

## Sino-US Relations in the Trump Era – A Conflict in the Making?

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### I Introduction

The future of US-China relations appears to be increasingly uncertain under the leadership of US President Donald Trump. If anything, President Trump has been sending mixed signals to China, creating the very uncertainty the Chinese government is known to be averse to. This leaves Europe in a difficult situation: It must cultivate its relations with each while maintaining strategic neutrality with regards to US-China relations.

Beginning in March 2017, the Bertelsmann Stiftung began a series of workshops to discuss the implications of different scenarios for Europe. Possible Sino-American conflicts, be they political, economic or military, were considered alongside with the possibility of a G2-world in which the United States and China form a coalition and tend to dominate world affairs.

At the beginning of the process, President Trump had already created a “diplomatic disaster” (New York magazine) in US-China relations – only to de-escalate the situation later. Trump had broken with decades of US foreign policy by accepting a congratulatory phone call from Taiwan's President Tsai Ing-wen in December 2016. Shortly thereafter, Trump also suggested in an interview that the “One China” policy, which recognizes only one China including Taiwan, could be questioned. At the beginning of 2017, Trump then assured his Chinese counterpart that the US administration would stand by the “One China” principle. Soon, a new topic then dominated US-China relations: North Korea's missile tests, which prompted US Secretary of State Rex Tillerson to travel to China, Japan, and South Korea for talks on the issue. Trump has since been seeking support from China to pressure Pyongyang, although he has also expressed his willingness to go it alone, stating in a tweet: “If China is not going to solve North Korea, we will.” His early April claim that he was deploying a US aircraft carrier to the waters of the Korean Peninsula to send Pyongyang a warning, proved incorrect as the carrier was heading in another direction. However, many observers consider the US administration's order to bomb Syria in April to mark a signal directed at North Korea. China in the meantime has urged the United States to restrain from actions that would further provoke Pyongyang, though, as several experts have noted, it has been remarkably silent on Trump's remarks on issues such as North Korea's behavior.

### II US-Chinese Relationship

Contrary to what some experts had expected, Trump has gradually softened rather than hardened his stance on China. The meeting between Trump and Chinese president Xi Jinping in Mar-a-Lago at the beginning of April ended on a surprisingly positive note with Trump commenting, “We have made tremendous progress in our relationship with China,” and “the relationship developed by President Xi and myself, I think, is outstanding.” His daughter Ivanka Trump, as so many times previously, took a soft-power approach and had Trump's granddaughter sing a traditional Chinese song and recite a traditional Chinese poem to the Chinese leader and his wife. Ivanka and her husband, Jared Kushner, a senior advisor to Trump, have likely played a role in what the Global Times saw as an attempt to “balancing Trump's harsh posture” on China. Kushner, a major real estate investor, is in business with Chinese companies himself (such as the Chinese insurance company Anbang). During the Mar-a-Lago meeting, Trump and Xi agreed on promoting the “healthy development of bilateral trade and investment” and on a “hundred-day plan,” which includes a sharp increase of US exports to China in order to reduce the US trade deficit. Previously,

Trump had repeatedly accused China of manipulating its currency at the expense of the United States, an accusation he withdrew shortly after his meeting with Xi, saying he will not name China a currency manipulator.

As initial tensions between the United States and China have cooled down, this has come much to the relief of Germany (and the EU as a whole), as the German economy in particular would suffer from the effects of a US – China conflict. Nevertheless, Germany, like several other countries, continues to anxiously watch Trump's every next step. Not least because Germans have also been concerned about Trump's attacks directed at Germany for using the euro to exploit the United States and other EU countries. But Germans are even more concerned about Trump's general turn toward trade protectionism and withdrawal from the United States' commitment to global free trade. While Trump shifted to a softer approach towards China, his trade protectionism has put Germany under pressure as a defender of global free trade. At the March G20 meeting in Baden-Baden, Germany advocated a common position among member countries to commit to global free trade. Breaking from the past, the United States did not sign on to this commitment and exited from the Paris Agreement on Climate Change. Leveraging the current situation, China has begun presenting itself even more as a defender of global free trade (most visibly during Xi's January speech in Davos) and will likely now lead on implementing the Paris agreement. Trump has left Europeans with doubts about the role he sees the United States playing in a rules-based world order in which China is not seen as a truly responsible stakeholder.

Trump's approach to foreign and economy policy appears transactional and focused on deal-making rather than long-term strategic planning. Even though Trump has refrained from renewing his attacks on China and appears to be more accommodating, our workshop participants expressed uncertainty with regard to his future actions. Concerns over potential conflicts arising – most likely an economic conflict, though political and even military conflicts are considered possible – were raised by the discussants. But given Trump's signals to accommodate China's interests, our participants also thought a debate on a G2-world was worth having – a scenario where the United States and China accommodate each other's interests and/or accept each other's hegemony in their respective regions.

### **III Implications of the Sino-US Relations**

Workshop participants broadly agreed that an economic conflict between the United States and China would create a dilemma for Europe, which is highly dependent on good economic relations with both. In the event of an economic conflict, and to some degree in the event of a political or military conflict, Europeans might be forced to choose sides with either the United States or China. Such a development could divide Germany (particularly on a ministerial and industry level) and, to an even greater degree, the EU. Workshop participants discussed concerns that nearly any conflict – and under some circumstances even a G2 world – would require the EU to take a side. And while NATO alliances render Europe's allegiance clearly defined in a military conflict, taking a side on trade issues will prove difficult given that China represents major future markets to European industries. Nonetheless, the discussants agreed that the risks faced by Europe in an economic, political or military conflict between the United States and China are largely similar. These risks include an economic downturn in a context of higher trade barriers and a disruption of global value chains. Other risks discussed include the erosion of the global trading and financial system, of standards, norms and trust, and the deterioration of globalization more generally.

However, the workshop participants identified opportunities for Europe in each of these conflicts as well as the G2 world scenario. Whatever the conflict, Europeans would have the opportunity to profit from the situation. Europeans could profit from a US-China economic boycott, which might prompt China to focus more on its relations with Europeans. As one of the workshop participants put it: “China will buy Airbus not Boeing.” A US-China conflict might also create an economic or political vacuum which Europe could fill. For instance, given the likely withdrawal of the United States from the Trans-Pacific Partnership (TPP), Europeans could take this opportunity to negotiate EU free trade agreements with Asia. By taking a more proactive stance in this regard, the EU would appear more attractive as a political and economic partner in becoming several countries’ “partner of choice.” This would also strengthen the EU’s relationship with other countries and would give Europeans more influence in setting regional or even global norms and standards. The parties in conflict may see Europe as a neutral actor, offering the EU the opportunity to act as a mediator.

As for European responses to a US-China conflict or a G2 world, discussants emphasized the need for a unified EU strategy that would frame any meaningful attempts to develop solutions. While discussing each conflict scenario, we heard recommendations such as “push EU unity and identity,” “work on European cohesion” or “support proactive movements like PULSE of Europe,” in short, we repeatedly heard the need for Europeans to reach consensus on core values and principles as a means of preventing division. In addition, an overwhelming majority of our workshop participants believed the EU must reduce its dependency on both the United States and China by, for instance, diversifying its trade relationships and R&D work. Europeans should also work to become more digitally independent by, for instance, promoting European “unicorns” and any kind of innovation while preventing a European brain drain. Furthermore, Europeans should work on establishing “technology emancipation” which involves strengthening software development within the EU. Germans in particular called for a strengthening of the EU’s industry policy and domestic markets. In addition, discussants noted, the EU should strengthen its expertise and analysis of China and Asia in order to have the capacity to react appropriately to potential conflicts in Asia. Greater expertise would also enable the EU to tackle issues such as the protection of European key technologies and sensitive infrastructure. The EU’s lack of cyber capabilities, be it in the area of warfare or data protection, turned out to be a major concern among the workshop participants. Another concern demanding concrete action is Europe’s own role in the run-up to a potential conflict, in particular, the impact of its transfers of dual-use technologies. The EU, according to some participants, currently does not have the capacity to even define the technologies that could be used as military equipment. The EU does not have in-depth knowledge of the impact of dual-use technology sales to countries such as China. The EU should therefore establish an EU-wide foreign investment screening mechanism, a debate that France, Germany and Italy have already initiated in February on the EU level.

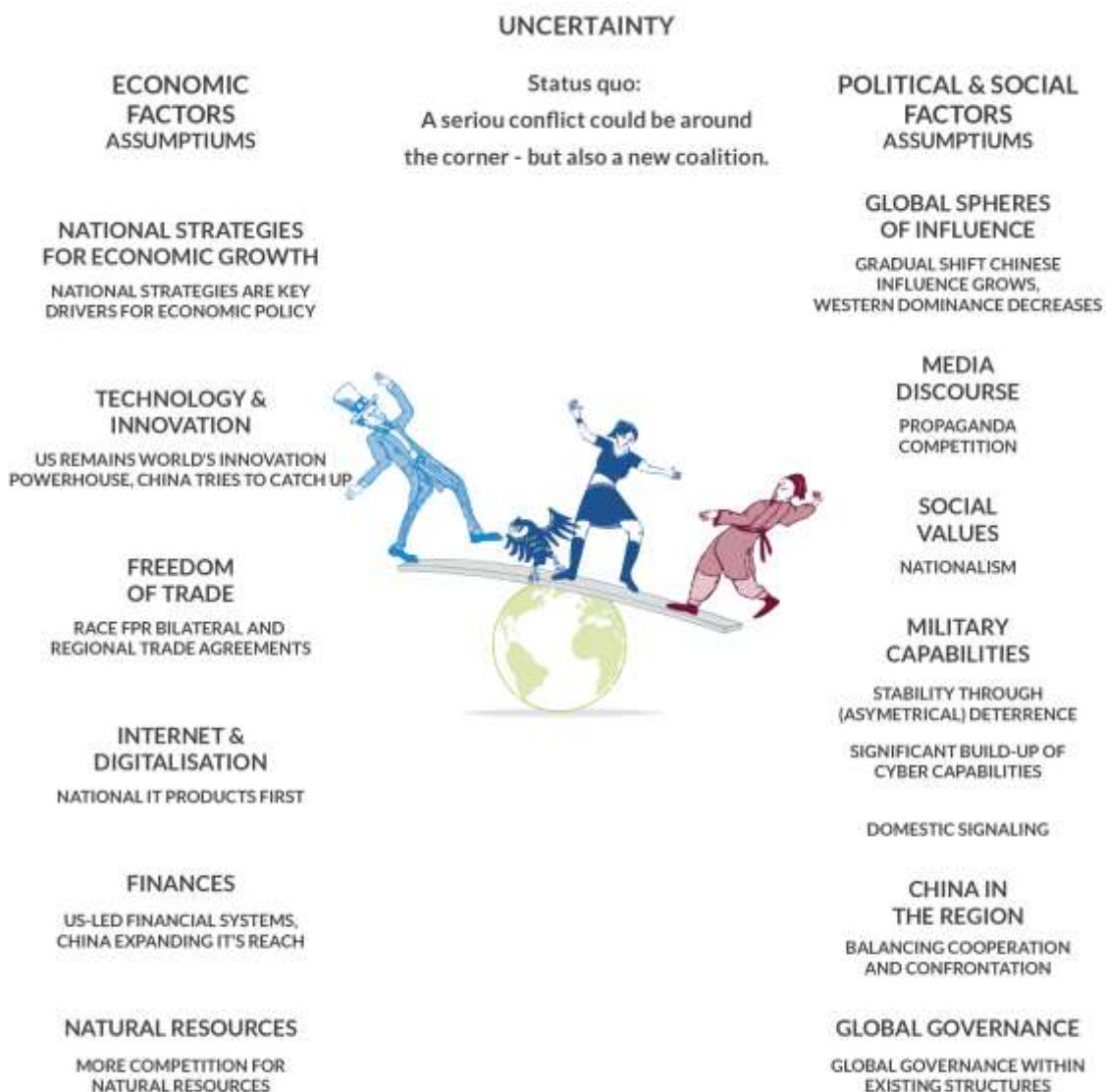
Finally, a large majority of the workshop participants also thought the EU should develop its soft power and thereby increase its attractiveness as a partner for other countries. The need for the EU to prove attractive to other countries would be particularly important in a G2 world. Indeed, it is even more imperative that Europeans strengthen partnerships with other emerging countries such as India.

## IV Different Scenarios

### 1. Scenario: Uncertainty

Status quo: A serious conflict could be around the corner – but also a new coalition.

This scenario is based on the assumption that the status quo continues. It implies an ongoing range of possibilities. As is currently the case, this scenario involves a high degree of precariousness: a serious conflict between the United States and China could easily and quickly emerge, but a new coalition between the two is equally conceivable.



Source: author's own illustration.

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### 2. Scenario: Political Confrontation

The United States and China become involved in a political conflict.

This scenario is based on the assumption that the United States and China are engaged in an open political conflict. There are many areas of political sensitivity between the two countries: territorial issues like Taiwan, the North Korea issue and the United States' military alliance with South Korea

and Japan, support for Chinese dissidents or American whistle-blowers. Political conflicts are mostly fought with the weapons of words, statements, protocol, meeting schedules and propaganda. The arena can be bilateral dialogues, multilateral meetings or institutions of global governance. A political conflict will often be seen by the public as a drama acted out on the stage of the news media. In the world of diplomacy, however, they are highly serious and sensitive affairs – not least because political conflicts are difficult to contain and can easily spill over into the more tangible fields of economic or even military conflict.



Source: author's own illustration.

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### 3. Scenario: Military Escalation

The United States and China engage in a military conflict.

In this scenario, the United States and China engage in military conflict. Throughout the escalating tensions that have led to an outbreak, both sides have invested significantly in their military, primarily in cyber capabilities. Especially in the United States, this massive expenditure has resulted in a surplus capacity that has only exacerbated the pressure to act. It is this escalation which has finally lured the two states into open hostilities. Although the conflict might help both countries (at least temporarily) divert attention away from their domestic problems, both sides are aware of each other's destructive potential. As a result, the two military superpowers are from the outset interested in limiting the scope of the conflict without losing face.



#### 4. Scenario: Economic Conflict

The United States and China engage in some kind of economic conflict.

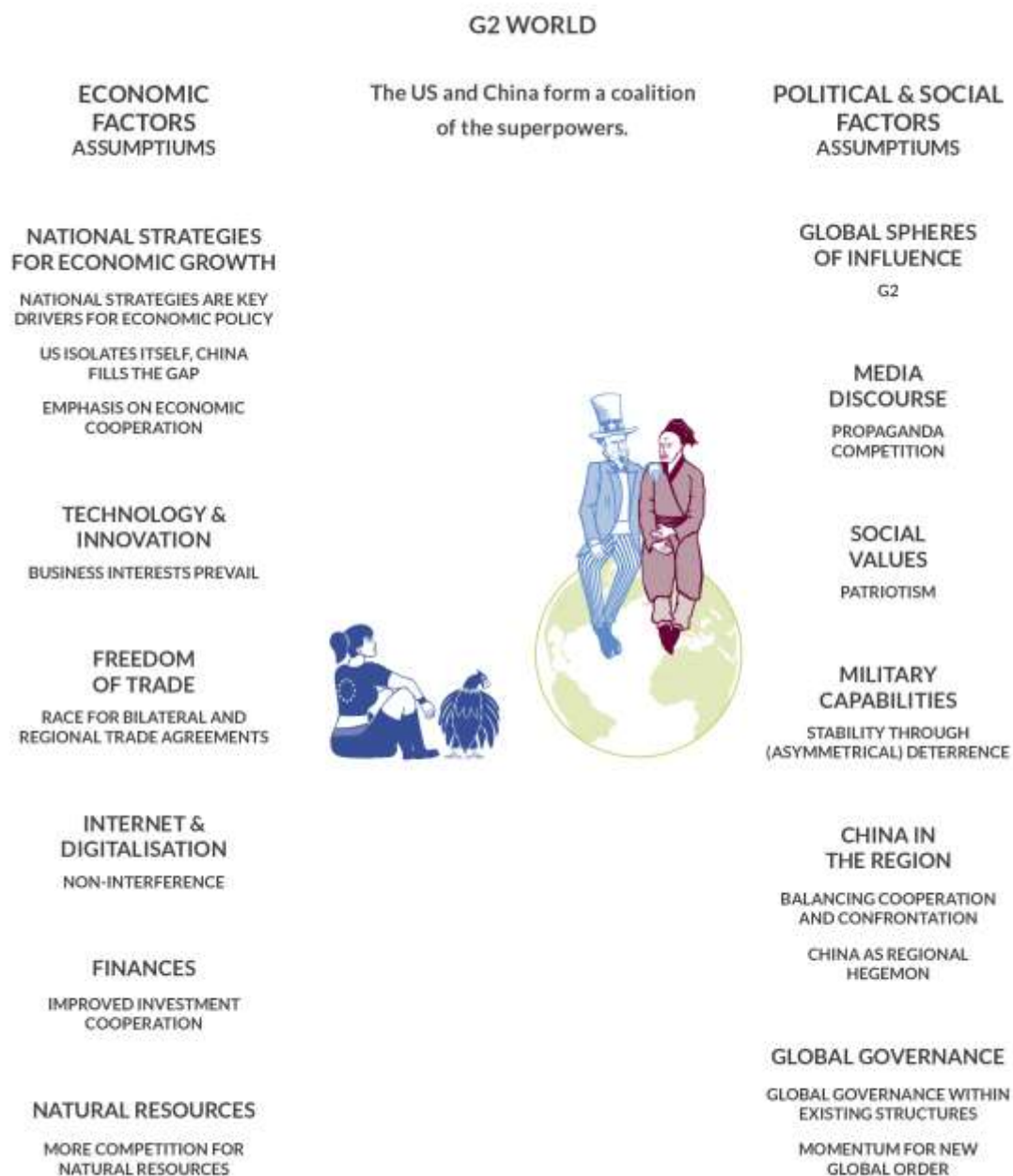
This scenario assumes that the United States and China will engage in open economic conflict. An all-out trade war, with the introduction of escalating tariffs, boycotts, trade barriers and possible exchange rate conflict, will lead to a sharp decrease in business relations between the two countries. Restrictions on bilateral investment might be introduced and the two parties could try to find alternative partners for investments and cooperation. The “America first” doctrine could lead to a US focus on domestic markets, whereas China might push aggressively for more foreign direct investment and increase its development assistance for developing countries.



## 5. Scenario: G2 World

The United States and China form a coalition of the superpowers.

This scenario is based on the United States and China forming a coalition of superpowers. Such a coalition would look less like a love affair and more like a marriage of convenience – at best. The two countries would retain their social, ideological, economic, political and military differences, but a pragmatic approach pursued by both would result in a mutual understanding that each party can more easily advance their respective interests if they invest less in direct competition with each other. Such an approach would also give the United States and China the opportunity to focus on containing the power of other actors with the potential to challenge the global order, such as the EU, Russia, Turkey, India or Brazil.





## V Recommendations

Some strategic implications for Europe:

- Europe will have a hard time cultivating its relations with the United States on the one side and China on the other – while retaining strategic neutrality in both directions.
- Different actors – in particular political and economic actors – may be pulling Europe in different directions.
- The multilateral, rules-based world order that Europeans hope for is under pressure – and China’s “Belt and Road” is perceived as a factor in this pressure.
- For Europe to play any significant role in the future world order, it has to act as one – an achievement which, at the moment, is a lot to hope for.