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US-China Competition: Nature, Sources and Prospects

By Bilahari KAUSIKAN

US-China competition is now in a new phase. After China and the United States reestablished contact after the communist victory in 1949, periodic disagreements and tense episodes occurred, particularly over Taiwan and human rights issues, but the overall emphasis was on engagement until around 2010. Even the Tiananmen crackdown in 1989 did not permanently derail engagement. Today, the emphasis has reversed: engagement will not entirely cease, but competition now dominates.

Competition will wax and wane at different times and on different issues, but competition of some degree will be the leitmotif of US-China relations for the foreseeable future. We will have to live with this. It is hard to predict how long competition will last, but it is likely to be measured in decades, not years.

The recent virtual meeting between President Xi Jinping and President Joe Biden was a good start to stabilising the competition. However, it was only a start. Stabilising competition – making it less dangerous – is not the same thing as ending competition. It is therefore vital that we understand the nature of US-China competition accurately.

This new phase in US-China relations has often been called a 'new Cold War'. This is an intellectually lazy and inaccurate trope. While there are some similarities between US-China competition and US-Soviet Cold War competition, calling this a 'new Cold War' fundamentally misrepresents the nature of US-China relations.

On similarities, US-China competition is a new structural condition of international relations as was the Cold War. We tend to forget that the period of US dominance of the international order was in fact short and historically exceptional – only about 20 years from 1989 when the Berlin Wall came down, to 2008 when the global financial crisis hit. For most of the post-

World War II period – 45 years or so – the international order was contested, sometimes violently, both internally within countries and internationally between countries. We are now returning to a historically more normal period of a contested international order.

Second, as during the Cold War, there is an ideological element to the competition, which the United States has characterised as between democracy and authoritarianism. On its part, China has claimed – on the basis of its management of the global financial crisis of 2008-2009 and the COVID-19 pandemic – that its governance model is superior to the US model or, more generally, the Western model. We should be aware of this ideological element without being distracted by it.

These similarities with the Cold War are superficial. Much more crucial are the differences. While we have returned to a period of a contested international order, the nature of the contest has fundamentally changed.

The United States and the Soviet Union led two entirely different types of economic systems, which were connected only tangentially. The US-Soviet competition was to determine which system would prevail. Their competition was essentially a binary game. Except for the energy market, the Soviet Union was never a significant global economic player.

By contrast, the United States and China are both vital and irreplaceable components of the global economic system. The United States and China compete within this single economic system. They and other components of the global system are connected to each other by a web of supply-chains that is of an unprecedented scope, density and complexity. These global supply-chains are what distinguish 21st century interdependence from earlier periods of interdependence.

To restate the point, while globalisation is under stress, with the stresses within key countries and between countries likely to continue, it is highly improbable that globalisation will be reversed entirely.

Capitalism has triumphed everywhere and calling it 'Socialism with Chinese Characteristics' is only a transparent face-saving device. Today, Chinese peasants and workers want nothing more than to join the bourgeoisie, not overthrow it. That is the goal of China's leaders too, their interpretation of building a 'modern socialist country'. China's middle-class is now some 400 million or more, including many Party members.

The same is true elsewhere. Every economy is now a mixed economy; the primary differences are in the balance between market and state elements and in what social protections are in place. As an aside, ironically, social protections are generally stronger in the West than in any country that calls itself 'socialist'. Important differences between various types of mixed economies remain, but they are mainly political differences.

Competition *within* a single system is fundamentally different from competition *between* systems. It is not binary. The global web of supply-chains is unlikely to bifurcate entirely across all sectors, though partial bifurcation has already occurred in some sectors such as the internet and 5G telephony. More bifurcation of some degree is likely, particularly in sectors with national security implications such as data flows. However, complete across-the-board bifurcation is highly improbable.

The dynamics of competition within a single system are complicated. For example, high-end semi-conductors have emerged as a serious vulnerability for China. The three major high-end

semiconductor producers and critical nodes in the semiconductor supply-chain are all owned by the United States and its allies and friends. However, China constitutes about 40% of the global semi-conductor market. You cannot cut off your own companies and those of your friends and allies from 40% of the market without doing them serious harm.

Both the United States and China have benefitted from the global economic system of which they are both vital parts. Neither the United States nor China is entirely comfortable with it because globalisation creates and exposes mutual vulnerabilities. As a result, profound interdependence coexists with profound mistrust in US-China relations.

Some Americans still harbour hopes of 'decoupling' the United States and its allies from China's economy. This is a forlorn hope. Even the staunchest American ally will not play this game. It is not going to be easy for the United States and its friends and allies to determine how to position themselves in this new environment. China faces much the same difficulties. The choices facing the two principals and third parties are no longer straightforward binary choices.

It is easier to talk about diversifying supply chains to avoid an over-reliance on China than to actually do so. Japan has for many years tried to pursue a 'China plus one' strategy but without much success so far in identifying a really viable 'plus one', though India may eventually play that role.

It is also easier for China to talk about 'dual circulation' and becoming more self-reliant in technology and boosting domestic household consumption to sustain growth than to actually do it. For the foreseeable future, China must continue to import key technologies and rely on exports to sustain growth and to accept the risks and vulnerabilities of remaining connected to its arch-rival and its rival's friends and allies. So too must the United States and its friends and allies accept the parallel risks and vulnerabilities of remaining connected to China. Competition within a single system is about achieving a position that will enable you to benefit from interdependence, while mitigating your own vulnerabilities and exploiting your rival's vulnerabilities. It is not about one system displacing the other.

What drives this new phase of US-China competition? The obvious explanation is the lack of a common enemy after the collapse of the Soviet Union. That common enemy was what brought them together in the first place in 1972. However, more fundamentally, the competition is driven by parallel perceptions or misperceptions by the United States and China.

There is a very strong ideological element in American political culture. This is the belief that democracy is not just a desirable goal, but that history tends towards some variant of the Western type of democracy. Americans are also pragmatic and pragmatism is what drives American foreign policy most of the time. Nevertheless, the idea that it is America's responsibility to nudge history in the right direction has been a recurrent theme that never entirely disappears. This makes the Chinese Communist Party (CCP) chronically suspicious of American intentions, and not without cause.

The mainstream in the American foreign policy establishment probably never thought that the prospects of China becoming a democracy like Japan or South Korea or Taiwan were very high. However, after Deng Xiaoping's reform and opening up, and in particular after China joined the World Trade Organisation in 2001, many Americans were hopeful that economic reforms would eventually lead to at least some degree of political reforms. Towards the end of the Jiang Zemin period and at the beginning of Hu Jintao's administration, China did in fact cautiously experiment with limited political reforms at the local level.

What Americans discounted or under-weighed is a fundamental fact about China: China is a communist country. Of course, post-Maoist China's ideology no longer emphasises class-struggle. The CCP legitimates its rule by a strongly nationalist and revanchist historical narrative of humiliation, rejuvenation and realisation of the China Dream under CCP leadership. The structure of China's political system is clearly still communist in that the CCP, as a Leninist-type vanguard party, insists on control not just over politics, but over all aspects of state and society: economics, culture and social behaviour. Technology has given contemporary China the means to exercise tighter control than any previous communist system.

The purpose of reform in a communist system is always to strengthen the dominant position of the vanguard party and tighten its grip on the state. Reform is not intended, as in the Western idea of political reform, to limit the power of the state so as to empower the individual. This simple fact is not always understood in the West. When Xi Jinping first came to power, some American and other Western observers of China thought that he would be a reformer in the Western sense of 'reform'. Xi is indeed a reformer, but in the Leninist sense of 'reform' in that he strongly believes in the primary of the Party. What we are now witnessing in US-China relations is, at least in some measure, a counter-reaction to this delusion.

Xi has not entirely discarded market reforms in the country's search for economic efficiency. After all, the 18th Party Congress in 2012 that saw Xi ascend to the ultimate heights of power also acknowledged that the model of state enterprise-led investment in infrastructure that underpinned the spectacular growth of the 1990s and first decade of the 2000s was unsustainable. In 2013, in the first year of Xi's watch, the CCP adopted the outlines of a new model that envisaged 'a decisive role' for the market in the allocation of resources.

Still, Xi regards the market only as a servant or instrument of the Party and that stronger Party control and Party discipline must be at the centre of solutions to China's challenges. In any case, not much of the 2013 plan – some scholars estimate not more than 15% to 20% – has so far been implemented.

Xi Jinping's current emphasis on 'common prosperity' is less an ideological commitment to egalitarianism than an attempt to deal with an issue with which many other countries are also grappling: growing inequality. Coming on the heels of his efforts to assert greater Party control over a slew of sectors from technology to property to private education, it has caused great uncertainty and raised fundamental questions about the social compact on which CCP rule had been based since the 1990s. Essentially, the compact was to allow people to become rich in return for obedience to the Party. Most Chinese were happy with the deal.

Tolerance of inequality – some getting rich before others, to paraphrase Deng Xiaoping – was the price of that compact for three decades. However, inequality had grown too stark and had possibly become destabilising. A new compact is now emerging – slower but more equitable growth in conjunction with tighter Party control, stronger Party discipline and strict adherence to Xi Jinping Thought.

Emphasising control at a time when slower growth and competition with the United States has raised the risks of social instability is prudent. However, some basic questions remain unanswered: What will be the new drivers of growth and will they be compatible with tighter Party control and ideological discipline? Will the Chinese people accept this new compact?

The Resolution on History adopted earlier in November 2021 at the Sixth Plenary Session of the 19th Central Committee of the CCP emphasises the continuity of the direction that Xi has taken the CCP, with China's long history and future under CCP rule as the inevitable outcome

of this historical process. Will it work? The insistence on continuity and inevitability could suggest some uncertainty to the outside observer. However, stressing continuity has always been a characteristic of Chinese historiography and it is too early to come to definitive conclusions.

Still, it is the privileged position of the CCP and the revanchist narrative by which it justifies its privileged position that are the fundamental drivers of the assertive geopolitical and mercantilist economic behaviours that have aroused concerns in many countries. Revanchism does not only mean 'revenge', as is its root in French, but more generally, the recovery of what was lost. 'Recovery' does not mean physical recovery alone, but also recovery of status or position. That is what lies at the heart of the 'China Dream'.

The global financial crisis and Beijing's experience of the second Obama administration led to a serious miscalculation about the absolute decline of the United States, and the West more generally. In reality, the changes in the global distribution of power are relative not absolute, and while China has made tremendous progress, the United States is still ahead in many indices of power, not the least of which is its military.

Western democracy has its weaknesses, and the United States in particular, is currently facing very serious domestic challenges. Decision making in all democracies is to some extent dysfunctional by design in order to prevent an over-concentration of power. This is especially pronounced in the United States where the distrust of the state and its institutions was ingrained at its founding. US politics is fiercely partisan. This makes it difficult for Washington to react quickly and steer a steady long-term course without raucous debates and compromises that mix wheat and chaff into less than coherent policies.

America can be bewildering to the outside observer. However, the deep and fundamental well-springs of American resilience and creativity have never been overly dependent on what happens in Washington DC. More important is what happens in American corporations, American universities, American research laboratories, and on Wall Street and the main streets of the 50 states.

In the decentralised US system, consensus is difficult to reach, but once established, it is enduring. The United States is often slow to react—but once roused, it acts, and can act relentlessly and ruthlessly. After all, the United States pursued competition against the Soviet Union for 45 years, often while engaged in partisan political debates that were no less bitter and divisive than those that today embroil the United States. Whatever else they may disagree on – and that is almost everything – there is a bipartisan consensus on China. Political debate about China is only over the best means to compete, not whether the United States should compete.

Is this well understood in China? The highly decentralised nature of Western democracy and its distrust of an overly strong state are not only alien to China's historical experience and political culture, but it is in the CCP's interest to discount Western democracy's strengths to its own people.

Centralised authoritarian systems do have some advantages. Such systems are better placed to make quick and clear decisions and pursue them relentlessly over the long term. China could hardly have made such tremendous progress under any other system. However, the ability to take and implement long-term decisions is an advantage only if the decision was correct in the first place. An over-concentration of power risks creating a single point of failure whereby a

bad decision can have disastrous system-wide consequences as during the Great Leap Forward and Cultural Revolution.

Time will tell what the consequences of China's new direction will be. We should not assume failure. The CCP is far more adaptable than the Communist Party of the Soviet Union and China is a far more viable economy than the Soviet Union ever was.

However, it already seems clear that China misjudged America and that the premature abandonment of Deng Xiaoping's sage approach of 'hiding strength and biding time' is a fundamental mistake. Once revealed, ambitions cannot be easily concealed again. Talking about a "community of common destiny for mankind" or promoting trade and investments will not lead other countries to ignore China's ambitions. It is not the ambitions per se that are problematic – it is only natural that big countries will have big ambitions – but the overly assertive way that Beijing has chosen to pursue its ambitions. China's political culture and historical experience leads Beijing to conceive 'community' as hierarchical with China at the apex. This naturally arouses resistance.

Nevertheless, no country will ever ignore or shun China. Today, many surveys show that while China's importance is widely acknowledged, distrust of China is also at record highs, including in countries that are highly dependent on China economically. A few months ago, Xi Jinping called on his officials to make China more "lovable", more "credible" and more "respectable" and to widen its circle of friends, which is a tacit admission that Chinese diplomacy has been less than a stellar success.

At the same time, China does *not* pose the same kind of existential threat to the United States as did the Soviet Union. China is a 'peer competitor', a formidable rival, but that is not the same thing as an existential threat. While China certainly poses very serious challenges to the United States and the West, its challenge cannot be existential as the competition occurs within a common system. To call China a 'systemic competitor' or a 'revisionist power' is an exaggeration. It has been a very long time since anyone could seriously hope or fear that global revolution would replace capitalism with communism. Beijing may dream of reclaiming its place at the apex of a global or regional hierarchy, but that is not the same thing as upending the system.

Without an existential external threat, there is no longer a reason for Americans to bear any burden or pay any price to uphold the international order. Time to focus on long neglected domestic issues. When Obama captured the White House with a promise of 'Change', voters did not understand him to be promising change abroad but change at home, or in other words, to 'Put America First', as Trump proclaimed with his characteristic lack of subtlety. Biden's promise to 'Build Back Better' is only a more sophisticatedly phrased expression of the same political mood.

This is not so much the retreat from the world that some commentators claimed, but an on-going recalibration of the terms of America's engagement of the world. In the absence of an existential threat, the United States now insists on others to help uphold the international order. With Obama it took the form of a greater emphasis on multilateralism, which is another way of describing collective action; Trump made crude demands, while Biden talks about consultation with allies and partners. The intent is much the same. If the Biden administration consults you, it is not for the sheer pleasure of your company but to determine what you are prepared to do for it. It is a more polite form of Trump's transactionalism.

It will be difficult for the United States and China to rectify their perceptions of each other because the relationship has become entangled in the domestic politics of both sides. Neither Xi nor Biden – or any of their successors – will want to look weak. More fundamentally, the perceptions and misperceptions that drive competition are rooted in core aspects of American and Chinese political culture and therefore will never entirely go away, regardless of what policy adjustments either side may make to manage their competition and reduce immediate tensions.

So what can we expect for the future? Competition *within* a system is unlikely to result in the kind of clear-cut denouement that ended the Cold War competition *between* systems. For either side to gain clear dominance over the single system of which they are both vital parts would be to fundamentally change the nature of the system with unpredictable consequences, if not to break it entirely. That is too high a cost for either to bear.

For the foreseeable future, we are confronted with two strategic realities: a more assertive China and a more transactional America. Every country needs to have relations with both the United States and China; no one entirely trusts either. Consequently, no country – not the staunchest American ally or the most servile Chinese dependent – is likely to put all its eggs in either the American or Chinese basket. No one will neatly align *all* interests across *all* policy domains *all* the time with either the United States or China. This is really what we mean when we say we do not want to choose between them.

The very complexity of US-China relations, their multi-dimensional character and the new world economy that has evolved after the Cold War, makes it unnecessary for any country to align all its interests along one axis. This reluctance to neatly and permanently align all interests in one direction or another encourages and entrenches what is already a naturally multipolar Southeast Asia and is promoting the emergence of a multipolar world. Not all the poles will be of equal weight. Still, in multipolarity there is agency because multipolarity broadens manoeuvre space for everyone.

In my judgement, neither the United States or China is likely to achieve its strategic objectives in entirety. What we can expect is continuing US-China competition within a fluid and highly complex multipolar system where different coalitions of states emerge, dissolve and reconstitute themselves in different configurations around different issues, tilting this way or that as interests dictate. Some coalitions may well include both the United States and China. No alignment will be entirely set in stone; no advantage or disadvantage of either side will be decisive. Navigating this system will require great alertness and agility. It is going to be very confusing for everyone.

We can however take some comfort in that war by design – that is, war by conscious policy choice or war as an instrument of policy, is highly improbable due to nuclear deterrence. Nuclear deterrence kept the peace between the United States and the Soviet Union; it will keep the peace between the United States and China. The general level of tensions in the contest between the United States and China has in fact been lower than between the United States and the Soviet Union, at least so far. Accidents can always happen, but if they do, I think both sides will try to contain accidents and limit their consequences. Neither is reckless. In the South China Sea, dangerous incidents between the United States and China have been infrequent.

Limiting the consequences of accidents will be most difficult to do in the case of Taiwan, which directly intersects the CCP's legitimating nationalist and revanchist narrative. Even in the Taiwan Strait, notwithstanding fiery rhetoric and provocative actions by both sides, war by design is also improbable, at least for the next decade or two. So far at least, China has not fired

missiles over the island as it did in 1995-1996. That adventure backfired and contributed to the pro-independence Democratic Progressive Party coming to power for the first time. During his recent meeting with Biden, Xi said China is in no hurry to reunify with Taiwan. That was reassuring. Nevertheless, I do not think time is on China's side in Taiwan's case and that hard fact injects a dangerous element of long-term uncertainty into the Taiwan equation and US-China relations.

Bilahari KAUSIKAN is a former Permanent Secretary of the Ministry of Foreign Affairs of Singapore. This is based on a Guest Lecture at Graduate School of Public Policy at the University of Tokyo on 26 November 2021.