

**CHINESE FOREIGN POLICY IN 2018:
A WATERSHED YEAR**

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Executive Summary

1. In 2018, China saw a rapid deterioration of its external environment, precipitated by China-US relationship turning from problem-ridden cooperation into full-blown strategic competition. President Trump's "America First" policy and unilateralism have substantially reduced the willingness and space for cooperation with China.
2. Apparently, policymakers and strategists in the United States have decided that it is better to confront China now than when it becomes even more powerful. The Trump administration has declared, "the era of great power competition has returned".
3. More fundamentally, the two states are in for a reset of their bilateral relations. They have to find a new model of interactions befitting their relative power and positions in the world.
4. Unlike the trade war between the United States and many of its allies such as Canada and Mexico, the trade with China carries a Cold War-like undertone that highlights more fundamental differences at the level of values and ideology, alternative visions of world order, and different social, political and economic systems, which make the trade war intractable.
5. The US demands for structural change in the Chinese economy fall into three categories: (1) substantial reduction of trade imbalance; (2) end to "intellectual property theft" and forced technological transfer by foreign companies operating in China; and (3) dismantling of "state capitalism" exemplified in state-led programmes such as "Made in China 2025".
6. The Trump administration has also taken broader measures to undermine China's potential for power growth and to slow down if not derail China's rise, such as curtailing scientific and educational exchanges.
7. Countering the trade war with the United States and the underlying strategic considerations shaped Chinese foreign policy in other areas in 2018.

8. China has totally changed its attitude towards North Korea leader Kim Jung Un. Xi Jinping met the latter three times during the year. North Korea turned from strategic liability to asset in the rivalry with the United States. China also fought accusations of “debt-trap diplomacy” in its Belt and Road Initiatives (BRI), promising better consultation with involved states.
9. Under tremendous US pressure, China became eager to improve relationship with Japan and India, and elevated its military and security cooperation with Russia, participating in its largest military exercise since the 1980s. China is facing US challenges on the Taiwan issue (more arms sales and official ties to the island) and in the South China Sea (more “freedom of navigation operations” by US navy).
10. The ambitious foreign policy agenda of the 19th Party Congress in October 2017 was somewhat disrupted in 2018 and China is expected to take a more cautious approach in foreign policy in 2019.