis of the experience and lessons

learned in building China-U.S. relations, President Xi advanced three principles that both countries should adhere to in the new era: mutual respect, peaceful coexistence and win-win cooperation.

These three principles, I think, are crucial and point the way for the future development of the relationship. On this issue, I would like to share some of my observations.

- *Mutual respect is the prerequisite for the development of China-U.S. relations.*

It is imperative for each to respect the other's social system and development path — after all, we live in a diverse world. China and the United States have adopted different systems because of their historical backgrounds and the choices of their people. China has no intention of changing the United States, and the United States cannot force China to change itself, either. Rather, it is important to encourage all countries

to seek a development path that works well in their own national context — to respect each other’s core interests and major concerns; to handle with caution major issues of sovereignty, security and development; and to avoid crossing lines or creating trouble.

In addition, we need to respect each other’s right to development. China has a right to pursue greater development and prosperity, and its people have a right to build a better life. A prosperous and stable China brings opportunities, not threats, to the world.

Mutual respect means that nations treat each other as equals. However, the United States traditionally interacts with other countries “from a position of strength.” This is a classic example of hegemony. In the 21st century this condescending approach should have long since been tossed on the scrap heap. We need to stay true to the fundamental norms of international relations based on the Charter of the United Nations, which states that all countries, big or small, are equal.

Peaceful coexistence indicates adherence to the bottom lines of non-conflict and non-confrontation.

- *Peaceful coexistence is the foundation for the development of China-U.S. relations.*

Peace and development are the defining trends of the times. The Chinese people are peace-loving and believe in the paramount value of harmony. They pursue harmony in diversity and prefer universal love to aggression. China has been a builder of world peace, a contributor to global development, a defender of the

international order and a provider of public goods. The United States should not imagine China as its enemy by drawing ideological lines to meet the needs of some domestic interest groups. Doing so may lead to a self-fulfilling prophecy in the end.

China has a right to pursue greater development and prosperity, and its people have a right to build a better life. A prosperous and stable China brings opportunities, not threats, to the world.

Peaceful coexistence indicates adherence to the bottom lines of non-conflict and non-confrontation. Differences between China and the United States are understandable and natural. The key is to abandon the outdated Cold War mentality and the notion of bloc confrontation, to manage differences in a constructive manner and to avoid spillover and the intensification of differences. To avoid strategic miscalculation, we need to boost communication, exchanges and dialogue at all levels and across sectors to enhance mutual understanding and mutual trust.

- *Win-win cooperation is the objective of developing China-U.S. relations.*

With the march of scientific and technological innovation and economic globalization, factors of production have achieved large-scale cross-border mobility. Meanwhile, the pursuit of mutual benefits has taken the place of zero-sum games in state-to-state relations. China and the United States have deeply intertwined interests and are dependent upon each other. They stand to gain from cooperation and stand to lose from con-



frontation. They need to work together to explore a path to win-win cooperation, because doing so is in line with the trend of the times and in the fundamental interest of people in the two countries and beyond.

At present, the two countries have extensive common interests in bilateral and global affairs. They need to strengthen their cooperation in key areas and transform opportunities for cooperation into drivers of development. In this regard, I see five areas for strengthened partnership:

First, strengthened cooperation against the pandemic. The variants of the coronavirus and their rapid spread pose a grave threat to the life and security of the global population. In the face of this major challenge to the world, China and the United States must be expected to strengthen their cooperation under the leadership of the World Health Organization to promote vaccine and drug development, increase information transparency and data-sharing, enhance vaccine equity worldwide and coordinate international agreements on cross-border travel. In this way, the entire world will recover from the pandemic more quickly.

Second, strengthened cooperation on climate change. Thanks to concerted efforts, China and the United States in 2021

released the Joint Statement Addressing the Climate Crisis and the Joint Glasgow Declaration on Enhancing Climate Action in the 2020s, paving the way for enhanced climate cooperation at the bilateral level. Since their combined carbon emissions account for more than 40 percent of the global total, the two countries need to scale up climate action and cooperation and set an example for other countries for accelerating the transition to green and low-carbon development. The same is true for technology innovation.

Third, enhanced economic and trade cooperation. Economic and trade cooperation is the ballast and propeller of China-U.S. relations. Despite the impact of many factors, including the pandemic, China once again was the largest trading partner of the United States in 2020, with bilateral trade increasing by 28.7 percent in 2021. This demonstrates that the two countries have a vital stake in close economic and trade ties, which are remarkably resilient and promising. Now China is opening more sectors to the world on a larger scale, a move that promises to deliver more opportunities for businesses in all countries, including the United States.

Fourth, strengthened scientific and technological cooperation. In recent years, some government officials in the United States have intentionally politicized technology issues, setting up obstacles to two-way technology exchanges and trying to decouple from China — even halting supplies of cutting-edge technologies to China. These moves have had a negative impact on the innovation efforts of companies in both countries.

According to a media survey in the United States, 60 percent of American respondents support close cooperation with Chinese tech companies. In this context,

The COVID-19 pandemic once again shows that all nations belong to a community with a shared future and intertwined interests, and that multilateralism is the only viable solution to global challenges.

we hope that the United States can take a rational approach to bilateral tech exchanges and cooperation, open its tech sector to foreign investment, dismantle barriers still in the way and stop the unjustified crackdown and restrictions on Chinese tech companies, so that together they can promote technological progress for the benefit of humanity.

Fifth, strengthened cooperation in global governance. The COVID-19 pandemic once again shows that all nations belong to a community with a shared future and intertwined interests, and that multilateralism is the only viable solution to global challenges. Therefore, China and the United States need to defend the global multilateral system centered on the United Nations and underpinned by the World Bank, the International Monetary Fund and the World Trade Organization. They need to leverage the power of the G20 and other multilateral organizations to uphold the fairness and equity of the international order and deliver more public goods to the wider world.

Mutual respect, peaceful coexistence and win-win cooperation are the principles that China and the United States should adhere to in dealing with bilateral issues. They're also relevant for the peaceful coexistence of smaller countries. China and the United States need to assume their responsibilities and lead by example on the world stage.

I believe that as long as we live up to the letter and spirit of these principles, we can push the China-U.S. relationship forward on the right track and deliver greater benefits to the people of our two countries and the wider world.

Global Economic Recovery



Bumps in the Road Ahead?



Jacob Lew

Former United States Secretary of the Treasury

China's zero-tolerance COVID approach stands out worldwide, and the economic consequences of that will be seen in coming weeks. On the U.S. side, concerns about inflation are rising, but the Fed is responding cautiously to avoid triggering a recession.

We start in 2022 now in a familiar place, the pandemic and recovery are likely to shape economic conditions in the coming year, and policymakers are likely to face a challenging and uncertain year. The global economy is growing, if more slowly than previously projected. And the United States economy is a significant driver. As health conditions improve, there are signs that both developed and emerging economies are slowly recovering. At the same time, as we saw in Germany at the end of last year, renewed waves of COVID can still trigger an economic slowdown and even lead to negative growth. As the world adjusts to the realities of living with COVID, the setbacks appear to be getting shorter, but again it depends on the course of the disease.

In China, zero-tolerance policies stand out, and we'll see in the coming weeks how serious the economic fallout will be, as supply chain and production disruptions trigger new headwinds. The recently reported lower growth figures

in the fourth quarter last year and the loosening of policy at the PBOC reflects this weaker growth. Since China's policy response to COVID didn't promote consumer spending as much as many other countries, 2021 growth relied on accelerated infrastructure, credit expansion and export growth.

But it's hard to see how the export growth is sustainable. China benefited from COVID stimulus in other countries, particularly in the United States, which encouraged consumer spending at a time of constrained global supplies and rising prices. It appears that the value of exports was rising even as volumes was beginning to decline.

It will be challenging in 2022 if stimulus rolls off in the U.S. and consumers run out of the need to replace many things purchased during the pandemic.

It will be challenging in 2022 if stimulus rolls off in the U.S. and consumers run out of the need to replace many things purchased during the pandemic. At the same time other supply channels will start coming back to normal. For Hong Kong, there's a big question of whether flows to China can backfill international activity that's lost from the zero-tolerance policy.

Any appearance of managing the value of the RMB to gain advantage could become a source of additional friction.

If exports in 2022 are disappointing, at least in the United States, there will be attention on exchange rates and whether the value of the RMB is being managed to gain additional exports at a time of already stressed relations between China and the United States. Any appearance of managing the value of the RMB to gain advantage could become a source of additional friction.

In the United States, after a period of using aggressive fiscal and monetary policy to effectively bring the U.S. economy through the COVID crisis with a rapid recovery, concerns about inflation are rising and the Fed has indicated that a tightening of monetary policy will begin soon. At the same time, even if the Fed raises rates more quickly than previously expected. The signals remain clear that they're going to be very cautious and highly focused on macro

conditions to try and thread a needle to control inflation without triggering a recession.

I know I take very seriously their expressions of a willingness to move up or down on rates and on quantitative easing, depending on how economic conditions develop. Well, we know the fiscal stimulus will begin to run off in the United States even if a scaled-back Build Back Better bill passes, because that initiative is paid for over its life and there's only minor additional stimulus even in the early years. Anticipating tighter credit conditions and less stimulus, forecasts are still generally projecting continued growth.

While it's not the most likely scenario, the risk to keep an eye on is whether the combination of monetary policy tightening and an end to fiscal stimulus overshoots the mark. The Fed has robust tools to manage the exit for the pandemic, but the risk of overshooting and triggering a recession does warrant the caution that they're showing in making their decisions.

Concerns about inflation are rising and the Fed has indicated that a tightening of monetary policy will begin soon.

With the increased focus on inflation, the discussion in my view has been too narrowly framed as to whether inflation is transitory or permanent. In reality, there will be some of both. As workers return more fully and supply chains re-



turn to normal, much of the inflation is likely to roll off. It's just taking longer than expected because of the repeated waves of COVID disruption. At the same time, while commodity prices tend to adjust quickly, other costs like wages tend to be sticky. Now this is not all bad, especially if wage increases at the lower end reduce income inequality. But for that to be the case, overall price increases need to be moderate or real purchasing power will erode.

Even if much of the vaccinated world accepts that COVID is shifting — from a pandemic to an endemic disease until the whole world is vaccinated — the risk of new variants and outbreaks in slow-growth and unvaccinated regions remains high, as does the risk of financial stress. In the poorest countries, where vaccination and recovery are slower, the World Bank projects that it will take until 2024 or 2025 to return to pre-COVID employment. And with debt rising in those countries during the pandemic, there is growing financial strain, as the lowest income economies lag behind the developed world and the U.S. exit from pandemic monetary policies raises the cost of servicing dollar-denominated debt. We should anticipate that many developing economies will need to have their international debt restructured, but in a very different environment than past debt restructures. Since China has become a ma-

major bilateral lender and has not embraced Paris Club lending, China will need to be part of an international conversation about how to manage debt relief.

Why does this matter? Unless international lenders, both bilateral and multilateral, see that China is fully participating in any debt restructuring, there's a risk that hesitancy to proceed could undermine an effective and timely response, which would only increase the risk of a crisis. This should be an opportunity for China to step forward and work bilaterally with other major lenders like the United States, and multilaterally through international institutions. Discussions last year at the G20 were a good beginning. But the challenges ahead remain many, and both the U.S. and China need to participate fully.

To reduce the bilateral stress between the United States and China — which in and of itself is not helpful for the global economic recovery — it would also be helpful to find opportunities for cooperation in areas of shared concern, particularly transnational issues, as was earlier mentioned, since the health situation will shape the economic outlook. Increased cooperation in science and public health would be a good place to begin. But there also needs to be a willingness to highlight

The Fed has robust tools to manage the exit for the pandemic, but the risk of overshooting and triggering a recession does warrant the caution that they're showing in making their decisions.

even modest progress in reducing tensions. Small steps were made in Glasgow in coordinating decisions. And the joint decision to release oil from our strategic petroleum reserves to address global supply shortages showed a degree of cooperation.

But there appears to be little interest on the part of either the U.S. or China to focus attention on this kind of progress — which is a shame, because even small steps could help to begin to rebuild trust. In the case of the release of the strategic oil reserves, given the high emotional impact of oil prices and inflation concerns in the United States, it was a lost opportunity to demonstrate that cooperation can have a positive impact on everyday life, particularly the lives of working people.

Looking ahead, tariffs and policies that restrict the efficiency of global supply chains contribute to ongoing inflationary risks. It's also likely that effective climate policies that either price carbon or require more expensive alternatives to conventional technologies will contribute to inflationary pressure. In this context, it only underscores the importance of the U.S. and China finding a pathway back to effective bilateral and multilateral engagement and economic policy for the good of each of our economies and for the sake of the global economy.

There are deep divisions on issues ranging from human rights to national security. And from the U.S. perspective, these cannot be ignored. At the same time, while we press for standards that conform to our own and widely shared international standards, there also needs to be a way to engage on matters where only the U.S. and China working together can lead to effective outcomes on common concerns.

It only underscores the importance of the U.S. and China finding a pathway back to effective bilateral and multilateral engagement and economic policy.

A More Sustainable, Inclusive Recovery



Bi Jingquan
Executive Vice Chairman
China Center for International Economic Exchanges

Because China and the United States are economic giants, their cooperation is essential to the growth of both themselves and the world. Enhanced exchanges and dialogues at all levels are therefore needed. Concrete action in several critical areas is vital.

Last year, both China and the United States saw their economy recover, and they played a leadership role in the recovery of the world economy.

With the scale-up of vaccination efforts worldwide and the implementation of monetary stimulus packages, the world economy is emerging from recession. In 2021, global growth is projected to be 5.9 percent, with China increasing 8.1 percent and the U.S. increasing 5.6 percent. However, the growth is based on economic contraction, or low growth rates, in 2020 and comes as a result of expansionary and easy economic policies in major economies. The foundation of growth is not solid enough.

The global economy faces enormous challenges these days. First, there is still great uncertainty about the COVID-19 pandemic — such as frequent mutations of the virus — bringing immeasurable economic, social and personal costs.

Second, rising inflationary pressures, coupled with higher prices of energy, bulk raw materials and shipping costs, have led to an upsurge in the general price level and caused big trouble in the work and life of ordinary people. Notably, a possible shift in U.S. monetary policy has raised global concerns.

Third, supply chain bottlenecks continue to fester, and many countries suffer from production interruptions, shipping capacity constraints and delayed receipt of goods. In addition, the supply of raw materials for many products is haunted by many serious problems.

Fourth, debt risks are increasing. The global debt-to-GDP ratio is now much higher than in the 2008 international financial crisis. With rises in interest rates and the slowing of recovery, debt sustainability is under heavier pressure.



China and the United States are the world's largest economies, with close economic, trade and people-to-people ties. Their cooperation is essential to economic growth, both domestically and in the wider world. In accordance with the consensus reached by their national leaders not long ago, the two sides need to meet each other halfway. And in the spirit of mutual respect, peaceful co-existence and win-win cooperation, they need to enhance exchanges and dialogue at all levels and create an enabling social climate for economic cooperation.

I see four critical areas for action:

First, strengthen communication and coordination of macroeconomic policies. As the global recovery slows down, major economies need to focus on the spillover effects of their domestic macroeconomic policies and enhance communication and coordination of these policies through the G20 and other multilateral platforms to avoid a reversal of global capital flows and turmoil in financial markets.

Second, properly handle the high tariffs imposed in the trade war. Donald Trump's legacy of unfair economic and trade policies toward China has significantly undermined bilateral cooperation, held back economic growth in both sides and increased burdens on consumers. The situation needs to change as soon as possible. We hope that Washington can respond to the voice of the

trade sector by removing restrictions and obstacles to China's investment in the United States and promote the normalization of economic and trade ties.

Third, maintain the integrity of industrial chains and supply chains. In the process of globalization, China and the United States, by leveraging their respective strengths, have formed industrial chains and supply chains that involve a wide range of sectors and play an important role in increasing the well-being of both peoples and driving the development of the world economy. Going forward, they need to maintain the integrity of industrial and supply chains and avoid the politicization of economic issues and interference using national security as an excuse across the board. In addition, they need to address differences and push forward the reform of multilateral systems to enhance global trade and investment.

Fourth, intensify cooperation on climate change.

China and the United States need to take concrete steps on their points of agreement now and together achieve a more sustainable, more inclusive economic recovery.

As the global recovery slows down, major economies need to focus on the spillover effects of their domestic macroeconomic policies and enhance communication and coordination of these policies through the G20 and other multilateral platforms to avoid a reversal of global capital flows and turmoil in financial markets.

Reconfiguring the Globe



He Yafei

*Former Vice Minister of Foreign Affairs
People's Republic of China*

Globalization will not come to an end, but supply chains will acquire new shapes. So while there are reasons to worry about conflict, there is no need to despair. The turbulence will eventually subside and calm water will reappear. As long as China and the U.S. work hard and work together, they will find a way to brush aside their differences.

As we enter a new year, the past is not yet history, while the future is already with us. The global turbulence continues unabated, with a resurgent pandemic, rising geopolitical contention, a technological revolution, cybersecurity and climate change gaining momentum, which I believe creates multiple existential crises for mankind. Amid such chaos and mounting global challenges, a global economic recovery faces more difficulties than ever before. That is manifested most clearly in the following fields:

Globalization will not come to an end, I believe. Rather it will adapt to the fast changes and reglobalize into Globalization 2.0.

First and foremost, as mentioned by many speakers, is the stubborn pandemic that upended everything we were familiar with, including our way of life and modes of production — in particular, its hindrance of global mobility

in people and goods. Take international tourism for example. For 2021, the number of international tourists was down by over 80 percent from the year before, reducing related global income by \$4.4 trillion.

The pandemic's negative impact on political, economic, educational, and cultural exchanges, which I believe are necessary to the cohesion of the international community, is so far-reaching and enduring in creating division between countries, in fragmenting further the global public health system and exposing the north-south economic gap, that we may never hope to fully recover.

Second, deglobalization gathers momentum that reshapes global supply chains — Jacob Lew has mentioned that, too. It affects every economy with a redefinition of national security, and empowers creative destruction.

Globalization will not come to an end, I believe. Rather it will adapt to the fast changes and reglobalize into Globaliza-

tion 2.0. What does that mean? What is it? When we say it is going to be reglobalized?

Global supply chains of key products will be changed and adapted because people are going to look at those products through a prism of self-perceived, newly redefined national security. That is already happening, even replacing some very important suppliers, domestic and foreign. Supply chains are now moving closer to their home country or totally moving back to their own country. Examples abound in chips, medicines, rare earths and information equipment, such as 5G infrastructure.

Creative destruction, as described by economists, happens whenever and wherever crises and new revolutionary technologies occur. Both are present at this historic moment, when global and national economies are undergoing unprecedented transformation.

Whether creation will be driven by innovation, or whether entrepreneurship will overtake destruction — or vice versa — is yet to be seen. We have to wait and see. Moreover, many speakers mentioned the financial risks, inflation pressure, etc. These have arisen from many stages of quantitative easing and the negative interest policies of central banks, led by the Federal Reserve, which in total have been accumulating so much risk that another global financial crisis is on the horizon. We have to be serious about it.

With the Federal Reserve's balance sheet shrinking and rate increases starting soon, global capital movement and exchange rate fluctuations swing again — big swings — which makes some developing countries who depend on international capital, capital inflows, face greater capital outflows and debt repayment pressure.



Third, a fourth industrialization is right before our eyes, with a technological revolution driven by innovation, of course. Technology competition, whether it is cooperation or decoupling, will be the main battlefield for major power interaction in the next few years — a few decades and beyond.

With the Federal Reserve's balance sheet shrinking and rate increases starting soon, global capital movement and exchange rate fluctuations swing again — big swings.

The information age pushes the internet of things to be a reality very soon, I believe, with digitization of industries and data being an industry by itself. What will lift the global economy to a new high, as we all hope will happen, is nothing but intelligent manufacturing, which will turn industrial production with scale into one with smart intelligence, making full use of both physical and virtual networks and also technologies. Here, the technology revolution will merge with the information revolution seamlessly to create totally new national, regional, global economies — whether we are willing or unwilling.

Fourth, geopolitics. Geopolitical entanglements and contentions have been driven by great power competition economically, politically and militarily. Against this backdrop the global economy is witnessing some man-made decoupling between major economies — China and the U.S. included — especially in technology. This decoupling is more based on ideological lines than otherwise. It is very unfortunate, because that will disrupt rather than promote global economic recovery and growth. It is a sad fact. But we have to live with it.

We're talking here about the two biggest economies in the world. We all know China and the United States, whose combined GDP constitutes more than 40 percent of the global total. But why is it happening? Why is it? To make a long story short, I believe the United States is increasingly anxious and preoccupied with a perceived challenge by China to its world hegemonic domination, resulting from its misperception and misreading of China's strategic intentions — notwithstanding the historically proven fact that China has taken the path of peaceful development over several decades, ever since its opening-up and reform in the late 1970s. Former Vice Premier Zeng Peiyan spoke boldly in this connection.

Technology competition, whether it is cooperation or decoupling, will be the main battlefield for major power interaction in the next few years — a few decades and beyond.

We all know “United we stand, divided we fall.” Mr. Owens's speech has lots to say about that. That applies to economic relations between the U.S. and China too, as well as to the future of the global economy.

Some experts are claiming that there is a new cold war between China and the United States. Professor Manish Sharma is one, and there are others. But I believe the reality speaks otherwise. There is simply too much at stake in the evolution of our bilateral relations.

More practically speaking, a process of muddling through is more accurate in describing how two countries are dealing with each other in various fields. I think the most important thing the two countries should do is to put their own house in order and engage in cooperation as much as possible in global trade, investment, finance, climate change, cybersecurity, nuclear non-proliferation, etc. Lots of places to cooperate, and we are blinded in a way by the geopolitical contention.

Finally, I will say, looking forward to the future of the global economy. There are reasons to worry, seriously, as I mentioned. But there is also no need to despair, because there is hope that the turbulence arising from all the worrisome developments will eventually subside and calm water will reappear as long as we work hard and work together. I stress “together” — China and the United States — by resolving differences. If we can do that, we can brush aside the differences and engage in cooperation and negotiation to achieve possible win-win outcomes that will benefit the two countries and the world as a whole.

Where Growth, Inflation and Policy Intersect



Stephen Roach

Senior Fellow at Yale University's Jackson Institute for Global Affairs

A top economist highlights three issues that are critical to assessing the outlook for the world over the next few years, and his assessment is sobering.

I'm going to confine my remarks to the global economic recovery. And I want to highlight three issues that are clearly critical to assessing the outlook for the world over the next few years — growth, inflation and policy.

As long as vaccine nationalism continues, and the world itself is not vaccinated, The global economy will sputter between strength and weakness.

First, growth. The shift in the COVID-19 pandemic, from one variant to another — from Delta to Omicron — is an example of what I would call the echo effect of the pandemic, moving from variant to variant. And I believe that the echo effects of the pandemic will be reflected very closely by echo effects in global economic growth. Lockdowns like we saw in early 2020 are out. But that also means that the type of vigor we saw from post-lockdown snap-backs is also out. But the point is, as long as vaccine nationalism continues, and the world itself is not vaccinated, which is very much the case today, more variants are likely. Omi-

cron is probably not the end, and the pandemic will continue. And so the echo effects that we are experiencing now are also likely to continue. So my conclusion on the first point — growth — is that it's going to be uneven. The global economy will sputter between strength and weakness.

Point two, inflation. It's not that complicated. It's about supply and demand. The supply side in my opinion was always an accident waiting to happen. We live in a world of global value chains, there's going to be a session on that tomorrow in this conference. But my view on global supply chains is that they're not as flexible as you might think. It's very difficult to relocate supplies and components quickly from one destination to another. Victor Fung is a world's expert on supply chains. But my view is that there's a lot more inertia to supply chains than we might think. I wrote about this nearly two years ago in the Financial Times as a potential source of stagflation.

But the real problem with inflation is the demand side. Policymakers around the world, but especially the United States, poured both fiscal and monetary fuel on the fire. They injected massive, pro-cyclical policy stimulus, then reinforced an unpreceden-



ted post-lockdown snap-back in aggregate demand. And so, the supply/demand imbalance that opened up briefly in the depths of the COVID shock was quickly closed. And now aggregate demand is far above aggregate supply. And we have an inflation problem.

And our policymakers have misdiagnosed the problem. They called it transitory. Now they don't call it transitory. They admit that was a mistake. I'm old enough to tell you that my first job when I got out of graduate school was in the 1970s working for the Federal Reserve board in Washington, D.C. And we had a brilliant Fed chairman whom I worked for by the name of Arthur Burns, who also called the early signs of the great inflation in the 1970s transitory. He was wrong, just like his counterparts are today. I am still haunted by the ghost of Arthur Burns.

Inflation will recede from its current peak, but it is unlikely at any point in the next several years to go back to the sub-2 percent rate that existed before COVID.

Point three, policy. Monetary policy, they say is behind the curve, and by that they mean behind the yield curve. I think that is obvious. The real point I want to make is that monetary policy is beneath the aggregate demand curve. Policy has lifted the level of aggregate demand far above the aggregate supply curve. Even if the growth rate of aggregate demand slows, which is appearing to be right now, the level remains far too high. And that's why above-target

inflation will remain persistent. This has enormous implications for policy.

Think about the United States right now. We have a consumer price index inflation rate of 7 percent year-on-year. We have a zero benchmark federal funds policy rate, which means our inflation adjusted for the real federal funds rate is negative 7 percent. The worst it ever got before was minus 5 percent in 1975, and minus 5 percent again in 1980. That was bad enough to give us the horrible inflation we had during that period. And yet the federal funds rate now is further into negative territory than it was back then.

Financial markets are moving into a period of significant risk. That includes stocks, especially bonds and also the U.S. dollar.

So do the math, even if the Federal Reserve tightens three to four times this year and inflation slows from 7 to 4 over the course of the year (which I would say is possible, but it's still debatable), then the real federal funds rate will still end this year at negative 3 percent. That will mark the longest period of excess monetary stimulus in the United States on record. So I repeat, monetary policy is not behind a yield curve. It is beneath the demand curve.

Finally, I said I'll give you three points, but I'm going to give you a fourth one. It'll be very brief — on markets. The markets have figured out the Federal Reserve has to tighten. Well, hello, we know that. It's pretty obvious. But the markets and apparently the Fed do not have a clue as to how much tightening there will have to be to eliminate this extraordinary monetary stimulus that's in place now and that will remain in place through the end of the year. So financial markets are moving into a period of significant risk. That includes stocks, especially bonds and also the U.S. dollar.

Competition is Here to Stay



Lawrence Lau

*Ralph and Claire Landau Professor of Economics
The Chinese University of Hong Kong*

Things will get better eventually in international relations, but will probably get worse first. The good news for China is that the private sector will continue to prosper, and relatively high rates of growth will prevail. There's plenty of room for optimism.

I will just focus on the developments in the Chinese and the U.S. economies. I think first of all, as President Xi Jinping announced some time ago, China will pursue a dual circulation development strategy. There is a domestic circulation and an international circulation, but with the domestic circulation playing the primary role. Now this is actually something to be expected for large continental economies like China and also for the United States.

The strategic competition between China and the U.S. is likely to be a new normal for the next decade or so.

I will show you the chart which shows you the ratio of international circulation to domestic circulation. The red line is China and the blue line is the U.S. You can see that before 1980, it was very low

for China, but has risen up to about 70 percent. It is not coming down. The U.S. has always been low, not very high. And I think it looks like China is rapidly reaching the same level as the U.S.

President Xi Jinping also committed China to peak its carbon emissions before 2030 and achieve carbon neutrality by 2060. These two actually have immense implications on the Chinese economy. I also want to add that the common prosperity promoted by President Xi Jinping should not be equated with simple redistribution. It generally means giving other people, who have not gotten rich yet, the opportunity to get rich. The establishment of the new Beijing Stock Exchange is an indication that the private sector, consisting mostly of small and medium enterprises, will be allowed to grow and to prosper.

The strategic competition between China and the U.S., as so many previous



speakers have talked about, is likely to be a new normal for the next decade or so. The reason is very simple: As the global hegemon, the U.S. cannot allow any country to say no to it, and get away with it, because it will encourage other countries to also say no. And fairly soon this global hegemony is no more. So I think things will continue for awhile, unless the U.S. is convinced that they cannot stop China's rise. Things will eventually get better. But it will probably get worse first.

Nevertheless, if you look at what's happened to U.S.-China trade, even though mutual tariffs remained in place for the last year or two, trade in goods between China and the U.S. reached a new high of \$755 billion in 2021, an increase of 28.7 percent. This is based on the Chinese data. The upper curve is Chinese exports to the U.S.; the lower curve is Chinese imports from the U.S. This is just goods. If you actually put in services, the surplus won't look as big because the U.S. has a large surplus vis-a-vis China in terms of trading services. If you look at the U.S. data, it tells the same story. I don't quite know why the U.S. data indicates that Chinese exports declined by much more than the Chinese data show. But that's the case. The trend is clear that the tariffs have not really reduced the U.S.-China trade.

Next I want to talk a little bit about the possible decoupling. I think decoupling to a certain extent is inevitable. We have already seen it in the technology sectors. But I think while decoupling itself will cause some transitional problems and disruptions, once a second source is found, export controls by the U.S. and other countries are no longer useful. So you need a second source. And at that point export controls will actually be discontinued.

The U.S. dollar dominance in worldwide invoicing, clearing and settlement will also decline gradually with a greater use of one's own currency for such purposes. For example, the trade between China and Russia is widely being settled in their own-currencies. Trade, for example, in China and Indonesia is also being settled in RMB and rupiah. I think this trend will continue.

This chart that I have displayed shows the predictions — projections by both the IMF and the World Bank — on the world economy, Chinese economy and U.S. economy. They don't differ that much. I think for last year, we know that the Chinese growth rate is 8.1 percent. The U.S. data has not been published yet, but I think it would be somewhere between 4.5 and 5 percent. For 2022, the expectation is that the Chinese target would be set somewhere between 5 and 6 percent. I think that is really quite doable.

If you look at the quarterly data, you can see that the Chinese economy has recovered really quite well. And the last quarter was not as good because of some bottlenecks caused by the resurgence of the epidemic and also some energy or electricity shortages. But I think this year, it should be OK. I think China will be able to achieve somewhere between 5 and 6 percent.

ACTUAL AND PROJECTED RATES OF GROWTH OF REAL GDP (% p.a.)

The World	2019	2020	2021	2022	2033
IMF (2110)		-3.1	5.9	4.9	3.3
WORLD BANK (2201)	2.6	-3.4	5.5	4.1	3.2
China (Mainland)					
IMF (2110)		2.3	8.0	5.6	
WORLD BANK (2201)	6.0	2.2	8.0	5.1	5.3
The U.S.					
IMF (2110)		-4.5	5.2	4.5	
WORLD BANK (2201)	2.3	-4.6	5.0	3.8	2.3

For the U.S., I think that for 2022 and beyond, the U.S. economy will be able to grow at around 4 percent, plus or minus. And then for the rest of the decade, it will actually decline gradually to 3 percent. I've actually made some long-term forecasts for both the Chinese and U.S. economies, and my forecasts are such that the Chinese economy will overtake the U.S. economy at around 2030 — and around \$30 trillion for both countries just overtaking. However, the per capita GDP — per capita — even by 2030 Chinese GDP will be less than 30 percent of U.S. GDP per capita. This will persist for many decades, for the rest of the century.

But I want to say one more thing. I will show you one last chart. Some people may question whether it is possible for China to continue growing around 5 to 6 percent. I think it's possible for the

next decade. This chart shows you the following. We have plotted the rate of growth against the real GDP per capita. The red dots represent China, the yellow dots stand for Japan and the blue dots stand for the United States.

What you can see is that China right now is still operating at just slightly beyond 10,000 U.S. dollars per capita. And the U.S. is way over, at almost \$70,000 per capita. Japan is intermediate. But what I want you to notice is that China still operates in the range in which the rate of growth can be very high. You can see that between \$10,000, \$20,000 per capita, even \$30,000 per capita, the growth rate can be (judging from the Japanese and U.S. experience), can still be, you know, about 6 percent. So I'm reasonably optimistic in the long term.

Contradictions and Uncertainty



Qian Yingyi

*Professor and Former Dean of the School of Economics and Management
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We have only limited ability to understand the implications of the different macroeconomic approaches of China and the United States — or to predict their outcomes over the year ahead. For valuable clues, pay close attention to 2021.

A crucial factor behind global recovery is the economic performance of China and the United States. The speakers have shared their views on the issue, agreeing that 2022 will be full of uncertainties.

Our focus is indeed on 2022, but part of the uncertainty lies in our limited ability to predict economic trends and see the implications of our economic policies. This requires our close attention. Why? Because, I think, we can learn many lessons from what happened in 2021.

This time a year ago, we made various predictions about economic development, and in retrospect, some of the predictions were not that accurate and might even have weighed down economic development. For example, it was impossible to make accurate predictions about the progress of the COVID-19 pandemic in early 2021. We also failed to envision a world with Delta and Omicron and their impact on global supply chains. And our understanding of the effectiveness of vaccines remains limited.

More important, when it came to economic trends and policy implications, few people a year ago talked about inflation in the United States, but it is a crucial issue now. The labor market in America is doing well, but the inflation level has reached a 39-year high and may continue for some time. Also, consumer confidence has reached its lowest level since the outbreak of the pandemic.

A crucial factor behind global recovery is the economic performance of China and the United States.

We didn't make sound judgements on these fronts. In retrospect, the stimulus policy in the United States may have been too aggressive. In fact, there were dissenting voices a year ago, when some people questioned the massive stimulus policy and even gauged its multiplier effect. But their viewpoints failed to gain mainstream acceptance, and it is time for us to heed the lesson.



There were also some unexpected developments in the Chinese economy. China's economic performance last year surpassed the predications made in early 2021. Statistics speak for themselves. For example, exports were responsible for a higher-than-expected 21 percent of GDP growth, while investment accounted for just 14 percent, a figure lower than expected.

As China and the United States carry out their macroeconomic policies, coordination will become a greater challenge.

These stories show that understanding of our economies — and particularly the impact of our economic policies — remains inadequate. We need to take a humble approach to economic issues, so that we can be better prepared for unexpected events.

This year, 2022, is one of uncertainty. I agree with most of the speakers' viewpoints on a wide range of issues, especially when it comes to trade and supply chains. But I think uncertainties and challenges are closely linked with government policies. Another factor is the pandemic, which continues to evolve unpredictably. We don't know whether Omicron is the last severe variant. We don't know whether more variants are on the horizon. We don't know when the pandemic will end or in what way.

Of course, the progress of the pandemic is related to the effectiveness of vaccines and the development of wonder drugs, both of which are uncertain.

On the policy front, uncertainty grows over the impact of macroeconomic policies. Both China and the United States have adopted strong control measures. In America, the Federal Reserve has made it clear that it will pivot to quantitative tightening and interest rate hikes at a faster rate, which is understandable to the market. The present unemployment rate of about 4 percent has nearly recovered to the pre-pandemic level, the core inflation rate is now above 4 percent and consumer confidence in the U.S. is rather low.

Just the opposite is the case in China. The central bank has begun to reduce interest rates, although in a moderate manner. Yesterday, a senior bank official said that China will open its monetary policy toolbox wider and roll out more targeted and forward-looking policies. This sends a clear signal that the country will adopt an easier monetary policy in response to the triple pressures of supply, demand, and economic expectations.

As China and the United States carry out their macroeconomic policies, coordination will become a greater challenge.

While communication of the rationale behind economic policies is rather important, there are few channels of communication between the two countries. This will undermine economic development on both sides. Since they are major players in the world economy, their lack of communication will have a direct impact on global capital flows and the capital market as a whole. Thus, it is an issue that demands our close attention in 2022. In addition to issues in supply chains and trade, we need to stay alert to new, unexpected factors.

Trade and Investment



Where Domestic and Foreign Policy Meet



Charles Boustany
Former U.S. House of Representatives

When engagement breaks down, the balance of power in international relations becomes the means of settling disputes. And this broadly threatens peaceful relations and raises risks for the world. So the stakes are really high.

For the United States and China, as with any country, international trade and investment are at the nexus of domestic economic policy and foreign economic policy. And that means that domestic political and social concerns matter, along with the impact broadly in the international political economy, international trade and investment. Major components of foreign economic policy are also significant elements of overall foreign policy and actually rise to the level of strategic importance.

I agree that stability of the international political economy and ultimately a durable adjusted level of peaceful relations in the world are dependent on the trajectory of United States-China relations in our time. In the absence of consensus among major powers — on rules, norms, standards for trade, investment, technology — engagement breaks down, and

this is what we've been seeing. And what happens when engagement breaks down is the balance of power in international relations becomes the means of settling disputes, and that creates an environment rife with threat and conflict. It certainly threatens peaceful relations.

Domestic political and social concerns matter, along with the impact broadly in the international political economy, international trade and investment.

So in my view the stakes are really high. The challenges are serious and they're growing right now. Disengagement or decoupling is escalating in multiple sectors of the economy, resulting in supply chain disruptions. And this has been



going on starting with the Trump administration. Arguably it started even before the Trump administration, but it certainly escalated during the Trump administration. These disruptions have been worsened by the situational disruptions we've seen due to the pandemic.

And now inflation is on the rise, a problem for people in both countries and certainly around the world. This rise of protectionism that has been going on is now transitioning into aggressive use of economic statecraft as a tool to achieve political objectives, or even as a tool for economic and political coercion.

Partial disengagement is deepening and it will lead to an unstable balance of power situation in international relations.

I must say that, in the United States, there has been broad frustration with Chinese trade and commercial practices. It's been fairly widespread and growing. And this frustration is based on continued Chinese-directed or condoned state subsidies, thefts of intellectual property, forms of mandatory technology transfer, cyber intrusions for commercial gain, restric-

ted market access, lack of transparency in many situations and concerns over whether China has kept its WTO commitments.

What happens when engagement breaks down is the balance of power in international relations becomes the means of settling disputes, and that creates an environment rife with threat and conflict.

In the United States, Democratic and Republican administrations have blocked the WTO appellate body from functioning without offering a pathway for reform. The United States has unilaterally applied Section 301 tariffs to goods broadly and imposed investment screening and sanctions. All of this is leaning to further decoupling. The collapse of mechanisms to substantively address these concerns and the so-called Phase One agreement, which is in effect a managed purchase agreement using Section 301 tariffs as the enforcement mechanism, has really yielded further distrust and an impasse as decoupling is continued.

So, the question is how should responsible leaders on both sides of the Pacific address what has now developed into strategic distrust?

First, there needs to be recognition that strategic distrust as I just described developed under conditions of economic interdependence, fueled by new technology. While the U.S. was an open economy, essentially, China's economy has remained partially closed since its accession to the WTO. Consensus over rules, norms and standards has not been fully achieved to satisfaction. WTO enforce-

ment has been ineffectual. And now the U.S. has reacted by taking measures to partially disengage or decouple.

Second, there needs to be recognition that economic and technology concerns at this point in time cannot be separated from strategic considerations, thus raising the stakes.

Third, competition between China and the U.S. is a long-term reality and we have to learn, we have to find a way to manage that competition effectively.

Fourth, partial disengagement is deepening and it will lead to an unstable balance of power situation in international relations.

Fifth, leaders in both countries have an obligation to seek the broadest sense of consensus on rules for engagement. If we're going to have healthy competition, failure to meet this obligation in my view is a failure of leadership.

If consensus broadens over the norms, rules and standards; if convergence occurs on the standards for trade, investment and use of technology, and there's an agreement on how these things will be enforced, then disengagement or decoupling will lessen. Without emerging consensus, disengagement or decoupling will deepen. That's the dilemma we find ourselves in.

Competition can be rules-based and enforceable. Healthy competition — which is what I think both countries want (and ultimately, I think, what the rest of the world desires) — will be determined by the balance of power at a higher risk of conflict.

If consensus broadens over the norms, rules and standards; if convergence occurs on the standards for trade, investment and use of technology, and there's an agreement on how these things will be enforced, then disengagement or decoupling will lessen.

Hidden Harmony Behind the Cacophony



Zhang Xiaoqiang
Executive Vice Chairman
China Center for International Economic Exchanges

Despite the friction between China and the United States, overall trade has been booming. It's time to build on that, while correcting imbalances in bilateral investment rules and stepping up cooperation in the digital economy.

I'd like to share my views on trade and investment between China and the United States.

First, China-U.S. trade continues to grow.

Today, the United States is the second-largest LNG supplier to China, surpassing Australia.

Despite the tremendous impact of the COVID-19 pandemic, China and the United States have done much to overcome supply chain disruptions, thus achieving strong growth in two-way

trade. According to Chinese statistics, bilateral trade in 2021 reached \$755.6 billion, up 28.7 percent year-on-year. China's imports from America increased by 32.7 percent to \$179.5 billion.

Here, let's take a look at China's energy imports from the United States. In line with the Phase One deal, China in 2020 imported 20 million metric tons of crude oil from the United States, up 221 percent from 2019. In the first 10 months of 2021, its crude oil imports from America remained high, at around 13 million tons.

Also, in 2020 China imported 3.21 million tons of LNG from the United States, and 7.32 million tons for the

first 10 months of 2021. Today, the United States is the second-largest LNG supplier to China, surpassing Australia. Bilateral energy trade has exciting prospects indeed.

It is worth noting, however, that trade frictions initiated by Washington and high tariffs imposed on Chinese goods have caused serious trouble for some Chinese companies. Research by American institutes and chambers of commerce reveals that about 90 percent of the added tariff cost is absorbed by American companies and consumers. In the United States, the consumer price index has continued its upward trend over recent months. It rose 7 percent in December 2021, the fastest pace in nearly four decades.

Many factors are at play behind the high levels of inflation, including the extremely relaxed monetary policy of the Fed over the past two years. The indiscriminate imposition of high tariffs only adds fuel to the fire and inevitably backfires.

Second, bilateral investment faces grave imbalances.

China has been working to promote an open, high-quality economic system by annually reducing the number of items restricted from foreign investment and improving the domestic business environment. In 2021, FDI inflows to the country reached \$173.5 billion, up by 20 percent from the previous year. At the same time, many American financial institutions obtained the licenses they need to operate in China. American carmaker Tesla delivered about 940,000 new-energy vehicles globally in 2021, up by 87 percent. And it sold up to 320,000 units, or 34 percent of its global total, in China. Its rapid business growth owes much not only to the huge market worldwide, and China in

particular, but also to the comparative advantages of its Shanghai factory, which delivered more than 480,000 vehicles in 2021, or 52 percent of Tesla's global deliveries.

These facts prove that China is opening its market wider to the world. However, Chinese companies find it difficult to make investments in America despite their enthusiasm, because of discriminatory policies adopted by the U.S. government in the name of national security. Chinese companies now operating in America have also received unfair treatment. Some saw their business licenses revoked, and some were forced to delist from the country's stock exchanges. I hope the United States can take concrete measures to end its unjustified crackdown on Chinese investment and improve its business environment.

American carmaker Tesla delivered about 940,000 new-energy vehicles globally in 2021. Its rapid business growth owes much not only to... but also to the comparative advantages of its Shanghai factory, which delivered more than 480,000 vehicles in 2021, or 52 percent of Tesla's global deliveries.



Third, proposals for expanding bilateral trade and investment.

China and the United States need to implement the consensus reached by their national leaders in the video meeting last November. Under the principle of win-win cooperation, they need to leverage the power of their economic and trade relations as the “ballast and propeller” of bilateral relations and grow the pie through closer cooperation. I think actions can be taken to enhance cooperation on the following fronts:

First, strengthen medical and health cooperation. It is important to maintain close contact between medical professionals. We need to join forces on the research and development of COVID-19 drugs and expand our partnership in the development of cancer drugs and related treatments.

Second, strengthen cooperation in green and low-carbon development. Combined, China and the United States respectively account for 42 percent and 44.5 percent of global primary energy consumption and carbon dioxide emissions, with 82 percent of domestic energy production from fossil fuels in

the United States, and 85 percent in China. This means the two sides have great potential for cooperation in the traditional energy sector, such as the efficient and clean application of coal and the exploitation and development of natural gas. They can also learn much from each other about carbon capture, use and storage, ultra-high voltage transmission and smart grids. And in wind power, solar photovoltaic power generation and hydrogen energy, they can also access their respective strengths.

Third, removal of high additional tariffs. Both sides need to improve their investment environment and increase the transparency of investment rules.

Fourth, step up cooperation in the digital economy. The United States is a leader in the digital economy, but China has the largest number of applications; hence, great potential for bilateral cooperation on digital technologies and digital trade.

Fifth, reform of the WTO-centered multilateral trading system. The WTO needs to be reformed to fit into a globalized world economy in the 21st century. Since China-U.S. trade in goods accounted for 37 percent of the global total in 2021, their cooperation on WTO reform is essential to the world economy.

Opportunities More Significant Than Challenges



Peter Wong

*Chairman, The Hong Kong General Chamber of Commerce
Chairman, The Hongkong and Shanghai Banking
Corporation Limited*

The global economic architecture that has delivered decades of growth may feel like it's falling apart in the face of COVID, supply chain bottlenecks and geopolitics. But thanks to the digital revolution there's reason to believe the trade and investment pie will get even bigger.

To the daily news observer, it feels like the global economic architecture that has delivered decades of growth is falling apart. This leads people to focus on the problems — COVID, supply chain bottlenecks and geopolitics — and miss the opportunities that still exist. For example, thanks to the digital revolution and the need to address climate change, the trade and investment pie will get even bigger.

Let me provide some trade statistics for 2021 versus 2019 pre-pandemic. Total trade is estimated to hit US\$28 trillion, up 11 percent. This is global trade. Asia's trade with the U.S. grew 11 percent, and China constituted about 50 percent of that. Asia's trade with Europe grew 13 percent and intra-Asian trade grew 14 percent. Again, China constituted more than 55 percent of that. All the actual trade volumes are at record levels.

In a 2018 paper, the IMF estimated that if Asia abolished trade and investment barriers, its GDP would grow 7 percent faster — the recent formation of the RCEP is a good step in that direction. Despite the

political rhetoric of Australia and Japan with China, they all signed the agreement. The member nations have a total population of 2.2 billion people, one-third of the world's population, and 30 percent of the world's GDP.

Thanks to the digital revolution and the need to address climate change, the trade and investment pie will get even bigger.

In addition, according to research by McKinsey, two-thirds of the world's middle class will be living in Asia by 2030. China now has about 300 million people in the middle class, which will double by 2030. Needless to say, Asia's potential is huge, and the enormous consumption demand generated will drive future trade and investment regionally and globally. While I appreciate there will be decoupling in sensitive strategic products like technology, I cannot see decoupling in goods and services relating to general consumption.

As a matter of fact, I really don't think that's an option.

Regarding opportunities generated by digital transformation investment, according to International Data Corporation (IDC), between 2022 and 2024, global spending on digital transformation is expected to be US\$6.3 trillion, or US\$2.1 trillion annually. Roughly two-thirds of the global economy's electronics production is located in Asia. Therefore, an increase in global spending on digitization will boost Asia's exports and trade.

On climate investment, according to the IMF, estimated climate-related investment globally will be US\$20 trillion in the next 20 years. In China, related investments are estimated at US\$31 trillion by 2060, roughly US\$780 billion per annum.

According to research by McKinsey, two-thirds of the world's middle class will be living in Asia by 2030.

In the last two months I've talked to no less than 30 customers of different industries in Asia, a lot of them in China, regarding their plans on transforming their manufacturing facilities to be carbon-neutral. In general, they are scratching their heads and require assistance. I can see three opportunities from these discussions:

One, a carbon-neutral knowledge industry will emerge, as each industry will require different expertise, creating new opportunities, such as consultancy.

Second, companies will require investments in R&D, technology and equipment for the transformation. There will be requirements for talents, fundraising activities and new products, just to name a few.



Third, there will be a transition period to get to carbon neutrality.

Therefore, the growth potential of the carbon credit trading market is huge, as there are hundreds of millions of companies in a wide variety of industries globally. Needless to say, the opportunities are enormous.

I would like to conclude with just a couple of points:

The first one is that opportunities are there for both the U.S. and China. If one market is closed, alternative markets will be sought out to replace it, at least partially. However, additional costs will be incurred in reestablishing supply chains, which is a lose-lose situation for both countries, as we have already witnessed.

The second point involves the risks that will potentially slow down trade and investment between the U.S. and China, as well as globally. To name a few:

- continued worsening of the COVID situation;
- military conflict;
- lack of high-level dialogue and agreement between the U.S. and China;
- tapering of bond buying and shrinking of the balance sheet by the Federal Reserve, along with higher interest rates to curb inflation.

Power Shift: New Rules Needed



John Zhao
Chairman of Hony Capital

The world should welcome powerful players like China — not only to follow the old rules but also to sit at the table to help make new rules to address new circumstances and technologies. There are many possible areas for coordinated cooperation, as well as fair competition.

We have developed what we call an interdependent system.

Time actually has been good in the last 30, 40 years. Investment in trade has brought much benefit to the world, certainly the U.S. and China. As a matter of fact, it's gotten so good, where you can't have a conversation today to talk about the world without mentioning the U.S. and China. Now, we've talked about decoupling. We've talked about repositioning the countries' relationship from cooperation to competition, as if competition is new. But on the ground in

the last 30 years, there has always been competition among businesses — Chinese, U.S. — and it is actually through that competitive endeavor by businesses that we've gotten to a better world.

Of course, with development, we have new power players emerging, like China. Hence, the world requires a new balance, which I think is the struggle. So I wanted to just reflect before we dive into amplifying the differences, and redefine the relationship between the two economies as if we're always competing as adversaries. A lot of the stress that the two economies have benefited from [involves] coordinated competition and cooperation. And we have developed what we call an interdependent system.



Now, with the requirement of a new balance because of the power, there is quite a bit of struggle. My fellow speakers have clearly identified the dilemma, but not all is bad. There's a lot of desire to re-recognize each other.

We should all recognize the power shift and recognize the need for a new set of rules.

Interdependency actually emerged as a force. Trade and investment in the last three years — when we are confronted with trade wars, COVID and a disruption of all the flows — not only didn't decrease but actually increased. It seems that collaboration is the default and wanting to decouple is the struggle. So that says something about interdependency.

With that, I wanted to offer a few observations for the future. I think the coordination of cooperation and competition should be the attitude from both governments. We should all recognize the power shift and recognize the need for a new set of rules. And the world should welcome powerful players like China, not only to follow the rules that are old, but also at the table to make new rules. And there are many, many areas for new

kinds of coordinated cooperation. And, yes, fair competition.

Number one, we need to have much better global governance, especially with the emergence of the digital economy, which is pervasive. It's not about China, although China is leading. So in these areas, we have many, many new areas of collaboration from government policy — for instance, data security, privacy — so let me just call it all digital regulation and policy. China has a lot of experience in this area, and through exchanges and coordinated policymaking both economies can benefit greatly. So not only can China make its pie bigger and share fairly with its domestic people, but also the world's economic pie could benefit, to become bigger and better distributed. So from the ground level, I just feel like there are more opportunities to work together than to just try to decouple and I think we could all play a role at all levels of policymaking, [especially] at ground level.

We need to have much better global governance, especially with the emergence of the digital economy, which is pervasive.

Business As a Team Sport



Craig Allen

President of the US-China Business Council

Both China and the United States have an obligation to treat companies from the other jurisdiction in a fair, transparent and legal manner, ensuring a level playing field. In the short term, we also need a framework for regular trade and investment consultations.

So while I am an ardent globalist and a strong supporter of U.S.-China economic engagement, I'm also a realist. And I would have to note that both in Washington and Beijing, the security and defense establishments are really in the lead in defining the overall relationship. And I would say that the defense and security establishments are ably assisted by the ideology and the nationalist champions in both capitals, in both Washington and in Beijing. The view of business by government officials is really quite low in both Washington and Beijing, the government is becoming more involved in business, and government seems happy to micro-manage companies for social purposes designed by the government. So I'm sorry that my prognosis of the situation is a little bit bleak, but that's the playing field that we're on.

I'd like to use a sports metaphor, if I may. Sometimes in sports, you have to play a lot of defense; then sometimes you need to play offense. And then you need to

know when to switch between defense and offense. And I would say that for business organizations like the US-China Business Council today, now is a good time to focus on defense. So I think that it is our responsibility to call out economic protectionism wherever we see it, and especially when it is dressed up as a national security concern. I think that we could continue to call on both governments to fully implement their WTO commitments. Zhang Xiaoliang spoke about this. And I think that both governments could do a better job at that.

Both in Washington and Beijing, the security and defense establishments are really in the lead in defining the overall relationship.

I think that we should definitely insist that the Phase One agreement is fully implemented by both governments. Thus far, there is some work to do in this area.



I think that it is helpful for both governments to live up to the provisions of the International Labour Organization, or the ILO, especially when it comes to forced labour. It's useful to remember our economics classes for some of us many years ago, and to remind the government that interference in free markets will lead to lower productivity, decreased growth, increased opportunities for corruption and eventually leading to lower prosperity for all.

It worries me when the Chinese government talks about self-reliance, or “*Zi Li Zi Qiang*” (自力自強), and when the U.S. government talks about secure supply chains. I think that government interference in corporate supply chains rarely produces good results on a sustainable basis. And I think that both governments are engaged in decoupling and that business should speak out on this issue. In both countries, we should encourage greater pragmatism and greater reliance on market principles.

Both governments have an obligation to treat companies from the other jurisdiction in a fair, transparent and legal manner, ensuring a level playing field for all market participants — local, as well as international. The fundamental premise of the WTO is that an import should be treated the same as a domestically produced product. And if we forget that, then we're

not playing good defense. So one cannot only play defense. To get the ball moving in the right direction, especially over the longer term, I think that we need to go on the offense, as well. And I think that the best way to do that is to ask both governments to implement the regulatory structure, as found in CPTPP. Now, admittedly, this is much easier for the United States than China. Due to the U.S. Mexico Canada Agreement, as much as 95 percent of the CPTPP is already enshrined in U.S. law. But as China has submitted a formal application to join the CPTPP, I think it's only reasonable for the Chinese private sector and for foreign companies to ask that all future Chinese regulation be compatible with the agreement. And I recognize it's longer term, but it needs to start immediately.

In the immediate term, I think that we need to address the issue of tariffs straight on. I would be overjoyed if both governments could engage in confidence-building measures to signal that eventually a relaxation is possible and that these tariffs are not permanent. I think it is not easy, but definitely possible to negotiate a mutual extension of tariff exclusions. This is not so difficult, and it would be very helpful.

It worries me when the Chinese government talks about self-reliance, or “Zi Li Zi Qiang” (自力自強), and when the U.S. government talks about secure supply chains. I think that both governments are engaged in decoupling and that business should speak out on this issue.

In the shorter term, we also need a framework to talk, we need some form of regular trade and investment consultations, perhaps around a neutral agenda, like the CPTPP, I think would be extremely helpful. I must admit that I am not optimistic over the short term. China is too wedded to the idea of self-reliance. And the U.S. is actively pursuing a comprehensive Indo-Pacific economic framework that I am not particularly excited about. But that's where a lot of the attention is.

So let's be honest, I think as a number of other speakers have mentioned, despite the tensions, trade has grown over the last two years. U.S. exports were up 17 percent in 2020, and an estimated 11 percent, in 2021. And I realize that's not compatible with Zhang Xiaoqiang's figures, and we could talk about that, but the direction is the same, and that's a good thing. Companies adapt. I think that RCEP is wonderful, and that it will increase opportunities for American companies that are invested in Asia, if not for American exporters. At the same time, the lack of communication and increasing open hostility between the governments is very worrisome. Simply, the U.S. and China need to talk to each other if we are to move to a more predictable, sustainable and stable international order, including in trade and investment, but not only in trade and investment.

In conclusion, from a microeconomic point of view, I think that companies in China, Hong Kong and the U.S. probably have very similar views, that if we want to be successful, we need to simultaneously play a brilliant defense and a bold new offense to remain relevant in the debate. Otherwise, the security narrative will dominate. So if this is a team sport, to the extent that we could work together with other businesses in Hong Kong and in [mainland] China, I think that we will move the agenda forward, and we will have a higher degree of success.

The U.S. and China need to talk to each other if we are to move to a more predictable, sustainable and stable international order, including in trade and investment, but not only in trade and investment.



Global Supply Chain

How to Grease the Economic Wheels



David Lampton

*Professor Emeritus & Former Hyman Professor and Director of SAIS-China and China Studies
Johns Hopkins School of Advanced International Studies*

The world needs to think about how to productively move forward in a way that does not lead to the evolution of a more hermetically sealed, less economically efficient global and regional trade system in which there are increasingly weak incentives for cooperation.

Please permit me to make three crisp points:

One: It would be too easy, simplistic, to say that the supply chain problems we face, particularly those involving the U.S. and China, simply are a result of COVID-19 and its endless succession of variants. I think it is fair to say that every problem that we have with this supply chain has been exacerbated by COVID. However, even if there were a miracle cure or prevention tomorrow, there are fundamental changes occurring in regional and global supply chains that will be long-lasting and are reshaping the global economic and trade system. We are dealing with a long-term, secular trend, not simply a momentary disruption.

There are many factors that already have reshaped global supply chains, particularly in Asia, and will do so to a greater extent moving forward.

Having said this, COVID is a major problem. China's zero-COVID policy has been associated with an extremely low rate of national fatalities. This is a marvelous achievement, but it also has virtually shut down the fluid flow of human resources essential to making global supply chains work well. The lack of vaccine acceptance across borders, particularly the U.S. and China, is clogging the arteries of globalization.

Two: There are many factors that already have reshaped global supply chains, particularly in Asia, and will do so to a greater extent moving forward. To start, the global supply chain's structure depends greatly on the relative cost of currencies, and the U.S. interest rate is going up and we have to expect this to be a long-term trend. This will help shape supply chain sourcing choices. As well, labor costs in China have been rising, and countries in Southeast Asia have relatively more favorable labor costs and improving infrastructure to compete for future sourcing investment.

Moreover, in China, the United States and much of the world, there is politically powerful talk of self-reliance, keeping employment in their own societies even at the cost of added economic inefficiencies. Populism, nationalism — they all make the decision to source at home or nearby more attractive.

And finally, the most pernicious consideration has become strategic mistrust between the United States and China. As both China and the United States seem increasingly inclined to view the other as a national security threat, we see decisions to source research and development activities, and sourcing decisions for key technologies, at home or at least at more secure foreign locations.

The U.S. and China have to amplify what they have in common. Increased confidence is essential to one's willingness to depend on the other. Absent this, prospects are for deterioration.

Frankly, U.S.-China mutual strategic anxiety is worsening by the day, and this will become a progressively prominent consideration unless strategic stabilization is achieved between Washington and Beijing. The decision, for example, to have TSMC invest \$12 billion in Arizona for advanced chip manufacture is just the most obvious example of this phenomenon.

Three: This brings us to thinking about how to productively move forward in a way that does not lead to the evolution of a more hermetically sealed, less economically efficient global/regional trade system in which there are increasingly weak incentives for cooperation. The U.S. and China have to amplify what they have in common. Increased con-

fidence is essential to one's willingness to depend on the other. Absent this, prospects are for deterioration.

So, attention needs to be focused on U.S.-China vaccine and pandemic cooperation, bilaterally and globally. Also, we have to be looking at implementing past trade agreements so as to give confidence that it is worthwhile reaching new trade agreements. And we both have to show interest in cooperating in the same multilateral trade arrangements: CPTPP, RCEP, AIIB, etc. And finally, our two security establishments have to institutionalize both military-to-military dialogue and confidence-building measures.

There seemed to be a lot of nodding heads when everybody said the private sector will find a way. I believe that, too — to a nontrivial extent — but at some point government can throw up roadblocks that make it very difficult and increasingly inefficient. So I think we need to work on those fundamental roadblocks to the political and strategic relationship so we breed the degree of confidence that makes us each willing to be dependent on the other and, therefore, global supply chains.



And Now, the Bad News...



William Reinsch

*Senior Advisor and Scholl Chair in International Business
Center for Strategic and International Studies*

If you're expecting greater cooperation between China and the United States, either at the governmental level or even at the corporate level with respect to supply chains, "there's virtually zero possibility that's going to happen."

I'm going to try to talk about the politics of supply chains and present an American point of view. I would basically say that if you're expecting greater cooperation between China and the United States, either at the government level or even at the corporate level on supply chains, and the development of supply chains, I think that's not going to happen.

They want to shorten their supply chains. This really means in practical terms of pulling back from Asia.

In fact, there's virtually zero possibility that's going to happen — for reasons that have nothing to do with China, and some reasons that have a great deal to do with China.

On the first part, there has been an evolution going on in the United States on the

part of American companies to shorten their supply chains and bring them closer to home. This began even before the Trump administration. It's not a new phenomenon. It's not a wave. Not everybody is doing it, but you can see it happening piecemeal. They want to shorten their supply chains. This really means in practical terms of pulling back from Asia, for a variety of reasons. One is simply a desire to be closer to their customers. A larger one is uncertainty about volatile trans-

If you're expecting greater cooperation between China and the United States, either at the government level or even at the corporate level on supply chains, and the development of supply chains, I think that's not going to happen.

portation costs — volatility and price of fuels, for example, or transportation delays, which were exacerbated by COVID. The situation is a lot more uncertain than it used to be.

In the case of China, in particular, the zero-COVID policy there has produced factory lockdowns, which are at the front end of the supply chain. But companies here have to deal with that, and the factories closed and, you know, we can't get the things that we wanted to get. People think about other alternatives. I think companies are also coping with increased political risks. And that is particularly true with respect to China. I think, in general, the United States in the current Biden administration, there's been really increased pressure to build resiliency and redundancy in supply chain management.

In the last two years, I think, the COVID experience has shown Americans that we can't always get everything we want when we want it. And what that has produced is a lot of pressure on companies to rethink their supply chains, in addition to price, quality and delivery schedules that were mentioned a few minutes ago to build resilience into it. And what that tells supply chain managers is, in addition to Plan A, you need Plan B. And you need Plan C. And one of those plans probably needs to have United States production.

So there's a lot of rethinking going on. This is not something that happens overnight. Those of you that know supply chains know that it takes a long time to make adjustments. New suppliers have their contractual obligations with old suppliers. New suppliers who have

certified anything that is regulated for health, safety or environmental purposes, at any point in the supply chain needs to deal with regulators. These things take a long time. And so what you're going to see is a gradual evolution, not an immediate reaction.

What you're going to see is a gradual evolution, not an immediate reaction.

There are some reasons for this phenomenon, though, that are directly related to China. And I think it begins with the reality of increasingly negative public opinion in the United States about China. Eleven years ago the American view of China in an overall sense, was 53 percent positive. Last year, it was 78 percent negative. That's an extraordinary change of public opinion in a relatively short period of time. Most of that has happened in the last five years. And most of it in my view is driven largely by Chinese actions that the U.S. public views as hostile. Many of them are not economic. The Chinese actions in the South China Sea with respect to Taiwan and Hong Kong and Xinjiang, all have managed to alienate or irritate large segments of the American population.

There are also the economic issues that I'm sure everybody in this conference knows very well, which the Americans regard as unfair subsidies, forced technology transfers, IP theft, discrimination against foreign parties — basically all the things that Trump was talking about and reserved for discussion in Phase

Two, which is not likely to happen. But they're all there.

If you ask the current administration what our economic problems with China are, it will be the same as the Trump list. So all those problems add up, and what they have ended up with is extraordinarily sharply growing negative public opinion about China, about doing business with China.

I think the Chinese government's economic bullying of Australia and Lithuania, and its trolling of American companies that don't follow the Chinese line on particular issues, have further alienated not only governments but businesses. And I think the view on the latter significantly increases the political risk of doing business in China or doing business with China.

And what we're experiencing right now in the United States is that politicians follow the polls in our country and they're taking their own increasingly hard line on China — in both parties, but the Republicans in particular, the party that's out of power at the moment, made it their campaign issue.

There are already four or five Republican senators running for president even though the next election is three years away. All of them have the same platform, that Democrats in general and President Biden in particular, are soft on China, and are compromising our national security; and they are competing with each other to see who can produce the most outrageously hard-line proposals for dealing with China. Those are not going to be enacted, but they put the president in a very difficult position. He doesn't have much room to maneuver. Almost anything that he does that would be intended to make



the bilateral relationship better, will be criticized by the other party as surrendering to the Chinese and undermining our security.

So this is why people who are predicting the status quo for the next year or so are probably on target in terms of the overall relationship. In addition to all that, the Biden administration has been blunt about advocating reshoring — bringing manufacturing and production, particularly, back to the United States. So far, that's been mostly rhetoric. But ultimately, Congress may be asked to enact financial incentives, probably tax credits, for companies to build and invest back in the United States. Some will, some won't.

If you ask the current administration what our economic problems with China are, it will be the same as the Trump list.

But the trend — if there is a trend — will be in the direction of either returning or of nearshoring, which is locating not necessarily in the United States proper but nearby, which would mean, in our case, Mexico, Canada, Central America and other places in the Western Hemisphere.

There are already four or five Republican senators running for president even though the next election is three years away. All of them have the same platform, that Democrats in general and President Biden in particular, are soft on China, and are compromising our national security.

So all of that is going on. It's like I said, it's piecemeal. It's anecdotal. What companies decide to do depends a lot on their business model. It depends a lot on the extent of their existing investment in China, and the extent to which they're willing to either reduce or sacrifice that. But the pressure here is very clear to companies from the government. We want you to come home, and what the companies are increasingly seeing is a variety of reasons in terms of political economic risk. And COVID inspired a supply chain review to think about doing exactly that.

But the trend will be in the direction of either returning or of nearshoring.

So the bottom line, I think, is that even though both governments will say they don't want to force companies to choose between them, in fact both countries are pursuing policies that encourage companies to do precisely that. The Chinese have embarked on a whole series of policies to promote technology independence. You can read it in the outgoing and incoming five-year plans and other publications. I've just described what the Americans are doing. We are pushing companies apart. We are pushing the countries apart. And I think in the near term, sadly, I don't foresee any change in that as long as the same people in both governments remain in charge.

Responding to Broken Supply Chains



Wang Yiming
Vice Chairman
China Center for International Economic Exchanges

To ensure the stability of global supply chains, we need to fundamentally optimize the division of labor and collaboration. We must also leverage a new generation of information technology to improve supply chain resilience.

I'd like to talk about three issues.

First is the impact of the pandemic on global supply chains.

Supply chain disruptions caused by the pandemic are a new phenomenon. From energy to chips, from cars to electronic products, major economies are in the grip of supply chain bottlenecks on many fronts. Unlike natural disasters, the pandemic's impact on supply chains is global in scope. It seems every part of the world is affected — not only production but also logistics are gravely affected.

There are two telling examples. One is chips. The chip shortage has had a huge impact on car manufacturing. Since the second quarter of 2021, this problem has led to a significant drop in car pro-

duction in both the United States and Germany. According to the U.S. Bureau of Economic Analysis, in 2021 production bottlenecks in auto production pushed domestic GDP growth in Q2 down by 1.5 percentage points compared with Q3.

Supply chains can be integrated both vertically and horizontally.

The other example is logistics. Congestion at ports has led to an upsurge in shipping costs. As we know, inventory levels in America have been dropping for months in a row. But if logistics can be improved, I think its domestic inventories will be replenished at a faster rate.

The second of my three issues involves recent changes in global supply chains.

The march of globalization has further underscored the importance of global supply chains. Supply chains can be integrated both vertically and horizontally. Horizontal integration refers to the concentration of production and supply of goods. As globalization moves forward, we see that production is increasingly concentrated, with China, Germany and the United States as the world's three most important production centers. China in fact has become the largest exporter of domestically made products. Consequently, economies on the periphery of global production chains are worried about their heavy reliance on these centers.

The COVID-19 pandemic has indeed amplified this kind of fragility in the form of supply chain disruptions.

Vertical integration relates to the relationship between upstream and downstream countries. Countries that supply natural resources and hard-to-replace technologies are upstream countries, while countries like China, a large manufacturing country, are downstream countries that are subject to restrictions imposed by upstream countries.

For example, the United States is cutting China out of the tech supply chain. A crunch in the supply of natural resources has the potential to cause production bottlenecks, too. This is a result of the global division of labor. Production concentration has increased economies

of scale, reduced production costs and boosted consumer welfare. But there are also downsides. High concentration also leads to greater fragility. The COVID-19 pandemic has indeed amplified this kind of fragility in the form of supply chain disruptions.

My third issue is how to ensure the stability of supply chains?

On the surface, the supply chain crisis is caused by the pandemic, but I think the deeper reasons are rising protectionism and structural issues in global trade and industry. The pandemic is nothing but a catalyst, and an outward form of the crisis. Specifically, the deeper reasons include trade protectionism, geopolitical divides and especially the lack of strategic trust between China and the United States. The United States sees China as its biggest strategic competitor.

Vertical integration relates to the relationship between upstream and downstream countries. Countries that supply natural resources and hard-to-replace technologies are upstream countries, while countries like China, a large manufacturing country, are downstream countries that are subject to restrictions imposed by upstream countries.



I understand why America doesn't want to see a stronger China, and why since the Trump administration the United States has imposed high tariffs on Chinese goods, restricted Chinese investment in its domestic high-tech sector and used Entity List designations to target Chinese companies through export controls. In addition, American companies are being urged to bring back production from overseas.

These measures, however, only serve to increase the stress in global supply chains and the pressure of global inflation. Therefore, chip shortages and cargo congestion are just outward forms of supply chain disruptions. Essentially, these issues are a result of the structural issues I mentioned.

I believe that the formation and development of global supply chains are a result of both market rules and choices made by companies. It is costly to intentionally change the choices of market entities. And private organizations lack motivation to do so. As a result, in most cases, the government pushes for changes through industrial policies. For example, the Biden administration established a task force in 2021 to assess vulnerabilities in critical domestic supply chains, including semiconductor chips, large capacity batteries, critical minerals and materials,

pharmaceuticals and active pharmaceutical ingredients. The findings were released last June. This move indicates that the United States wants to readjust its supply chains.

Europe is doing the same thing. Both the U.S. and Europe hope to increase the stability of supply chains at the expense of efficiency. But this arrangement, which may prove effective in the short term, may turn out to be inefficient and even ineffective in the long run. In the context of globalization, attempts to promote industrial decoupling through government directives and to bend market rules by means of political force are not realistic or wise.

My conclusion is that to ensure the stability of global supply chains, we need to fundamentally optimize the division of labor and collaboration and leverage a new generation of information technology to improve supply chain resilience.

The pandemic is nothing but a catalyst, and an outward form of the crisis. Specifically, the deeper reasons include trade protectionism, geopolitical divides and especially the lack of strategic trust between China and the United States.

Risk of a Semiconductor Short Circuit



Zheng Li

*Vice Chairman of China Semiconductor Industry Association
Director and CEO of Jiangsu Changjiang Electronics
Technology Co., Ltd*

Uncertainties threaten fragmentation of the global semiconductor supply chain, which could bring an increase of 35 to 65 percent in production costs and send shockwaves through related industries and the world economy.

I want to share viewpoints on behalf of CSIA on issues of the global semiconductor supply chain.

I'd like to begin by giving you an overview of the China Semiconductor Industry Association (CSIA). As an authoritative industry association, we have nearly 800 member companies whose output value accounts for more than 80 percent of the domestic industry. Also, we are a member of the World Semiconductor Council and maintain close, long-term cooperation with the Semiconductor Industry Association in the United States

and with our counterparts in many other countries.

For well-known reasons, the industry has suffered a notable decline since 2019. Over the past three years, pandemic control measures, the digital economy and carbon neutrality efforts have helped the sector to achieve positive growth at 10 percent, which is a milestone. It is estimated that the market will reach \$900 billion by 2030.

According to the CSIA, China is not only the world's largest IC market but also an



important link in the global semiconductor supply chain. In 2020, its semiconductor imports reached \$376.7 billion, and its growth rates in recent years have surpassed those of other countries or regions. The boom in China's consumer electronics market and its strong capacity for electronics manufacturing deliver huge opportunities for the world's semiconductor sector, including, of course, the United States.

Seen from the perspective of market demand and internal dynamics, the growth prospects of this sector are quite promising. But without doubt, the sector has been in the grip of uncertainties and challenges over the past three years. The pandemic may continue to disrupt the recovery and development of the global semiconductor supply chain in the coming years.

In addition, as two important players in the supply chain, China and the United States are locked in trade frictions, which threaten to bring enormous risks and crises to the fragile supply chain and the recently revitalized market. The geopolitical divide continues to cast uncertainties over the whole industry, and the erosion of trust in the supply chain is intertwined with a chip shortage caused by the pandemic.

If allowed to persist, these risks and uncertainties will cast a shadow over the otherwise well-functioning semiconductor industry, which is underpinned by global cooperation. There is a risk of fragmentation in the global semiconductor supply chain. According to business insiders, in a fragmentation scenario, the sector will need an extra investment of at least \$500 billion to \$1 trillion, and semiconductor products will see an increase of 35 percent to 65 percent in production costs, thus sending shockwaves through related industries and the world economy as a whole.

If these risks are left unchecked, the good development momentum of the industry and mutual trust of industry players will be undermined. Companies then will have to assess the risks and uncertainties posed to their supply chains from the perspective of bottom-line thinking, and try to diversify their supplies and even build their own supply chains, which will lead to the de facto fragmentation of the global supply chain. If this happens, the entire industry will take a heavy beating and everyone will suffer.

There is a risk of fragmentation in the global semiconductor supply chain. In a fragmentation scenario, the sector will need an extra investment of at least \$500 billion to \$1 trillion, and semiconductor products will see an increase of 35 percent to 65 percent in production costs.

The business communities in China and the United States are deeply concerned about these risks and challenges. As stakeholders, they all hope the global supply chain can be placed on a track toward healthy development as soon as possible. That is why CSIA and SIA maintain effective communication. For example, both CSIA Secretary-General Zhang Li and SIA President John Neuffer call for industry-wide cooperation to ensure the sound development of the global market and the stability of supply chains.

To respond to opportunities and challenges over the next few years, they argue, industry players need to enhance coordination and offer wise and reasonable advice to their governments to manage differences and avoid conflicts. The two sides also believe in the need for unconditional removal of export controls on purely commercial technologies and mass-produced products — such as chips for consumer electronics — and agree to work together on carbon reduction in the industry. They also suggest that industry players in the two countries make their voices heard and work in partnership to persuade their governments to follow the trend of globalization and return to healthy competition and market-based resource allocation to sustain the development and prosperity of the entire industry.

We believe that China and the United States share the same goal in pushing forward the globalization of the digital economy and that cooperation will be the defining trend of the digital sector in the years to come. While recognizing the existence of misunderstandings and differences, we believe that full and candid communication remains the very solution and key to greater development.



Cooperation on Climate

We're Out of Time



Jeffrey Sachs

*University Professor and Director of the Center for Sustainable Development
Columbia University*

The world has been talking about climate for 30 years and yet no decisive breakthrough has been made because of vested interests. This is the result of political corruption, not a lack of means to work together.

I think the situation is quite clear. As you have described it, the world has been confronting the climate change issue for 30 years. It was 30 years ago that the UN Framework Convention on Climate Change was signed. We have not succeeded in even stopping the rise of emissions. The only thing that we have succeeded in doing globally is to continue the increase of temperature to very frightening levels and an accelerating rate of warming.

We are now 1.2 degrees Celsius above the pre-industrial temperature, and we have said for good reason that we should stop the rise of temperature below 1.5 degrees. In other words, only 0.3 degrees Celsius more. But the warming of Earth at this stage is probably 0.3 degrees Celsius or faster per decade. Now, there is a very real chance that we will overshoot the 1.5 degree Celsius mark within the next few years. One of the world's leading climatologists, Dr.

James Hansen, my colleague at Columbia University, warns that with the next El Nino event, which could come in 2023 or 2024, we will see another perilous jump in temperature.

So as you described it, the two major countries have no choice but to cooperate. In any event, of course, I think everybody on this panel and all right-thinking people, in my view, in the world would want our two countries to be cooperating on so many fronts — on stopping COVID, on global development, on helping to fight poverty where it remains and on climate change.

But as you've described, this is an existential issue. This is not a choice. We must cooperate. Now.

It is wonderful that Professor Xie Zhenhua is on the panel. He's a great and distinguished leader of China's efforts on climate change, a good friend of the world on fighting climate change. And he signed an important agreement, as you said, with Special Envoy John Kerry at COP26. This is very heartening for us, but I do have to caution that the U.S. is not a united government.

We've been at this for 30 years and have not made a decisive breakthrough, and it is because of vested interests.

As we know, former Secretary of State Kerry is our leading diplomat and is absolutely committed to the path of de-



carbonization, as is President Biden. But we can't get legislation through the U.S. Senate right now. The chairman of the Senate Energy and Natural Resources Committee, Joe Manchin of West Virginia, owns coal mines. That's how bad it is. We're a very corrupt government at this stage — so much money in politics — but it's not even indirect corruption. It's the chairman of our Natural Resources Committee in the Senate is a coal mine owner. And so we have lots of barriers to effective action.

We have a lack of cooperation within the United States. We have difficulty cooperating with China. And I think it's fair to say many countries around the world are dragging their feet. If you have a lot of coal, oil or gas in the country, I think it's pretty predictable that the government is slow to act. And this is true all over the world.

We've been at this for 30 years and have not made a decisive breakthrough, and it is because of vested interests. It is because of corruption in our politics. It is not because we lack the means to work together and within our own economies to decarbonize decisively.

China really can lead technologically. I think the U.S. can also lead technologically. We ought to be cooperating technologically instead of this technology war that the United States has launched, which also makes no sense.

Let me just conclude my brief remarks by saying that China is a world leader in every major technology that is needed for decarbonization — in low-cost photovoltaics; in low-cost wind power; in low-cost, large scale hydroelectric power; in long-distance, high-voltage, direct current transmission; in 5G; in smart grids; in electric batteries; in electric vehicles. China really can lead technologically. I think the U.S. can also lead technologically. We ought to be cooperating technologically instead of this technology war that the United States has launched, which also makes no sense.

We don't have a shortage of solutions. And we also don't have a surplus of time. We have run out of time.

But my point is, we don't have a shortage of solutions. And we also don't have a surplus of time. We have run out of time.

And so I want to thank all my fellow panelists. They're all great leaders in this effort. And I want to encourage Professor Xie Zhenhua to continue the efforts to find cooperation with the United States. We're working on our side to say to Americans, "Cooperate. Let's get in and act. Let's stop our own delays. We've got our battles at home, but we're fighting them and we want the partnership and we want the cooperation."

Constructive Moves on Climate Change



Xie Zhenhua
China Special Envoy on Climate Change

China remains committed to enhanced dialogue with the United States and other parties to achieve full implementation of the Paris Agreement. We hope the United States also can create a favorable environment for climate cooperation that will benefit the people of our countries and beyond.

I'd like to give a brief overview of China-U.S. exchanges and cooperation on climate change in 2021.

Scientific evidence shows that climate change has turned from a potential threat and challenge to a real risk and crisis that demands global cooperation. In the COP26 climate summit in November, Chinese President Xi Jinping issued a written statement, calling on the world to uphold multilateral consensus, focus on concrete actions and accelerate the green transition. These three proposals have won wide attention and applause in the international community and injected important political momentum to

global climate governance.

Participants at the summit completed negotiations on the details required for the full implementation of the Paris Agreement and adopted the Glasgow Climate Pact. These achievements demonstrate global commitment to climate action and boost confidence in global cooperation to enhance climate governance. Also, the goals, principles and rules of global climate action are defined, which promises to accelerate the transition to green social and economic development and technological innovation.



China and the United States are the world's largest economies, and their cooperation on climate change delivers benefits to both countries and the wider world. Under the Obama administration, the two countries made a historic contribution to the development, adoption, signing and entry into force of the Paris Agreement through their effective collaboration. In the context of the volatile international landscape these days, Chinese and U.S. leaders seek to engage in bilateral dialogue and exchanges as special envoys for climate and together respond to the global climate crisis.

China has consistently had an active and open attitude to such exchanges and cooperation. I have the utmost respect for U.S. Special Presidential Envoy for Climate John Kerry, who is my old friend. With the approval of our national leaders, we issued the China-U.S. Joint Statement Addressing the Climate Crisis in April 2021. It announced that, moving forward, the United States and China are firmly committed to working together, and with other parties, to strengthen implementation of the Paris Agreement and to discuss — both on the road to COP26 and beyond — concrete actions in the 2020s to reduce emissions aimed at keeping the Paris Agreement-aligned temperature limit within reach.

We also agreed to engage in dialogue and exchanges in eight sectors, including policies, measures and technologies to decarbonize industry and power; renewable energy; green and climate-resilient agriculture; energy-efficient buildings; green, low-carbon transportation; emissions of methane and other non-CO2 greenhouse gases; emissions from international civil aviation and maritime activities; and other near-term policies and measures.

In November 2021 when delegates at COP26 struggled to resolve major sticking points, China and the United States issued the China-U.S. Joint Glasgow Declaration on Enhancing Climate Action in the 2020s, creating the space for the resolution of differences at the summit. In order to reduce CO2 emissions, the two countries intend to cooperate on:

- policies that support the effective integration of a high share of low-cost intermittent renewable energy;
- transmission policies that encourage efficient balancing of electrical supply and demand across broad geographies;
- distributed generation policies that encourage integration of solar, storage, and other clean power solutions closer to electricity users;
- energy efficiency policies and standards to reduce electrical waste.

In addition, we intend to cooperate on:

- enhancing the measurement of methane emissions;
- exchanging information on our respective policies and programs for strengthening management and control of methane;
- fostering joint research into methane

emission reduction challenges and solutions;

- engaging collaboratively in support of eliminating illegal deforestation through enforcement of laws banning illegal imports.

Moreover, our two countries intend to establish a working group on enhancing climate action in the 2020s, focusing on concrete actions in this decade. This may include continued policy and technical exchanges; identification of programs and projects in areas of mutual interest; meetings of governmental and non-governmental experts; facilitating participation by local governments, enterprises, think tanks, academics and other experts; exchanging updates on respective national efforts; considering the need for additional efforts, and reviewing the implementation of the Joint Statement and this Joint Declaration.

The Chinese and U.S. special envoys and their teams have taken active measures to implement the outcomes of video and telephone meetings between their national leaders. In the past year, they held 31 video dialogues and four face-to-face meetings in which they shared their intentions, noted each other's major concerns, maximized common ground and increased mutual understanding and trust. From the resumption of dialogue and exchange to the agreement to deepen cooperation and preparation for the joint working group, we have made notable gains in driving institutionalized, results-oriented cooperation.

The outcomes of the Glasgow Climate Change Conference didn't come easily, and the full implementation of the Paris Agreement will begin. We remain committed to multilateralism and enhanced dialogue with the United States and other parties to achieve full implementation of the Paris Agreement. At the same time, we hope the United States can create a favorable environment for climate cooperation that will benefit the people of our two countries and beyond.

China's Key Carbon Initiatives



Liu Yanhua

*Former Vice Minister, Ministry of Science and Technology
Former Director, National Expert Committee on Climate Change*

The initiatives include policy measures, legal tools and market-based measures. Three major carbon milestones are defined in the central government's guidance, targeting 2025, 2030 and 2060.

Now I want to share with you China's initiatives to achieve its carbon peak and carbon neutrality. Generally speaking, these initiatives include policy measures, legal tools and market-based measures.

First, policy measures

In September 2020, President Xi Jinping announced the country's goals for carbon peaking and carbon neutrality. In his speeches since then, he often highlighted the need to achieve carbon neutrality. Specifically, these goals include:

- Peaking carbon dioxide emissions by 2030 and achieve carbon neutrality by 2060;
- Lowering carbon dioxide emissions per unit of GDP by over 65 percent by 2030 from the 2005 level;
- Increasing the share of non-fossil fuels in primary energy consumption to around 25 percent, increasing the forest stock volume by 6 billion cubic meters from the 2005 level and bringing the total installed capacity of wind and solar

power to over 1.2 billion kilowatts by 2030;

- Imposing strict control on the growth of coal consumption in the 14th Five Year Plan period (2021-25) and gradually reducing coal consumption in the 15th Five Year Plan period (2026-30);
- Strengthening control of non-CO2 greenhouse gases;
- Launching a national carbon trading market;
- Stopping the building of new coal plants abroad.

These are some basic goals in China's commitment to its carbon peak and carbon neutrality.

Then on Oct. 24, 2021, the Communist Party of China Central Committee and the State Council published the Working Guidance for Carbon Dioxide Peaking and Carbon Neutrality in Full and Faithful Implementation of the New Development Philosophy, outlining overall plans and arrangements at the national level. The guidance lists 10 priorities in the country's efforts to achieve its carbon peak and carbon neutrality:

- Promoting the comprehensive green transformation of social and economic development;
- Deepening industrial restructuring;
- Accelerating the establishment of a

clean, low-carbon, safe and efficient energy system;

- Increasing the quality of green, low-carbon development in rural and urban areas;
- Strengthening research and application of green and low-carbon technology;
- Enhancing the capabilities of carbon sinks;
- Enhancing green and low-carbon approaches to opening up;
- Upgrading laws, regulations, standards and statistical monitoring systems;
- Improving policy mechanisms.

Three major carbon milestones are defined in the guidance:

- By 2025, an economic system of green, low-carbon and circular development takes shape and energy efficiency in major industries are significantly increased;
- By 2030, notable progress is made in the comprehensive green transition of economic and social development and energy efficiency in major energy-consuming industries reaches advanced international standards;
- By 2060, an economic system of green, low-carbon and circular development and a clean, low-carbon, safe and ef-

efficient energy system take shape; and energy efficiency reaches advanced international standards, with non-fossil fuels accounting for more than 80 percent of the energy mix. Carbon neutrality is achieved and significant achievements are made in ecological civilization, thus enabling greater harmony between man and nature.

The guidance provides the overarching framework for China's "1+N" policy system designed to achieve its carbon peak and carbon neutrality. The number "1" refers to the overall strategic direction; "N" refers to action plans formulated by competent authorities at the central and regional levels for specific sectors and regions, such as energy, industry, urban and rural development and transportation. It also includes supporting policies in terms of technology, carbon sink capacity-building, statistics and accounting, supervision and assessment and financial, fiscal and price support.

The guidance represents China's overall climate action. In October 2021, the State Council issued the Action Plan for Carbon Dioxide Peaking Before 2030. The plan outlines main objectives for the 14th and 15th Five-Year Plan periods. Particular focus is placed on 10 areas of action, including:

- Transitioning to green and low-carbon energy;
- Saving energy, reducing carbon, and increasing efficiency;
- Reaching the carbon peak in the industrial sector;



- Reaching the carbon peak in urban-rural development;
- Realizing green and low-carbon transportation;
- Facilitating carbon emissions reductions through the circular economy;
- Enhancing innovation in green and low-carbon technology;
- Consolidating and improving carbon sink capabilities
- Encouraging green and low-carbon action by the wider society;
- Reaching the carbon peak in different regions in an orderly manner.

These actions represent the guiding principles for our short-term climate response. Today, implementation plans for climate response in industry, transportation and urban and rural development, along with action plans for technology support, have been formulated, with some already published and some still under review.

Second, legal tools

China is studying issues related to climate legislation in the new era. The goals are to introduce the rule of law to climate change mitigation and adaptation, regulatory actions and international climate cooperation; define the legal status, objectives and legal requirements of climate action; define the responsibilities of competent authorities, along with legal attributes and trading schemes of greenhouse gas emission rights, and regulate climate action nationwide; and provide a legal framework for the breakdown of climate targets and performance assessment at the government level.

These goals underscore China's commitment to the rule of law in its climate actions and its alignment with global climate governance. (About 20 countries and regions, including the UK, Germany, France, Canada and Mexico, have made climate change laws and others designed to promote low-carbon development.)

Much has been done in terms of climate legislation in China. For example, the National People's Congress Standing Committee announced in August 2009 that climate change laws would be incorporated into the country's socialist legal system and legislative agenda. In 2015, the government made clear that the country would make climate change laws and regulations, and a drafting group was established in the same year. And in 2018, China said it would establish a strict legal system for ecological civilization.

These moves are stepping stones, with climate legislation in China including efforts on two fronts. First, revise current environmental laws. In fact, all of its 13 environmental laws have been revised. Second, make laws on specific climate issues. This is an ongoing task, and the focus is on developing green standards, greenhouse gas accounting systems, reporting and verification systems and accountability systems for the government and the wider society. We believe that China's legislative efforts will contribute to global climate governance.

Third, market-based measures

The fight against climate change also depends on the market, which has a big role to play. The main objectives of market-based measures are to upgrade economic policies, including a taxation system conducive to green and low-carbon development; to improve green electricity pricing and build green financing standards; to define carbon-reduction support tools and establish a national low-carbon transition fund; and to modernize market mechanisms, including upgrading the national carbon emission trading scheme and building a national market for energy-use rights.

China's carbon emission trading scheme was fully launched in July 2021. The government establishes the quota and the market determines the price. This scheme falls into the scope of the civil code. A carbon tax hasn't been implemented yet. Since it lies in the

scope of public law, a carbon tax won't gain full consideration until the formulation of climate change laws. In addition, China does not support the carbon border tax, which relates to the allocation of responsibility in international trade, production and consumption.

On a personal note, I think that given the complexity of China-U.S. relations and the urgent need for climate action, the two countries can work together in four areas:

- The improvement of international climate governance, especially the implementation of the Paris agreement. As two major emitters, China and the United States need to do their part on these issues.
- Bilateral climate cooperation. Despite the complicated relations, climate cooperation at the province and state level remains possible, and the focus can be placed on exchange across sectors.
- Climate collaboration with third parties. Since developing countries need support for their institutional know-how and technology, China and the United States can work in partnership to help these countries enhance green development.
- Track II dialogues or people-to-people exchanges. These dialogues can help reduce misunderstanding, expand common ground, and pave the way for government-to-government cooperation.

People and Cultural Exchanges



A Different Kind of Exchange



Max Baucus
Former United States Ambassador to China

In addition to traditional cultural exchanges, which are not very good at this point, there's a lot of business interaction between our two countries that takes place under the radar. These also work as exchanges. They develop trust.

We had quite good two-way communication between our two countries before. Our secretaries would come over at an official level. Businessmen, of course, did come over. Some businessmen didn't want me to know, even though I was ambassador, they're coming to Beijing. They were doing deals with the Chinese government — sweetheart deals, as it worked out. At the same time, a lot of cultural exchanges, even military exchanges, worked with NGOs. It was wonderful.

But all that's changed. It's changed partly because Trump changed, partly because of the almost paranoid politics in America with respect to China and of course it's changed because of COVID. I'm very nervous, concerned, worried

that as the relationship continues to deteriorate — this is very difficult — especially because it took COVID to get good cultural exchanges between our two countries.

I'm quite concerned that it can be difficult for the United States to reach an agreement with China on climate, and for many reasons. One is because of the deterioration in the relationship. Second, to be honest about it, President Biden is not a China expert. His experience is with Europe, the Middle East. And that's also true with most of the people in the White House. He does not really understand China, as well as he should. And I think that makes it difficult for them to come up with a China policy. He's been criticized lately becau-



se he does not have a China policy. And I think that's somewhat accurate. Basically, he is continuing what Donald Trump was pursuing, and maybe even tougher, even with more sanctions.

So if I might, I might also add, Biden is preoccupied with Russia, with Ukraine, with Iran. So it's hard for him to focus now on climate. Add to that, it is difficult dealing with the United States Congress. And that's, as has been pointed out, one of the shortcomings of a democracy. It's one of our strengths that's also our shortcoming, as difficult as in the case of an authoritarian country, to get action to get stuff done. And he's having a hard time.

The good news, frankly, in addition to cultural exchanges, which are not very good at this point, there's a lot of business interaction between our two countries under the radar. There are a lot of business transactions and businessmen and women in both countries. I think it's a good forum, if you will, to talk to each other. It develops understanding and trust, which are needed. Add to that, financial institutions in particular are very interested in doing business in China, and China has opened its doors to American financial institutions. It's because China knows that by working with U.S.

financial expertise, and also U.S. financial investment in China, that is going to considerably help China.

Going back to climate, it's interesting to me that hedge funds and businessmen see that investing in climate technologies is good business. You know, they want to make money. And I think we shouldn't forget that. We should encourage businesses who continue to want to do business in China or to invest in green technologies to do so. And I think we'll find that they will.

And finally, one final point here, again, is on climate. I think, with all the talks between our two countries how to get some agreement on climate? Former Prime Minister Helen Clark pointed out that it's a necessity to the two big countries. This may sound a little self-serving, because there's so little trust in America today with respect to China, very little trust — least at the political level, the top level. In China, where it's not just saying what it's doing on climate. It's showing the world what it's doing on climate, to somewhat get Xie Zhenhua's frustration that the world does not know what China is doing on climate. If China were to show

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ABCDE and actually do it, that will be picked up by the U.S. press. That'd be noticed, and that would accomplish two purposes.

One, it helps. If you will, it's a kind of exchange. It's not really a cultural exchange between the U.S. and China, but it creates more trust between the two countries. And maybe more importantly, we started to address the problem we're facing on climate. But I don't think you're going to get the U.S. to act very significantly, given the current deterioration of the relationship, and really the ball is somewhat in China's court. China can act because of its authoritarian system. President Xi could say OK, this is what we're going to do, and provincial governors will follow suit on climate. And the more they do, the more that's going to be noticed, not just in the United States but around the world. And that is a form of exchange, that I think will be helpful because, otherwise, the old people-to-people exchanges, they're few and far between. We just don't have it yet. So we have to find other ways to develop ties between the two countries.

I want to say this: I'm going to be seeing John Kerry in a few days in Washington, D.C., and I will pass Xie Zhenhua's best wishes to him, my good friend Senator Kerry — we served together. And maybe in the meantime Mr. Xie Zhenhua may have some advice for me of what I could say to John Kerry. I might add that I'll be seeing the Chinese ambassador this coming Sunday, ambassador Qin Gang, and I'll bring this up with him as well.

And my third point: I've put together something called the Baucus Institute in my home state of Montana. I've talked to the Hewlett Foundation, and they're going to give a significant amount of money. It's focused on China, and focused on climate. So every little bit counts. I'm doing what I can.

A Few Words from an Optimist



Charles Foster

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The basic fact is that when people get to know one another, the barriers that created a lack of trust come down and the opportunities for cooperation dramatically go up.

Although, as Ambassador Baucus says, I realized that when we speak today, like people-to-people exchanges, it's a little discouraging because things have not been going in the right direction. Nevertheless, I've been guilty of being called overly optimistic for many years. So I will continue in that vein.

One important thing, in what has been historically a successful way of trust building, is cultural exchanges.

We hear, of course, that Americans are all too aware of the increased tension in U.S.-China relations today, driven by disagreement on a wide range of issues from trade and supply chains to human and civil rights issues. Unfortunately, because of the anti-Chinese rhetoric in the United States and growing nationalism in China, too many embrace a dangerous zero-sum mentality that defies

common sense. Unfortunately, these challenges are often presented without discussion of ways to address them to strengthen our important bilateral relations.

In fact, these issues and problems in our bilateral relations make it more important today than ever before that both countries try and build trust not only for our mutual benefit but for the benefit of mankind. One important thing, in what has been historically a successful way of trust building, is cultural exchanges. I know I have participated in it. To open, as we all know here in this conference, our mistrust lies in ignorance about one another and — as the ambassador would know — is particularly true in the United States. We're a big country and we often know very little about other countries.

But through cultural and people-to-people exchanges, we learn not only what our differences are but the common

ties of our humanity that we all have in common, and both the advantages and the joys of becoming more inclusive. Now, of course, I'm representing the foundation, and President George H.W. Bush embodied that spirit. As you all know, he was our second envoy to China and headed our U.S. liaison office in Beijing from 1974 to 1976. We engaged with the Chinese people in a very deep way, and he became known as the bicycling ambassador. I don't know whether Ambassador Baucus also bicycled around Beijing or not, but certainly George Bush did.

I had the privilege in his post-presidency of working very closely with President Bush on a variety of bilateral matters, and he would always say — I heard him say this from the very beginning — U.S.-China relations are the most important bilateral relations for the United States. In fact, when President Ford offered him an ambassadorship to London or Paris, which would be viewed as very plush, he turned that down and instead, confounded everyone by saying he preferred to be appointed an envoy to China — because even at that early stage, in 1974, he recognized instinctively not only the potential of China but how important our bilateral relationship would be for mankind forever in the future.

His son, my good friend and our chairman Neil Bush frequently described visiting China in those early days with his father, along with his brothers. Most of you know his brother, and how they were viewed by the people in the streets of Beijing often as some exotic species from the Beijing Zoo. I understand that, because I went to China relatively early, as part of the U.S.-China friendship delegation, in 1978. But of course, all of that has changed.



Given China's incredible development and opening-up under paramount leader Deng Xiaoping — about whom, as James mentioned, I had an anecdote, as I had the privilege of being with him for two days when he visited Houston in February 1979. Because of that, China opened its very first consulate there, and he wanted to visit and speak to the energy companies. But he also wanted to go out to NASA and the Johnson Space Center and travel with his delegation out to the Simonton Rodeo, a little private rodeo, and I think some of you would remember.

I knew it when it was happening with two cowgirls on horseback. I know Senator Baucus has been to many rodeos. They rode over and leaned over and handed Deng a 10-gallon Stetson hat, which he took and put it on his head. And I saw the photographers go crazy taking photos. And that photo for many years came to symbolize the opening of the U.S.-China relationship at a time when conditions in China were in many ways far, far worse than they are today.

Cultural exchanges have the power not only to educate and broaden one's understanding but to alleviate political tensions, to open markets and operate against conflict — to build a strong foundation for future understanding and cooperation. I'm often asked how I became an in-

ternational and immigration lawyer, and I regularly attribute that to the fact that I was very blessed to be part of a cultural exchange program where I had the opportunity to study international law in South America, which changed and generally had a great influence on my career. It changed my whole international outlook.

Virtually no global challenge today can be resolved in any enduring or meaningful way without effective cooperation between the United States and China.

First, the focus was on Mexico being close to Texas, then Latin America, and then the rest of the world, particularly focused on China. Unfortunately, I didn't have the opportunity at that time to do that. It was early on, before we had diplomatic relations. So I've always regretted that I didn't have a chance to participate in an exchange with China, because I would be speaking fluent Mandarin today rather than Spanish.

But the basic fact is that when people get to know one another, the barriers that created a lack of trust come down and the opportunities for cooperation dramatically go up. And while we have cultural differences, political systems and often starkly different points of view based upon our own culture and education, this story can still have a mutual vision for a world where we jointly help people out of poverty, provide greater access to education, healthcare and upward economic mobility. It's more important than ever to join together, as we've discussed, to help reduce carbon emissions, find our common humanity and develop the will

to address the tremendous challenges both countries have. It will be challenging to achieve these goals even having a strong foundation of people-to-people cultural exchanges, which will greatly enhance the possibility of our countries working together for the mutual benefit of mankind.

The George H.W. Bush Foundation for U.S. China Relations is guided by the principle that virtually no global challenge today can be resolved in any enduring or meaningful way without effective cooperation between the United States and China. Engaging in frequent, candid, robust bilateral dialogue was a pillar of President Bush's vision for the relationship and something we can continue to promote at the foundation.

The basic fact is that when people get to know one another, the barriers that created a lack of trust come down and the opportunities for cooperation dramatically go up. It's more important than ever to join together, as we've discussed, to help reduce carbon emissions, find our common humanity and develop the will to address the tremendous challenges both countries have.

The Cornerstone of China-U.S. Relations



Zhang Xinsheng

Former Chairman of UNESCO Executive Board

Former President of IUCN

Former Vice Minister of Education, P. R. China

People-to-people exchanges are a good starting point for the post-pandemic era. We have to consider how China and the United States and others will work together. Since wars begin in the mind, that is where the defenses of peace must be constructed.

We now face dramatic shifts in public opinion and once-in-a-century transformations. And there will be fundamental transformations and revolutions going forward. This pandemic is more than a public health crisis and it affects more than global economies and societies. Many lessons can be learned.

The deadly COVID-19 virus doesn't discriminate across ethnicity, nationality or religion. It threatens the whole of humanity, and the only way out is cooperation.

1. Current development models, which we adopt to handle relations between man and nature and between develop-

ment and conservation, have reached the end of the road. So have our consumption patterns. Both of them are unsustainable.

2. The deadly COVID-19 virus doesn't discriminate across ethnicity, nationality or religion. It threatens the whole of humanity, and the only way out is cooperation. The world can't really be freed from the pandemic as long as a race or nation is in the grip of the virus, because we can't grow in isolation. We have to support each other in good times and bad and form a community with a shared future.

Ambassador Baucus shared his insights into approaches to the expansion of China-U.S. cooperation. Following the introduction of reform and opening-up, I began to study abroad, in-

cluding in the United States. My personal growth has benefited much from reform and opening-up, from the normalization of China-U.S. diplomatic relations, from the handshakes between President Nixon with Premier Zhou Enlai and Chairman Mao Zedong, and from the agreement signed by President Carter and Deng Xiaoping to resume bilateral relations.

But these days I am a little bit worried. It has been 70 years since World War II ended, 30 years since the Cold War ended and 40 years since our relations were normalized. But what is it that places our countries on the verge of confrontation? What is it that pushes us toward another cold war or decoupling from each other? Aren't we wise and coolheaded enough to find a way out?

I believe that people-to-people exchanges are the cornerstone of bilateral relations, and I want to make four points on this issue.

1. People-to-people exchanges are the lubricant of state-to-state relations.

These exchanges include unofficial exchanges in such sectors as sports, art, think tanks and nongovernmental organizations. Fortunately, I was involved in exchanges in these sectors when working in the government and after retirement. Essentially, people-to-people exchanges mean interaction between citizens.

In China, the government works for the well-being of the people. Just as President Xi Jinping said, a people-centered approach is at the core of everything the government does, and the health and lives of the people are at the top of the government agenda. At the same time, the U.S. aims to build a government of the people, by the people, for the people. In fact, both governments share the goal of serving the people.

Then why are bilateral people-to-people exchanges not directed by the government now? It is rather confusing. The roles of people-to-people exchanges are plain for all to see. For example, the end of our more than 30 years of hostility owes much to the gift exchange between Chinese table tennis player Zhuang Zedong and his American peer Glenn Cowan in the 1971 Ping Pong Diplomacy. Hearing their story, Chairman Mao decided to push for the end of hostility; President Nixon also responded positively. The two American friends present here today have lived this episode of history personally, and thank you for your efforts back then. Sometimes, people-to-people exchanges can work wonders as more than a lubricant.

2. China-U.S. relations are at a crossroads.

Nowadays, China and the United States are moving in increasingly contradictory directions. There are two voices on the scene. First, we need to place our own national interests above others and pursue confrontation, decoupling and zero-sum games. Ambassador Baucus, you said that like his predecessor, the current U.S. president has limited understanding of China. We are fortunate to have friends like you and Charles Foster. Just as we Chinese believe that if you know both yourself and your enemy, you can win a hundred battles without a single loss, it is crucial for us to know more about each other.

The second voice, on the other hand, argues for harmony in diversity, cooperation between major countries and efforts to expand common ground, instead of zero-sum games. Based on this line of thought, I think our two countries can make breakthroughs in educational cooperation.

When I was talking about the president of Yale, Richard C. Levin, many years ago,

China-U.S. relations were in a good shape. Levin told me that exchanges between government will inevitably have twists and turns and political relations have high and low points. But exchanges between universities and between citizens must be conducted through solid, stable and long-term channels because there is a persistent need for people-to-people exchanges despite changes of government. As we all know, a university is where we enjoy intellectual freedom and seek truth, and professors are brought together by their shared intellectual interests and shared pursuit of truth. Today, however, I know many presidents and professors at Chinese universities are worried about the prospect of exchanges with their American counterparts.

“Since wars begin in the minds of men and women, it is in the minds of men and women that the defenses of peace must be constructed.”

These days, there are fewer restrictions on Chinese students choosing to study in the United States. But yesterday I learned from news reports that American airlines may abruptly cancel China flights that these students have to take. On this issue, we need to take a candid, open and inclusive attitude and refrain from blocking communication between our people and civil society in various fields. Our educational cooperation, I think, is not a two-way street in the real sense. For example, in China there are many universities and colleges jointly built by China and the United States, including the Harvard University’s Weitz Innovation Center in Suzhou, New York University Shanghai, and Schwarzman College at Tsinghua University. As a consultant at the two universities, I believe they are remarkable projects.

In spite of all the challenges now, we will continue to push for such cooperation and exchanges — after all, 300,000 Chinese students are now studying in the United States. We also know that as a result of some policies issued by the American government, Chinese parents are worried about the safety and security of their children and thus become hesitant about sending them to America. But we persuade the parents to send their children overseas, because we aim for long-term bilateral exchanges.

3. How can we enhance people-to-people exchanges?

The urgent task is to maintain peaceful relations and a cool head. I used to work at UNESCO, an international organization that was originally founded by the U.S., China and the U.K. Back then, the head of the American delegation, a renowned playwright and poet, said, “Since wars begin in the minds of men and women, it is in the minds of men and women that the defenses of peace must be constructed.”

In his eyes, the focus is on culture, education and science. His statement remains relevant today. There has been a consensus in UNESCO that ignorance of each other’s ways and lives has been a common cause — throughout the history of mankind — of that suspicion and mistrust between the peoples of the world through which their differences have all too often broken into war.

As we work to build the defenses of peace in the minds of people, people-to-people exchanges becomes even more important. These exchanges in fact involve an ultimate question: Who are we? Where do we come from? Where are we going? Two viewpoints demand our close attention.

First, exchanges need to be based on a recognition of cultural diversity. Cultural

diversity in fact derives from biodiversity which is the key to the stability and resilience of the earth's ecological systems. Similarly, in people-to-people exchanges, we must recognize the diversity of the world. It is by learning from Mother Nature that we humans have become who we are today. If we don't respect nature and the law of nature or fail to recognize the cultural diversity of the world, our people-to-people exchanges will be unsustainable. In a word, the law of nature is the fundamental source of inspiration for human interaction.

If we place too much on our own cultural identity, ignore others' cultures and even take a self-centered attitude, the world will not be interconnected anymore because our cultural identity is not inclusive and thus leads to the rejection of others.

That is why I want to thank Ambassador Baucus and Chairman Foster, who have done so much for people-to-people exchanges. We can't label each other based on social system or religion if we are to accelerate bilateral exchange. We Chinese use chopsticks, while Americans use forks and knives. Chinese children sleep on their back, and American children sleep on their stomach. When I was studying in America in 1980, one of my American friends said that his grandma once explained the differences between China and the United States to him. For example, when Americans rise up in the morning, Chinese people are spending the night.

Second, our common humanity must be respected. This is the paramount issue and the concept of a community with a shared future actually is based on our common humanity. In an increasingly globalized world, an aggressive push for populism and nati-



onalism will only aggravate divisions and even lead to conflicts between nations, regions and cultures. As we are interconnected both economically and technologically, globalization threatens to cause cultural and political rejection.

Harvard Professor Samuel P. Huntington issued a similar warning in his 1993 book "The Clash of Civilizations and the Remaking of World Order." Unfortunately, his message was misunderstood by some who believed that he was arguing for conflict. In fact, I listened in on his class and thought that his idea was rather forward-looking.

As a scholar, he also aims to promote cultural identity. We, of course, need to accept our cultural traditions, just as we take nostalgia for our hometown for granted. But if we place too much on our own cultural identity, ignore others' cultures and even take a self-centered attitude, the world will not be interconnected anymore because our cultural identity is not inclusive and thus leads to the rejection of others.

In conclusion, people-to-people exchanges need to highlight our diversity and focus on our common humanity. This approach can be very meaningful.

4. Pathways to sustained people-to-people exchanges

I think we can take actions on three fronts.

We all want to recover better in a post-pandemic era. This is an idealized vision, of course. A good starting point, I think, is people-to-people exchanges.

First, continue the policy of engagement and dialogue. Mr. Zhang has organized a series of dialogues, proving that only through dialogue can we increase mutual understanding. Back in UNESCO, I was involved in the resolution of Israeli-Palestinian disputes on world heritage, which the UN General Assembly failed to address. The two sides were on the verge of conflict and quarreled on almost every proposal the moment they entered the meeting room. But we continued the policy of engagement and dialogue and the two sides finally reached consensus.

The best response to differences and divisions is to maximize common ground on major issues while putting aside differences on minor issues.

Second, the best response to differences and divisions is to maximize common ground on major issues while putting aside differences on minor issues. This is in fact a principle advanced by Premier Zhou Enlai, and I think the Shanghai Communique was achieved in the same spirit.

Third, find more areas of common ground. We have shared interests in many areas, such as climate change.

Today we all want to recover better in a post-pandemic era. This is an idealized vision, of course. At this forum, we need to prepare for the arrival of a post-pandemic era, despite the existence of Delta and Omicron. Especially, we have to consider how China and the United States and the wider world work together in a post-pandemic era. A good starting point, I think, is people-to-people exchanges.

The Importance of People



Chen Wenling
Chief Economist
China Center for International Economic Exchanges

Great progress will begin with three key steps: First, implement the consensus reached by the Chinese and U.S. heads of state. Second, examine the meaning and value of bilateral people-to-people exchanges. Third, restart those exchanges on the basis of trust and respect.

Here I have three points to make.

First, we need to enhance people-to-people exchanges as part of our efforts to implement the consensus reached by the Chinese and U.S. heads of state.

Since the beginning of 2021, President Xi Jinping and President Joe Biden have had a telephone meeting and a video meeting. In their Nov. 16 virtual summit, President Xi pointed out that one of the most important developments in the past 50 years is the resumption and development of China-U.S. relations, which delivers benefits to both countries and the wider world. In the next five decades, he added, the most impor-

tant thing in international relations is for the two countries to find the right path to coexistence.

President Biden affirmed that the China-U.S. relationship is the world's most important bilateral relationship, and echoed President Xi's comment that history is a fair judge and that they should make the relationship work and not mess it up. China has been a major power since 5,000 years ago.

In the video meeting, President Biden was clearheaded and made some good points. But many of his actions on the ground don't match his words. This may be a result of a lack of understanding of China, just as our American friends

have said. China's 5,000-year history seems abstract, but it is pregnant with life and meaning. If the United States really respected a great country whose history stretches back 5,000 years, it wouldn't have adopted its current strategies and approaches toward China.

It means that nations need to pay attention to public opinion, but shouldn't be held hostage to it.

Second, we need to examine the meaning and value of China-U.S. people-to-people exchanges for the sake of sustaining intellectual vitality and the shared interests of humanity.

There is a big issue facing bilateral people-to-people exchanges. It was captured in a survey shared by one of our American friends yesterday at the forum. He said that according to the Pew Research Center, 53 percent of Americans used to have positive feelings toward China, but now up to 76 percent have negative feelings.

Yesterday I read findings from the 2022 Edelman Trust Barometer. According to the report, which covered 28 countries, 91 percent of the Chinese people trust the government, the highest level in the world; 84 percent trust business, the highest level in the world; 80 percent trust the media, the highest level in the world; 93 percent trust medical institutions, the highest level in the world; 91 percent trust the central bank, the highest

level in the world; and 80 percent trust NGOs, the second-highest level in the world.

Produced by the prestigious global communications firm Edelman, the survey is now in its 22nd year. As a randomly conducted survey, it is not based on statistics released by the Chinese government or any other government or agencies. Therefore, I believe the findings are objective and match reality in China.

Another figure that I want to share with you comes from an opinion poll by the Harvard Kennedy School. The results indicate that of the dozens of countries involved, more than 90 percent of Chinese respondents have been satisfied with the central government for 10 years on end. If my memory doesn't fail me, the figure reached up to 93.1 percent during the pandemic, the highest in the world. In addition, The Economist carried out a survey in 50 countries during the pandemic and found that the satisfaction rate of the Chinese people with the government is 94 percent.

But what is public opinion? Public opinion changes. In the early days of his presidency, Biden's approval rating peaked at 76 percent. But it has dropped to a little more than 30 percent now. It means that nations need to pay attention to public opinion, but shouldn't be held hostage to it. But if an opinion poll on China is conducted by a third party and its findings remain consistent for a dozen or even 20 years, I think its results are valid and reflect a strong and solid social foundation for the nation's governance.

The dramatic drop of Biden's approval rating shows that public opinion is rather unpredictable — uncertain — with a notable undertone of herd mentality. In some countries, populism, nationalism, egoism and anti-intellectualism are on the rise in different forms. When these sentiments prevail, public opinion and values inherent in these societies will produce different results.

Meanwhile, the behavior and life of humanity consists of numerous variables, thus leading to sophisticated issues that are uncertain, unpredictable and unstable. Some variables are the result of the free will and unpredictable ways of thinking, which can't all be quantified.

Humanity is far more complex than the will of a nation and the simple judgment of some politicians. Indeed, the Pew survey reveals some changes in the American people's public opinion toward China, but their opinions are still changing. What some American politicians say doesn't necessarily represent the opinion of the American public. This is my understanding of public opinion and a cultural perspective from which we look at China-U.S. relations.

Third, we need to restart people-to-people exchanges based on trust and respect and stand on high moral ground.

This is an important issue these days. Having lasted for more than two years, the pandemic has impeded communication between peoples and nations. That is why we have to meet online this time. But what we see on our screen is nothing but moving photos. The photos

are talking, but it is difficult to get a sense of intimacy as in face-to-face communication.

This doesn't mean that virtual meetings are not important, but they are really different from offline meetings. That's why I agree with Mr. Zhang that we need to prepare for the arrival of a post-pandemic era.

On China-U.S. relations, I'd like to offer several recommendations.

1. *Expand exchanges and cooperation beyond the usual interaction.* An urgent task for China and the United States is to work together to reexamine or reflect on human civilization.

The entire world, especially these two countries, needs to launch a worldwide intellectual revolution in the pursuit of the common values of humanity, rather than so-called universal values. For example, do we need to build a community with a shared future for mankind or place our own national interest above all else? Which one do we choose, benevolent government or hegemony, unilateralism or multilateralism? Do we want to destroy the environment or protect it and follow the law of nature? Do we want to see the coexistence of civilizations or conflict among them?

These questions can be answered only through a reexamination of human civilization. In a world awash with problems and chaos, I think an intellectual revolution is needed. Without such a revolution, and consensus, many basic things can't be understood, and the

right direction of development will be elusive.

2. Dismantle physical barriers and, more important, the invisible barriers still in the way. To this end, we have to identify issues that may lead to misunderstanding, miscalculation and misjudgment and listen to each other's voice in earnest.

In his inaugural speech, President Biden said that politics need not be a raging fire destroying everything in its path. But look at what the country has done. It politicizes economic issues, the Winter Olympic Games and all geopolitical issues. It even adopts extreme measures toward China and stigmatizes it. I think the Biden administration has turned into a raging fire to burn China down. The fire grows in both strength and scope, with more U.S. allies joining. But the United States may not be able to destroy its target and may burn itself instead.

For example, on Feb. 2, 2020, the U.S. became the first country to evacuate its nationals from Wuhan. Back then, American politicians believed that they could see a China overwhelmed by the fire of the virus. But the fire has caused greater damage in their home country. As we see, the United States has the world's highest number of confirmed cases. It is said that the U.S. will stop reporting its confirmed cases and deaths caused by the pandemic, and in this way it will become a country with "zero infection case", at least on the surface.



The story shows the importance of reaching common ground and enhancing mutual understanding in people-to-people exchanges and exchange of ideas.

Today you may stand idle and just watch others trapped in a fire, but the fire may spread to your house tomorrow. This is true for the trade war as well. President Trump initiated the trade war to contain China, but as Secretary of the Treasury Janet Yellen has said, 94 percent of the imposed tariffs are absorbed by consumers and companies at home, and these tariffs are also an important factor behind the high levels of inflation in America.

3. Enhance people-to-people exchanges. Since Mr. Zhang has shared many of his observations on this issue, allow me to skip it.

4. Strengthen friendship between people in China, the United States and the wider world. People-to-people relations are the cornerstone and wellspring of friendship among nations.

In addition, I think we need to take action on the following fronts.

- Resume the 100-plus exchange and dialogue mechanisms between China and the United States. Only four of these mechanisms survived the Trump administration, and bilateral exchanges are far from full-fledged.

People-to-people relations are the cornerstone and wellspring of friendship among nations.

- Prepare for the post-pandemic development of tourism. It is important to contain the virus. At the same time, resume people-to-people exchanges and state-to-state communication.
- Enhance education cooperation. There are 5,762 universities in the United States and 2,956 in China. In Taicang, Jiangsu province, there sits a well-managed campus of Duke University. In fact, much remains to be done to deepen China-U.S. cooperation in education.
- Promote exchanges and cooperation between think tanks. Their cooperation provides more than a forum to share ideas, and their roles and functions can be expanded. The CCIEE and the Peterson Institute for International Economics have worked together on some research programs, such as a de-

cade of China-U.S. economic and trade relations and two-way investment in infrastructure. Our findings contributed much to the understanding of bilateral cooperation and when released in America garnered coverage by more than 200 media outlets.

The research program on China-U.S. economic and trade relations over a decade was directed by Tung Cheehwa and headed by CCIEE Chairman Zeng Peiyan and Executive Vice Chairman Wang Chunzheng. I was the head of the research team, and today I still have a fresh memory of the release ceremony. The program was designed to enhance China-U.S. economic and trade relations and predict their trajectory in the next 10 years. Unexpectedly, President Donald Trump took office and initiated a trade war with China. It is a matter of great regret.

Finally, I want to say once again that people-to-people exchanges between China and the United States mean so much.

Misguided Condescension



Wang Dong

Full Professor with Tenure at School of International Studies

Executive Director of Institute for Global Cooperation and Understanding, Peking University

When the West engaged with China, it did so with the mistaken view that the country would evolve toward Western values. Equal footing and respect would have been better.

I'd like to make three observations, one philosophical, one ideational and one empirical.

First, the philosophical one. The bipartisan consensus on engaging China since normalization, which I label as the “old engagement consensus,” contained an epistemological fallacy that viewed China as the “other” — the one that is to be “transformed” and “integrated” into the U.S.-led international order, with the implicit expectation that China would over time gradually become like the U.S. economically and even politically. This fallacy is similar to the one in an ancient Chinese fable called “*Ke Zhou Qiu Jian*” (to carve a mark on the boat to find one’s sword).

The story is about a gentleman from more than 2,000 years ago. One day, the man was about to cross a river, so he boarded a ferry. In the middle of the crossing, he accidentally dropped his sword into the water. The man then

took out a knife and carved on the gunwale and said, “This is the place where I dropped my sword.” When the ferry reached the shore, the man jumped into the water from the mark on the gunwale in hopes of retrieving his lost sword. Not surprisingly, he failed.

The bipartisan consensus on engaging China since normalization, contained an epistemological fallacy that viewed China as the “other” — the one that is to be “transformed” and “integrated” into the U.S.-led international order.

Now, many U.S. analysts believe that the policy of strategic engagement with China failed. Well, it failed for a reason. The expectation inherent in the “old engagement consensus” — that China would be gradually transformed and one day become like the U.S. — is like the mark the man engraved on the gunwale. What the elites in the U.S. should do is to treat China on an equal-footing, and with respect, rather than as the “other” that is to be transformed.

The problem is, while Biden and top administration officials have publicly confessed that Washington no longer seeks to change the political system in China, elites in the U.S. have now shifted from one extreme to another, viewing China as an authoritarian power that is determined to challenge and replace American hegemony. Hence, the vow to “compete” with China in defending U.S. primacy.

Worse still, underneath the rhetoric of values and rules, one may detect an implicit sense of racism in the approach to competing with China.

Second, an ideational observation. Using ideological rhetoric, Washington has engaged in a process of “othering,” which also involves dehumanization and demonization, framing China as an authoritarian, repressive and aggressive power that stands in opposition to the “liberal, democratic world” represented by the U.S. and its allies. By touting the so-called rules-based order, Washing-



ton has made no secret of its attempt to frame Beijing as a rule-breaker in the existing international order.

Worse still, underneath the rhetoric of values and rules, one may detect an implicit sense of racism in the approach to competing with China. For instance, U.S. Secretary of Commerce Gina Raimondo said in an interview with CNBC last September that the U.S. needs to work with Europe to “slow down China’s rate of innovation.” Most recently, EU High Representative Josep Borrell Fontelles told a forum in November 2021: “We Western people — the U.S. and EU — we have been ruling the world... We were the masters of how technology was working... If we are no longer standard-setting, we will not rule the 21st century.”

This Western-centric superiority and public arrogance could not be more appalling. Yet, the inherent racism has been coated in an ideological discourse that is used to justify and rationalize efforts to maintain Western dominance in the world. Other evidence of racism in the U.S. approach to competition with China includes the rise of neo-Mc-

Carthyism in the United States in recent years. I just read the news yesterday that the FBI has dropped the case against Professor Chen Gang of MIT, one of the most prominent cases of the now infamous China Initiative first launched by the Trump administration. If the U.S. were to develop a progressive China policy in the years and decades to come, such a tendency of racism should be reined in and rectified.

We should be prepared for post-COVID engagement, and people-to-people exchanges should take the lead in recoupling our two societies.

Third, an empirical observation. I want to join the distinguished panelists to stress the importance of people-to-people exchanges between our two countries. In my own capacity directing the Institute for Global Cooperation and Understanding at Peking University, we have over the years engaged in many exchanges. Mr. Charles Foster may know this well. In collaboration with the George H.W. Bush Foundation on U.S.-China Relations, we did three dialogues, focusing on economies and trade, security and Afghanistan, respectively.

Also, since 2016, we have been jointly hosting the U.S.-China Young Scholars Forum annually, in collaboration with the Carter Center and Global Times.

On April 10 last year, for the 50th anniversary of Ping-Pong Diplomacy, we did a special event marking the fifth anniversary of the Young Scholars Forum,

assembling over 50 alumni of the YSF. President Jimmy Carter was kind enough to send words of warm encouragement to the young scholars. We also did several rounds of student exchanges between Georgetown and PKU, including one on climate change last year.

What I was most impressed is that when young people gather together, there is no baggage of ideological prejudices, and they are able to engage in genuine, candid, mutually respectful, warm and indeed inspiring exchanges. President Xi Jinping has said many times that “the hope of China-U.S. relations rests on the shoulders of young people.” This cannot be more true. Although COVID has brought uncertainties and difficulty to people-to-people exchanges, thanks to technologies such as Zoom, we are still able to connect, though to a much lesser extent. I’d also like to echo Minister Zhang’s last point that we should be prepared for post-COVID engagement, and people-to-people exchanges should take the lead in recoupling our two societies.

About China-US Focus

China-US Focus is a platform where Chinese and American thought leaders can openly express their views on the myriad issues that face the two nations.

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