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Transcript

CHINA IN THE WORLD PODCAST

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Episode 120: U.S.-China Relations Following the
Midterms and Ahead of the G20
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Haenle: Welcome back to the China in the World podcast. Today, for our 120th episode of the China in the World podcast, I'm delighted to be joined by Doug Paal, vice president for studies and head of the Asia Program at the Carnegie Endowment for International Peace. Many of our listeners are already familiar with Doug and his distinguished career working on U.S. policy in the U.S. government. Prior to joining Carnegie, he served in a number of government positions, including as representative in Taiwan, as the director of the American Institute in Taiwan. He also served on the National Security Council staffs of President Reagan and George Herbert Walker Bush, first as director of Asian Affairs, working on China, and then as senior director and special assistant to the president for the Asia-Pacific region. In the private sector, Doug has served as vice chairman of JP Morgan Chase International. He's in Beijing this week for our U.S.-China Carnegie Global Dialogue, focusing on U.S.-China relations, and meeting with Chinese scholars, business leaders, students, policymakers, and diplomats. Doug, it's great to have you back.

Paal: It's good to be back with you, Paul. It's always interesting to be in Beijing and these are particularly interesting times.

Haenle: Absolutely. And your trip here takes place days after the U.S. midterms, where we saw the Republicans increase their majority in the Senate but lose control of the House of Representatives. I wanted to start our discussion by asking you: are there implications of the midterm elections for the U.S.-China relationship?

Paal: I think there probably are some implications, but they're not substantial enough or very direct. The campaigns of the 435 congressional candidates and thirty-something Senate seats and a few other positions around the country really didn't focus on the China policy issue. A couple of the campaigns were based on objections to the tariffs imposed by the Trump administration on imports from China, but these did not prove decisive. There was no trend in the outcomes. A big case of this was North Dakota, where Heidi Heitkamp, who was a Democrat in a very Republican state, tried to make a case that Trump had gone too far with tariffs on China. But it didn't make a difference in her case.

I don't think you can draw a trend or a mandate out of the election results to say something directly about U.S.-China relations. But, with all elections you never know what the indirect impacts might be. President Trump might feel beleaguered by a hostile house. He may seek foreign policy remedies for some of his concerns, and China could be among those.

Haenle: Well they say the next couple of years could be filled with investigations and subpoenas. Are you suggesting that as a way to sort of take the focus away from all of that, that he might be more active in the foreign policy realm?

Paal: That's one possibility. On the other hand, you might want to appeal to his political base even more deeply by saying, "Look how tough I'm being on China." It could go positively or negatively from the point of view of people here in China who might be concerned which

direction he'll take. This is really a political choice. It's not cooked into the outcome of this election.

Haenle: Talk to me about people here in China wondering what's going on with U.S.-China relations. A lot of the Chinese that you've met have asked you questions about Vice President Pence's recent speech at the Hudson Institute, where he delivered a set of remarks on China and laid out a litany of U.S. grievances, talking about economic and trade policy, human rights violations, even religious freedom, and then of course, interference, or the allegations of Chinese interference in U.S. elections. What was your reaction to the speech, and are Vice President Pence's concerns in your view shared pretty broadly in Washington?

Paal: My initial and superficial reaction to the speech was that it was kind of a declaration of a cold war for the new era on China. But on closer consideration and poking around a little bit in Washington, I've come to the conclusion that was really a political speech designed to condition the environment going into the election, designed to divert attention from the ongoing investigation of the Trump 2016 presidential campaign over its so-called collusion with the Russians. They were trying to divert attention to China and away from Russia.

I think the speech grew beyond anybody's initial expectation, but it never grew into anything like a policy instrument. It has a long list of allegations about things that people in the administration are unhappy with China about, but the speech doesn't end with a strategy or a policy outline, the sort of thing you would expect if there were a new Cold War being declared with China.

Haenle: So really it did more for domestic political reasons than to announce a new policy approach with China. The tone and the lack of policy prescriptions are one aspect, but in terms of the content, are these concerns laid out in the speech, and as you hear from the administration, in your view, are they broadly shared by both Republicans and Democrats, or is this something very unique to the Trump administration?

Paal: Well I think the appeal of making such a speech is that it has a broad consensus in the U.S. behind it, which is that Democrats and Republicans alike, virtually every agency of the U.S. government, has over the last decade come to the conclusion that U.S. relations with China are headed in the wrong direction, that China is trying somehow to displace the U.S. traditional role as leader in the global community. I think it's a very appealing kind of speech for those people who have over the years rubbed up against China and come away unhappy with the results.

Haenle: At the core of U.S. concerns seems to be these concerns on China's trade and economic practices, concerns over lack of market access here in China, intellectual property rights, technology transfer, and Chinese industrial policies, but Trump seems to be more focused on the trade deficit and using tariffs as a tool. Is there a disconnect here? Is the administration using the right approach to address these trade and economic concerns?

Paal: I think pretty plainly it's not using the right approach. Focusing on the bilateral trade deficit is a mathematical and economic error. But this has been a feature of Trump's thinking for more than thirty years, and he's not likely to abandon it anytime soon.

Haenle: He really believes this right?

Paal: I mean, it's hard to reconcile a government that enacts a very substantial tax cut and then substantially increases the federal budget, in which case from two directions you're guaranteeing a much larger budget deficit. And with that, we know if you reduce your savings and increase your spending, there has to be a remainder somewhere. And the remainder translates into trade deficits.

Whether it's with China or Germany or Japan, all of which are large, the focus on this case is somehow on China. But the real cause is the engine of American federal deficit generation by choices of this administration. And it's not just this administration. It's been done over the years, but has been accentuated by this administration which, at the same time, argues that somehow this is a special circumstance. It doesn't recognize that this is actually two sides of the same coin.

Haenle: I mean, you're reinforcing what most economists would say, which is that the bilateral trade deficit is not the right metric to use to look at the health of the U.S.-China trade relationship.

Paal: It's not wrong to point out that there are difficulties with trade in China. China has not matured over the years into a market economy that allows foreigners to operate, selling in the market or investing in the market in the same way China enjoys the right to do so in other countries. It's a very unbalanced relationship, and China needs to make some changes, even if the deficit is not driven purely by Chinese domestic factors.

Haenle: And as I've pointed out to Chinese friends here, there's not much that Nancy Pelosi and Chuck Schumer will agree with Trump on in terms of foreign and trade policy, but getting tough on China on these structural issues, that's one thing they can agree with the administration on.

The other sort of issues where we seem to be converging somewhat with China are in the strategic and security realm: Taiwan, North Korea, the South China Sea. I wanted to talk to you, given your experience with Taiwan, you served there as an unofficial U.S. representative from 2001-2005. How do you currently see the situation?

Paal: Well, there are a lot of frustrations on the island, and there are a lot of people in the U.S. Congress and the U.S. administration who are very sympathetic to Taiwan's desires to break out of the binds that they've been under in this ambiguous position between being claimed by the mainland as part of Chinese sovereignty, and being protected in their autonomy by American guarantees going back to the Korean War. There's a lot that's unsatisfactory about it.

Congress has, for quite a few years, but actively in the last year, been passing legislation which is intended to upgrade relations with Taiwan on the surface. But really, it's a way of saying

they don't like China. And this is one way of voting against China, by voting for Taiwan. And that has driven the passage of the Taiwan Travel Act and the National Defense Authorization Act for higher level military and other official contacts between Taiwan and the United States. We've had a new process of arms sales introduced which makes China uncomfortable with where the U.S. and Taiwan may go. And there's a lot of suspicion in China that Trump has something big in mind to transform the relationship between the U.S. and Taiwan in ways that will disadvantage China's interests and sovereignty claims over the island.

I think I can understand why they're concerned. They tend to overanalyze and draw much larger implications from what's happened than perhaps is warranted, but so far, the U.S. has not really crossed any red lines. They're walking up to the red lines on a lot of these issues but have been careful not to break out of the framework that was established back in 1978-1979 for the United States and China effectively to neutralize Taiwan as an issue between them.

Haenle: Early on in Trump's administration, of course, we saw President Trump almost wanting to use Taiwan as some sort of bargaining chip. I mean, he took the phone call from President Tsai Ing-wen. He sort of said he wasn't sure whether or not the U.S. would abide by the One-China Policy under his administration, but he seems to have shifted. What's your sense of where President Trump is on the Taiwan issue?

Paal: I have to say in more than 40 years of being close to Taiwan-China-U.S. relations, I do not know where his intentions lie. But I do recognize that where he's had opportunities over the last year and a half to take several actions that might take the Taiwan relationship with the U.S. to a new level, which probably would be intolerable to leadership in China, but he hasn't done so. Whether that's self-restraint, lack of interest, reserving a bargaining chip, I don't know the answer to those. This is not something that this administration cares to explain in their public statements and documents.

Haenle: Let me shift if I could to North Korea. When you were here a year ago for the Carnegie Global Dialogue, if you look at the North Korea situation back one year ago today, the U.S. and China were actually working pretty closely on the maximum pressure campaign. Chinese frustration was at an all-time high with North Korea. They had conducted their sixth nuclear test in September last year, the largest nuclear test that they had conducted, on the same day in fact that President Xi was giving a keynote speech at the BRICS Summit, which was held here in China. And then in November, the North Koreans tested this long-range intercontinental ballistic missile, the Hwasong 15, which could range the United States. Kim Jong-un was isolated, hadn't met yet with a foreign head of state.

Fast forward a year, we now have a situation where Kim Jong Un has moved to diplomacy. He's now met the Chinese president three times, the South Korean president three times, and he met the U.S. president, a North Korean objective for many years, at the Singapore summit. The maximum pressure campaign seems to be waning. China seems to be moving in certain directions,

we're moving in certain directions. Are the U.S. and China still aligned as we were a year ago, or are we diverging in terms of our approach to North Korea?

Paal: There are elements where the alignment remains. China has been by and large adhering to the pretty strong sanctions on North Korea. China's the principle potential trading partner and they've cut off most forms of trade as specified under U.N. Security Council Resolutions.

Haenle: Through the U.N. Security Council? They haven't backed off those?

Paal: As far as we can tell they've not really backed off on that. However, in the recent U.N. General Assembly period, both the Russian and Chinese ambassadors and foreign ministers at the U.N. argued for relaxation because tensions have come down some, so they think there ought to be some relaxation on the economic sanctions on North Korea.

Haenle: As a means to incentivize North Korea for more progress?

Paal: Correct, to keep things going along. But if you look back from a year to today, as you've been doing, China's been a net winner in this process. China had relations going nowhere with North Korea and a really confrontational approach to South Korea a year ago. Today they've got a much-improved role to play on the peninsula. The U.S., by contrast, had led a large campaign to isolate Pyongyang not just through U.N. Security Council sanctions, but through diplomatic activity to which there was quite a bit of global responsiveness, to now, where the U.S. has been making unilateral gestures toward North Korea and really getting nothing in return.

I think the inter-Korean diplomacy is another big story. The South Korean president is not really on the same wavelength with the American president. He's got ambitions for inter-Korean reduction of tensions and perhaps someday eventual reunification. He's opened the door to North Korea to help North Korea come out of its isolation. So, the U.S. has actually been the net loser in this process and North Korea and China have been the net winners so far.

Haenle: In your view, South Korea has made gains through the inter-Korean talks. China has made gains. Many Chinese point out to me that the outcome of the Singapore summit was in fact the "dual freeze" proposal that the Chinese had been putting forward, which the U.S. had been pushing back against considerably. They're quite pleased with the outcome of the Singapore summit in that it is basically the elements of the "dual freeze" approach.

The loser in all of this is the U.S. in terms of not being able to make any progress on the issue of denuclearization. Why do you think that is? What's the root cause of why Pompeo, for example, the secretary of state, has not been able to achieve pretty much anything in that regard?

Paal: I think the North Koreans have concluded quite correctly that the best way forward for them is to ignore all the subordinate officials in the U.S. and deal directly with President Trump, who doesn't seem to be guided by a compass that's really steady on how to deal with denuclearization.

It's apparent under President Trump that Secretary Pompeo and his new advisor for North Korean policy, Steve Biegun, are attempting to get Pyongyang back into a process where some of our issues can be addressed. But the North is not willing to do that. They want to go past these people and get right to Trump in the hopes that they'll get by with a very low-cost effort to restore some kind of political and eventually an economic relationship with the U.S. and eventually the rest of the world without ever really giving up their nuclear capabilities.

One of the big concerns of Japan and South Korea, certainly maybe not the current administration in South Korea, but public opinion in South Korea, is that the U.S. will cut a deal to protect ourselves from long-range missiles in those nuclear weapons, but leave Japan and South Korea in the shadow of those missiles going forward.

Haenle: You know, when you talk to policy experts, when you talk to folks that have worked on North Korea issues in previous governments, there's a lot of concern, similar to the concerns you've expressed. When you talk to the American people, you know the guy on the street, many of those folks seem to think that the situation is much better now on North Korea. Some even believe what President Trump has said, which is that this issue has been resolved. What's the disconnect between the general public in the United States, former policy experts, and current policy experts who have been covering this North Korea issue in detail for many years?

Paal: The President occupies the pulpit, even if he's not very good at doing the kind of leadership of the nation's direction compared to other presidents. A year ago, President Trump was talking about "fire and fury" and talking about "bloody nose attacks" on North Korea. Today he says, "Peace is at hand, we've gotten this solved. The situation has been basically resolved."

Haenle: And it's often the headlines of the newspapers. It's not a big issue now in the news.

Paal: People will listen to the President, and they take his lead on whether this is a serious issue or not. There is a huge disconnect however between policy experts, who know this subject very well, and who are concerned about the North Korean capacity to not only have their own nuclear weapons and to project those weapons far afield, but also perhaps to proliferate those weapons to terrorist groups or others. There's a big gap between the president and the experts, but people tend to follow the president's lead.

Haenle: In addition to the proliferation concerns of course, there's reports that even though North Korea is not testing missiles and nuclear devices, it's actually building its arsenal of missiles and developing more nuclear fuel. One could easily make an argument that we're worse off today than we were before the Singapore summit in terms of the threat.

Paal: Right. There's that and then there's also the fact that we rotate our troops out to Korea every year. If you don't train them in the field, they're not going to be very effective if a crisis develops.

And we've given up now three major exercises in a row without any major quid pro quo from North Korea.

Haenle: Absolutely. I served two years in South Korea, including as a company commander, and I agree with that 100 percent. Doug, I want to turn to the South China Sea. Last month, a Chinese Navy destroyer nearly collided with a U.S. Navy destroyer, the *USS Decatur*. Apparently, the two ships came within about forty meters of one another. Americans have described the maneuver as unprofessional and unsafe. Are you worried about the current dynamics in the South China Sea and the potential for an inadvertent collision there? I ask you as a former Navy officer by the way.

Paal: I've steamed around down there, not with a Chinese Navy that was up and running like it is today. Basically, we were all alone in those days back in the 1970s when I was in the Vietnam War. The pattern that's been established the last couple of years is that of increased professionalism between the two navies. American and Chinese ships up and down the Western Pacific encounter each other virtually every day and we don't have incidents, so for the time being I'm inclined to treat this particular incident as an isolated incident.

Now, if it develops into a trend, we have to talk about it and engage the Chinese more seriously. And in fact, while we're actually making this recording, there's preparation underway for the Diplomatic and Security Dialogue to take place in Washington. This had been suspended for more than a year. That is an opportunity directly to address whether or not we're dealing with a trend or an isolated incident and deal with it.

Haenle: And that includes both the secretary of defense and the secretary of state?

Paal: That's correct. But one of the most important topics on the agenda will be this incident, and hopefully it will be small and easily resolvable. But if we have more of these going on, then we have to go back and recalibrate what's going on.

Haenle: Later this month, President Trump and President Xi will meet on the sidelines of the G20 Meeting in Argentina. All eyes will be on that meeting of course, to see if the two presidents can do anything to cool things down. There's an increasing view that given the current state of tensions, it's really only the two leaders that can find a way forward. What do you expect from this meeting?

Paal: Well, my expectations are fairly low. As we discussed at the top of the podcast, there's no mandate coming out of the American elections to do something. There's a lot in it for President Trump politically to keep pressure on China. There's bipartisan support in the U.S. to get some real change from the Chinese in how they behave in their own marketplace and how they behave internationally on the trade and economic fronts, let alone the areas of science and technology and intellectual property theft and strategic competition. There's not a big incentive to reach a large agreement, but I think there's some incentive to manage things for the time being.

Haenle: It's an interesting point I think our listeners should understand. You're basically saying if he comes to some major agreement, then in some ways he opens himself up. He's vulnerable then to be criticized for the agreement. So there's a disincentive for him to actually come to some large agreement on this. Maybe he could make some small agreement, but there's not much reason for him to solve this in any significant way.

Paal: Well, another way of saying what you're asking about is, it's always been the easy thing for an opposition party to go after an incumbent administration by putting them in the position of defending relationships with awkward partners. The Democrats attacked George H.W. Bush for being friendly to China after the Tiananmen incident because they felt that he would be defending China and China would be indefensible. I don't think President Trump wants to get in a position where he has to start defending a deal he makes with China if the deal isn't really a good one. You're likely to see an effort to manage the tensions, sort of a crisis management approach, but not to resolve the major issues because a resolution is too hard to get and too hard to defend.

Haenle: It's different then, in that context, than the North Korea agreement, because there he came out with a pretty significant agreement in the way he describes it, but he doesn't feel open to political criticism on that.

Paal: There is a reluctance to criticize North Korea that is not something that people are willing to hold back on when it comes to China. The accumulation of grievances against China over the last decade or so has percolated over the entire American political system, Democrat and Republican. Every aspect of every administration in Congress, members of the House and Senate, they're all very unhappy with China. They're keeping a close eye on whatever comes out of that agreement. Korea, they tend to be quiet; they tend to leave it to the President. Now, if he ever comes up with a final agreement that obviously falls short, I think there will be plenty of criticism.

Haenle: Or maybe if the North Koreans start testing missiles?

Paal: I've spoken to people in Congress, and they generally have been, prior to this midterm election, intimidated. They don't want to have Trump turn on them and have it hurt them with their own constituencies. Whether that will sustain itself as the Democratic House comes to office in January, and we start encountering a drumbeat of criticism across the board from each of the relevant committees of the House, I think that will probably change.

Haenle: Let me return to the G20. What's your sense of what the Chinese leadership is hoping to achieve from this meeting?

Paal: I think the Chinese people are hoping that President Trump will put a lot of pressure on Xi Jinping to adjust the way he's been responding to these issues of promoting reform internally in

China and addressing through domestic reforms the complaints of the foreign community, not just the U.S., but Japan, Europe, and many other countries that invest in trade with China.

Haenle: So you're suggesting in one way, the pressure by the U.S., there's a view here in China that that's actually good for China?

Paal: I hear from many Chinese that they want outside pressure, “外国压力.” Back when I worked in government in the 1980's, I used to hear from the Japanese that they needed outside pressure to break the logjam in their special interests at home. I think that's very true here in China too. There's a logjam of special interests that's very hard for President Xi to break through, or he hasn't been motivated enough to break through, therefore they're trying to create that motivation through foreign pressure.

Haenle: In that case, can you then say that President Trump's approach has been effective?

Paal: You can say that hammering China is better than not hammering. But you can break your chisel hammering China if you hammer the wrong way. You want to use your tools appropriately. There's a lot of room for refinement in the way the U.S. puts pressure on China. Because otherwise you start damaging the tools as you try to use them on this very tough target.

Haenle: Before we conclude Doug, you wrote a piece recently that was published in the *South China Morning Post*. It's gotten a lot of attention. You've been asked about it many times while here in China. I know a lot of Chinese have noted it as well. In the piece you note the difference between the younger generation of U.S. officials and older generation of U.S. officials working on China and the way they view China's relative global power and influence. What led you to write this piece, and what are the implications of these changing dynamics?

Paal: We were conducting some exercises with people who've recently left the government on the Chinese and American sides. The tendency on both sides to be impatient with the other and to sort of throw away the old guide posts we used to manage relations, for example the Normalization Communiqué or the Shanghai Communiqué, that first began our relationship back in 1972. The foundational documents that have always been referred to by each successive administration in an effort to create guardrails within which we can do a lot of our work without going off the main highway, people are not patient with them anymore.

Over the last decade, the experience of people who deal with China in the U.S. is one of a China that you can't be patient with, a China using its advantages, pressing overseas against American interests and at home denying competition to internal market participants, in fact unfair theft of peoples' technologies and forced transfers of technology. Even government officials sitting across from Chinese officials have had their personal files pilfered by cyber attack from China. At a personal level and a policy level, there's less patience for China in this new generation than there was among people who knew China back in the old days and knew that it was crawling before it

could walk and walking before it could run. These people have only seen runners, and they want to see China behave better if they're going to be real competition. I hope the Chinese will pay attention to this observation, and I certainly am getting a lot of reinforcement that people have noticed it. People are not going to judge China by what it was thirty years ago; they're going to judge China by its behavior today.

Haenle: We had recently on the podcast Abigail Grace, who served in the National Security Council under Obama and Trump. She made a comment that, "A country that can build skyscrapers that are among the tallest and most impressive in the world today in six months should be able to move ahead on its reforms in a much more urgent and efficient way." I think that captures some of the sentiment that you were talking about.

Paal: That's not directly irrelevant, but it leads me to remember that the United States was the kind of country that in 1963, John F. Kennedy in June of 1963 announced we would be sending a man to the moon, and we had men on the moon within six years. Can we do that today? We should reflect on our own shortcomings and inability to pull together and try to do a better job of competing with China and ourselves.

Haenle: I agree with that. I often say that an effective U.S. policy toward China begins at home and getting your act together at home. It's a good point to end the podcast. Doug, thank you very much for joining the China in the World podcast and for joining us this week in Beijing for the Carnegie Global Dialogue.

Paal: Thank you, Paul. It's great to be back with everybody here.