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Transcript

CHINA IN THE WORLD PODCAST

Host: **Paul Haenle**

Guest: **Abigail Grace**

Episode:

The U.S. and China as Peer Competitors in the
Indo-Pacific

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Haenle: Welcome to the China in the World podcast. I'm delighted today to have Abigail Grace joining me in Beijing at the Carnegie–Tsinghua Center. Abigail was a member of the U.S. National Security Council staff from 2016 to 2018 working for both the Obama and Trump administrations. During her time at the National Security Council in the Trump administration she helped to develop and operationalize the competitive approach to the U.S.-China relationship, the Free and Open Indo-Pacific Strategy and the international campaign to maximize pressure on North Korea.

Abigail is now a research associate in the Asia-Pacific Security program at the Center for a New American Security where her work focuses on U.S. strategic competition with China, China's foreign policy, U.S. Indo-Pacific strategy and Chinese approaches to multilateralism. The Carnegie–Tsinghua Center was fortunate to host Abigail in Washington, D.C., this past summer for our track 1.5 discussions on the U.S.–China relationship, and I'm delighted to have her joining us on the podcast today. Thank you very much for joining us, Abigail!

Grace: Thanks for having me, it's been great to be here at the Carnegie–Tsinghua Center in Beijing. I appreciate participating in the many useful discussions we've had and I'm looking forward to our conversation.

Haenle: Well, thank you. As I mentioned earlier, people often say to me: “You did China for the Bush administration (George W. Bush) and then also for the Obama administration. How can you do China policy for two different administrations that had different approaches – one Republican and one Democrat?” The difference, however, between the Obama administration and Trump administration seems much starker, and you have the unique advantage of having served in both. So, I want to just start by asking how have you seen the evolution of the U.S. administration's approach to China under President Trump from that which you saw in the Obama administration that I was part of?

Grace: I'll just start by saying that first, it's generally the role of the civil servants in the U.S. foreign policymaking community. Certainly, civil servants are asked every day to provide their best advice, and perhaps their best advice is slightly different based on who's in charge. But largely I think you'll see that there's a committed cadre of foreign policy professionals working in D.C. every day to do the best they can and really try to provide expert analysis regardless of how that's interpreted. So, I think the continuity among all administrations that you've mentioned is something that perhaps is underrecognized by the press and certainly exists today to some extent as well.

Now, I see China policy has evolved over the last couple of years. Certainly, under the Obama administration, President Obama had several key initiatives: the Paris climate agreement, the JCPOA and other broader multilateral initiatives that really required China's participation in order for the administration to successfully conclude. In some sense, a lot of China policymaking capacity was spent trying to, you know, bring China long into these multilateral agreements, and there was maybe less focus on the exact bilateral relationship and those dimensions...

Haenle: In terms of the challenges in the bilateral relationship?

Grace: Absolutely. Clearly, those overwriting global initiatives took precedent making for good reason, however now in the Trump administration where focus globally really is more on bilateral state to state interaction, you see the reemergence of many of these themes that maybe were present in the Obama administration but were not driving the discussion like economic issues such as intellectual property theft, joint ventures, forced technology transfers. Those were concerns the Obama administration had, but they were not front and center and they were not driving the relationship. Under Trump's approach where the bilateral relationship sort of supersedes all, you see these elements of friction really driving things in a way that was not present before.

Haenle: Yes, back to your point about civil servants. I was a military officer, and so when I was asked to stay on for the Obama administration I had been working on North Korea and China. Continuity is important and actually the experience from just civics lessons, watching the transition between administrations, I found fascinating.

But it's very interesting, I do remember in the Obama and Bush administrations we did have global issues of strategic importance to both the United States and China that we were working with China on, whether, I should say, the Iran nuclear agreement, climate change, North Korea of course. These I think in large part did take up a good bulk of the focus and attention. Underlying that, as you suggest, there were some tensions in the economic and trade relationship that were growing. I often say that these issues are not unique to Donald Trump, I was trying to get Jeb Bush elected president, and I think if he or Hillary Clinton had come into office there would have been greater attention on these trade and economic issues, to try to make some progress to balance out the economic and trade relationship.

President Trump, however, has really a very forceful approach to these issues. He has focused his efforts on the trade deficit, and he used tariffs as his tool to try to address these issues. How do you see this playing out? Are we seeing any effect on addressing these issues? What's worked, what hasn't worked in your view?

Grace: President Trump shares some of the same underlying concerns that we've seen mounting over the past few administrations. In particular his campaign style and rhetoric really appeal to the American heartland and their economic anxiety over globalization. Perhaps China's role in it even really contributed not only to him just taking issue with some of these structural issues but also the entire nature and paradigm in which the U.S. and China were engaging.

Rather than seeking to work through the same sorts of institutions, you saw the President come in and maybe try to start by doing comprehensive economic dialogue. But after one round the administration really became disillusioned with it and skeptical that any amount of dialogue in the current architecture or in any way resembling what we've seen in the past would yield satisfactory results.

So, in that sense I think the tariffs were a way the president, I think at least, through using tariffs totally shifted the frame of the conversation, how exactly China perceives the level of urgency that the U.S. was feeling and to really sort of captivate president Xi's attention in a way that another iteration of the comprehensive economic dialogue absolutely would not have done. So, in that sense tariffs as a stick of dynamite in the middle of the room were effective and paradigm-changing. However, whether or not they actually have the intended economic effect of incentivizing China to address these concerns, I think it's perhaps not quite there.

Haenle: Well, it's interesting because early on in the Trump administration when he was focusing on the trade deficit and turning to tariffs as his tool, many in China including very senior Chinese leaders came to the conclusion that this was all about President Trump's short-term political imperatives, because he had campaigned on China and by changing the trade relationship that we have with China he was simply looking for some victories that he could tweet out to his base and kind of move on.

In our discussions this summer in the Track 1.5 that we had in Washington, D.C., we heard something different from Trump officials, at least from my perspective. It seemed to me that they were talking more about the issues that you've brought up—the structural issues: whether it's industrial policy or market access, IPR, forced technology transfer. Has there been an evolution in the administration on what might be the most effective way to push and see change?

Grace: I don't know if I would say there's been an evolution in the administration. I think certainly this cadre of civil servants we were discussing earlier and even to an extent some of the economic principles within the administration have long found what's happening problematic and would agree with a lot of the comments made on market access and industrial policy.

I do think that if you look at the president from his campaign and his election to his rhetoric today, you've seen a lot of personal evolution in how the president himself describes economic policy and his goals financially with China. Part of that is because I think the USTR's Section 301 Report was a fact finding mission for the administration. A lot of the phenomena they described had already been previously documented. Certainly, I think USTR saw it as an authoritative document that they were proud of. I think another thing too that's not discussed enough is that there's a pretty broad bipartisan consensus about the actual diagnosis of the problem.

Now, people in all sectors certainly politically disagree with the tactics of tariffs the president is using, but I don't think you would find many people at all who would say that things are fine and dandy in the U.S.-China economic relationship.

So, has there been an evolution in the administration's policy? I think as they have learned more, they've honed perhaps some of their own internal judgments. And certainly, the president's rhetoric has evolved to match this fact finding mission. But I don't think that many who work on the U.S.-China relationship full time necessarily had as big of a...

Haenle: You hear some in the administration advocating for cooperating closer on China with countries that have a common concern with us on issues like China's industrial policy or forced technology transfer and market access, more structural issues. The administration seems to have worked through some issues with Europe this summer when [President of the European Commission] Juncker came to visit the United States. They seem to be in the final throes of the NAFTA negotiations.

Will there be in your view a move to bring others to our side in negotiating with China on some of these economic and trade issues where they have similar concerns? And do you think that's an important part of the approach?

Grace: I think if the U.S. were to elect not to take a coordinated and consolidated approach with allies, then any China economic strategy they'll pursue will likely fail. I think that solidarity here is going to be a key issue if the message from all Western economies is that we hope that China reforms and is able to carry out some of those 3rd Plenum reforms that it itself identified as important for structural change.

And I think too that if you look at USTR's capacity and their ability to simultaneously prosecute trade wars with Canada, Mexico, Europe, and China, it's just not there, you know. I think that the U.S. and allies sitting down together with China all in the same room is probably not likely to be productive because China would perceive it as the U.S. and the West ganging up on them. I think if anything what it will take to be successful is for the U.S. and its allies to have a similar diagnosis of the problem and to raise the same concerns, and I think that's what it will take for the CCP here to understand that this is not a U.S. problem, not a Canadian problem or a European problem. This is sort of a broader concern.

Haenle: Lately the Chinese narrative seems to have shifted from one extreme where they say this is about Trump's short-term political imperatives, that he's just looking for political victories, to almost the opposite end of the spectrum where they're now saying after President Trump announced another 200 billion and recently, even more, all the way up to a total of 517 billion dollars' worth of tariffs.

The Chinese now seem to have been coming around to this narrative that this is about the U.S. trying to contain China, to keep China down, to block China's legitimate rise and that there's really nothing that China can do to be able to negotiate in good faith with the United States. Why do you think the Chinese would come to this narrative? Do you think there's any truth in this?

Grace: First I'd start by saying that that narrative is a really convenient fiction, right? If you're the official or the scholar, or academic trying to explain to President Xi and the Politburo why it is that this is happening, right? It's harder to admit that you have a problem with yourself in your own system than it is to acknowledge that perhaps others critiquing you might have some valid basis for their concerns. So, I think if anything reckoning with the reforms that need to be made is not something that's going to necessarily be easy for the Chinese system or convenient, and so this

narrative, I think, is just the latest evolution in how China is painting the trade war in order to explain it.

Haenle: Neither narrative acknowledges any role for China. It's all about, you know, what the U.S. is doing to China.

Grace: Yes, precisely, if China wants to live up to this goal of being a strong, modern, socialist Chinese nation capable of contributing to the international system. With that also comes responsibility too, right?

And we were talking earlier today about how sometimes the U.S. ability for self-reflection can be overwhelming. You see op-eds today that are highly self-critical, which I think is an important part of our system. And I think it's important that China seeks to develop that capacity, maybe not to the same extreme that we've seen in the United States, but to have the ability to reckon with and have honest discussions about policy, which brings me to my point that I don't think we're going to see any sort of resolution to the current trade impasse until we're able to actually see officials having candid conversations about what it means for China to have its current industrial policy in the context of a 21st century economy. And I think that until China is able to have more of these self-reflective, honest and candid conversations internally and come up with a more balanced approach to U.S. interlocutors, we're not going to see any sort of a resolution.

Haenle: Now, many of the Chinese scholars, you know, in this narrative of the United States trying to keep China down or contain China, they'll point to the National Security Strategy and the National Defense Strategy. You played a role in the formulation of the National Security Strategy. You have said that our media and others have misrepresented what it means to call China a strategic competitor or a revisionist power. How has it been incorrectly understood?

Grace: So, I want to start by saying that first, I think that the Chinese should consider it a compliment that we're deeming them a strategic competitor. Because China is seeking to move past this narrative of the century of humiliation and being constantly undermined and discounted by its interlocutors.

This is a recognition that, in this peer to peer environment that we'll be operating in for decades to come, the United States views China as its closest peer. So, I can't think of any more heartening recognition for President Xi if it is his goal to create this modern and powerful country.

Haenle: They should see it as a compliment?

Grace: They should see it as a compliment.

What does it mean to compete? I mean competing I think, and this is perhaps the uniquely American way of looking at the word "competition," but I see competition in some regard as something that makes us better, right? You know, when I'm competing with peers it pushes me to

do my best work, and I think them too. This notion of having a friendly competition in some spheres is something that's been overlooked by the Chinese media. And instead, they've chosen to view the word "competitor" as meaning the same thing as "rival," which in the U.S. terminology and how I think we perceive those words is that they have very different connotations.

And what does it mean to be a revisionist? I mean, to me personally, I see "revisionism" as being dissatisfied with the status quo. I think it would be hard to make the argument that China is satisfied with the status quo when it comes to international norms, regulations. My personal belief is that this is because China feels like it has very limited input to the current international order. I mean, it wasn't at the table when UN, and WTO, and a lot of these other conventions that we're bound to today were established. I think that when we say "revisionist," we say that China is seeking to change international norms and standards as they are. And I think Chinese scholars would admit that themselves. Instead of being upset about being called definitionally "revisionist," it's much more productive for Chinese scholars to put forward concrete proposals about what they would like to see as change in the international system. And I think to the degree it's possible, certainly U.S. voices are willing to listen to what proposals they have. But to me it seems like China is being, in many contexts, revisionist for the sake of being revisionist, right? Just to gain more relative power and not actually put up concrete proposals that look different. So that's what I'd like to see.

Haenle: One of the things that we hear often here in China is that we're moving into a new Cold War paradigm. This summer during our Track 1.5, we heard from members of the administration that there is a very robust challenge or questioning of the previously held assumptions that we used in terms of approaching China. In my own view, it's always good to question assumptions and go back and rethink whether or not those assumptions are the right assumptions. But some of the assumptions that they're questioning are quite significant. One, in particular, is that this interdependent economic relationship with China provided a stable footing for our bilateral relationship and that perhaps we should decouple or disentangle our economic relationship. That would be quite challenging in an environment of global supply chains. It would also begin to look very much like a Cold War framework. How serious is that effort?

Grace: Well, I can't speak to, you know, how serious an effort it might be to start a new Cold War, right? I'm not sure...

Haenle: Alright, disentangle our economies?

Grace: I've got an answer on the question of disengagement, decoupling, others you have raised. You know, my thought on this whole new Cold War paradigm is that actually the tools and techniques that the United States needs today to address the China challenge are very different than what we used against the Soviet Union in the Cold War. And if we are to call this a "New Cold War," in a sense it could almost encourage some sort of intellectual laziness among the U.S. national security cadres, as we've been talking about, right? Because it, sort of, lulls us and them

into the false sense of complacency that what we did 30 years ago would work today which I don't think is true at all.

Haenle: It's a very interesting point.

Grace: As far as this broader question of is it possible or wise to decouple our economies? I don't think that either the United States or China would agree today that the intense level and entanglement that we see is maybe productive. I mean you saw with the ZTE export ban how China's immediate response was to say, "you know, if we're dependent upon the U.S. for the tools that we need to actually build chips, then that means that we have the built-in systemic vulnerabilities to our own economy."

But I think what people have been missing in this debate is that it doesn't have to be one extreme or the other. It's okay to say that we think our economies today are so underwhelmed that perhaps it gives both of us too much leverage over the other side but not to a wholesale pick up and move supply chains to Vietnam or Malaysia. And I think that this broader diversification would perhaps be in both countries' best interest and what's likely already going to happen over a period of time. And that bringing this conversation down from such a theoretical academic perspective and into more concrete policy examples might help others see that this is not black and white. There are many shades of grey. Absolutely. Complete disengagement: a Soviet Union Cold War style would be counterproductive. Immensely I think, increase the costs of military conflict on a 20 to 30-year time horizon. But diversification is not necessarily a bad thing.

Haenle: You're doing some work as well looking at what U.S.-China relations look like tomorrow. And as we get through this particular very difficult juncture in relations. You know, you've mentioned that in many ways the Trump administration has come in and President Trump was elected as a disruptor. He's clearly disrupted the U.S.-China relationship and highlighted issues that need to find some resolution, especially on the economic and trade side. There are other issues related to strategic rivalry in the South China Sea that will require hard work between the United States and China going forward.

One of the signature initiatives in the Asia Pacific that President Trump announced last year when he visited the region was the Indo-Pacific strategy. The "Free and Open Indo-Pacific Strategy" on which you worked, and on which you are now are looking very closely in your role at the Center for a New American Security.

Tell me in your view what this is all about. We hear from Chinese scholars here of course that this is just yet again evidence that we're trying to somehow encircle China or contain China. But you've said that it is not. Tell us what it is your view?

Grace: Yeah, so first I want to start by saying I think some people have noticed perhaps theoretical continuity in some ways between the Obama administration's "pivot" strategy and the "Free and Open" Indo-Pacific strategy. I think that's because both were written out of a recognition that the

United States is going to be a successful global actor in the 21st century. Asia is the primary theater and you see Secretary Mattis say frequently that “the future for America is in Asia”.

And I think Chinese descriptions of the “Free and Open” Indo-Pacific strategy is almost in a sense an era of hubris on their side because it assumes that everything that the U.S. does must be about them.

Haenle: Uh huh.

Grace: And if anything, America has to stand for something. America’s full on, end-all be-all Asia strategy cannot be containing China. It has to have a positive, affirmative vision. And one of the reasons that I was so proud of the “Free and Open” Indo-Pacific strategy when it was in development was that it started with Japan. And Australia had its own Indo-Pacific concept. India has its “Act East” policy. And for me, for the United States to be successful in the 21st century it requires recognition that we can’t do everything alone and be everything, you know, the only unitary actor, and that requires close coordination and value alignment with our partners and allies in the region. And I think the “Free and Open” Indo-Pacific strategy, if executed properly, has the potential to be this force multiplier where many countries are working together well.

Haenle: And what would be the most important components of that to demonstrate that the United States is committed to the region and that this strategy is credible.

Grace: Well so the most important aspect of the strategy is the one that is most underdeveloped, which is the economic component. I mean, you saw the president during his November 2017 trip to Asia, during the Vietnam speech in Da Nang, mentioning that the U.S. is willing to do bilateral free trade agreements with any country that’s willing. I don’t think that we’ve seen that actually borne out yet. And I think that this gap in a positive trade and investment vision is something that’s really required, especially in the wake of TPP where there is still a lot left to be desired. So, I think in order for it to be successful there absolutely needs to be a more robust approach economically.

Haenle: And does it have to be in your view... I mean, to me it has to be more than bilateral. It has to be multilateral, and you hear officials within the Trump administration, Kudlow is the most recent example talking about maybe reviving the TPP. President Trump seems dead set against it. How do you put together a credible and an attractive formulation without moving to something more multilateral?

Grace: I think that that will be very challenging if not impossible to do. I think what the president’s on record saying is it would have to be 100 times better in order for him to consider rejoining. I don’t know how you could completely make TPP 100 times better. I mean, certainly sure there are very specific aspects or maybe the U.S. didn’t perhaps get everything it wanted in

negotiations. Especially in this world, where USTR is so stretched from the human capital perspective, it would be extremely complicated to move them all through Congress as well.

Neither major presidential candidate supported TPP during the 2016 election. I think that's because there really was not enough of an educational component about what trade and investment does not just for the U.S. abroad for us, or our companies acting overseas, but also the benefits of it for the U.S. domestically. And so, I think if anyone is really hoping to revitalize the U.S. economic presence in Asia not just for the short term but also over the long term, it's essential that we engage our own domestic populations.

Haenle: Absolutely, I think you're exactly right on that. I think if there is any effort to revive something like that you'd have to look at how it benefits the American worker.

Grace: I'm from a small town in Mississippi with 40,000 people. And one of the biggest economic drivers in our town is we've got a Toyota plant that opened in 2010. Now it employs lots of people I went to high school with, a lot of people I grew up with. But I don't think there's that recognition in people's minds that the reason why this Toyota plant is here is because we have such a strong U.S.-Japanese bilateral relationship, right?

And so, I think drawing out these more concrete examples that people identify with is important? In fact, my mom has Japanese kindergartners in her classes that they do in our cultural days at elementary school, and how that connects to something like TPP. I don't think that that narrative has been created and I don't think that there's enough acknowledgment of that in the heartland.

Haenle: And beyond the economic and trade component of the Indo-Pacific strategy, what are the other important elements do you think?

Grace: Also, I think the security aspect is actually pretty well-formed. Secretary Mattis' speech at the Shangri-La outlined a lot of that, so I won't go into detail there. I think the governance aspect of it is really something that could require more and more work.

Recently we've seen the administration talk about what it means for states to be secure and sovereign and assured in their own capability, and that is something that's part of the "Free and Open" Indo-Pacific. That freedom also means you as a sovereign state have the freedom to decide what it means for your own national policy. I think that in some states there's been a concern, especially among nondemocratic states and ASEAN, that this might be a new democratizing attempt by the administration that they might be trying to push values onto them. And I think while it's certainly important that the U.S. retains its own commitment to our own values and human rights that there needs to be more clarity here about what "free" means. And I think that needs to be teased out a bit more.

Haenle: So, when you say "governance" you don't necessarily mean then "democracy," "values," or "human rights?"

Grace: Well, I think there's a dual element of "free" the administration's trying to push. On the one hand, you as a state are free to be, you know what they talk about, sometimes free from Chinese coercion, right? You're free to make your own decisions. But on the other hand, there is this aspect of democracy and good governance and institutional transparency that they also associate with "free." So, I think that this just needs to be fleshed out more in order for it to be successful and for states in the region to buy into it.

Haenle: And recently President Trump announced that he would not come out for the ASEAN meeting and APEC. You know, in my view that sends a message that we may not be committed to the region. And I wonder whether you think that impacts the administration's effort to build and carry out this Indo-Pacific strategy to its fullest.

Grace: Yes. So, I'll start by saying that I think Vice President Pence is more committed to Asia policy than perhaps your average vice president. So, if you had to pick a second person to go, I mean, that's great that he's able to attend.

What I do find that's kind of concerning that people have been discussing on Twitter is that maybe Trump not going is a good thing because then you reduce the risk of uncertainty and something embarrassing happening. And I think that's unfortunate that that's even the question for Americans, right? Is our president a reliable messenger? So, I think...

Haenle: It's unfortunate.

Grace: It's unfortunate, right? I mean there's nothing that I would love more for us to have a great leader who's able to go out at APEC and ASEAN and everyone be jazzed about it. So, pros and cons I guess maybe we look less committed, but we know that we're going to have a steady performance by Vice President Pence.

Haenle: Well that's a great place to conclude our discussion. I very much appreciate you sharing your views and your insights and being here with us at the Carnegie–Tsinghua Center. I guess I would ask you one last question. I have heard you made this point today and I think it's a very interesting point. You know you're younger than I am, but you are an up-and-coming expert on China as they say in the U.S., but you noted that you observe a generational difference in how Americans look at China and the China relationship. How do you describe that?

Grace: Yeah. I think that this question of how Americans generationally perceive China is quite interesting because it almost marks whether or not people have lived and experienced the Cultural Revolution, reform and opening and if they have seen how far China's come, which is frequently Chinese interlocutors' response when you ask them about reforms. They'll say, "Oh, please be more patient. It takes more time. Look at how far China has come".

But you know if you're my age and your only recollection and memory of China is as a capable and strong country. Obviously China still has its own developments and challenges, certainly the more inland regions are not at the level of glitz and glamour you see in Beijing and Shanghai. But Americans, especially China hands who are under 45 and don't really have this perspective on China's not being capable or able to implement these strategies. I think they struggle with that request from interlocutors and if anything, it forces them more toward a hawkish perspective where China is already this 'qiangguo' (强国), a strong country that President Xi sets out for them to be.

Haenle: And we want to see change happen faster?

Grace: Faster, yeah. Because, you know, China can throw up a skyscraper in six months. Certainly, that's a testament to national power and capabilities. So, if anything it's that the younger you are in the U.S. the less you underestimate China and the more you've always seen them as the global actor that they are today.

Haenle: Fascinating. Well, thank you again, Abigail, and we welcome you to come back to the Carnegie–Tsinghua Center and join us again on China in the World.

Grace: Thanks for having me, Paul!

Haenle: That's it for this edition of the Carnegie–Tsinghua's China in the World podcast. I encourage you to explore our site and see the work of all our scholars at the Carnegie–Tsinghua Center. Thank you for listening! Be sure to tune in next time.