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## **CHINA UPDATE: Pence Articulates Hardening Administration Approach**

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1. Vice President Pence delivered a **hard-hitting speech on China** at a Washington think tank this morning, **accusing the Chinese of meddling in US domestic politics** and of “employing a whole-of-government approach...to advance its influence and benefit its interests...” This strategy, Pence outlined, **includes political, economic, military, and academic components.**
2. The speech reflects **President Trump’s growing confidence in his leverage over China and the Administration’s fixation on obtaining significant trade concessions from China**, particularly in the wake of KORUS finalization and the notification of text for the US-Mexico-Canada Agreement.
3. Further, it is emblematic of the **deterioration in bilateral relations at all levels -- military, political, trade.** The **two sides do not appear to be communicating** at senior levels on trade matters. **Neither the White House nor USTR seems keen to resolve** the trade impasse, believing that continued **uncertainty will encourage increased investment in the United States and a deterioration of Chinese power.**

### **THE PENCE SPEECH**

**Vice President Pence delivered a hard-hitting China speech this morning at the Hudson Institute**, a conservative think tank. In a clear signal that Washington will be increasingly political regarding China, Pence stated that “Beijing has mobilized covert actors, front groups, and propaganda outlets to shift American perceptions of Chinese policies.” The Vice President **stated, “what the Russians are doing pales in comparison to what China is doing,” asserting that Beijing wants a different President.** The Vice President also hit China’s military buildup in the South China Sea and its increasing diplomatic isolation of Taiwan.

Last week President Trump said President Xi “may not be a friend of mine

anymore,” **accusing Beijing of interfering in American mid-term elections, citing an op-ed sponsored by state-owned China Daily** in an Iowa newspaper targeting farmers suffering from Chinese retaliatory tariffs.

Pence urged Beijing to **respond to US pressure “with deeds, not words.”** He also suggested US business leaders **“think twice” before entering the Chinese market**, highlighting instances of the Chinese Government exerting leverage over US companies interested in maintaining operations in China.

National Security Council Senior Director for Asia Matt **Pottinger** had **foreshadowed** Pence’s speech over the weekend in remarks at the Chinese Embassy’s national day reception. “In the United States, competition is not a four-letter word,” Pottinger said. **“We in the Trump Administration have updated our China policy to bring the concept of competition to the forefront.”** Pence echoed: “competition doesn’t always mean hostility,” adding Washington still aims to shape “constructive relationships” with Beijing should Chinese leaders “change course and return to the spirit of reform and opening.”

### **BEIJING RESPONDS**

**Beijing responded quickly** to today’s speech, **expressing “firm opposition” to Pence’s remarks on China meddling** in US domestic politics and elections. The Chinese Foreign Ministry urged in a strongly worded statement that Washington stop slandering China “groundlessly,” calling the accusations **“extremely absurd.”** Ministry spokesperson Hua Chunying said in the statement that China’s US policy is “consistent and clear” and reiterated **Beijing’s willingness to achieve a win-win** with the US. Despite the harsh tone, the **statement fell short of outlining retaliatory actions should the Trump administration stick to its guns.**

### **TOUGH TRADE SLEDDING...**

The Vice President’s speech comes as the **administration approach to China trade is hardening.** Trump Administration tariffs of 10% on \$200b in goods went into effect September 24, with China retaliating immediately on \$60b in US goods. This latest exchange of tariffs come on top of the existing \$50b reciprocal retaliation. Vice Premier Liu He recently declined an administration invitation to Washington for talks, declaring the Chinese would not negotiate with a knife to its throat. The White House has since threatened to retaliate on roughly \$267b, \$250b in goods and \$17.4b in services, although we have yet to see concrete action toward implementation.

Meanwhile, the **White House appears to be in no rush to come to the table, seemingly wanting the Chinese to initiate discussions with a solution in hand.** A possible next contact would be a Trump/Xi bilateral at the late-November’s G-20 meeting in Argentina, but this is unconfirmed and perhaps unlikely. Conclusion over the past two weeks of trade agreements with South Korea and North America, as

well as the launch of trade talks with the EU and Japan, seem to have **convinced Trump that he is in a strong position vis a vis the Chinese and can wait them out.**

### **...AND SECURITY TENSIONS**

In recent weeks, we have seen **increased tensions across the spectrum of US-China relations.** On September 20, the Administration imposed sanctions on a People's Liberation Army entity for purchasing weapons from Russia, and on September 25 the State Department announced the sale of \$330 million in military parts to Taiwan. The two sides have **postponed a Diplomatic and Security Dialogue scheduled for early October** that was to have been chaired by Secretaries Pompeo and Mattis. On Sunday, a US destroyer conducted a **freedom of navigation operation within the 12 nautical-mile limit of a Chinese occupied feature in the South China Sea.** Pictures of the event show a **Chinese destroyer approaching to within 45 yards of the American warship, an act the U.S. Navy termed "unsafe and unprofessional."** This is an unusually strong Chinese reaction.

### **CHALLENGES AHEAD**

**We appear to be headed for increasingly rocky relations with Beijing, with communication lacking at the senior levels -- not on trade, not on much else.** The Vice President's speech may be part of the "broadside" on China that the White House had been rumored to be planning. It increasingly appears that the Trump Administration is more focused on increasing pressure on the Chinese than on engagement. Secretary of State **Pompeo's Beijing talks could provide some relief, but we expect the broad downward trend in bilateral relations to continue.**

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