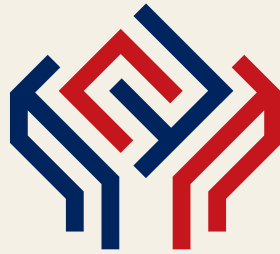


Aug. 7-10, 2024 | La Jolla, CA



KEY TAKEAWAYS FROM SUMMER 2024 CHINA FORUM

Widening the Aperture: U.S.-China Relations in the Global Context



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Organized by the 21st Century China Center at the UC San Diego School of Global Policy and Strategy

KEY TAKEAWAYS FROM UC SAN DIEGO FORUM ON U.S.-CHINA RELATIONS

The 2024 China Forum gathered 80 experts in August 2024 to explore how the rapidly changing global landscape impacts, and is impacted by, U.S.-China relations. Democrats and Republicans delved beyond bilateral issues, examining China's internal tensions and international realignments. Lively debates centered on the prospects for China's economy, U.S. strategy and the desired endgame of U.S. policy. Small group discussions aimed to define the key elements of a bipartisan approach toward China.

Convened by the 21st Century China Center at the UC San Diego School of Global Policy and Strategy, the China Forum is the nation's premier platform for bipartisan, off-the-record discussions on the relationship. It is co-chaired by Charlene Barshefsky, Stephen Hadley and Susan Shirk and attended by thought leaders from a wide spectrum of backgrounds.

How China Has Changed

1. The four decades of double-digit growth are over. China's share of the world economy peaked in 2007, and long-term economic slowdown appears inevitable. Current economic headwinds are caused by policy mistakes as well as structural impediments, including a declining birthrate. In the absence of any government assistance to

households struggling with lockdowns and layoffs during COVID, consumption has plummeted, and deflation and unemployment have taken hold. The bursting of the real estate bubble means that a large portion of people's life savings won't come back. Twenty percent of college graduates can't find jobs. With weak domestic demand, output floods into international markets and sparks a protectionist backlash. Local governments burdened by massive debt and inadequate tax revenues must cut public services and sell off assets. Fiscal limitations are forcing

even the central government to make hard choices. There are measures the government could adopt to mitigate some of these factors. The question is whether it will.

2. Under Xi Jinping, the Chinese state is shifting toward a new hybrid model of state "steerage" of the market that aims to build a high-tech self-sufficient manufacturing economy. This effort may offer short-term stimulus but not a long-term revival. In 2024, foreign investors withdrew more money than they put into Chinese equities for the first time in a decade. Data secrecy, erratic interventions in financial markets and crackdowns on the private sector have so alarmed Chinese entrepreneurs that many of them have exited China for abroad.

3. The Chinese public is increasingly dissatisfied with Xi Jinping's rule and pessimistic about the future. Xi's lockdown of Shanghai and other cities and the subsequent sudden reversal of his "zero-COVID" policy in reaction to widespread protests left the population with collective post-traumatic stress. The public also is frustrated over limited economic opportunities (20% of households report worsening economic conditions), which it increasingly blames on an unfair political system. Trust in the government has eroded. While China's social volcano hasn't yet erupted, the ground is trembling. In response,

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the government has intensified censorship, repression and misinformation to manage the rising discontent. Notwithstanding, few feel that Xi's political control or position is at risk.

China's Global Footprint

4. China's leaders remain ambitious for global influence, but financial limitations may be diminishing the government's capacity to achieve its goals. Beijing now

“...the U.S. must collaborate with allies and invest in AI standards while still engaging in dialogue with China on AI safety and risk management, despite competitive tensions.”

must pick and choose where to invest its resources, and it is concentrating on Southeast Asia, the Middle East and Russia. The U.S., through its alliances and military presence, emphasizes regional security and deterrence. In contrast, China's power projection capability is more limited, with few military deployments beyond its periphery. Instead, China focuses on building international partnerships through its internal security and paramilitary agencies and through industrial cooperation.

5. Despite its economic slowdown, China still wields significant resources to pursue its global ambitions. State intervention distorts global markets by centralizing supply chains, especially in critical minerals, where China dominates as both a buyer and seller. Its energy transition and the rapid development of the electric vehicle sector, powered by the private sector, remain robust and continue to progress at scale.

6. Chinese leaders view America as largely in decline and are confused at America's inability to solve basic problems, observing issues such as financial crises, political polarization, a dysfunctional Congress, widespread drug problems and declining infrastructure.

China's Foreign Policy

7. Peace in Europe is a “core interest” for the U.S. and Europe. Xi Jinping's ongoing support for Russia's military-industrial complex, which enables Russia's war in Ukraine, is severely damaging China's relations with the West while enhancing Russian military capabilities. Chinese domestic challenges may have slightly tempered its support for Russia, but they have not altered its priority on ties with Russia over avoiding confrontation with the West.

8. Modernization of China's nuclear arsenal and its growing second-strike capability highlight the need for long-term deterrence. U.S. conventional military forces, with key advantages in joint capabilities and a strong network of friends and alliances in the region, are thought to remain capable of prevailing in a conflict — although not without significant costs. Meanwhile, China is likely to avoid

direct confrontation, and the U.S. remains committed to upholding the regional status quo, especially concerning Taiwan.

American Strategy Toward China

9. In the end, U.S. leverage over China hinges on technology. The Chips Act boosts private capital in U.S. technological progress, enhancing this leverage. However, America needs a clearer strategy to set boundaries on tech competition and to use this competition to induce China to moderate its international behavior. Some advocate revisiting trade policies, including Trump-era tariffs, and permitting some Chinese companies to invest in America in certain sectors with appropriate security-related inspections and protections. Despite recent efforts to decouple technologically, U.S.-China economic relations remain deeply interdependent.

10. Artificial intelligence stands out from other technologies due to its scalability (the bigger it gets, the better it gets), its ease of replication and its self-improving nature; these features amplify its impact across fields like cybersecurity and biomedicine. Once a country gets a lead of even a few months, it can outpace its competitor and establish a monopoly. While AI's potential drives innovation, it also heightens risks, such as biosecurity threats and malfunctions. The U.S. currently leads in AI talent and computing power, while China leads in some specialized applications such as facial recognition. China's aggressive investment could narrow this gap. To sustain its advantage, the U.S. must collaborate with allies and invest in AI standards and talent while engaging China in dialogue on AI safety and risk management, despite competitive tensions.

11. American allies, friends and other third countries are vitally important in American management of its relations with China. Swing states like Mexico, Brazil, Indonesia and Turkey approach U.S.-China competition pragmatically, pursuing their own interests by balancing between the two powers and sometimes playing them off against each other. For example, as they file dumping claims against China in the World Trade Organization, these countries also

stand in line to join the BRICS grouping, in which China is a moving force. China has offered significant incentives to the Global South, which represents a competitive challenge to American economic engagement there. To be more effective, the U.S. must leverage institutions like the World Bank and the International Monetary Fund, while respecting each recipient country's unique priorities rather than imposing excessive expectations or conditions. Most countries don't want to be arenas for U.S.-China competition.

12. The debate on the U.S. approach to China reveals some consensus: while the U.S. cannot change China's regime, it can and should try to prevent China from imposing its will over others, especially as regards Taiwan, India, ASEAN and the South China Sea. Both Republicans and Democrats stressed safeguarding U.S. national security, advancing economic interests, attracting talent and securing critical infrastructure, with allied cooperation being vital. The core question remains whether China is a malign, ideologically driven force or a pragmatic power pursuing dominance yet willing to adjust to reduce its risks and costs.

13. Debate also focused on the endgame of U.S. strategy toward China. One perspective argues for an aggressive approach, aiming to win the competition with China by imposing significant costs on Beijing to deter hostile actions against the U.S. and its friends and allies. The other view advocates for a balanced strategy, emphasizing American internal economic strength, effective competition with China in key areas, maintaining stability through tactical reassurances (i.e. steady state) and diplomacy to manage competition without escalating tensions. Other points of contention included the extent of reassurance to offer China and whether U.S. messaging should be public or private.

Key elements of a bipartisan U.S. China strategy on which there was agreement among a substantial number of Republicans and Democrats:

INVESTING IN U.S. COMPETITIVENESS

Prioritizing research and development in AI, quantum, and biotechnology; enhancing STEM education; and securing supply chains to strengthen domestic industries.

TRADE POLICY

A need for a coherent, strategic trade approach, potentially revisiting agreements like the Trans-Pacific Partnership but also focusing on sectoral agreements, to balance economic interests with national security and reinforce bona fide regional U.S. leadership.

NATIONAL SECURITY

The importance of regulating Chinese foreign direct investment, particularly in critical technology sectors, and striking a balance with export controls to protect U.S. strategic interests.

TAIWAN

Maintaining the status quo while strengthening deterrence remains central to U.S. policy, with bipartisan support to avoid significant divergences between political parties.

ALLIES AND PARTNERSHIPS

Strong alignment on deepening alliances and collaborating with friends and partners, particularly in the Indo-Pacific, to counterbalance China's influence.

MANAGING COMPETITION

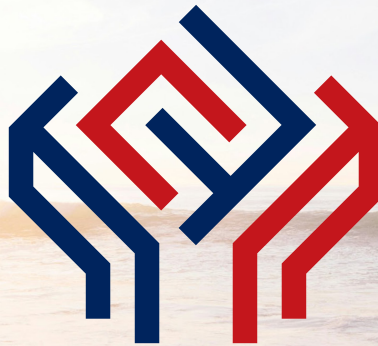
Skepticism about cooperation with China, yet emphasis on the need for crisis management mechanisms, military-to-military communication and diplomacy to maintain stability without direct confrontation.

STRENGTHENING DETERRENCE

With friends and allies, restore our defense industrial base, enhance our military posture, strengthen our economies and coordinate our diplomatic efforts.

PRIORITIZE PEOPLE TO PEOPLE EXCHANGES

Attract Chinese talent to the United States, but in a manner that safeguards U.S. national security.



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