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What Does the US Want from China?

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Having generated political momentum in a campaign to reset trade relations, **what is the target?**

- If it is to **reverse China's industrial** policy the US does not have the leverage.
- If it is to **contain China's technological development** to prevent it from becoming a peer of the US, we can't do it alone.
- If it is merely to **improve temporarily our trade deficit** we will have wasted a rare political opportunity.

What were previous goals?

- Previous administrations sought to **persuade China to participate in the rules-based international system**, enjoying benefits but also fulfilling obligations. In the 1990s and early 2000s the model had success in the areas of non-proliferation and climate change.
 - A key component of this approach was the recognition that there were clear **limits to US bilateral leverage** and multilateral coordination was necessary to close doors to China that were unfavorable to US interests and to encourage China to move in directions compatible with US interests.
 - The combined approach of pursuing a **Bilateral Investment Treaty** with China while at the same time putting in place a multilateral trade agreement in the form of the Trans-Pacific Partnership was a case in point.

What has changed?

- Since 2012, China has made clear it is using its accumulated power and influence to attempt to **re-shape the international system** in ways that are not fully congruent with and in some important respects diverge from North American and European perspectives.
- The Trump administration, responding to President Xi Jinping's more ambitious and at times confrontational effort to assert leadership on the international scene and exercising its own preference for bilateral versus multilateral action, has **taken a different tack**.

- It is attempting **to leverage bilateral relations while eschewing TPP** and for the most part deferring the option of coordinated, integrated international policies designed to influence Chinese behavior.
- On the trade and investment side, this approach features **threats of tariffs** and the prospect of **increased restrictions on Chinese investments in the US** and on its imports from the US of high technology, including a June 15 deadline for announcement of a final list for the first, \$50 billion tranche of trade covered by tariff hikes.
- It also includes a **June 30 deadline** for announcement and then imposition of **investment restrictions and enhanced export controls** on Chinese individuals and organizations to prevent them from acquiring U.S. technology.

Why ZTE matters

- The significance of **the retreat on ZTE** announced June 7 should be seen in this light. Commerce said the deal to sustain ZTE's commercial viability included a \$1 billion penalty against ZTE and a U.S.-chosen compliance team to be embedded at ZTE. It is not outside the realm of possibility that the implementation of this deal will be so difficult as to put ZTE center stage again. There was no apparent corresponding Chinese concession.
 - It is evident that the administration **uncovered a serious vulnerability** with its original ban on US supply of components to ZTE. This got President Xi's attention and occasioned the direct appeal to President Trump to "save" ZTE.
- That tells us that the **restrictions on high technology trade and investment under consideration are much more serious in Chinese eyes than the tariff skirmishing.**
 - But US denial of China's access to high technology, if coordinated with other industrialized nations, threatens significant escalation in US-China strategic competition.
- This is a familiar conundrum:
 - The US has limited bilateral leverage and the use of broadly coordinated coercive measures that could be effective are likely to engender Chinese offensive retaliation and defensive actions that move us further away from the long-term goal of drawing China more productively into the rules-based international system.

Where does that leave us?

- As the June 15 and June 30 deadlines approach:
 - It is **more likely than not that at least the first tranche of tariffs will ultimately be enacted.** Both sides could choose to declare victory at any time and call off the tariff skirmishing, but that seems not to be in the cards at the moment, some seven days out from the US self-imposed deadline.
 - **Investment restrictions and export controls on high technology goods and services are coming.** This effort has taken on a life of its own in the Congress and will proceed even if the administration defers its own action.

Within the administration there is strong support among key players for effective action to address serious national security threats.

- For the short term, the **high stakes summit with North Korea in Singapore on June 12 will divert attention from the looming crisis in US-China relations.** Outcomes in Singapore could either dilute or deflate US-China competition or intensify the evident friction in bilateral ties.
 - Secretary Pompeo announced June 8 that he will travel to Seoul and Beijing after the June 12 summit to brief Japanese and Korea allies in Seoul and to engage the Chinese in Beijing.
 - His trip could figure into the implementation of June 15 and June 30 deadlines in China.

How will this end up?

- For the medium to long term, it is prudent to **plan for the competition component of US-China relations to become more and more prominent** as cooperative aspects of the relationship recede.
 - Ideally, after a period of jockeying for position in both security and trade arenas, the US and China will settle on a more stable basis for the two nations' engagement. In less propitious circumstances the two sides could settle into a semi-permanent state of ideological, security, and economic rivalry.
 - **Resolution of core differences is not on the immediate horizon.** It may take some years for the two sides to find mutually acceptable patterns of interaction that are more stable, transparent, and sustainable than at present.

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