GLOBAL 07.01.2019 | Kevin Rudd

Prospects for US-China relations in 2019

Sino-American tensions will lead Chinese leaders to seek better ties with regional neighbours

Read this article in German.

Throughout 2018, much of Asia has been shaken by the new and increasingly unpredictable dynamics in Sino-American relations. One year ago, US President Donald Trump returned from Beijing after his 'state-plus' visit, which China hoped had finally laid his anti-Chinese campaign rhetoric to rest. Twelve months later, China and the United States are caught in an unresolved trade war, and Trump's administration has replaced US 'strategic engagement' with China with 'strategic competition.'

One year ago, moreover, the US, European, and Chinese economies and markets were roaring. Now, there is deep instability in financial markets, with growth slowing in China and Europe, and higher interest rates beginning to bite in America. Uncertainty over the future of the North Korean nuclear negotiations is also darkening the picture.

So what are the prospects for US-China relations in 2019? It's probable that by March there will be an agreement on reducing the bilateral trade deficit and the import decisions that China will make to see it through. An agreement on tariff reductions by then is also possible, although its complexity may lengthen the timeline. A tariff-by-tariff approach could take a year. But if Chinese economic reformers take a more dramatic approach, by committing to zero tariffs over time and challenging the Americans to reciprocate, it could be concluded more rapidly. But this would run counter to decades of Chinese trade bureaucrats' training to give away little, let alone be seen as giving away everything at once.

The reform of so-called forced technology transfer should be relatively straightforward. Nonetheless, reform is different from how contractual arrangements may be interpreted in practice, even in the absence of any specific technology transfer provisions.

China as a champion for free trade?

Intellectual property protection, however, is deeply problematic. Previous agreements reached under President Barack Obama's administration could be reconstituted. But the jurisdictional enforcement of breaches is still hopeless. One possible mechanism is to subject relevant contracts between Chinese and foreign firms to international commercial arbitration bodies located in Singapore or Switzerland, designed to deal specifically with the enforcement of IP protection.

If China objected, it might be possible to develop China's own domestically based international commercial arbitration system. But the country would need to appoint qualified foreigners to its panel of arbitrators to build international credibility. No one has any confidence in China's commercial courts. For its own domestic reform needs, China needs to move toward fully independent commercial and civil divisions of its court system, even if the criminal division remains subject to political control.

We should also not rule out the possibility of China pitching tariff reforms to the wider international community as well.

American concerns about Chinese state subsidies under the country's Made in China 2025 strategy will be almost impossible to resolve. The reality is that all countries use degrees of government support for their indigenous technology industries, although China uses the most. Even if we mandated a maximum level of state support for a given firm, compliance would be difficult to measure. I am not confident of a negotiated outcome in this area. America may simply need to outcompete China by increasing public investment in research and development across the information technology and biotechnology sectors.

We should also not rule out the possibility of China pitching tariff reforms to the wider international community as well. For example, China could make a dramatic commitment to zero tariffs over time not just to the US, but to all World Trade Organization member states. This would represent an almost irresistible opportunity for China to champion global free trade and arrest the trend toward protectionism.

Such a turn by China could include approaching the Trans-Pacific Partnership's member states for accession, in an ironic effort to outflank the US (which Trump withdrew from the TPP immediately upon taking

office) in the Asia-Pacific region. When it sees a political and market opening, China can be remarkably fleet of foot. Negotiations would be difficult, but Japan's reservations about China's TPP accession have softened since Prime Minister Shinzo Abe's recent visit to Beijing.

China as a champion for international governance?

On the wider foreign policy and security front, China in 2019 is likely to 'de-conflict' itself in its relations with other countries, given the core strategic challenges posed by the US. There is already some normalisation in relations with Japan. Recent Japanese Coastguard data indicate a drastic reduction in Chinese incursions into the Senkaku/Diaoyu area in the East China Sea.

China also wants to de-escalate tensions with the Association of Southeast Asian Nations over the South China Sea through the accelerated negotiation of a 'code of conduct.' China is also likely to enjoy a calmer relationship with India, following the bilateral summit in Wuhan in April. And China may begin to moderate its stance on Taiwan, given the poor results of Taiwanese President Tsai Ing-wen's pro-independence Democratic Progressive Party in last month's local government elections. This would, of course, change radically if the US proceeds with further significant arms sales to Taiwan, as is likely. Maritime incidents with the US in the South China Sea have continued, and the conflict may sharpen if the US pursues its Freedom of Navigation program more vigorously next year.

China is likely to consolidate and expand its role within the existing United Nations and Bretton Woods institutions, rather than emphasising new institutions of international governance.

Across Eurasia, China will continue to roll out its Belt and Road Initiative. However, in recent months, the BRI has attracted less domestic political fanfare. There is already debate among Chinese officials about revising certain BRI modalities, following negative reaction to Sri Lanka's handover to China of the Hambantota Port, and concerns over the BRI's long-term affordability. We may therefore see less Chinese BRI triumphalism in 2019.

Moreover, China is likely to consolidate and expand its role within the existing United Nations and Bretton Woods institutions, rather than emphasising new institutions of international governance. It will likely continue to be the WTO's new champion, and to sustain its posture on global climate change as agreed under the 2015 Paris climate agreement.

To the more sober minds in China's foreign policy establishment, it is better to focus on the existing machinery of the global rules-based system, particularly when the US is demonstrating systematic contempt for it.

As China seeks to re-stabilise its relationship with the US, and ease tensions in its non-US relationships, its leaders are likely to use 2019 to form a deeper judgment about the future of US politics: the impact of the Mueller investigation on Trump and his administration, and whether a new president in 2020 (or sooner) would in any way change the emerging new US strategy. While they have already concluded that a deep shift in American attitudes to China has occurred, they remain uncertain about what precise form that shift is taking, and whether a fundamental shift in their strategy (as opposed to tactics) is warranted.

(c) Project Syndicate



Kevin Rudd

Kevin Rudd, former Prime Minister of Australia, is President of the Asia Society Policy Institute in New York and Chair of the Independent Commission on Multilateralism.