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Transcript

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## CHINA IN THE WORLD PODCAST

Host: **Paul Haenle**

Guest: **Da Wei**

Episode: How Can China Address Global  
Concern over its Trade and Economic Policies  
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**Haenle:** Welcome back to the “China in the World” podcast. Today, we’re speaking live from the University of International Relations here in Beijing. I’m with Dr. Da Wei, assistant president and professor here at the university. Da Wei was formerly with the China Institutes for Contemporary International Relations, otherwise known as CICIR, and served as the director for the Institute for American Studies.

During such a critical time in the U.S.-China relationship, we here at the Carnegie–Tsinghua Center are going to try to make an effort to speak more often with leading Chinese scholars about U.S.-China relations. We’re going to aim for about once a week and to start that process. I can’t think of anyone better than with Da Wei, who is one of China’s top scholars on U.S.-China relations and American and Chinese foreign policy, a name very familiar to anyone in the United States that studies U.S.-China relations. Da Wei, thanks for joining us.

**Da:** Thank you, Paul, for having me. It’s my great honor.

**Haenle:** Let’s get right to the issues. We’re speaking one week after Vice President Mike Pence, gave a speech at the Hudson Institute in Washington, D.C. In his speech, he forcefully criticized a range of Chinese behavior. He talked about unfair trade practices, aggressive military posturing by China, even political interference in the U.S. elections. I have my own views on these, but I want to start out by asking you about your reaction to the speech.

**Wei:** Like many Chinese scholars, I view this speech very seriously. Actually, I watched his speech live during the National Day holiday, like many other scholars, and we treated it very seriously.

**Haenle:** You watched his speech live even though it was a national holiday.

**Wei:** Yes. My response is this is a very serious speech and it’s very harsh to China, and I feel there are many, many comments that I don’t agree with, but people discuss this speech very heatedly, so many people view it as a new Iron Curtain speech, Winston Churchill.

**Hanele:** The Iron Curtain speech?

**Da:** Yes. I attended several meetings after that. Everybody is asking whether that speech is like starting the new Cold War. People are asking this question. First of all, this is an important speech because this is a speech made by the Vice President of the United States and it’s a speech for China policy. This is the first time we have heard a senior U.S. official deliver a China policy speech, so of course we take it very seriously, but secondly we still lack many details of this speech. Why did he make this speech and does that represent the whole administration’s viewpoints toward China? And who wrote the speech for him? So we lack the details of this speech. Thirdly, we think that speech represents the mainstream view of feeling toward China in

the United States. This kind of frustration, anxiety or maybe anger toward China. So there are many, many, like you said, criticisms about China.

At the same time, we have not heard any concrete things for the next step. We don't know what the policy is. There are a lot of complaints. There are a lot of criticisms, but there is no strategy. There's no action. What will the U.S. do for the next 30 years of 40 years? We don't know. Basically it declares the end of the engagement strategy, but we don't know what the new strategy is. And of course, the last point, as I said at the beginning, I don't agree with many of the criticisms in the speech from his description of the history of U.S.-China relations, about the Open Door Policy to China, and to the newest blame of the so called interference into U.S. domestic politics. A lack of evidence grounds this criticism, and I personally think serves the domestic political needs of the Trump administration.

**Haenle:** Thank you for that. My own reaction was the speech did address and outline in a fairly comprehensive way a number of challenges and areas of disagreement and areas of confrontation we have with China. When I served in the Bush administration, many of the issues that he referred to were also in the agenda and even into the Obama administration.

China is now a stronger country. It's more powerful, and it's more influential, and its presence is felt much more than it was even just 10 years ago. Those challenges that we faced in the Obama administration and of the Bush administration were left unresolved and continued to grow. I agree with you about the tone of the speech. Whereas in the past, you might have a speech that addressed some of the differences and some of the challenges, the speeches were balanced with areas where the United States wants to enhance cooperation and common interest. That's not where the emphasis was in this speech. The emphasis was on those areas where we have challenges. I will add, as an American, many of the challenges he described resonated with me. I understood what he was talking about and as someone who cares about the U.S.-China relationship, I think we need to address those in order to make sure we don't enter into a cold war, or a strictly confrontational period.

I give Vice President Pence some credit for raising those issues. It's important in any bilateral relationship, especially one as consequential as the U.S. - China one, to be honest about the challenges in front of us. The national security strategy and the national defense strategy have set China as a strategic competitor. I personally don't think that has to be seen so much as a negative thing. We can compete. The question is, what kind of competition is it going to be? Can we compete in a healthy way? Or is it going to be more confrontational? Matt Pottinger, senior director for Asia at the National Security Council, delivered remarks at the Chinese embassy with the Chinese ambassador, Ambassador Cui Tiankai. He said the U.S. had updated China policy to bring the concept of competition to the forefront. And indeed that appears to be the growing consensus among many U.S. experts, not just Trump officials, but other Republicans and I would say even Democrats. How do you think China interprets statements like Pottinger's? Do they see it as negative? As confrontational? Or is there a way that the U.S. and China can compete in a healthier way?

**Da:** I think that comparing Vice President Pence's speech with Mr. Pottinger's speech for people like me sounds more balanced. I won't say friendly, but balanced. For us, we can understand competition is not necessarily a bad thing. Both the U.S. and China are two countries that are very good at competition and we all live in competition. Our companies and our business community compete every day. So for me, these scholars, and many officials, they can understand this and they don't necessarily view this from a very negative way.

But as I said, in China, in Chinese competition, you know when you say 竞争 (jìngzhēng) competition, it's not very constructive. This is a culture thing. For Chinese, we do competition but we don't always use the word competition. We don't say it publicly every day. Although, of course, our companies are competing too. So this is a difference between the foreign policy elites and the ordinary audience. Competition between China and the U.S. is okay, but what you said is very important. We need healthy competition and in what kind of environment or atmosphere are we going to compete?

If we combine Mr. Pottinger's speech and Vice President Pence's speech together, we can. It's not a very healthy environment for the two countries to compete. For example, Japan and the U.S. have competition, Europe and the U.S. have competition, but the U.S. also had competition with the Soviet Union. What kind of competition does the American side want? And from the speech of Vice President Pence and from the several documents released from the end of last year, the message we got here is that the U.S. is going to view China as a rival, even an enemy like the Soviet Union, and compete with it. That is, compete on ideology, on geopolitics, on the economy, and high technology. I think this is the comprehensive competition and competition with the rival or even enemy. So this kind of competition is dangerous. We are facing this dangerous step into a situation that neither the U.S. nor China wants.

**Haenle:** One of the things that's really driving the tone of the relationship and the dynamics that you described is the current tensions on trade and economics. Many in the United States, many Americans, including myself, are very quick to criticize President Trump and his focus on the trade deficit as the key metric for the thinking of the U.S.-China bilateral trade relationship. Many people think that's misguided and openly criticize the President for that and his use of tariffs as a tool. Both Republicans and Democrats are very critical of the President.

However, there is bipartisan support in the United States on the issue of the need to get tougher with China to recalibrate the economic and trade relationship. There is bipartisan support for the idea that after China joined the WTO in 2001 and received preferential treatment as a real developing country seventeen years ago, it made commitments that it would open up, that it would open markets, that it would improve its intellectual property, that it would address issues of state subsidies to Chinese private companies. There are a number of issues where, not just the United States, but our friends in Europe and Asia, agree that China would make these changes, and we haven't seen that done. I often say that on foreign policy and on trade policy, the Democrats don't agree much with the Trump administration, but even Senator Schumer and Nancy Pelosi are in agreement with the Trump administration that we need to be tougher on China.

Here in China, I've seen a couple of narratives about what's happening here. One narrative that I hear from Chinese senior officials and experts is that this is all about Trump's short term political imperatives. This was especially the case a year ago in the spring, that he was looking to get some victory that he could tweet out to his base in advance of the midterms. That narrative has now shifted to the other end of the spectrum, that it's all about strategic containment, that the U.S. wants to block China's legitimate rise. It seems to be void that both narratives have any reflection on what role China may have played in getting to the point where we're at today. Either policies China pursued, or maybe importantly policies China didn't pursue along reform and opening up. What if any kind of discussions are taking place in China among Chinese about what China might be able to do to begin to bring more stability to begin to recalibrate? Are there voices that say, 'Hey, China hasn't really undergone the kind of reform we indicated it would and the United States, our friends in Europe, and our friends in Asia aren't happy.' Is that kind of discussion taking place? It is hard to see from the outside.

**Wei:** This year, 2018, marks the 40<sup>th</sup> anniversary of China's reform and opening up. Of course, it's also the 40<sup>th</sup> anniversary of the normalization of China-U.S. diplomatic relations. Actually, January the 1<sup>st</sup>, right?

**Haenle:** Yes. The 40<sup>th</sup> year of U.S.-China relations.

**Wei:** These two 40<sup>th</sup> anniversaries will happen this year. Meanwhile, we have the problem in China-U.S. relations on trade friction, on economic friction. This kind of pressure, as you asked, has already pushed many Chinese to ask, "are all these complaints wrong? Or maybe is there something that we need to study or need to do more of?" People here are asking this. As I said, this is the 40<sup>th</sup> anniversary of opening up and reform, so maybe do we need to accelerate our reform and opening up at this critical junction? The answer is we have some kind of consensus, at least among the scholars, that China needs more reforms and China needs to march rapidly toward the direction of a market economy and open society and also open economy. There are a lot of heated discussions here in China on this and also the mainstream view is more reform and more opening up. We hope that by this chance to commemorate the 40<sup>th</sup> anniversary of reform and opening up we can do more. We can push the country to do more.

But the problem here is, just as we want to do more, now the Trump administration puts China under heavy pressure and presses China to do more. I totally understand those complaints from the American side, though I don't necessarily agree with all of the complaints. You have lived in China for very long time. You know China very well. Have you ever seen Chinese come and do this kind of major reform under this kind of foreign pressure? My answer is no.

**Haenle:** You raise a very good point. I have often given advice on the U.S. side that we need to be attuned to the fact that the Chinese leadership here cannot be perceived by the Chinese public as caving to pressure by Donald Trump, just as much as Donald Trump would not want to be

appearing to be giving into Chinese pressure in the United States. We both have our own domestic politics and so a more sophisticated approach by the U.S. is warranted.

I would argue on that the U.S. would do themselves a great service if they were to broaden it out to include our international partners. It would then be harder for China to say that it is about the U.S. trying to contain China because the important issues are areas where we have common concern with our friends in Europe and Asia. If we join together, it would be harder for China to say this is all about containment. You would have to say the entire international community is trying to contain China. At the same time, I think your criticism is right.

However, I would add though that, having served in the White House, it is hard to create a narrative in the United States that people buy into because you have a lot of different voices. But in China you have a one party system and you have much more control of media. There is a narrative that can be grabbed onto by the leadership to say that it is making these reforms because it is, as you say, the 40<sup>th</sup> anniversary of opening up and ‘because we announced this economic reform plan in 2013 at the Third Plenum. This is in China’s interest. We are going to do this. We are going to do this more aggressively. We are going to pick up the pace and the scope and we are doing it for Chinese reasons and Chinese interests. Many of those reforms align with what the international community is hoping China will do. So I think there’s a way China can do it by tying it to China’s own interests, it seems to me. Now here’s a question for you. I’ve asked Chinese scholars if that’s something that the Chinese leadership could do and sometimes I get very candidly back “yes they could but we’re not convinced the Chinese leadership still agrees or is committed to the reforms that were announced in 2013.” What is your understanding of that? It is a big question that Americans and others around the world are interested in when they saw the ambitious economic reform plan put out in 2013 a year after Xi Jinping had been elevated to the leadership in China. The international community was quite impressed.

**Da:** There are two kinds of issues that are being discussed between the U.S. and China over China’s reform. One kind of issue is, for example, lower the tariffs, open the economy more and protect intellectual property. This kind of thing very clearly the Chinese government wants to do better.

**Haenle:** Opening markets as well.

**Da:** Yes. The only thing is doing it in China is not as easy as 20 years ago or 30 years ago. It is very, very complicated. I heard this story from this Chinese official who told me how hard it was when they tried to push even some simple action because it is related to different interests of different people and different provinces and different ministries. So it is not easy.

**Haenle:** So even when the national level says we’re going to move in this direction...

**Da:** Yes. It is very difficult. And there are also another kind of basket of issues like the role of the SOEs for example and, to be frank, the role of government and the party in economic activities.

This is a very profound dispute and issue between China and the U.S. For that kind of basket, I don't think China will want to do a lot because this is related to China's basic economic and political system, and I don't think the Chinese want to give it up even while the U.S. and maybe other countries, the Western world, won't be satisfied if China does not reform that basket. My personal view is this is China's basic system.

**Haenle:** But it is and it isn't. In 2013, the economic reform plan said – and it was a major shift – that China would rely on market forces in terms of allocated resources that would play the decisive role. America saw that change, the international community saw that change, and I know there were huge supporters here in China. But it seems that since then that's not the direction that China has gone down. So was there a change in the thinking from 2013 to now?

**Da:** I don't think so. You know even if we go back to the Third Plenum, as you mentioned, to let the market play the decisive role does not mean we need to reduce the role of the SOEs. For example, the SOEs can also still play a very important role following the market economy principle. I think this is what we believe, or Chinese government believes here. Also, the Party can still play a role in the operation of the company as the company follows the market economy's principle. The Chinese government doesn't see this as contradictory to each other, but I understand from the foreigner's perspective this is not the correct direction. They don't agree with that. These are the issues I said that we probably cannot solve during the next phase.

**Haenle:** The other issue that is related to that of course is around Made in China 2025, the areas of frontier technology that many say will determine the future in terms of our competition. I often hear Chinese friends here say “we can develop our own technology base. You cannot stop us from doing that.” And I think that's not actually what the American side is saying. I think what they're saying is “we are willing to compete. We know competition. Our system in the United States is based on competitive forces and we all participate in that with pleasure, but we want to be able to compete from a level playing field.” The Chinese government is in a position to provide huge subsidies to Chinese companies that then go out and build up a track record of success in China and then go abroad, many in the international community, especially in Europe, which will not allow their companies or other international companies to compete on a level playing field. It's not that the international community is trying to stop China from developing its technological base. You can't stop a country from doing that. Every country has a right to do that.

**Da:** Yes.

**Haenle:** What I hear you saying is that also given that it is about the role of the state, that might not be an issue that we can address, and I think that would be a place of friction going forward.

**Da:** Even in that regard, the state, the country, and the government can play a role, making the industrial policy and investing more money into R&D. I think those are the roles that the government can play.

**Haenle:** We've done that in the United States.

**Da:** Yes, exactly and I totally agree with you. The problem is not Made in China 2025. The problem is how to implement Made in China 2025, but I think now the problem on the U.S. side is your side has not presented this question very accurately. From different people, we heard different complaints, but the general perception of the impression here is the U.S. government does not want Made in China 2025 because that will allow China to surpass the U.S. in the future in key industries. So that kind of objection has been translated and interpreted as the U.S. does not want China to surpass the U.S. The United States wants to keep China down. So it becomes a political issue.

**Haenle:** Yes. My own sense is that Made in China 2025 gave the international community, not just the United States, but the international community the impression that China wanted to take the commanding heights in these frontier technologies but using a means where there's huge state support which seems to not allow for other international companies to compete fairly. And you're right. The United States, Europe, other countries in Asia who have real concerns here need to articulate them in a way that doesn't convey this sense that we're trying to prevent China from competing with us. Because, as I said, China has a right just like every country in the world to compete. The question is how are we going to compete.

**Da:** Actually, in China, also many people argue that the too big role of the government may damage innovation because many people here believe that the real innovation should be made by the business community, particularly by the companies, rather than pushed by the government. There is a very popular view in China that every time when government wants to invest a lot of money and support, and pushes for one industry, it will fail. Those pushes do not support the creative part of China's economy, but rather the state-owned part. So I think we don't have big differences in this regard, but this issue has been politicized now.

**Haenle:** And my understanding when I talk to Chinese friends in the government and other experts, you notice now that China is not talking about Made in China 2025, which in my own view is really not about whether you talk about it or don't talk about it. It's not about whether China has aspirations for moving up the value chain in these fields. I think every country has those aspirations. The question is how you do it, and I think we need to have some meeting of the minds. Again, it's not just U.S.-China and I think that's important because it seems to me in China whenever it gets into that U.S.-China channel, only then people think here in China: 'Oh, the U.S. is trying to block China's rise and contain China.' It needs to be broadened out because the



international community has concerns and German leaders, and leaders in the UK have been talking about these issues as well.

Finally, on the trade and economic issues, my concern is if we continue down this path where President Trump announces another 200 billion, 10 percent now but 25 percent January 1<sup>st</sup>, and he says he's willing to follow up with another 200 billion plus. If we keep going tit for tat, this will affect the broader relationship and those dynamics we talked about around Vice President Pence's speech will get worse. I think we need some progress on the trade and economic issues. We need to show that we're going to shift this into a more constructive direction. How do we do that?

**Da:** I think because we don't have an effective communication channel now almost all of the dialogue has been cut. So now I think we rely on the two presidents very much, and I don't know if they are going to...the media announced that they are going to meet at the G20. I hope that the two countries can reach a kind of agreement on these meetings at this summit. I totally agree with you. We need to show some progress to stop the current trajectory, but probably the G20 is the only chance that I can see now. If we cannot achieve that, then I don't know when we can. Maybe we need more time to wait for that. That would be very dangerous.

**Haenle:** Would it be helpful from your perspective for the Chinese leadership to do something that indicates their recognition that this is not about containment? That this is not about the U.S. or other countries trying to block China's rise? That there are legitimate problems here, as you said, around market access and intellectual property and technology transfer with some acknowledgment to the international community?

I heard one former U.S. trade representative who worked on Asia in the Bush and Obama administrations say to me "China champions itself as a defender of and an active supporter and contributor to the global economic and trading system, but if every country operated its economy like China, the global economic and trading system would implode." Is there a way that China can acknowledge this, because I think that that would go such a long way to say "look we get it. There are issues that we, China, have to address. This is not all about the United States treating us unfairly or moving to containment. There are real legitimate issues here that need to be addressed and China has a huge role in doing that." Is there a way to do that at this point? I think that that would go a long way.

**Da:** I think that probably if the two presidents meet at G20, this is a message that China can send to President Trump face to face. There and then publicly at a proper venue. At the same time, I also hope the U.S. can send a clear message to China...

**Haenle:** ...we're not trying to keep you down.

**Da:** Yes. We don't want to keep you down. We won't come...

**Haenle:** ...we're not trying to block your legitimate rise.

**Da:** The previous administration said they welcome the rise of China. We want to...

**Haenle:** ...that's an important message for the U.S. to send.

**Da:** Yes. But we have not heard the message from the U.S. so far.

**Haenle:** Interesting.

**Da:** We want a unified administration from the American side and we want a clear message. People here are still asking very basic question: 'Does the Trump administration want to strike a deal with China or are they going to keep China down?' We still don't know have an answer to that and we don't know who is reliable in the Trump administration, given that when China made a deal with his Secretary, and then the agreement was denied by the President when he returned to DC.

**Haenle:** Yes. This was the deal made with Secretary of State Mike Pompeo's visit.

**Da:** Yes. I think this made China feel it is very difficult to have any meaningful negotiations with the U.S. side. Some people say "maybe if I made this kind of concession to the U.S. side, then maybe 3 or 6 months later, the Trump administration may change its ideas and say that's not enough. Although half a year ago it was okay, but now it's not okay."

**Haenle:** So your points are very important, Da Wei. Number one that diplomacy is important and that there needs to be private discussions held between the senior leaders. We often say in the United States, the real decision maker in all of this is Trump, and the same can be said here in China. The real decision maker is President Xi. Your other point is interesting. There are things that China needs to hear from the United States, that this is not about strategic containment and we do want to reach a deal of sorts. My own view is, because we're talking about these structural issues, it is not a one-time deal and move on. This is something where a deal up front shows real progress and the announcement of a process where over time we can address these issues.

The other point is that there are signals that China needs to send, i.e. we acknowledge that we have responsibility in this and we have a role in this. There's things we have to do as well to get us out of this predicament and move to a more stable situation. I think that those are very, very important.

**Da:** Yes. China's side can say something like the U.S. always criticizes, for example on tariff issue. China's tariff of course is higher than the U.S. but we think that we have already delivered on our promise when we entered the WTO. China's side can say now that China is, although China is not a developed country, it is much more well off than it was 70 years ago. We can promise

more. We are willing to do more reforms. We are willing to lower our tariffs and import more goods from the U.S. The U.S. side can say we welcome China's rise so long as you follow our kind of economic model or the way we operate our economy. While China's side can say we are willing to do more reforms and we'll consider your complaints. We are willing to solve the complaints that you have, but you should not contain me. Then we can have a healthy competition.

**Haenle:** Well Da Wei, there is so much more we could talk about, but unfortunately I know that you have a busy schedule. You have to teach students here at the University of International Relations. We've talked about a lot. We've talked about some very important issues, and I want to thank you very much for your candor and your willingness to talk to us on China in the World.

**Da:** Thank you very much for having me. This is really a great pleasure.

**Haenle:** Thank you.

**Da:** Thank you.