THE TELEGRAM II

The Business of America *and* China Is Business

Sarwar A. Kashmeri

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A FOREIGN POLICY ASSOCIATION REPORT

The Foreign Policy Association, founded in 1918, is the first independent national organization established to provide global affairs learning opportunities in all regions of the United States. Working to develop awareness, understanding, and informed public opinion on key current international challenges, the Foreign Policy Association is widely recognized as a **leader in stimulating broader and more effective participation in world affairs.** As FPA advances international affairs education, the organization enriches national debates about America's role in the world and strengthens U.S. democracy.

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In today's world, as globalization accelerates and its complexities and consequences deepen and expand, the **experience and expertise of the Foreign Policy Association** are needed more than ever.

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September 2022

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Acknowledgements

This is my second report for the Foreign Policy Association on the critically important United States–China relationship and the relationship's importance to the world. What better way to test my own thoughts, I reckoned, than to filter them through the eyes of experts from other countries, which is the process I have followed in compiling this report. My interlocutors were enormously helpful. They brought fresh insights and different perspectives to the largely one-dimensional, largely abrasive, and distrustful view of the U.S.–China relationship that now exists in both Washington and Beijing: a dangerous standoff, considering that the two superpowers will likely determine the course of the 21st century.

My acknowledgements must begin with the experts from around the world who took the time to speak to me about the U.S.–China relationship and how this relationship impacts the wider world. The emphasis of most conversations was the business and financial dimensions of the relationship. My interlocuters are listed on the cover and again at the end of the report. Many of them were kind enough to appear as my guests on "Polaris-Live.com," the live half-hour, commercial-free video program that I host. (For those who want to drill deeper, complete conversations with these interlocutors are available on "Polaris-Live.com.") Some experts preferred to offer their advice offline and in private conversations. I am equally grateful to all of them for their forthright opinions and advice.

While the "Polaris-Live.com" conversations forced me to think outside the box, the conclusions I present here in **THE TELEGRAM** are my own, and it would be a mistake to link any conclusion to a particular interlocutor, unless specifically quoted in the report.

Students of history and geopolitics will recognize that the title of this report series, **THE TELEGRAM**, is adapted from the now famous 1946 report to the U.S. Department of State eventually known as "The Long Telegram." The telegram was authored by George Kennan, a State Department envoy in Moscow. Kennan's brilliant analysis of the Soviet economy and his recommendations to the State Department resulted in the U.S. policy of containment, which ultimately (it took three decades) resulted in the demolition of the Soviet empire without a single shot being fired. It was a remarkable feat of bipartisan U.S. leadership over thirty years.

The tussle between the Soviet Union and the United States was existential—while, thankfully, the competition with China is not. Yet. But it is headed that way quickly. To ensure the competition is not transformed into an existential battle will require a fresh, realistic, less dogmatic engagement between the two superpowers' political leaderships. Fresh thinking is needed on both sides to avoid further conflict that, given the destructive power fielded by both countries, is unthinkable. That is the reason I accepted the Foreign Policy Association's invitation to write this report, the second in the **TELEGRAM** series, designed to inject a fresh viewpoint and to trigger further ideas to move the deadlock off dead center.

I want to thank my friend and book editor Anna Typrowicz, who first edited my essay in the report, and Emilie Trautmann and Tonya Leigh, both from the Foreign Policy Association who completed the editing, designed the cover, and moved the report through production. Graham Nau fact checked the narrative. All of them worked under a tight deadline and never missed a date.

Last, but not least, let me acknowledge my gratitude to Noel V. Lateef, President and CEO of the Foreign Policy Association, a legend in the think-tank world. Noel has been a friend and adviser for many years; he was kind enough to write this report's foreword.

The FPA has been my intellectual home for almost three decades. Uniquely in a world of agenda-driven think tanks, the mission of the FPA today, as it has been for its 104-year history, is to serve as a catalyst for developing awareness, understanding, and informed opinion on U.S. foreign policy and global issues.

The United States–China relationship is perhaps the most consequential foreign policy issue of our time. As I write these acknowledgements, that relationship appears as fraught, if not more fraught, than it was a year ago. Today's situation must change, for the United States and China will be the two superpowers for many decades to come. The future of the world depends on their working together. It is my continuing hope that **THE TELEGRAM** and its recommendations from a range of global experts will help lower the temperature of the relationship and create understanding between two great countries.

Sarwar A. Kashmeri
Hanover, New Hampshire, USA
August 23, 2022

Foreword

The primacy of geopolitics is increasingly evident in the conduct of relations between the United States and China. Tensions in the Taiwan Strait could spiral out of control and spark armed conflict between the two countries. This risk only grows when Washington ignores red lines drawn by Beijing. The recent visit to Taiwan by U.S. House Speaker Nancy Pelosi was viewed as a particularly provocative action by Beijing.

Against this backdrop, in his second **TELEGRAM**, Foreign Policy Association Fellow Sarwar Kashmeri exhorts business leaders in the United States and China to take the initiative in mending relations between the two countries. With his trademark pragmatism, he reminds us what is at stake. He offers concrete policy recommendations that can help de-escalate current tensions in the most important bilateral relationship in the world today. These recommendations merit careful consideration by both Washington and Beijing.

Noel V. Lateef
President and CEO
Foreign Policy Association

THE TELEGRAM

This series of reports on U.S.–China relations commemorates in its title "The Long Telegram" sent to the U.S. Department of State 76 years ago by an American diplomat. George Kennan, a Soviet expert serving as chargé d'affaires at the U.S. Embassy in Moscow, had been asked for his opinion on alarming recent developments in the Soviet Union.

He wired back to Washington a 5,000-word reply. The "Long Telegram" that he sent, now counted among the foundational documents of the United States, has been widely credited with changing the course of history. Policy makers today still hotly contest central points in the telegram.

George Kennan wrote his 1946 telegram shortly after the Soviet Union declared its wartime alliances defunct and its intentions for a rapid military buildup. The telegram argued that U.S. policymakers did not sufficiently understand the Soviet Union's internal dynamics or the strength of Soviet leaders' commitment to these dynamics.

"The Long Telegram" is archived at the Harry S. Truman Library and can be accessed at: https://www.trumanlibrary.gov/node/312890.

Contents

"It behooves us to continue
in these paths, doing what lies
in our power to foster feelings of
goodwill, and leaving no effort untried
to work out the great policy of full and fair
intercourse between China and the nations,
on a footing of equal rights and advantages to all."

President Theodore Roosevelt
State of the Union Address
Washington, D.C.
December 3, 1901

The Business of America *and* China Is Business

China's growth in a short four decades from a middling economy to a world power is unprecedented. As *The New York Times* of November 18, 2018 put it, "China used to make up much of the world's poor. Now it makes up much of the world's middle class." But—and it is an important *but*—it would be a big mistake to cast America into the twilight of history.

It is easy to forget that despite America's present travails, including increasing cultural, political, and racial divisions, the United States stands alone when it comes to bare knuckles economic power. No other country's currency even comes close to the U.S. dollar's ranking as the world's premier international trading currency and as a reserve currency held by the world's biggest central banks.

Consider that more than 40 percent of world trade is settled in U.S. dollars, according to the U.S. Federal Reserve, and this dominant role has stayed fairly constant since 2000. Although the International Monetary Fund and the U.S. Central Intelligence Agency identify the Chinese economy as the largest in the world, the renminbi barely registers 3.2 percent on the world's trading currency scale, as reported by *The Wall Street Journal* on May 9, 2022. The situation of the renminbi (RMB: renminbi, the official name of the Chinese currency, is used interchangeably with "yuan") is similar in the foreign currency reserves of governments and central banks. International Monetary Fund 2022 figures are: 58.88 percent in U.S. dollars, 20.06 percent in euros, 5.36 percent in Japanese yen, and despite the huge size of China's economy, the RMB constitutes less than 2.88 percent.

Furthermore, American stock markets are the largest in the world, and American bond markets are the deepest, offering buyers and sellers worldwide unmatched liquidity. Both are supported by two centuries of global trust in the United States as an investment destination, a trust derived from America's government, laws, and institutions.

In the realm of space, the next frontier for high-technology exploration, even though the China National Space Administration has a budget that is nearly twice that of NASA (U.S. National Aeronautics and Space Administration), NASA is easily the most prolific and active space agency in the world. For instance, its recently activated James Webb telescope is already providing views that reach through time into the beginnings of the universe.

The Old Order Changeth

It is also true, however, that the unipolar world order led by the United States, which has existed since the collapse of the Soviet Union in 1991, has been replaced in a mere forty years by China's rapid rise to superpower status.

China's economy is already larger than that of the United States in terms of purchasing power parity (PPP), a benchmark used by the IMF and the CIA to measure a country's gross domestic product (GDP). PPP is one of two main methods for comparing countries' GDPs. Unlike the measurement that uses prevailing market exchange rates to convert countries' currencies into U.S. dollars, PPP, explains the IMF, "uses the rate at which the currency of one country would have to be converted into that of another country to *buy the same amount of goods and services in each country*" (emphasis added).

And that's not all. As the Belfer Center for Science and International Affairs at Harvard University pointed out in its March 2022 report "The Great Economic Rivalry: China vs the U.S.":

- China has displaced the U.S. to become the manufacturing workshop of the world.
- China has overtaken the U.S. to become the No. 1 trading partner of most nations in the world.
- China has established itself as the most essential link in the world's critical global supply chains.
- China has replaced the U.S. as the primary engine of global economic growth. Since the 2008 financial crisis, one third of all growth in the world's GDP has occurred in just one country: China.

In fact, as the Belfer Center report points out, China's growth has been part of the world economic center of gravity's shift back to Asia, where but for a brief 150-year period during the Industrial Revolution in 18th- and 19th-century Europe and America, it has been for two millennia.

Chart 1

CHINA BY THE NUMBERS, 1980-2020

	1980	2020
GDP	$420 billion	$14.6 trillion
GDP per Capita	$430	$10,400
Urban Population	19.4%	61.4%

SOURCE: WORLD BANK; GDP and GDP per capita in 2015 constant U.S. dollars

With a larger economy comes larger military power. Here too the United States has remained supreme during the last seventy years. With its network of alliances and hundreds of military bases spread out around the globe, America is still the only truly global military power in the world.

The United States projects its power around the world primarily through its eleven nuclear powered aircraft carrier attack groups, each of which has more than 7,500 personnel, six or more warships, submarines, and 65–70 warplanes. Each attack group contains more firepower than the air force of most countries. America's eleven attack groups provide the United States with capability for global military projection that is unrivaled. No other country, including China, has even one such attack group.

Americans have grown accustomed to believing this global military dominance will exist for the immediate future. The U.S. defense budget of almost $1 trillion is larger than the combined defense spending of the nine countries, which include China, with the next highest defense budgets.

Unfortunately, as is the case with many beliefs about the United States that fall within the economic sphere, the perception of America as maintaining global military preeminence is no longer accurate. In the seas around China, it is China that now reigns supreme.

Even though China's defense budget is estimated to be around a third of America's, China has chosen to spend much of it to defend itself against naval attack,

Chart 2

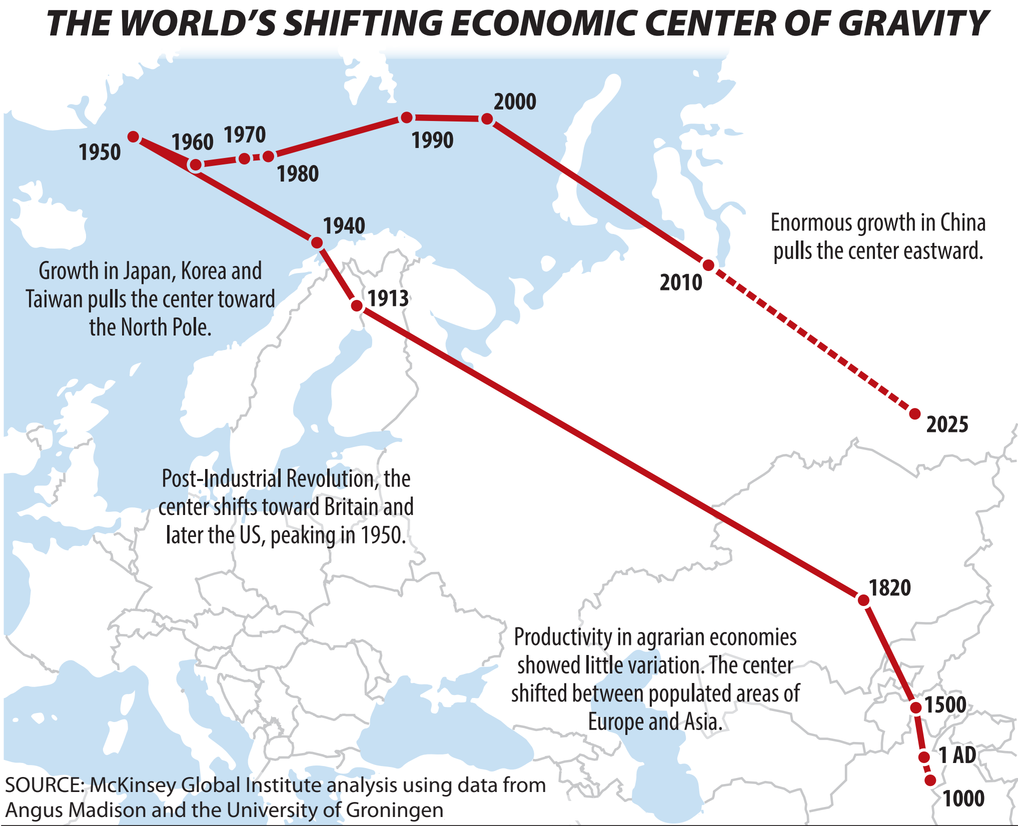


Chart 1 (page 2) and Chart 2 (above) are adapted from "The Great Economic Rivalry: China vs the U.S." by Graham Allison, Kathalie Kiersnowski, and Charlotte Fitzek: a paper published by the Belfer Center for Science and International Affairs, Harvard Kennedy School, March 2022.

especially to blunt the U.S. threat from the east across the Pacific. During the last three decades, China has systematically deployed land-, sea-, air-, and space-based high-technology weapons around its coastline to ensure that in times of conflict, the U.S. Navy will not be able to sail within 1,000 kilometers, or about 620 miles, of China's coast.

In fact, in virtually every computer war game conducted by the Pentagon, a war between America and China—whether in the Taiwan Strait, the South China Sea, or the East China Sea—ends with the United States losing the fight against China.

Christian Brose, the longtime national security advisor to Senator John McCain of Arizona, who served in the Senate from 1987 until his death in 2018, wrote in his widely read and much discussed 2020 book *The Kill Chain*:

> America's defeat, should it choose to fight China, would be staggering. Thousands of Americans lost in action. American ships sunk. Bases reduced

> to smoking holes in the ground. Aircraft and satellites shot out of the sky. A war that could be lost in a matter of days or hours even as the United States planned to spend weeks and months moving into position to fight.

As politically unpalatable as it may be, unless American politicians acknowledge this U.S.–China balance of power and unless the American populace at large understands the formidable odds against prevailing in a war with China on its home turf, it will be impossible to forge the American political consensus required to design and support a realistic, appropriate U.S. foreign policy for China that builds on America's still considerable strengths.

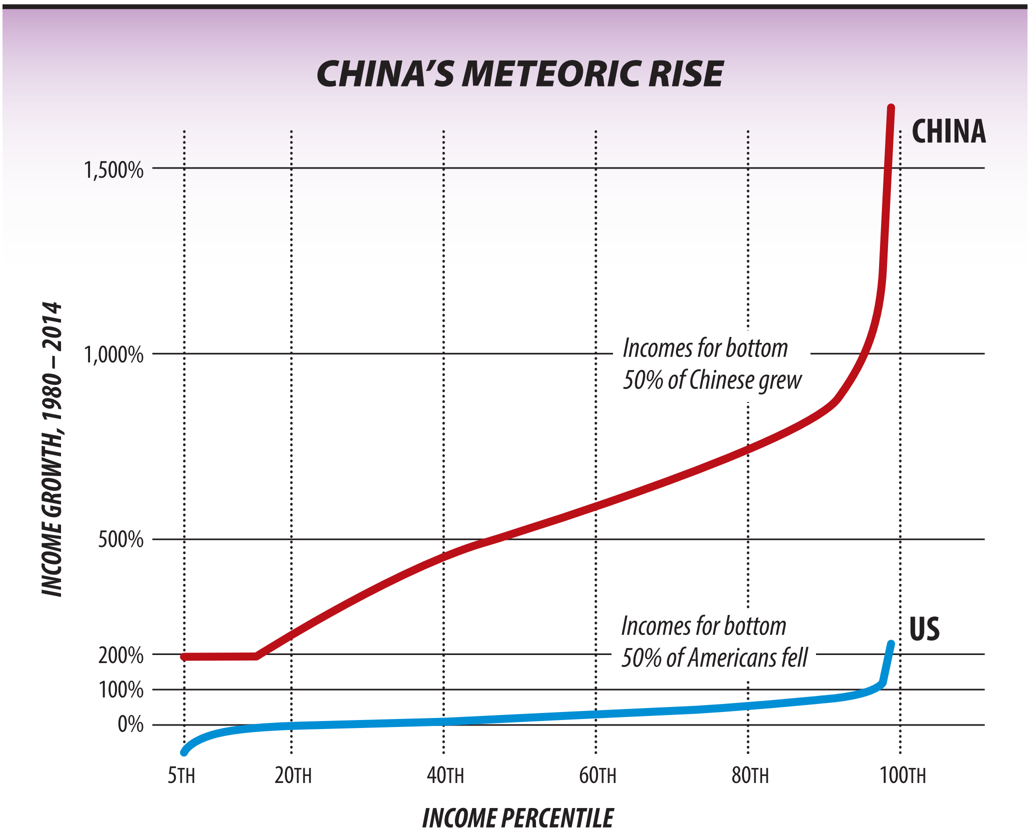
Sadly, such a consensus is not now the case. Americans have simply not accepted the fact that the United States' unipolar moment is over. As Ray Dalio, founder of Bridgewater Associates, a global asset manager and the world's largest hedge fund, points out in his book *Principles for Dealing with the Changing World Order: Why Nations Succeed and Fail* (2021), "China has become an effective competitor with the U.S. in production, trade, technology, geopolitics, and world capital markets." Ray Dalio has been traveling to China for 37 years and speaks with an unusually deep understanding of the country and its leaders, many of whom he knows personally.

As the United States and the world grapple with the competitive realities of America and China and what they may mean, China's achievement has also resulted in a powerful challenge to the primacy of democracy. China's rapid development has opened the door to examining whether a democratically elected government is really the best governance system for every country that is trying hard to shed the shackles of poverty. Does a multiparty, democratically elected government with an unfettered press, freedom of speech, and a vocal opposition ultimately lead to a prosperous society?

This question is brought into sharp focus by India, the country of my birth. Forty years ago, the "largest democracy in the world" was economically on a par with China in terms of GDP. Today, China is not only way ahead of India in virtually every measure of economic success, including per capita GDP, life expectancy, infrastructure, and manufacturing capabilities, but as Harvard's Belfer Center report points out, China also creates an India-size economy every four years!

A 2022 World Bank report finds that "the speed and scale of China's poverty reduction is historically unprecedented." As Professor Kishore Mahbubani, distinguished fellow of the Asia Research Institute at the National University of Singapore, points out, "For the Chinese people, the last forty years have been the best in China's 4,000 years, but the same forty years were not kind to American living standards." Chart 3 (on page 6), which appeared in *The New York Times* (with the provocative title "The American Dream Is Alive. In China."), clearly shows that China's authoritarian government has dramatically improved the lot of its citizens who are in the country's lowest socioeconomic 50 percent, while America's democratically elected government has not made similar progress. In fact, the incomes of this stratum of Americans have actually deteriorated.

Chart 3



SOURCE: World Inequality Database

Not surprisingly, then, a rigorously designed and conducted study of Chinese citizens' satisfaction with President Xi Jinping, printed in the July 9, 2020 issue of *The Harvard Gazette*, found that "95.5 percent of Chinese respondents were either 'relatively satisfied' or 'highly satisfied' with Beijing." In contrast, the *Gazette* cited a 2020 Gallup poll finding that only 38 percent of American respondents were "satisfied" with the performance of the U.S. federal government.

These findings indicate that together with the transition from a unipolar world to a bipolar world, a potentially more important movement in global politics has yet to be fully recognized: A larger percentage of people in China have seen their lives bettered under the Chinese Communist Party's rule than the percentage of Americans who have seen their lives improved under the democratically elected U.S. government.

What makes these statistics even more meaningful is that only 12 percent of the world's population live in the prosperous West; the other 88 percent live elsewhere—in the developing world, now often called the Global South. What lessons might poorer countries draw as they attempt to climb the economic ladder and become middle class nations in the shortest possible time? I suspect they would not view authoritarianism with as much abhorrence as do those of us who live in democracies.

But that is not all. Authoritarian countries' economies appear to be more successful than those of democracies. As the German news magazine *Der Spiegel* pointed out in its July 27, 2022 discussion of increased trade and expanding globalization:

> Between 1970 and 2010, the share of democratic governments in the world more than doubled to 53 percent. Since then, however, the trend has been steadily downward. At the same time, autocracies are increasingly successful economically.

With the economies of more "authoritarian" countries doing better than those of their democratic counterparts, the authoritarian countries are increasingly confident in expressing their geopolitical leanings. Consider the lack of global support for the West's consensus on condemning Russia for its brutal invasion of Ukraine. To the West's surprise, even countries that would be expected to join the West in condemning Russia, including Brazil, India, Israel, and South Africa, did not do so.

Professor Thomas Sherlock, the well-known Russia expert at the U.S. Military Academy at West Point, is not surprised at the lack of support. He told me that it is a mistake for the United States to describe the Russia-Ukraine war as a contest between authoritarianism and democracy, a description "which turns off many countries in the world," he said.

My point is not to argue that America would be better off if it converted to authoritarianism; I count myself in the hundreds of millions of people in the world who wouldn't dream of living under an authoritarian regime. But I would argue that for the United States *not* to recognize that China has made significant improvements for the majority of its citizens, while America has not made similar improvements, and *not* to ask itself why this is so, has led to a U.S. policy for China based on incorrect assumptions. To wit, America continues to believe that China's economy has yet to catch up with America's, that in a war against China the United States would always prevail, that the United States is still the dominant trading partner of countries around the world and is the primary engine of global economic growth, and that the United States can stop developing countries from questioning the supposed universal values that underpin the so-called democratic world order.

These mistaken assumptions result in statements such as those of the U.S. President reported by Reuters "Emerging Markets" on March 25, 2021: President Joe Biden asserted that his policy "would prevent China from passing the United

States to become the most powerful country in the world" and vowed to invest heavily to ensure America prevails in the race between the world's two largest economies. Or the statement by U.S. Secretary of State Antony Blinken that "the U.S. intends to 'shape the strategic environment' to ensure Beijing does not move the world away from the universal values that have helped shape the international order for the past 75 years," as reported by VOA on May 26, 2022.

A Need for Recalibration

The overarching goal of the current U.S. foreign policy is to stop or even reverse China's economic and technological growth. U.S. political leaders and China experts almost universally agree on a "we are going to stop China" strategy. Republicans, Democrats, and Independents support this U.S. policy, as do most of the mainstream media. In sum, Americans appear unified in an opinion that the United States is locked in a zero-sum existential contest with China.

The trouble is that this policy is based on assumptions that are, as argued above, factually incorrect: China's economy already is nominally greater than that of the United States, and China is the dominant military power in its own part of the world.

If the United States could not thwart China's rise when it was a poor country with an impoverished and stagnant economy, it is highly questionable that it can do so when China has zipped by America to become the factory of the world; has just put into place a GPS system that is even more advanced than America's; is now setting up a space station as a pathway to colonizing the moon; and is the world's largest market for automobiles, commercial aircraft, and luxury goods!

That China has not found the secret to building a shatterproof, ever-growing economy was clearly on display as this report goes to press. "China's Growth Slowed Across All Fronts in July, Prompting Unexpected Rate Cut" was an August 15, 2022 headline in *The Wall Street Journal*. The article reports:

> A raft of data released Monday [August 15] showed economic activity slowed across the board in July, including factory output, investment, consumer spending, youth hiring and real estate, highlighting the breadth of the economic challenge facing [China's] policymakers.

It takes two hands to clap, however. China needs to understand that just as the United States cannot stop China from becoming the world's other superpower through protectionist measures and a policy of containment, China cannot stop America from continuing as a superpower with its large and powerful continental economy, sense of global responsibilities, and concern for human rights.

The popular saying "Nobody ever won a bet gambling against America" may be historically correct, but it is a questionable proposition going forward. Empires, after all, come and go in cycles. The Dutch empire of the 16th century gave way to the British Empire of the 19th century, which gave way to American dominance in the mid-20th century.

America's global hegemony, its unipolar moment in the sun, may have ended, but with one crucial difference from its Dutch and British predecessors: When their global dominance ceased, Holland and Britain were removed from the global big leagues and became second- or third-ranking powers. That is unlikely to happen to the United States. Yes, America will have to share global dominance with China, but no, it is not about to fade away. And both the United States and China will need to be aware of countries on the lower power rungs, especially in the Global South and in Asia, that will develop their own economic strengths and will not want to be forced into choosing sides between America and China.

"The old order changeth," as Alfred, Lord Tennyson famously wrote, "yielding place to new." But just as it would be wise for America to recognize the changing world order, so would it be wise for China to recognize that this time around—unlike the change as Dutch dominance yielded to the British and the British in turn to the Americans—the word "yield" will not signify the zero-sum change of previous power shifts. For America is not going anywhere.

A Way Forward for the United States and China

Once both countries understand that neither of them has the power to stop the other from being one of the 21st century's two superpowers, is there a way to reverse the daggers-drawn face-off in which both now appear to be locked and to move forward with détente, with a live-and-let-live rapprochement? Perhaps it would be more accurate to say the daggers-drawn face-off in which *the politicians* of both countries appear to be locked. The situation is observably different for the business and financial communities in both countries, which continue to grow the business and financial ties that have been bringing America and China closer together and producing mutual benefits for their respective citizens.

Even as the United States announced a fresh investigation into the origins of the coronavirus causing COVID-19, and as China fired back by accusing the United States of political manipulation stigmatizing their country, Wall Street was on an entirely separate track. "In an era that is increasingly defined by geopolitical competition and a push toward economic 'decoupling,' American finance has never been closer to Chinese wealth," observed the *Financial Times* on May 21, 2021. To capture as much as they could of some $13 trillion of Chinese wealth for U.S.-style wealth management companies, American icons including Goldman Sachs, BlackRock, and JPMorgan Asset Management were trooping into China. China, which "has more billionaires than the U.S.," said the *Financial Times*, "is opening its doors wider than ever to foreign firms."

"Either lead, follow, or get out of the way," instructed Ted Turner, the legendary media pioneer. Given that the politicians from the United States and China have been equally unable to break their daggers-drawn face-off, ought they not to get out of the way and let their business and finance leaders chart a more sensible path to amity between the world's two superpowers? I believe so.

Clearly, politicians of both countries have worked themselves into corners. They should leave further attempts at rapprochement or détente to those who have demonstrated success in bridging U.S–China interests. It is time for American and Chinese politicians to take a break and let businessmen and businesswomen, large corporations, small businesses, and cutting-edge startups work their magic on both sides. After all, the citizens of America and China, like citizens of other countries in the world, recognize the powers and contributions of business and financial institutions that improve their lives.

These powers and contributions are particularly evident in the countries of Asia, the most economically dynamic and fastest growing region in the world. These countries will be forever grateful for America's security umbrella in the Indo-Pacific, which let them focus on building their economies, said Dewi Fortuna Anwar, one of Indonesia's foremost geopolitical thinkers. But now, she told me, "the way to the hearts of leaders in this region is through the economy." She continued that "the first most important thing is that countries are not competing for how many guns and how many planes they have, but…looking at how many skyscrapers and highways they have."

With all due respect, it would certainly help if politicians of both countries would recall the memorable phrase coined by James Carville, former U.S. President Bill Clinton's campaign strategist: "It's the economy, stupid."

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In contrast to perpetually gloomy prognoses about U.S.–China relations voiced by politicians of both countries, their business counterparts provide refreshing viewpoints.

Elon Musk, ***CEO of Tesla Motors:***
"China in the long term will be Tesla's biggest market, both where we make the most number of vehicles and where we have the most number of customers."

Tim Cook, ***CEO of Apple:***
"We are investing in China not just for next quarter or the quarter after, but for the decades ahead…. Our view is that China will be Apple's top market in the world."

Larry Fink, ***CEO of BlackRock:***
"China will be one of the biggest opportunities for BlackRock over the long term, both for asset managers and investors, despite the uncertainty and decoupling of global systems we're seeing today."

Ray Dalio, ***Founder and Co-Chief Investment Officer of Bridgewater:***
"Our objective is to be in China both economically and investment-wise. It's a part of the world that one can't neglect and not only because of the opportunities it provides. You lose the excitement if you're not there."

Jamie Dimon, ***CEO of JPMorgan Chase:***
"China is a critical market for many of our domestic and global clients. We will continue to invest in and fully support our business in the country."

Howard Schultz, ***CEO of Starbucks:***
"Starbucks and myself remain very bullish on the Chinese economy, and specifically the buying power of the Chinese consumer…. I wouldn't be surprised if one day we have more stores in China than we do in the U.S."

Doug McMillan, ***CEO of Walmart:***
"China remains a strategic market for our future…. It's already a priority market for us. This country has so much potential."

These sparkling sentiments are shared by the business elite in China and other parts of Asia.

More than 200 Chinese companies, with a market capitalization of some US$1.5 trillion, are already listed on Wall Street, and a waiting list of others are eager to tap into the huge U.S. capital markets and its well-heeled investors. "Chinese companies are going global as growth slows at home," announced a CNBC headline on July 12, 2022. A picture accompanying the article shows a line of customers outside the flagship New York store of Miniso, a Chinese toy and household products company. Other Chinese corporations operating in the United States or planning to begin operations in this country include the home appliance companies Midea, Hisense, and Haier Smart Home.

When *Nikkei Asia* interviewed Tadashi Yanai, CEO of the Japanese conglomerate Uniqlo, in December 2021 and asked for his take on U.S.–China tensions, the executive replied:

> Look at the reality. The U.S. and China may appear to be at odds, but they actually are not. American financial capital is flowing into Chinese investments. Apple products are all made in China. Chinese exports to the U.S. have been rising. Economically, things are going well between the U.S. and China.

In its "25th Annual Global CEO Survey China Report," the international professional services partnership PwC presented views of 180 executives based in Mainland China and Hong Kong. When asked to identify their most important market for growth over the next twelve months, the largest number, 29 percent, named the United States. It is significant that the United States is still ranked at the top of their charts, given that, as reported by PwC, "Asia Pacific will continue to be the growth engine for Chinese companies [via] the Regional Comprehensive Economic Partnership (RCEP)," which is the world's largest free trade agreement and comprises nearly a third of the world's population and about 30 percent of global GDP.

Net-net, business executives from the United States and China appear to be as uniformly bullish about the prospects of making money with each other and growing their economies as their political counterparts are uniformly pessimistic.

It's no wonder that Jessica Chen Weiss, professor of China and Asia-Pacific Studies at Cornell University, laments in the September/October 2022 issue of *Foreign Affairs,* "Competition with China has begun to consume U.S. foreign policy. Seized with the challenge of a near-peer rival,…U.S. policymakers are becoming so focused on countering China that they risk losing sight of the affirmative interests and values that should underpin U.S. strategy." She might equally have said the same for China's political leadership.

La solidarité des faits: Tangible Projects that Create Solidarity

So, is there a way to bypass the serious and growing political bottlenecks that prevent the United States and China from working together and for the two sides to build trust by using their businesses? I believe there is.

While researching for my book *America and Europe After 9/11 and Iraq: The Great Divide* (Praeger, 2006), Ana Palacio, then Spain's foreign minister, introduced me to the vision that helped Europeans overcome their divisions to create one of the seminal achievements of the 20th century: the European Union. *"La solidarité des faits*—tangible projects that create solidarity," she told me, was the way forward. "The European approach is all about overcoming divides. Indeed, Europe is based on the biggest of all divides: centuries of bloody wars between Europeans. The European way is to acknowledge the divide but put it aside, and then create common ground on which to build specific projects. Then you revisit the rift, assess it, and overcome it."

If the process recommended by Ana Palacio worked to create what is now the richest bloc of countries in the world (the EU began with six European nations and now numbers 27, and counting) from European nation states that had spent centuries killing millions of one another's citizens, why not use the process to try breaking down mistrust between today's two superpowers?

I present below two ideas with the hope that they will serve as both a starting point and a bridge to building trust between the United States and China. The ideas are distilled from the many conversations I have had with businessmen and businesswomen from the United States and China.

1. Co-Lead a Redesign of Global Debt Restructuring

The cumulative impact of global disruptions over three years caused by the COVID-19 pandemic and the resulting contractions of international trade and economies, dramatic increases in inflation, and soaring prices for essential commodities has triggered rapid deterioration in the world's economies. This deterioration has been particularly marked in the economies of the Global South, small and mid-size countries that have borrowed heavily from China and other public and private lenders to build their infrastructure. As Professor Deborah Bräutigam of Johns Hopkins University's School of Advanced International Studies told me, "Argentina, Belize, Ecuador, Lebanon, Suriname, Zambia, and Sri Lanka have already defaulted on their sovereign bonds and are asking their creditors to help restructure their debts." But this is just the tip of the iceberg. Numerous other indebted countries are lining up to seek similar help with their debt.

What is not widely known is that these small- and middle-income economies account for almost 40 percent of global GDP. The COVID-19 pandemic and then the war in Ukraine have dealt these countries, which already were under economic stress prior to 2020, potentially fatal blows to their solvency.

The reason this development is now flashing on China's radar screens is that almost all of these countries are part of China's Belt and Road Initiative (BRI), the massive global infrastructure program through which China is building and financing infrastructure in more than 135 countries around the world. The inability of these countries to service their debt load comes at a time when China's economy itself is stalling and its BRI funding is being curtailed. Estimates to date are that China has lent anywhere between US$170 billion and US$3 trillion. The scale of the BRI makes this occurrence an issue of global importance.

To put the issue in sharper perspective, the BRI is China's major foreign policy initiative. It has been incorporated into China's constitution in order to eliminate any questions about its importance to China's long-term strategy. Personally directed by President Xi Jinping, the project is designed to win the hearts and minds of a large part of the developing world by building roads, railways, bridges, tunnels, fiber optic connections, airports, and seaports to help countries grow faster and become integrated into China's global trading networks.

The BRI is the central plank supporting the objective of the Chinese Communist Party (CCP) to make China the most economically, culturally, and politically influential country in the world by 2049—the 100th anniversary of the CCP. The BRI's failure would deliver a fatal blow to China's global strategy and could well be a severe blow to the reputation of President Xi Jinping himself, possibly preventing him from continuing as leader of the CCP. Which is why renegotiating the debt of BRI countries without incurring the wrath of a wide swath of countries is fast becoming one of China's primary goals.

Three major obstacles confront China as it tries to figure out how to handle this sensitive situation:

- ***First,*** the money lent by China is only a part of what BRI countries owe in total. In most countries, the larger part of indebtedness comprises bonds sold to private investors or nongovernmental organizations, which means that resolution of China's overdue loans alone will not necessarily resolve the borrowing country's fiscal problems, insolvency, or even bankruptcy. More importantly, as Professor Bräutigam of Johns Hopkins University points out, "Most people think that all of China's BRI lending is done by one entity: China." She continues, "But that is not correct. In Africa alone, there are over thirty Chinese creditors, including policy banks, commercial banks, and a plethora of Chinese lenders. All of whom have their own repayment priorities."

- ***Second,*** China has almost no experience in dealing with complicated debt restructuring involving multiple official and private lenders or in achieving compromises to satisfy the priorities and interests of multiple lenders. Professor Bräutigam explains that Chinese lenders have traditionally resolved debt difficulties on an ad hoc, bilateral basis, dealing directly with the debtor. As a member of the G20, a group of the world's largest economies, China has agreed to work with the IMF and the Paris Club, which is comprised of major creditor countries seeking sustainable solutions for debtor countries, in a new multilateral "Common Framework" for resolving debt distress. Only 73 of the world's poorest countries, however, are eligible for this assistance. In addition, the Common Framework does not include private creditors and middle-income countries such as Sri Lanka, Ukraine, and Ecuador that are not eligible.

- ***Finally,*** no permanent organization exists that can bring all the creditors, including China, around the same table. This is where America's interests and China's interests intersect, providing an opening for the two countries to work together to design and build a 21st-century multilateral institution in which Chinese creditors would feel comfortable sitting around the table with public and private lenders to resolve the loans of BRI countries on a multilateral basis. Such a multilateral institution would reflect China's weight as a creditor.

Most private lenders to infrastructure projects around the world are private bond holders, and most bond holders or issuers are based in the United States, resulting in America's familiarity with complex debt restructuring. America, therefore, is in a position to invite China into discussions about a new multilateral organization for negotiating loans that will bring all parties to a country's debt around the same table. China and the United States can then take the lead in developing a framework to review the entire debt load of an economically troubled country and to find a solution that the international lending community can get behind and that will ensure borrowers get back on their feet and move on to solvency.

"Perhaps now is the time to break from the past and reinvigorate the idea of a new regime for Chapter 11 [a reorganization bankruptcy] sovereign debt restructuring," Professor Bräutigam says. "Creditors and borrowers would benefit from a regime that is fair, transparent, and efficient. As a country that values the rules-based United Nations and Bretton Woods systems and its own relationships with the Global South, China could be encouraged to take a leadership role in crafting such a new regime." This type of debt restructuring ultimately benefits the entire global economy—that is, all of us. It is an endeavor in which the United States could play a unique role.

2. Sign a Zero-Tariff Agreement

American trade tariffs levied on virtually all Chinese imports since 2018 have hurt the United States more than they have hurt China. American consumers have been paying higher prices for household items, which hits American consumers especially hard amid this country's highest levels of inflation in forty years. This is not the way the tariffs were supposed to work: It was China that was supposed to feel the sting of American tariffs. The Tax Foundation, America's leading independent tax policy nonprofit organization, points out in its May 12, 2022 article "U.S.–China Trade War Hurt American Industries and Workers," by Alex Durante:

> The trade war has yielded few if any tangible benefits for U.S. firms and workers. While the U.S. tariffs were intended to protect American industries, they have instead largely hurt the U.S. economy. And they incentivized foreign countries to retaliate with their owns tariffs, which have damaged the economy even more. The Biden administration should provide relief to U.S. industries and workers by bringing the U.S.–China trade war to an end.

A key reason for U.S. tariffs backfiring is the skillfully designed retaliatory steps put in place by China. Beijing's nimble retaliatory calculations are well illustrated by the example of lobsters, according to Weijian Shan, group executive chairman of Hong Kong-based PAG, one of Asia's most successful private equity firms, and a frequent guest on "Polaris-Live.com." In his article "The Unwinnable Trade War," published in the November/December 2019 issue of *Foreign Affairs*, he wrote:

> China imposed a 25 percent tariff on U.S. lobsters in July 2018, precipitating a 70 percent drop in U.S. lobster exports. At the same time, Beijing cut tariffs on Canadian lobsters by 3 percent, and as a result, Canadian lobster exports to China doubled. Chinese consumers now pay less for lobsters imported from essentially the same waters.

In this article Weijian Shan also presciently wrote, *"Americans aren't uniformly feeling the pain of the tariffs yet. But a turning point is likely to come when the economy starts to lose steam*" (emphasis added). That turning point arrived via the COVID-19 pandemic and was then reinforced by the global supply chain impacts of the war in Ukraine.

U.S. Treasury Secretary Janet Yellen said on April 22, 2022, according to Reuters news agency, that

> it was worth considering taking steps to lower U.S. tariffs on Chinese goods given the "desirable effects" such a move could have on lowering U.S. inflation, which has hit 40-year highs this year. "We want to do everything that we can to lower inflation," [she said,] citing steps by President Joe Biden to release oil from the Strategic Petroleum Reserve and moves to address supply chain disruptions.

Reuters added that inflation is a critical concern for President Biden, whose approval ratings are falling as the costs of energy, food, and other staples increase and as his Democratic Party is at serious risk of losing its congressional majorities in the November 2022 midterm elections.

Going Forward: Focus on the Economy

Susan Thornton, a distinguished American diplomat who has worked for the last twenty years on U.S. policy in Eurasia and was deeply involved in diplomacy with China, as well as with other Asian countries, was a guest on "Polaris-Live.com" recently. When asked how much she believes the change in U.S.–China relations is driven by top-down decisions of the leadership in both countries, and how much is driven by public opinion, she replied:

> I think Americans generally don't pay a lot of attention to foreign policy. They get most of their thinking about what's going on out there in the world from what they see political leaders saying and what they see major media outlets covering. And I think the same is certainly true in China.

She continued, "Maybe the implication of this is somewhat hopeful," stressing that "if governments themselves saw fit to change the narrative on U.S.–China relations, it probably wouldn't be that difficult, or at least it wouldn't be impossible, to do."

Four years ago, while on a month-long visit to Singapore, I was invited to speak at a university in Beijing. The China Embassy in Singapore was very helpful, and after the formalities were completed, I was invited to come and pick up my China visa. "That will be [if I remember correctly] US$290," the official at the embassy told me. Recalling that in Asia nobody pays the price quoted without bargaining, I thought I would try my luck and told the embassy official that I was simply a university professor and asked if there was anything we could do about the price.

The surprised gentleman looked at me, held up my U.S. passport, and said sternly that the price had nothing to do with me; it had everything to do with my country, the United States. This direct message reflected, it seems to me, the state of U.S.–China relations.

After letting the message sink in for a few seconds, the official broke into a smile and asked if we could make a deal. Perplexed, I asked, "What kind of a deal?"

"I can't do anything about the price," he told me, but he asked how I would feel if instead of a single-entry visa, I received a ten-year multiple-entry visa for the same price. I smiled back, we shook hands, and he changed rubber stamps and put that hard-to-get ten-year visa on my passport.

This recollection seems to be as good a way as any to end this Foreign Policy Association report. The Chinese are tough negotiators, but so are we Americans. Deals can be made when there are dollars and yuan involved. So, let Chinese and American businesses take the lead. Not just America and China, but the entire world will benefit.

As this report goes to press...

As if to prove the point that deals can be reached when dollars and yuan are involved, *The Wall Street Journal* published an article on August 26, 2022 under the headline: "U.S. and China Reach Agreement on Chinese Company Audits." Authors Keith Zhai, Paul Kiernan, and Michelle Chan wrote:

> Washington and Beijing reached an agreement for U.S. accounting regulators to inspect China-based audits, laying the groundwork for a monthslong process that could prevent numerous Chinese companies from being booted off American stock exchanges.
>
> The deal, which was negotiated over many months, comes after a decadelong standoff between regulators in the two countries over the audit working papers of the New York-listed Chinese companies. It appears to mark a rare concession from Beijing at a time when the U.S. and China are locked in disagreements over issues such as trade and human rights.

At stake was the delisting of over 200 Chinese companies, with a market value of between $1 trillion and $2 trillion, from U.S. stock exchanges. Had this deal not been reached, U.S. delisting of Chinese companies would have accelerated the decoupling of the world's two largest economies.

Sarwar A. Kashmeri

Sarwar Kashmeri, a Fellow of the Foreign Policy Association, is an international relations specialist, author, and commentator. He is noted for his expertise on U.S. global strategy and national security, and he speaks frequently before business, foreign policy, and military audiences. He is the founder and host of "Polaris-Live.com, United States and China in the World," an internet video program featuring thirty-minute live conversations with experts from around the world on the business and geopolitical impact of China's rapid rise to superpower status.

He is the author of the Foreign Policy Association report "The Telegram: A China Agenda for President Biden" (2021) and *China's Grand Strategy: Weaving a New Silk Road to Global Primacy*" (Praeger, 2019). This book, his third, is a centennial book of the Foreign Policy Association. The release of *China's Grand Strategy*, in Washington, D.C., on November 7, 2019, featured former U.S. Defense Secretary Chuck Hagel and the author.

Sarwar Kashmeri serves on the American Advisory Board of the Ditchley Foundation in the United Kingdom. He is also an Applied Research Fellow of the Peace and War Center of Norwich University in Vermont, USA. He served a four-year term as a non-resident Senior Fellow at the Atlantic Council's Brent Scowcroft Center for International Security in Washington, D.C., and he has hosted the podcast "China Focus" for the Carnegie Corporation of New York.

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