



## July 2022 China Forum Takeaways

# EIGHT KEY TAKEAWAYS

The fourth UC San Diego Forum on U.S.-China Relations took place in person July 28-31, 2022.

The China Forum convenes a unique blend of American leaders from different spheres, and is designed to infuse China knowledge into deep discussions of U.S. strategies and policies toward China

The China Forum was not recorded, and we observe Chatham House Rule to ensure candid discussion among the participants. Included below are the main takeaways from the forum discussion.

## **1. China-Russia ties are troubling, but they have limits**

China and Russia have been in a period of increasing strategic and political alignment. The PRC and Russia will likely deepen their relationship. But China-Russia ties have built in limits, as demonstrated by China's apparent unwillingness so far to provide material support to Russia in its war against Ukraine and risk U.S. sanctions. On the other hand, the PRC has spread Russian disinformation in a substantial way.

Xi Jinping's and Vladimir Putin's personal relationship is important. They both feel disrespected by the U.S. and have similar ideological views of the world, seeing the West as pursuing "ideological infiltration" to subvert their regimes. This grievance-based common cause shapes the way they approach diplomacy with one another and Western countries. Although Chinese elites may value Russia's help in confronting the U.S. in Asia, many of them do not share Xi's affinity for Russia. If Russia's war in the Ukraine continues to go badly for Putin, this could reflect badly on Xi domestically. Furthermore, many Russians are suspicious of the Chinese and may come to resent being the "junior partner" in the relationship.

A useful way of characterizing the Russia-China relationship is that they may not always be with each other, but they will not be against each other.

The U.S. should take care not to drive Russia and China closer together and should differentiate its treatment of Xi and Putin. Multilateral organizations and confidence building can help avoid a return to two hostile blocs, especially in Asia.

## **2. Deterring Chinese aggression, strengthening American competitiveness, and pragmatism should form the basis of the U.S. approach to China**

Xi wants different rules for the world, which is what makes China a strategic competitor to the U.S. The U.S. needs to prepare to advance its interests in this strategic competition while managing it such that competition does not lead to confrontation and conflict. But it is still too early to say that China is irrevocably set on being a hostile competitor threatening the international system.

The U.S. and its allies should make clear that they still are open to the PRC being an important part of the existing international system — and be willing to revise aspects of that system in an appropriate way to reflect the increasing global weight of China and developing countries. The U.S. should show China that there is a mutually advantageous outcome for the two countries and U.S. allies. The U.S. administration's strategy should be to shape the strategic environment alongside its allies to encourage the moderation of Chinese foreign policies and international behavior, but it should not expect to directly change China's political system. American businesses in China are an asset for promoting Western values, such as transparency, accountability, and rule of law.

When it comes to values, over-emphasizing the democracy vs. autocracy framing vis-à-vis China could be a mistake. Currently, the U.S. is talking loudly but carrying a small stick. If America wants to succeed in effectively managing Chinese power and protecting its interests, pragmatism is key. The U.S. should have robust military capabilities to hold war at bay but needs to gain the diplomatic support of other countries in managing Chinese aggressiveness. The best way to gain this support is by helping these countries solve their problems, not by grandiose ideological claims or by seeking to force countries to choose between China and the U.S. Other countries will follow the U.S. if it presents an open economic and political model that above all else is functional and delivers results.



### **3. On Taiwan, “strategic ambiguity” should remain, but more concrete action is needed to enhance deterrence**

Because it appears more and more likely that Xi may attack or blockade Taiwan, there is a growing chorus in Washington calling for a revised policy, namely “strategic clarity,” with regards to the American commitment to Taiwan’s defense. This view holds that in order effectively to deter China, the U.S. must declare that under all such circumstances it would come to Taiwan’s defense.

The dominant view at the China Forum was that such a change in declaratory policy would potentially harm U.S.-China relations while doing little to strengthen deterrence. Given that the People's Liberation Army (PLA) has already assumed for years that the U.S. would intervene in a Taiwan invasion or blockade scenario, little is to be gained by “strategic clarity.” The somewhat ambiguous wording of the Taiwan Relations Act – that the U.S. will consider any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, as a threat to the peace and security of the Western Pacific and of grave concern to the U.S. – has worked to preserve peace in the Taiwan Strait thus far. What is needed is not a change in declaratory policy but concrete steps to strengthen military deterrence and ward off aggressive Chinese action against Taiwan coupled with a clear, direct, and authoritative explanation of U.S. policy toward China and Taiwan. We should not provoke the attack we seek to deter.

### **4. The Chinese economy is slowing down, but many American businesses still see opportunity there that would benefit America**

China’s economy is expected to slow down considerably in the coming years. Some of the sources of slower growth are secular and demographic, and some are the result of poor policy, including COVID-Zero policy and erratic regulation of private business. Billions have been frittered away for grand vision objectives. The economic problems pose a danger for the Chinese Communist Party’s (CCP’s) performance-based legitimacy in the short- to medium-term.

Although international investors are seeking to varying degrees to hedge away from the risks inside China, many remain optimistic about the prospects for American business in China. Additionally, many American businesses are concerned that the U.S. is demonizing China unnecessarily and that a widening rift between the two countries is bad for the U.S. as well as for American business. Tensions are having serious spillover effects, with more Chinese consumers potentially unwilling to buy American products.

### **5. Xi’s power is not unlimited, but the Chinese state’s coercive capacity over its citizens is real and growing**

While Xi is powerful, his sway has notable limits. For example, while he has been able to crack down with incredible intensity against Muslims in Xinjiang and stifle potential competition against him inside the party elite, he can’t implement a property tax scheme because it is unpopular with homeowners. While China has increasingly built up a comprehensive and technologically impressive surveillance system, many localities are as yet unsure of how to use the wealth of data produced. With fiscal problems on the horizon, local governments are going to face challenges in maintaining, updating, and operating these systems. Surveillance is not a one-and-done investment.

Nevertheless, massive surveillance, censorship and interference by Party cadres in all types of organizations have severely constricted the space to express dissatisfaction with the direction in China today. Discussion in think tanks, academia and on the Internet is very limited. This extreme social control may protect the position of Xi and the CCP in the short run, but it filters out critical voices and debate that might prevent major policy blunders.

## **6. Participants debated different responses to China's growing influence in the world, but agreed that the U.S. and its allies should provide alternatives to dependence on China**

Some participants in the China Forum felt that China's growing influence from the Belt and Road Initiative (BRI) and other spending projects in Africa, Latin America, and Eastern Europe posed a threat to U.S. influence. Others believed that the U.S. should sit by and let China make investments in these regions, as many are unlikely to be profitable and only mire it in non-performing debt. Regardless of which side of the debate one is on, there was considerable concern across the board about the lack of U.S.-backed alternatives to China's global initiatives, including global investments.

## **7. U.S. domestic rebuilding is progressing, but more remains to be done**

On the home front, participants expressed relief and renewed confidence with the CHIPS Act, which had just passed in the U.S. Congress. The U.S. was late to the game, with every other country in the semiconductor sphere already heavily subsidizing and incentivizing chip production. Easing immigration requirements for STEM graduates and other individuals with valuable skills also should be part of the U.S. strategy to sustain its technological and economic leadership.

Still, some participants had trepidations about the U.S. sticking its toes into industrial policy. China's recent arrests of top semiconductor executives on corruption charges provides a cautionary tale. There was also a note of worry about U.S. bureaucratic capacity, as the agency implementing CHIPS is not accustomed to such a complex project.

Trade-related disruptions and the associated de-industrialization and hollowing out of many Rust Belt communities have had deleterious effects on many American regions and sectors. These effects need to be addressed through domestic policies if political support for economic openness is to be maintained.

## **8. The U.S. must take care to limit decoupling with China so that it does not impede America's own technological and economic progress**

Some targeted decoupling with China will be necessary to achieve supply-chain resilience and protect national security. Any restrictions on trade and investment, however, should be narrowly defined and focused on China's military-related technological development, so that they do not stray into containment of China's development or across-the-board technological protectionism. Overly restrictive measures would also be counterproductive as they would discourage other countries from collaborating with U.S. efforts on China.



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