



THE US-CHINA BUSINESS COUNCIL

美中贸易全国委员会

“Can America and China be Stakeholders?”

remarks of

Robert B. Zoellick

at the

US-China Business Council’s Gala 2019

December 4, 2019

Thank you for the invitation to be with you this evening.

Evan Greenberg and Craig Allen have demonstrated an extraordinary commitment to relations between the United States and China, and I am deeply appreciative of their efforts. I want especially to thank them. That’s why I am here tonight.

The daily news about China reports deals on and off, sales off and on, more and steeper tariffs on and off...and who knows what’s next?

It’s not easy to tell what’s going on—although costs are mounting and real results are missing. America has been wasting time and squandering international capital.

In describing effective diplomacy, Alexander Hamilton once counseled, “mildness in the manner, firmness in the thing.” “Strut is good for nothing,” advised America’s first practitioner of economic statecraft. Instead, Hamilton recommended “combin[ing] energy with moderation.” Or as James Baker, my former boss at Treasury, the State Department, and the White House would say, “Pick your shots” and “Get things done.”

This evening, I’ll step back from today’s tactics to offer a wider-lens perspective on US-China relations.

Fourteen years ago, I gave a speech to the National Committee on US-China Relations titled: “Whither China: From Membership to Responsibility?” That title included a question mark.

The speech grew out of the first of the 21st Century strategic dialogues, which I conducted with Mr. Dai Bingguo, who rose to become China’s State Councillor for foreign relations. I was replying to a seminal article in Foreign Affairs, “China’s Peaceful Rise to Great Power Status,” by Mr. Zheng Bijian, a senior adviser to China’s leaders, beginning with Deng Xiaoping.

By the time of my speech, seven US Presidents of both parties had worked for over 30 years to integrate a poor and economically isolated China into the international system that America had designed and led.

By 2005, I pointed out, China had emerged from seclusion and joined the world—including the United Nations Security Council, the WTO, IMF, and World Bank. From agreements on ozone depletion to nuclear weapons, China had become a player at the table.

China’s leaders and its hard-working people had pursued an incredible modernization within an international system that had enabled China’s success.

But having largely accomplished the aim of integrating China, the question for the United States, I explained back then, concerned Beijing’s conduct: “How will China use its influence?”

I urged China to look beyond membership in the international system— “to become a responsible stakeholder in that system.”

The speech stressed the “norms,” not just the “forms,” of international integration.

I pointed out that many countries hoped China would pursue a “Peaceful Rise,” but that none would bet their future on it. I warned that the United States would not be able to sustain the open international economic order—and domestic support for that regime—unless China cooperated in sharing responsibilities and using its power constructively.

Some commentators later treated my call as some kind of a concession—though it’s hard to understand why the United States wouldn’t have wanted China to assume more responsibilities within a US-led system, especially with the implicit signal that the United States would be the umpire of China’s choices.

I suspect that some didn’t like that I combined my urging of responsible action with a tone of respect for China. And my idea opened the door to Chinese views and suggestions for addressing common challenges.

My choice of words also led to an amusing irony: It turned out that the Chinese struggled to translate the term “stakeholder.” The uncertainty about the diplomatic

implications of the word prompted a useful debate within China about the meaning of the US idea—and stirring debate is a result dear to all speechwriters.

Now to make such a policy effective, US officials needed to remain in close touch with developments in China and the wider region—with the help of allies and all of you in the business community. American policy needed to work the details as well as discuss strategy.

We used to call this diplomacy.

Today's logic of constant confrontation with China rejects the approach I had outlined.

It rejects the idea that China can play a constructive role within the system that America constructed.

It rejects the idea that China can make contributions.

It even rejects the idea that China can, or even would, act in ways that complement US interests.

Be aware: If US policy assumes China cannot do any of those things within the system America designed, then the United States will, in effect, be prodding China into championing a parallel, separate system, with very different rules.

I understand many of today's complaints, but we are at serious risk of losing sight of American aims and how best to achieve them.

One of the founding principles of constant confrontation is an assumption that cooperation with China failed. This is the premise that underpins the Administration's National Security Strategy paper of 2017.

Let's test that assumption.

China was once an outright enemy of the United States, sponsoring revolutions, spreading chaos, and backing proxies, such as North Korea and North Vietnam, which were at war with America. Today, we are strategic competitors, but China moderated and modified dangerous behaviors as Beijing worked to take part in the US-order.

Consider the world's most dangerous weapons.

Until the late 1980's, China was the world's leading proliferator of nuclear weapons and missiles—for example, to Pakistan and across the Middle East. Then China started to adjust to global norms governing exports of weapons of mass

destruction and related technologies. It ceased nuclear tests in the 1990s and signed the Comprehensive Test Ban Treaty—while waiting for US action before ratifying. China joined the Biological and Chemical Weapons Conventions. China now abides by the Missile Technology Control Regime as well.

Although China once had been a partner of Iran, it worked with the United States to sanction and halt Iran's nuclear program.

Although China fought against the United States in the Korean War, it has worked with Washington to press North Korea to freeze and reverse Pyongyang's nuclear weapons program.

Between 2000 and 2018, China supported 182 of 190 UN Security Council resolutions imposing sanctions on states violating international rules, prodded by vigorous US efforts.

China is the second largest funder of the UN and UN peacekeeping missions; it has deployed 2500 peacekeepers, more than all the other Perm Five Security Council members combined. As Tom Christensen detailed in his book, The China Challenge, the United States spurred China to help end the genocide in Darfur, Sudan, a cause I identified in the 2005 speech.

China is the largest contributor to global growth. China cut its global current account surplus from about 10 percent of GDP to around zero—meaning that its demand has fueled worldwide expansion.

For the past 15 years, China has been the fastest growing destination for US exports—until the Trump Administration embraced protectionism and sparked worldwide retaliation.

China no longer undervalues its exchange rate. It reduced reserves by about \$1 trillion.

During the global financial crisis, China had the largest and quickest stimulus to counteract what could have been another Depression.

As former Secretary of the Treasury Hank Paulson related, when Russia allegedly approached China in 2008 about dumping dollars to harm the United States, China did not think this was a good idea.

Of course, many of these steps were in China's self-interest, but they were helpful to others around the world, too. That's what effective economic integration has accomplished.

When I served at the World Bank, China cooperated closely with us. It made early repayments and contributions to the Bank's International Development Association, which funds the poorest countries. China supported our initiatives—

ranging from support for the rule of law and fighting corruption to Open Data systems and plans for Climate Change.

China advanced extra monies to add to the IMF's financial capacity. China's new Asian Infrastructure Investment Bank has embraced global standards for governance, procurement, and environmental practices; the AIIB co-finances World Bank and Asian Development Bank projects. My friends at Mercy Corps have worked with humanitarian counterparts in China to help victims of disasters.

Even the story of China in the WTO warrants balanced treatment. China's commitments in 2001 lowered its barriers considerably below those of other major developing countries, such as India and Brazil. The United States was also able to add Taiwan to the WTO when Beijing joined.

China fairly implemented numerical commitments such as tariffs and quotas. But its record for duties that are harder to measure—such as forced technology transfer, IPR enforcement, regulatory reforms, and trade-distorting subsidies—is spotty.

The main problem is that current WTO rules don't cover many US needs. China's Ambassador to the United States has acknowledged that his country's suit of WTO clothes from 2001 no longer fits, and China is discussing WTO reforms with others—although haltingly-- to meet various objections.

Some Chinese reformers looked to the Trans-Pacific Partnership's provisions for guidance—but then the United States abandoned the TPP, and China's internal reform advocates lost ground. Still, China has lowered its average tariff for others to 6.7 percent, although many US exports face retaliatory tariffs. The new Chinese IPR courts have ruled in favor of the vast majority of international complaints, although penalties are insufficient.

China, the largest emitter of greenhouse gases, now accepts that it must join in efforts to limit climate change. However, China's plans for coal-fueled generating plants belie its interests. Melting in the Himalayas would devastate the country. On the plus side, China is a leading innovator in non-fossil fuel technology.

Conservationists applaud China's ban on elephant ivory sales, and China's netizens campaigned effectively against shark-fin soup. Yet China's tiger farms and illegal traffic of tiger parts may lead to the extinction of those iconic cats in the wild.

In the late 1950's, China shelled Taiwan's islands. When President Richard Nixon and Secretary Henry Kissinger opened ties almost 50 years ago, the United States suggested that "history will take care of the problem." The success of Taiwan's democracy shines as an example of a transition from authoritarianism to freedom. The United States contributed through military deterrence and an assurance not to support independence. To best safeguard Taiwan, the United States would be wise not to take Beijing's restraint for granted, especially after the apparent breakdown of the "one country, two systems" model of Hong Kong.

My point is definitely not that all is well with China. I will turn to serious US complaints in a moment.

But those who blithely assume that US cooperation with China didn't produce results in America's interest are flat wrong.

Those who assume that China has not acted constructively within the US-guided system—who assume that China is only a disrupter—are misleading themselves, and self-deception is dangerous in diplomacy.

Results should be the aim of our diplomacy.

Furthermore, the record warns not to take benefits for granted.

We are now witnessing just the vanguard of woes for America, China—and the world—if the two major powers slide into mutual animosity and zero-sum calculations.

We need to be clear-eyed about the real strategic challenges that China presents and disciplined not to distract with blanket blasts that will likely lead to misjudgments and mistakes.

Evan Feigenbaum of the Carnegie Endowment has pointed out recently that China is in fact pursuing a two-track approach toward the changing international order.

As a member of international organizations, China seeks to nudge those regimes toward Chinese preferences and norms.

Does this really surprise us?

What is surprising is that the United States has made China's work easier by subverting the international economic and security system that America built over 70 years.

Is this really in America's interest?

I hope you are aware, for example, that the United States will paralyze the WTO's dispute resolution system this month. Two of the remaining three members of the WTO appeals body have reached the end of their terms, and the Administration has blocked the appointments of any successors. The Reagan, Bush 41, and Clinton Administrations fought for and negotiated to create the WTO to give US companies a fair, legal process to counter trade law violations; the Trump Administration prefers to break rules and institutions.

As Feigenbaum has explained, however, China is pursuing a second, alternative track as well: China's Belt and Road presents another international model, a modern adaptation of China's long-standing preference for tributary ties. This effort offers economic benefits to those who join China, combined with warnings for states that fail to accommodate Beijing.

We need to compete with China within international institutions and country-by-country. Because it's hard to beat something with nothing.

We need to compete with China by promoting better ideas and practices and through attractive partnerships, instead of by retreating and bullying.

Too often, we just seem to behave belligerently. Not just with China—but we bludgeon NATO allies, Japan and South Korea, Canada and Mexico, and democratic partners around the world. The Administration is wasting diplomatic capital built up over generations.

We also need to ask why Sino-American relations have tumbled into constant confrontation.

I believe six developments have converged.

First, frustrations boiled over for US businesses on market access: a lack of reciprocal trade and investment openings; forced technology transfers; IPR violations; regulatory hurdles and arbitrary actions; and restrictions on exports, such as rare earth minerals.

I believe the United States could address many of these items through calibrated, continuous pressure and negotiations.

Many countries—developed and developing—share US concerns. They would be willing to work with us, but not as part of a campaign to disengage and decouple from China. Many are wary because they are too busy defending themselves from Administration assaults on everyone's trade. Pick your shots.

There are also parties within China that want to fix many of these problems in order to boost reforms, support domestic innovation, improve competitive opportunities, and retain access to US and other international markets. For example, China's opening of the asset management business recognizes the need for deeper and more liquid financial and savings markets. An aging China needs better pension systems.

Of course, China's fixes need to extend beyond words on paper.

To take another example, ending requirements for joint ventures would reduce Chinese temptations and opportunities for forced technology transfers.

The United States is most likely to get results if it works with other countries and combines arguments about China's self-interest with targeted, not haphazard, threats of penalties or retaliations.

Second, Americans question whether China's state capitalism permits fair competition.

President Xi Jinping has recommitted China to privileges for state-owned enterprises, granting them a dominant role, even though SOEs impede China's economic potential. Nick Lardy of the Peterson Institute of International Economics pointed out in his recent book, The State Strikes Back, that about 40 percent of China's SOEs are money-losers. Yet SOE assets are growing four times faster than those of private firms, even though SOE returns are much worse. China's private sector is complaining about its disadvantages, inability to compete, and even intrusions on corporate governance.

There are at least two ways the United States could discipline China's state capitalism productively.

The TPP and the US-Singapore FTA imposed competition policy requirements that compelled state enterprises to compete like private, profit-making firms. In addition, as Chad Bown (also of PIIE) has written, the United States could work with others in the WTO to tighten subsidy rules, subjecting them to trade penalties. But we should be aware that other countries will point to large, direct US subsidies—for example, to farmers—and to indirect support through US government R&D and contracts.

Third, Americans fear that China will dominate the technologies of the future. This critique targets the "Made in China 2025" plan, although Party leaders have downplayed that plan's influence.

Not surprisingly, China wants to move up the value chain. With a declining labor force, the planners seek higher value-added businesses, increased productivity, and higher wages.

Some steps, such as better and more enforceable IPR protection, if applied to all, could be mutually beneficial. More open research and higher standards for publication in China could help, too. But other actions, ranging from stealing to protecting markets, cause big headaches.

We are already in the age of the splinternet. I expect to see decoupling in telecom, internet and ICT services, and 5G systems.

We will all be worse off, however, if blanket bans and barriers supplant risk assessments. For example, anxieties over the use of Big Data could lead to ending cooperative and competitive innovation in the life sciences and other cutting-edge, beneficial sectors.

The best US response to China's innovation agenda is to strengthen our own capabilities and to draw the world's talent, ideas, entrepreneurs, and venture capital to our shores. We will succeed by facing up to our own flaws, not by blaming others.

Fourth, I pointed out in China last year that no one had explained the motivation for Belt and Road: Was it a geopolitical move? A plan to employ excess Chinese capacity to build infrastructure? A development project? My guess is all of the above. The idea that China could build out Eurasia with Chinese-style transport corridors may well be building debts, not sustainable development.

I suggested that China should apply higher standard and the global principles adopted by the AIIB to Belt and Road: transparency; anti-corruption; open procurement; careful environmental practices; and debt sustainability for partner countries. At this year's Belt and Road Forum, President Xi seemed to begin embracing these ideas.

The US and other governments, as well as groups like the US-China Business Council, should follow up so that good intentions become better practices.

Fifth, China's foreign and security policy has clearly moved beyond Deng Xiaoping's adage of "Hide your strength, bide your time."

China wants military primacy in the Western Pacific and perhaps across more-distant seas.

These goals, while disconcerting, should not be surprising. They merit a strategic, well-resourced, and consistent response.

The United States needs closer ties with allies and partners and investments in our own capabilities.

America also needs to identify its key interests—such as freedom of navigation in principal sea-lanes and the ability to defend allies. The United States should calculate means and ends more carefully than it has done in recent decades, when Americans could operate with domain dominance all around the world.

Navy Captain Alfred Thayer Mahan, writing about American strategy in the Asia-Pacific at the dawn of the 20th Century, expected power in the region to remain "debated and debatable." In other words, the United States would need to compete, maneuver, and balance power with others. We could benefit from Mahan's historical and geopolitical perspective in the 21st Century.

Mahan also wanted to boost US trade with Asia. Tariffs, he wrote, were like "a modern ironclad that has heavy armor, but inferior engines and guns; mighty for defense, weak for offense." Why have we adopted an ironclad trade policy?

The corollary of careful calculation of military missions and capabilities is a need for disciplined diplomacy.

Even during a highpoint of US power at the end of the Cold War, President George H.W. Bush and Secretary James Baker mobilized allies, built coalitions, negotiated with partners, and communicated a restrained power that was all the more effective because others did not want to test America's will.

Finally, my sixth point is that Xi Jinping's leadership has prioritized the Communist Party and restricted openness and debate in China.

When Xi assumed office in 2012, he commissioned a documentary film about the end of the Soviet Union—to be shown to all Party cadres. A similar film in Europe would have hailed Mikhail Gorbachev as a hero who helped end the Cold War. Not so for the Chinese version: Gorbachev was the fool who abandoned the Communist Party, ruined his country, and led to the breakup of the Soviet Union.

The not-so-subtle message was, "It won't happen here." The Soviet collapse continues to haunt China's Communist leaders.

Having first met President Xi in 2006 when he was a provincial party secretary and having worked at the World Bank on China's economic strategies, I had an opportunity to ask about Xi's development priorities when he rose to the top. He answered, "the 86.68 million members of the Communist Party." Xi's reply was revealing about the man and the regime he leads: For Xi, China's development depends on the strengthened leadership of the Party.

At the Central Committee's recent Fourth Plenum in October, the public message revived the language of the Cultural Revolution: "Party, government, civilian, student—east, west, south, north, and center—the Party leads in all things." That about sums it up.

The use of technology to control society—such as through facial recognition and social credit scores—strikes Americans as, to put it bluntly-- creepy.

Crackdowns in Tibet and Xiajiang add to a wider sense of internal oppression.

China hurts itself by forging a role model for dystopian societies of intrusive technologies and reeducation camps.

The rule of law and openness upon which Hong Kong's "One Country, Two Systems" model rests may topple or be trampled. If China crushes Hong Kong, China will wound itself—economically and psychologically—for a long time.

Americans have had a long tradition of missionary work in China—religious, educational, medical, and political. We have wanted the Chinese to be like us—through Christianity, commercialism, and republicanism. When the Chinese rejected our appeals—during the Boxer Rebellion in 1900, the victory of the Communists in 1949, the Korean War of 1950 to 53, and the violent suppression in 1989—Americans pulled back with shock and anger.

I suggest that this time we stay steady without yielding our beliefs.

Ronald Reagan championed a contest of ideas with the Soviet Union even as he sought cooperation to make the world safer.

The foundation of America's appeal is our own story. We need to work on the America of the world's imagination and aspiration.

I am saddened when our leaders fail to appreciate that America's practices should be examples and models, a founding principle dating back to America's Revolutionary generation and then Abraham Lincoln.

We would be foolish to close off America to students, dreamers, immigrants, and ideas.

We would be foolish to place all Chinese students who come to America, or even Chinese-Americans, our fellow countrymen and women, under a veil of suspicion.

The United States will not win a competition by becoming more like China.

Which brings me back to where I began, with the "Responsible Stakeholder" speech of 2005.

I closed those remarks by explaining that, "Freedom lies at the heart of what America is..." guided by our call for the "non-negotiable demands of dignity."

I pointed out that our purpose in championing ideas and ideals was not "to weaken China." Our goal, as President George W. Bush then stated it, has been "to help others find their own voice, attain their own freedom, make their own way."

Then and now, I believe that "Closed politics cannot be a permanent feature of Chinese society."

The close observer might perceive that China, like the Communist systems that preceded it, shows signs of stagnation. Its hesitations on market reforms and a more open society signal weakness, not strength.

China's future chapters are still to be written.

The challenges of US-China relations, as I've outlined them tonight, fit poorly with bombast and tariff barrages.

Frankly, the Administration itself seems divided.

The principal negotiators are pressing for sales to China and greater openness; if successful, they would further economic integration.

Others in the Administration issue diplomatic indictments that can only lead to decoupling with China, even if officials eschew the word.

Many in Congress and opposing candidates in our elections are eager to show they'll be tough and will confront China, too.

"Toughness" alone fails as policy if unconnected to objectives.

The speeches of Administration principals herald rivalry, but with no sense that the United States can shape China's international behavior—whether through diplomacy, negotiation, competition, building coalitions to pressure Beijing, or deterrence.

The Chinese have listened. President Xi has reportedly told his politburo colleagues in closed sessions that they need to prepare for 30 years of sustained struggle with the United States. "Struggle" is China's new watchword of strategy. China will reduce its vulnerabilities by taking steps to insulate China from American pressure and by building new partnerships around the world, even as Beijing increases national self-reliance, an old Chinese tradition.

Note how China just agreed to the new Regional Comprehensive Economic Partnership, including with many APEC countries. I worked with Secretary Baker in 1989 to launch APEC to give the United States an economic edge in the Asia-Pacific. Now America abandons the field, with serious consequences for US relations with Southeast Asia, a dynamic region that will factor importantly in the 21st Century.

As time passes, the United States loses friends and trust around the world. China maneuvers tactically with America and watches, probably with wry satisfaction, as the United States dissipates the international strengths built up over many decades.

Ask yourself: Can the United States really expect to deny China a place in the international system, with influence over rule-making?

If we acknowledge China's role as a power at the table, shouldn't we urge China to assume responsibilities as a systemic stakeholder?

As Jeff Bader, a US-Asia expert with decades of experience observed recently, the US challenge of influencing China's behavior is no doubt harder than it was when I suggested the stakeholder approach in 2005. China is bigger, stronger, has had a good run, and sees less need to accede to standards of a West in disarray. We will have to face views we don't like.

Nevertheless, Bader added, our diplomacy should work out a global framework within which China can make adjustments to support systemic interests—instead of

leaving China to break the international system or to pursue the risky cause of trying to create a conflicting international order.

The United States is a stakeholder with interests, too. Some 250,000 Americans died in Asia in the 20th Century. To paraphrase Napoleon, the borders of a nation's influence are marked by the graves of its soldiers.

We should not abandon our stake for shaky, short-term trade announcements or by degrading alliances into ties of convenience based upon shady accountings of troops, tribute, and trade.

I'll conclude with a direct observation for all of you, leaders in America's business community: The ground is shifting under your feet.

Your own concerns with China led many of you, perhaps understandably, to pull back.

You then stepped cautiously to avoid President Trump's wrath—not to mention China's.

The stakes are higher now. Be alert to greater risks of miscalculations and unintended consequences.

Kevin Rudd—former Prime Minister of Australia, a good friend of the United States, and a close student of China—recently warned: “A fully ‘decoupled world’ would be a deeply destabilizing place, undermining the global growth assumptions of the last 40 years, heralding the return of an iron curtain between East and West and the beginning of a new conventional and nuclear arms race with all its attendant strategic instability and risk.”

Are you ready for this?

A slide into Sino-American conflict—whether intentionally or by accident—would lead to incalculable costs and dangers. The 20th Century painted a shocking picture of industrial age destruction; do not assume that the cyber era of the 21st Century is immune to crack-ups or catastrophes of equal or even greater scale.

You need to decide whether you think the United States can still cooperate with China to mutual benefit while managing differences-- and if so, how.

You need to decide whether US influence can be enhanced through long-term partnerships with allies and partners.

You need to decide whether we should save, update, and even expand the international trading system of openness, rules, and fair settlements of disputes.

You need to decide whether you wish to represent America abroad as purveyors of principles, as well as commerce, treating people from other lands with dignity and respect.

Then you need to make your case—not just with the Administration, but with Congress, Governors, and Mayors; with your employees, customers, and suppliers; with the media and opinion leaders.

When I selected the word “stakeholder” in 2005, I had in mind that stakeholders have interests in a shared enterprise. That interest is worth work, even perseverance, to preserve, adapt, and grow. Only the foolish or faint-hearted just yield or abandon the enterprise.

Cooperation as stakeholders does not mean the absence of differences. Stakeholders compete, too. The management of their differences should take place within a larger framework that offers common benefits.

This can be done.

But only with your support and activism.