



## US-CHINA: REAL TRUCE?

KERRY BROWN

KING'S COLLEGE LONDON

The meeting between Presidents Xi Jinping of China and Donald Trump of the US in the G20 Buenos Aires in November resulted in a reprieve of sorts – a three month pause on the imposition of further tariffs on goods exported from China to the US. This was despite fears already issued by some of Trump's administration that over USD200 billion of goods would have taxes introduced and that in some cases these would rise to over 20 per cent by the new year.

The G20 US China agreement is a temporary ceasefire. The underlying issues remain and are not likely to be shifted by either one meeting, or a whole series of them. The Chinese economy is now approximately 70 per cent of the US in gross terms. At its peak, the Japanese in the 1980s was only 64 per cent. The USSR in a previous era when it was global number two was far less. Most see the period between being 80 to 120 per cent of your competitor's economy as an era of danger. This phenomenon is well known amongst commentators, academics and officials in China. They know they are entering the era of huge strategic challenge and competition with the US. Perhaps what they did not expect, but which is now clear, is that the difficult period would happen so quickly.

This structural issue – the classic era of the Thucydides trap where a dominant power thinks of ways to best deal with its contender by trying to decapitate them – is one that will not dissipate easily. A US is looking towards a China that has not just economically but also in the realm of technology made far greater progress than was expected. In the past, the Chinese talked of the period from 2000 onwards being one of strategic opportunity, where America was distracted by problems in the Middle East and elsewhere. Now, like it or not, Beijing has Washington's undivided attention. And for many around Trump, from his security advisor Bolton, to his economic advisor Navarro, this moment is their strategic opportunity – to deal with

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*Kerry Brown is Professor of Chinese Studies and Director of the Lau China Institute at King's College London. He is an Associate of the Asia Pacific Programme at Chatham House; an adjunct of the Australia New Zealand School of Government in Melbourne*

China before it becomes too powerful, too dominant, and starts to build up a real technological advantage.

China has found itself placed in this predicament for two reasons – one exogenous and the other more internal. For the first, the ongoing impact of the 2008 financial crisis and the inequalities and stresses it has placed on developed economies has born political fruit in the rise of populists feeding off public resentment and looking for scapegoats. Trump exemplifies this kind of new politics. And China as a competitor that needed to be dealt with in order to get more equitable outcomes had been one of the few consistent parts of his ideology from long before he was elected. The second is the simple outcome of China's success – that it has grown far quicker, far larger and with far more technological prowess than was ever expected. China is caught between these two forces – the accelerated break down of consensus and the framing of China as an opponent in the West, and the rapid rise of its own geopolitical and global power make it much more visible and exposed.

Just as a teenager cannot grow up overnight, nor can a country that was once relatively marginal and introspective in the space of a few months or a year or two become a fully-fledged international actor. China's task is made more Herculean by the fact that its political model sets it apart from almost every other power, and in particular from the currently largest and most developed. At heart, this is the issue that most antagonises the US - not China's cultural distinctiveness, but its profound-

dly alien values and governance system to many.

These structural issues will not be easy to address. In many ways, the argument over trade is simply a proxy for these more profound problems. For them to be dealt with will need fundamental realignments and transformations on the Chinese and US side, and probably on both. In view of their huge philosophical and cultural differences, this will not be easy – We just have to hope it is possible, simply because of the immense significance of the relations between each other to the rest of the world.

2019 is likely to see an intensification of the trade dispute, unless China can produce immense compromises to open up its more protected sectors from telecoms to finance and technology. These sorts of changes involve not just economic but also political risk that Beijing under the highly controlling and centralised leadership of Xi seems unlikely to have either the will, or the ability, to undertake. China is likely to become more isolated, as countries within its region, and in the rest of the world make the calculation that they cannot risk their principle security alliances – which are usually with the US – despite the increasingly important economic role China plays in their lives. 2019 is likely to be the year that the world gets used to a US China relationship which is stressed, often fractious, and where the best that can be hoped is that tensions between them as they become more starkly competitive rivals is managed. To be solved, the structural problems described above would need to be addressed.