

# US-China Relations: A Mix of Cooperation and Competition and Implications for Taiwan

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## **Why US-China Relations Matters**

Taiwan's security is affected by several factors, and one of them is US-China relations. The US, since 1949 when Republic of China was forced to move to Taiwan, has been the major supporter for Taiwan's survival, providing security assistance, along with economic aid in earlier period, to Taiwan. In some Taiwan Strait crisis, the US has been the only country which provided assistance to Taiwan.

Nevertheless, it is not exaggeration to argue that a security dependency relations has been formed for Taiwan toward the US. Taiwan has not been able to influence the US policy toward China in the past more than six decades, and it is almost impossible to be so in the future. This impossibility can be exemplified by what happened in the 1970s when the US attempted to normalize relations with China, and in the 1990s when China demonstrated its sabre rattling behavior.

On the other hand, China has been the biggest threat for Taiwan's survival. Before 1978 when China launched economic reform under the paramount leader of Deng Xiaoping, China had attempted to reunified Taiwan by force. China's reunification policy remains unchanged though means for accomplishing that goal has changed as time goes by.

It is impossible for Taiwan to influence China's policy toward the US, either. In the 1950s, China agreed to dialogue with the US in Geneva, and in the 1970s, normalization move with the US was formally kicked off, and on January 1, 1979,

diplomatic relations between China and the US was formally established. With this inability to influence US-China relations, Taiwan observes US-China relation development carefully.

This essay aims to analyze factors potentially affecting US-China relations in the next three to four years. There will be a presidential election in November 2016 in the US, and the newly elected president is to take office in January 2017. What will be the new president's China policy is beyond ability to make analysis.

This essay argues that US-China relations in the next three to four years will be a mix of cooperation and competition. Confrontation with China as proposed by Dr. John Mearsheimer of University of Chicago is not likely. There will be cooperation on certain issues between the US and China, but it is unlikely to develop this cooperation into G-2 status to share power. There will be competition on certain issues, but again, it is unlikely to make this competition out of control and escalate into confrontation. In brief, the both countries will manage the overall relations.

### **Economy as the Priority**

Why a mix of cooperation and competition is envisioned? Economy matters a lot for the both countries.

For China, a peaceful external environment, a term which was first raised by Deng Xiaoping in 1980s, is needed in order to transform China's economy from investment oriented into consumption one. China's new leadership, Xi Jinping and Li Keqiang know quite well that the state dominated and investment oriented economic policy ushered in 1978 has not been sustainable, because the old policy is full of corruption and inefficiency though its merit was to bring rapid economic growth in a short term. Further, the RMB\$400 billion investment project by Chinese government in the wake of the 2008/2009 financial meltdown brought worse consequence, because it benefitted state own enterprises while acted as a blow for private business.

The legendary "Likonomics" is reportedly the solution of this expected transformation policy. Since taking office in spring this year, China's premier Li Keqiang, while slowing down the growth rate, has rolled out a serious of financial and economic policy, including liberalization in financial and banking sectors, designation of Shanghai as pilot zone for free trade arrangement, as well as urbanization policy. It is expected that these financial and banking liberalization policy will be extended to

other regions of China, and China's economy can be re-structured.

The CCP Secretary General Xi Jinping did not sit idle during this period. He has been busy on cracking down corruption and boosting ideological education for the purpose of cleaning up the party and consolidating his power base. All sectors, including the PLA, petroleum industry, and some local governments, were affected by his political moves. It is argued that all these actions aimed to pave the way for economic re-structure.

It is difficult to predict what will be the outcome brought by these policies and actions by Xi and Li for China, but it is safe to argue that a confrontation with the US by China will definitely derail this path adopted by Xi and Li. It can be imaged that economic re-structure will be, at least, postponed, if not aborted completely, and political consolidation action by cracking down corruption and ideological education will be re-oriented.

Economic revitalization is also a critical goal for the US. There is no doubt that the US's economy has been severely hurt by the 2008/2009 financial meltdown, along with 10 years of war on Iraq and Afghanistan. Since taking office in 2009, pulling out of the two wars has been a consistent goal for President Obama, while at the same time, monetary QE by Fed to reverse economic downturn was adopted. The purpose is to revitalize US economy so that US' comprehensive national power can be recovered and its No. 1 economic power status can be sustained as long as possible.

In order to accomplishing the above stated economic goal, President Obama has adopted another policy of avoiding to make any new overseas commitment. The way he handled recent Syrian crisis in which Bashar Hafez al-Assad regime employed chemical weapon against rebellion area exemplifies his dis-engagement policy. It is not difficult to image why President Obama adopted this dis-engagement policy.

We should not underestimate this economic factor in shaping US-China relations. It has been argued that since 2009, China's foreign policy has become more assertive and tension between China and neighboring countries arose. Many factors could contributed to this perceived assertion, and one of them might be perceived relative power between the US and China: China might perceived the balance was in China's favor after the 2008/2009 financial meltdown which severely hurt US economy and China might be emboldened to be assertive.

If the above analysis is correct, reversing the Chinese perception on the relative economic power of the US is extremely critical for changing China's perceived assertive foreign behavior, and it indirectly helps to stability relations between the US and China. In a nutshell, China would not be emboldened to challenge the US, at least, in the near term.

There is a caveat in this aspect. Prioritizing economy is likely to further improve economic interaction between the two countries, but it will not preclude the both countries from pursuing their vital interests. In this case, China will continue to uphold its policy regarding Taiwan, East and South China Seas as their core interests, while the US will continue its existing policies toward Taiwan, East and South China Seas. In this circumstance, competition will be inevitable.

Further, a variant competition in economic field is also inevitable. The US is pushing TPP (Trans-Pacific Strategic Economic Partnership Agreement) program, an endeavor which is part of the Re-balance policy and perceived to win support by ASEAN in order to compete with China, because China was the major driver for the ASEAN+3 FTA agreements.

### **US Re-balance Policy**

The Re-balance policy is a multi-dimensional and comprehensive program. It contains several elements, including: strengthening alliance, deepening partnership with emerging powers, building a stable, productive, and constructive relationship with China, empowering regional institutions, and helping build a regional economic mechanism that can sustain shared prosperity.

To some extent, it is a variant form of continuation of US foreign policy in the Asia-Pacific region since 1950s. It has been US long held policy to strengthen US relations in this region through diplomatic, military and economic channels during the Cold War era and US primacy has been maintained. The US relies on these channels again in the Re-balance.

The only difference between now and then is re-oriented focus. Before President Obama came to office, the US shifted its focus on the two wars in Afghanistan and Iraq for one decade. The US under President Obama, after reviewing global development, re-balances its focus to this region so that the US will not be left out from this newly developed gravity of world politics.

Further, this region has attempted to develop its own mechanisms and institutions in order to sustain long cherished peace and prosperity. This endeavor include ASEAN Regional Forum and ASEAN Defense Ministers Meeting + in security arena as well as ASEAN + in economic field. All these demonstrate ASEAN's ambition to indigenously develop mechanisms and institutions.

Another difference is China. After three decades of reform, China has become the No. 2 power in the world, and it is expected to overtake the US in one decade to become the largest economic actor. Along this development course, China has become more confidence of its own capabilities and there is a growing nationalism among Chinese advocating that China should take this advantage pursuing great rejuvenation of Chinese nation. Appealing to "Building up a new pattern of relationship among major powers" by China President Xi Jinping reflects this trend.

The US has to face the reality of these differences to develop foreign policy tailored to new Asia Pacific situation. Further, no country in this region likes to be forced to choose side, though many countries are skeptical about China's intention despite China's reiteration of seeking no hegemonic status. This is why the Re-balance emphasizes empowering regional institutions, and helping build a regional economic mechanism while building a stable, productive, and constructive relationship with China.

But, China takes a suspicious view on the US Re-balance policy, although Chinese government has never taken a harsh word toward the Re-balance. China perceives that the Re-balance aims to constrain, if not contain, China, and this policy has emboldened regional countries, such as the Philippines, Vietnam, and Japan to confront China over the Spratly and Diaoyutai Islands issue. The outcome is a heightened tension between the US and China.

Nevertheless, there is a contrasting view toward the Re-balance despite the negative perception. Many in China are skeptical about US capability pushing the Re-balance and sustainability of the Re-balance because of the financial sequestration adopted by the US government. As a logic, inability to provide public good to regional countries as a result of sequestration will preclude the US from accomplishing what they expect from the Re-balance, and China is in better position than the US in this competition.

Further, many Chinese observe that the Re-balance will be somewhat toned down in the next three to four years. Departure of Secretary Hillary Clinton and Assistant Secretary Kurt Campbell, who are perceived the two major architects of the Re-balance, and the appointments of the two new Secretaries, John Kerry and Chuck Hagel, who are perceived as moderate persons in foreign policy able to form a working relations with China, contribute to this observation.

No matter how China perceives the US' Re-balance, and no matter how the Re-balance will evolve, the goal of maintaining primacy status by the US in this region implies that the US has to honor its long established commitment, and the Re-balance will exist, though the degree of execution is probably not in a way same as Secretary Hillary Clinton. In this sense, the Re-balance is likely to increase tension with China as China takes a wary eye on every move taken by the US in this region, for instance, the negotiation over military access to the Philippines bases by the US.

Related to the Re-balance is military competition between the US and China. After the 1995/96 Taiwan Strait crisis, China has launched comprehensive and rapid military modernization. Many observers conclude that the goal of scope of the modernization has beyond Taiwan, and if the pace of the modernization continues, it will neutralize US influence in this region and US credibility and primacy will be jeopardized.

For the US, the need for sustaining credibility and re-assurance to its allies and friends has impelled the US to develop effort in order to counter China's strategy. Development of Air-Sea Battle doctrine and negotiation with the Philippines over military access to its military facilities by the US are two instances in this regard. This action-reaction will inevitably spiral, and military competition will continue to reflect the mutual suspicion between the US and China.

The both sides fully understand the danger and consequence of this competition and measures have been adopted to avert it. One way to avert the competition is to increase cooperation aspect in the regular military-to-military relations, and typical instance is to hold joint humanitarian rescue and disaster relief exercise, joint anti-piracy exercise, and more frequent high level mutual visit.

Despite the fact that many analysts are skeptical of the effect of this kind military-to-military relations due to fundamental mutual suspicions, it shows that the both sides attempt to manage the military competition so that the competition will not

escalate to out of control level.

## **Trade**

Trade used to be an issue between the US and China. Among them, from the US perspective, RMB was accused to be undervalued and this created mutual accusation over currency exchange rate; intellectual property right was on top of the list, and proposal on sanction by the US on Chinese firms was raised; complaint of industrial protection in violation of commitment made to WTO accession was raised by the US.

China also had complaints. Among them, export ban on high tech and high tech products was frequently raised by China, and China attributed the trade deficit incurred to the US to the export ban by US government. Also, China complained US to impose restriction on acquisition of some American tech firms by Chinese enterprises.

Cyber espionage is a new issue raised by the US. The US accused that China in recent years launched cyber espionage to steal American industrial intellectual property, along with US government confidential documents, and the release of the *Mandiant APT1: Exposing One of China's Cyber Espionage Units* report reinforced the US accusation of Chinese government. President Obama raised this issue to China President Xi Jinping in their Sunnylands summit meeting.

What concerns the US the most is probably the theft of industrial intellectual property. It is not difficult to image the reason: hacking private American business cost more than US\$300 billion a year and it will empower Chinese economy and technological capability by helping narrow technological gap between the US and China.

Nevertheless, the accusation by the US failed to create sufficient pressure against China due to the Edward Snowden incident. Ed Snowden, a former CIA and NSA employee, leaked details of several top-secret US and British government massive surveillance programs to the press. Snowden's release of NSA material was called the most significant leak in US history, and it made the US accusation of China awkward and embarrassment. In the end, issue on cyber espionage waned.

## **Implications for Taiwan**

As argued earlier that there will be a combination of competition and cooperation between the US and China in the next three and four years until a new administration comes to office in January 2017, and likelihood for confrontation is low.

The above expected outcome can be attributed to the need to rejuvenate and re-structure domestic economies in the US and China respectively, averting while managing potential military competition, the need for the US to honor its commitment in order to sustain its credibility and assurance to regional allies and friends, the need to economically engage this region by the US so that the US will not be left out from the most dynamic region in the world, and waning of the cyber espionage issue in the US.

What implications can be drawn to Taiwan? If US-China relations can be managed well comprehensively despite frictions and tension, and given the fact that Taiwan-China can maintain a stable and predictable relations, a stable trilateral relations among the US, Taiwan and China can be maintained, and inter-relations among the three dyadic pairs, US-Taiwan, Taiwan-China, and US-China can be stable. This outcome is probably the best scenario that many like to see.

Successful rejuvenation of US economy will enable the US to maintain leadership role and credibility in this region. It will help US implement the Re-balance policy and China will probably be less emboldened to be assertive on some aspect. In the end, the rejuvenation will help maintain the stable trilateral relations.

Under the above stated circumstance, President Ma's policy toward the US, Japan and China can be continued. His policy is to ally with the US, form cordial tie with Japan and maintain peace with China. US capability is the corner stone and core base of the above policy.

A strong commitment incurred by the Re-balance is good for Taiwan. Though the Re-balance is not aimed at Taiwan, a strong US presence, buttressed by economic rejuvenation, will send a strong signal to China, dissuading China from employing coercion against Taiwan, though in recent years, China has changed its strategy dealing with Taiwan. Further, accession to TPP by Taiwan can help diversify Taiwan's economic tie so that no dependency on China will be created if Taiwan can handle well its domestic impacts brought by accession to TPP.



Nevertheless, not all implication is in Taiwan's interest. A typical instance is that of US-Taiwan security development. Despite the fact that China continues its rapid and comprehensive military modernization, and many are worried that military balance is tilt toward China, Taiwan may be constrained by the improved trilateral relations as the growing peaceful development in the Taiwan Strait will give China more excuse to pressure Washington DC not to sell sensitive arms to Taiwan.

If China keeps growing, pressure against the US is mounting, though the both sides can manage the mutual relations. China has successfully drawn a red line for items of arms that can be sold to Taiwan by the US in the future. A typical case is the sale of upgraded F-16 A/B then the Taiwan expected F-16 C/D by the US so that US-China relations would not be turned back. If this is the case, it is highly unlikely for the US to sell sensitive items to Taiwan

Also, Taiwan is likely to be exposed to US pressure if US economy is rejuvenated. Rumors over disapproval by the US on Taiwan's handling of dispute of Diaoyutai with Japan abound because Taiwan coast guard ship launched water canon in the water area toward Japan's counterparts in order to protect Taiwanese fishing boats.