

How should we understand the US-China Confrontation?

The Trump administration's "America First" policy has ignited a trade conflict between the US and China. While a leaders' summit is scheduled for spring 2019 and it is hoped that progress will be made in negotiations, the power struggle between the two nations can be expected to continue for the immediate future. Confrontation between the US and China has the potential to significantly change the postwar world order. How should we view the essence of the confrontation between these two nations? As a nation that has enjoyed prosperity predicated on postwar peace and free trade, how should Japan respond in future? It is essential that we discuss these issues in greater depth, not only from the economic perspective, but also with consideration of Japan's security stance.

About this Issue

**What is the essence of the confrontation between the US and China?
– Preparing Japan to respond to a new international order**

Yuri Okina

NIRA Executive Vice President, Chairperson of The Japan Research Institute, Limited

Keywords...Negotiations on structural issues, long-lasting and deep-rooted conflict, new international order, multifaceted perspectives

Expert Opinions

How should we understand the US-China Confrontation?

What is the essence of the confrontation between the US and China?
How should Japan respond?

The US-China confrontation is a consequence of domestic circumstances

Satoshi Machidori

Professor, Graduate School of Law, Kyoto University

Keywords...US backing away from international cooperation, China fearing opposition to Communist Party rule, medium- and long-term risks to Japan, desirable international order for Japan

Deepening Japan's self-recognition as an "asian nation" against the background of China's aim to realize a new international order and the US-China conflict

Shin Kawashima

Professor, Department of Advanced Social and International Studies, Graduate School of Arts and Sciences, The University of Tokyo

Keywords...An international order not based on democracy, illusion of the advanced nations, turning point to a new era, Japan's urgent situation

The challenge of one world, two systems

Martin Wolf

Chief economics commentator at the Financial Times, London

Keywords...China as partner and hostile power, conflict and cooperation with China, necessity of protecting the freedom of the west

The western nations must increase the appeal of liberal democracy

Hiroshi Nakanishi

Professor, Graduate School of Law, Kyoto University

Keywords...The west's liberal democracy and China's imperial despotism, attraction of technological despotism to the rulers of developing nations, embedding freedom and a spirit of tolerance

Entering an era of management decisions based on security perspective

Masahiko Hosokawa

Designated Professor, Chubu University

Keywords...Huawei problem, vigilance towards China as a "basso continuo," corporate order-based diplomacy in relation to China, Europe as the key

Interview period : January – February, 2019

Interviewer: Reiko Kanda
(NIRA Executive Vice President,
Senior Director)
Mari Kawamoto
(NIRA Research Coordinator, Researcher)

What is the Essence of the Confrontation between the US and China?

– Preparing Japan to respond to a New International Order



Yuri Okina

NIRA Executive Vice President,
Chairperson of The Japan
Research Institute, Limited

Markets hope for Progress in Trade Negotiations

In late February 2019, President Trump announced that due to progress in dealing with important structural issues in Cabinet-level trade negotiations between the US and China, he would postpone increases in tariffs on Chinese products (from 10% to 25%) originally scheduled for March 2. Since summer 2018, the US and China have taken turns in applying tariff increases to specified products, which is not only affecting the Chinese economy (target products including electrical devices represent 2% of the nation's GDP at 250 billion USD), but also global supply chains. In addition, the items under negotiation are not limited to increased tariffs, but encompass a variety of areas, including non-tariff barriers, the protection of intellectual

property rights, and technology transfers. With the news of a postponement of tariff increases, the expectation of future progress in negotiations between the two nations concerning structural problems has relieved financial market actors who have been anxiously monitoring the status of the negotiations, and share prices have stabilized globally.

Will it be possible, then, to resolve the deterioration in US-China relations at the leader's summit scheduled for spring 2019? In order to answer this question, we need to tease out the background to the conflict between the two nations which has become increasingly apparent since President Trump took office, and think about the future of US-China relations. In this issue of My Vision, we hear from a group of experts concerning the background to the deterioration in relations between the US and China, the future outlook, and the course that Japan should take.

Competition in the IT Arena has been added to the Conflict between Systems

Professor Satoshi Machidori of Kyoto University indicates that the conflict between the US and China is a consequence of long-standing domestic circumstances in both nations. In the US, the mood of resentment against the fact that the nation has borne the cost of ensuring international cooperation and stability since the end of the Second World War is becoming stronger. In China, meanwhile, the existence of severe economic disparities drives fears that dissatisfaction among the populace might spark opposition to the Communist Party. The domestic conditions in both nations mean that neither is able to assume the burden of the cost of international cooperation, and neither is prepared to yield. If we recognize that the character of the postwar international order is changing significantly, the argument that it is mistaken to view the friction between the US and China as a short-term effect of the Trump administration is a compelling one.

Professor Hiroshi Nakanishi of Kyoto University offers the important perspective that competition in the field of IT technology is a new factor that has been added to this fundamental conflict of systems that is occurring between the two nations. Having begun to have confidence in the use of IT technology to stabilize a Communist Party-dominated political system, it is difficult for China's government to relinquish its hold on such technology. What is happening currently is a competition between two systems – the western liberal democratic political system and the system of imperial

My Vision No.41 2019.4

despotism that has developed in China over the course of a millennium –being conducted using 21st-century technology. The fact that the US views China’s 5G and AI technologies, as presented in the “Made in China 2025” vision, to be a threat to its national security is a reminder of the depth of this problem.

How should we position Ourselves in relation to China as an “Undemocratic State”?

The view that the conflict between the US and China is long-lasting and deep-rooted is shared by the scholars featured in this issue of My Vision. How, then, should the Japanese government, and Japanese companies, respond? Professor Shin Kawashima of The University of Tokyo warns us that Japan must directly face the fact that through policies such as the Belt and Road Initiative, China is creating a Chinese economic zone that is not based on democratic principles. He points out that the advanced western nations have offered foreign aid based on the illusion that the economic development of emerging nations will spur them to choose freedom and democracy, but that Japan has ultimately failed to provide the nations that are the targets for its aid with attractive offers that accord with their particular circumstances. As a part of Asia, Japan must adopt a sense of urgency in thinking about how to build relations with China. Having this pointed out helps us to come to numerous realizations, including in comparing Japan’s response with the resoluteness of the US response.

Professor Masahiko Hosokawa of Chubu University, who was formerly involved in trade negotiations as a member of staff of the Ministry of Economy, Trade and Industry, indicates that the potential disruption of supply chains such as Huawei’s by the US government will also affect large numbers of Japanese companies, and offers the important perspective that business managers are considering how to take out “insurance” from the security perspective. Professor Hosokawa also suggests that the Japanese government should maintain its basic stance of prioritizing the international order, and should adopt a different approach than the US in attempting to correct China’s trajectory, by strategically involving Europe in cooperative measures.

Martin Wolf, chief economics commentator with the Financial Times, London, and the sole overseas (in this case European) expert consulted in this issue, is of the opinion that the conflict between the US and China can be viewed as a new cold war. However, the bigger picture is more complex: from the perspective that the western nations consider China to be an ideological threat, it is an enemy; from the perspective that it is incorporated in the world economy, it is a friend. In addition, it is necessary for the western nations to recognize that China’s dependence on the markets of western nations is far greater than US dependence on the Chinese market, and that the west’s ideology of freedom, democracy and the rule of law possesses considerable attractiveness. Mr. Wolf proposes that the US should maintain its network of alliances and seek to share its values while encouraging China to reform. The fact that Mr. Wolf emphasizes the importance of realizing a combination of cooperation and competition with an increasingly powerful China that does not lead to conflict can serve as a reference point in the current situation.

While the experts in this issue may differ slightly with regard to the specific points of emphasis in the proposals they make regarding the direction that Japan should take in the future, they are united in their belief that the nation must adopt a multifaceted perspective on the background to the conflict between the US and China, and must prepare with a sense of urgency for a new international order.

Dr. Okina is NIRA’s Executive Vice President and Chairperson of The Japan Research Institute, Limited. She holds a Ph.D. in economics from Kyoto University. Her official positions include serving as a member of METI’s Industrial Structure Council.

The US-China Confrontation is a Consequence of Domestic Circumstances



Satoshi Machidori

Professor, Graduate School of Law, Kyoto University

We should think about the confrontation between the US and China as a consequence of the domestic situation in both nations. Since the end of the Second World War, the US has assumed the cost of stabilizing the world economy and the global security situation. At first this was a responsibility taken up by the US alone; since the 1970s, the other advanced nations have committed to creating an international order, cooperating with the US and assuming some of the burden. In recent years, however, criticism of the fact that the US has accepted the burden of ensuring international cooperation and stability is increasing within the nation itself, and the US is backing away from active participation. This is the background against which the Trump administration had its advent. At the

same time, China faces economic disparities that cannot be ignored, and the Chinese people are dissatisfied. The administration is concerned that this mood could swell and ignite opposition to Communist Party rule. China has little leeway to improve its trade balance and absorb the cost of international cooperation.

Both nations are subject to domestic circumstances that prevent them from assuming the burden of the cost of ensuring international cooperation, and this is a factor intensifying the confrontation between them. The US seeks to contain a China that is increasing its presence in areas including intellectual property rights and security, and the Chinese side will not yield. China's birthrate is declining and its population is aging rapidly, and it will be difficult for the nation to maintain growth unless it makes the transition to realize the industrial structure of an advanced nation. Intellectual property rights and technological dominance will be the means of achieving this goal, but these are also important for the US. Even if there is an easing of tensions on the security front, we should assume that there is a strong possibility that the confrontation itself will have become chronic, and will continue for an extended period.

Japan focuses too much on the orientations of Donald Trump and Xi Jinping, and on its relationship with these leaders. It will be essential for Japan to cease over-emphasizing short-term elements characterizing their individual administrations, and to adopt a multifaceted perspective, taking into consideration long-term elements: Structural problems and the change in the character of the international order. But the 2020s will be a difficult era for Japan. If we do not then have a clear idea of the international order and socioeconomic structure that is most suitable for Japan, Japan risks being at the mercy of surrounding nations, or of entering a phase of decline. It is a matter of concern that there is inadequate discussion of policy issues in Japan today. Administrations stay in power for extended periods, creating a situation in which few alternatives are presented and there is insufficient sense of urgency in terms of policy. Against a background of ongoing domestic and international situations that offer little cause for optimism, it is essential that the public should share an awareness of medium- to long-term risks.

Professor Machidori is a political scientist specializing in comparative politics. His research analyzes relationships between political parties and between the administrative division and parliament by means of comparison of institutions and time series comparisons. He took his Ph.D. in Law from Kyoto University. Professor Machidori's main research focuses are contemporary Japanese and US politics, and he is the author of numerous books and papers.

The Western Nations must increase the Appeal of Liberal Democracy



Hiroshi Nakanishi

Professor, Graduate
School of Law, Kyoto
University

As the speech made by US Vice-President Mike Pence on October 4, 2018 makes clear, the issues at the center of the confrontation between the US and China extend far beyond trade and technology. As China moves toward achieving the dominant position in key technological areas including 5G (the goal of Huawei) and AI, for the US China is becoming not merely an economic and technological competitor, but also a threat at the level of national security.

On the other hand, for China's current regime information technology is not merely an issue of external competitiveness, but is also enormously significant as a means of domestic governance. Since the Song Dynasty, the Chinese political system has been an imperial one in which authority is concentrated in the hands of the emperor, and it has stabilized the country by this means. Under its

policy of reform and openness, China's Communist Party under Deng Xiaoping and later leaders legitimized its control based on the precondition of economic development, but the Xi Jinping administration appears to be returning to a traditional system of imperial despotism as the growth rate declines. While claiming to maintain the safety of the Chinese people by applying the latest information management technologies, the Xi administration appears to also be using it to realize a system of internal control exceeding even that of the former imperial system. If we take this to be the case, we can see that it will be extremely difficult for China to relax its control of information technology.

Expressed differently, at the root of the confrontation between the US and China is a competition between two systems – the western system of liberal democracy and China's 1,000-year-old system of imperial despotism – being conducted using 21st century technology. Given that China is confident in its technological power, there is every possibility that the confrontation between the two nations could last a long time.

Chinese-style technological despotism is attractive to the leaders of authoritarian regimes, and these nations are prone to embrace the influence of China. Looking back, the hasty imposition of liberal democratic systems on developing nations and formerly Communist nations in the post-Cold War period by the western advanced nations (including Japan) was imprudent, and the rising skepticism and disillusionment with liberal democracy in those western nations themselves in the wake of the global financial crisis is adding to the appeal of Chinese-style governance. It is necessary for the western nations to counter the increasing appeal of authoritarianism in China's domestic system and the entrenchment of China's influence internationally, and to apply pressure for an acceptance of western values. But rather than insisting on imposing a formal system of liberal democracy on the rest of the world, the west should demonstrate the attractiveness of its system by making it a priority to embed a spirit of freedom and tolerance in other societies based on a recognition of the existence of diverse cultures and taking the initiative in addressing the issues and problems caused by the development of information technology.

Professor Nakanishi is a political scientist. His main research interests are historical research in 20th century international politics and international political science, the history of international relations in the postwar Asia-Pacific region, Japanese diplomacy, and security policy. He completed his Master's degree in law at Kyoto University. Among his official positions, he has been a member of the Advisory Panel on Reconstruction of the Legal Basis for Security under the second Abe Cabinet and the 2nd Term of the New Japan-China Friendship Committee for the 21st Century.

Deepening Japan's Self-recognition as an "Asian Nation" against the Background of China's Aim to realize a New International Order and the US-China Conflict



Shin Kawashima

Professor, Department of Advanced Social and International Studies, Graduate School of Arts and Sciences, The University of Tokyo

The western advanced nations have concentrated the world's wealth in their own territories by means of their command of technology and wielding of overwhelming economic and military power. Today, a sense of crisis is growing: If the balance of technological dominance shifts to China, will the next industrial revolution occur in an undemocratic nation? Will there be a transition in hegemonic power from the US to China? This feeling is demonstrated by US Vice-President Mike Pence's wide-ranging criticisms of China, encompassing military affairs, security concerns, and human rights issues.

Today, the number of nations in the world which do not democratize despite realizing economic development is increasing. China seeks to position itself at the center of this group. By means of its Belt and Road Initiative, China is advancing westward, creating a single economic zone in a region in which there are no advanced nations, through Eurasia and reaching into Africa, by investing in road, rail and other infrastructure and providing international public goods such as satellite and communications technologies. In this zone, China is attempting to create an international order which is not based on democratic principles.

If the advanced western nations, including Japan, wish to protect their values, they must first give up the illusion that developing nations will necessarily embrace the advanced nations' concept that freedom and democracy will be nurtured if the economy develops. While the advanced nations have up to the present offered foreign aid on the precondition that it promotes democratization, China makes no such demands. Today, the tendency among nations in Asia or Africa to choose China rather than the western nations when seeking foreign aid is quite marked. China makes attractive offers that accord with the situation in the target nation, decides rapidly regarding the provision of aid, and does not apply conditions like democratization.

Is today's Japan experiencing a sense of crisis, viewing the contemporary situation as a historical turning point? The US is moving seriously towards a confrontation with China. But this does not mean that Japan must necessarily act in the same way as the western nations. The only East Asian member of the G7, Japan's is strongly influenced by China, and the relationship between the two nations is deep. Given this, Japan may be isolated in Asia if it adopts China policies that accord completely with those of the western nations. If the US pressures Japan to cease technological transactions with China due to its sensitivities regarding companies such as Huawei, we will be in a situation resembling that in effect when CoCOM was formed. How should Japan respond, linked as it is with China through its supply chains? And in terms of geopolitical security, what will the developments be in relation to Taiwan and the Korean Peninsula, where China plays an important role? Japan must be aware that it is being placed in a fraught position.

Professor Kawashima is a political scientist and a historian, specializing in East Asian politics and the history of political diplomacy. A professor of The University of Tokyo, he is also a Senior Fellow of the Nakasone Peace Institute. He has held numerous official positions related to international politics and diplomacy, including as an Advisor to the Cabinet Office's National Security Council, and also serves as the Chairman of the Japan Association for Modern China Studies. Professor Kawashima has conducted a great deal of research in China, at institutions including the Beijing Center for Japan Studies. He took his Ph.D. in Literature from The University of Tokyo.

Entering an Era of Management Decisions based on Security Perspectives



Masahiko Hosokawa
Professor, Chubu University

We have made the transition from an era in which security and the economy were separate issues, to one in which security has entered the economic arena. Japan's business managers must take the measure of this momentous change. The case of Huawei presents an example. There is a possibility that Huawei will become the subject of a US export embargo. This not only shuts out Huawei products by preventing their purchase or use, but also disrupts supply chains by preventing the manufacture of parts for Huawei and their sale to the company. If this happens, the many Japanese companies that supply parts to Huawei will be forced to make difficult choices. I do not mean to imply that they should withdraw from the Chinese market. What they will do is to make judgments on a field-by-field basis, and take

out "insurance" in fields that are sensitive from a security perspective. This is what business managers are looking into today.

Vigilance towards China has for some time been a common factor in all areas of US government, and it continues to resonate as a "basso continuo." The current push by President Trump is separate to this, representing nothing more than a superficial "melodic theme." Even if there is an agreement on tariff issues, it will only be a brief interruption, and will not affect the basso continuo.

The Japanese government should recognize this essential status and make use of the current good relations between China and Japan by advancing a type of diplomacy in which it attempts to change China's direction by pointing out its disagreement with specific policies. The US strategy of applying sanctions in order to pressure China is not the only way. China will refuse to relax the grip of Communist Party rule. Japan should express its disagreement within a scope that does not attempt to do so, attempting to change China's trajectory gradually. For example, China is making the use of its own national standards mandatory in establishing the infrastructure for its Belt and Road Initiative, putting other nations in a position that will leave them no choice but to use Chinese products. This has led to concerns that ultimately China may obtain these nations' data. Japan should express its disagreement to China in order to correct distortions of this type.

Everyone is focusing on the US and China, but for Japan the key is Europe. As President Trump runs amok with talk of tariff sanctions, cooperation with Europe is essential from the perspective of maintaining the US's connection with the international order. Japan is overwhelmingly the weaker party in its bilateral relationship with the US, and Japan-Europe cooperation will be important to restraining the US. It will be necessary, via cooperation between Japan, Europe and the US, to remake the WTO rules that are not functioning, and to create mechanisms that will draw China into this forum. Japan must remain consistent in its basic stance of prioritizing the international order. A nation that claims that order is important but fails to take action against the US and China for violations of WTO rules is a nation that will not win trust.

Professor Hosokawa was formerly engaged with the Ministry of Economy, Trade and Industry (previously known as the Ministry of International Trade and Industry). In addition to teaching economics at Chubu University, he also makes appearances as a commentator on television, conducts lectures, and serves as an advisor to local governments and as an advisor and executive of global companies. At the Ministry of Economy, Trade and Industry, he was on the frontline of trade negotiations between Japan and the US in positions including Director of the Americas Division of the Trade Policy Bureau and Director of the Trade Control Department of the Trade and Economic Cooperation Bureau. A graduate of the Faculty of Law of The University of Tokyo, while a staff member of the Ministry of Economy, Trade and Industry, Professor Hosokawa was a visiting researcher at Stanford University and completed an AMP at Harvard Business School.

The challenge of one world, two systems



Martin Wolf

Chief economics
commentator at the
Financial Times, London

Three recent pieces of evidence reveal alarm over the rise of China: The campaign against Huawei, standard bearer for Chinese technological ambitions, and the labeling of the nation as a “partner and systemic competitor” by Germany’s BDI, and as “the most dangerous opponent of those who believe in the concept of open society” by George Soros. It is clear that the west sees China at best as an uncomfortable partner, and at worst as a hostile power.

Should we conclude that a new “cold war” has begun? Yes and no. Yes, because so many westerners think of China as a strategic, economic and ideological threat. No, because China is not exporting a global ideology, and, unlike the Soviet Union, is embedded in the world economy.

The right path is to manage relations that will be both competitive and co-operative, recognizing China as both foe and friend. We must embrace complexity. We need to recognise that the US and its allies possess huge strengths. These nations spend vastly more than China on defence, have bigger economies, and account for a larger share of world imports. Again, China’s dependence on markets in high-income countries is far greater than US dependence on China. Moreover, the high-income democracies continue to possess a more attractive ideology of freedom, democracy and the rule of law than China’s communism offers.

Thus, the US should view its situation with far greater equanimity than China, provided it retains its network of alliances. It could then recognise its interdependence with China as a stabilising force, and similarly recognise that making common cause with allies, in the context of the rules-governed trading system it created, would increase pressure on China to reform.

Co-operation is as essential as interdependence. We cannot manage the global environment or ensure prosperity and peace without co-operation with China. However, none of this implies that western countries need accept whatever China wants.

Ultimately, it is indeed vital, as Mr. Soros suggests, that we protect our freedom and those of Chinese people living in our countries from China’s new “social credit” system.

A new great power has emerged, and in response, many are trying to shift the world into an era of unbridled strategic competition. What is needed instead is a combination of competition and cooperation with a rising China. The alternative will be deepening hostility and rising disorder. Nobody sensible should want that. So stop, before it is too late.

Mr. Wolf is the Chief Economics Commentator at the Financial Times, London. The author of numerous books and articles, he was awarded the CBE in 2000 “for services to financial journalism.” After graduating with a Master of Philosophy degree in Economics from Oxford University, he joined the World Bank, eventually becoming a senior economist. He joined the Financial Times in 1987, and took his present position in 1996. Mr. Wolf’s articles appeal to a wide range of readers in addition to financial specialists, combining as they do broad-ranging knowledge and insightful analysis.

(c) The Financial Times Limited 2019. All Rights Reserved.

The Nippon Institute for Research Advancement (NIRA) is solely responsible for the creation of this edited version of a text that originally appeared in the Financial Times:

Martin Wolf, “The challenge of one world, two systems: Unbridled strategic competition between China and the west would be a disaster,” Financial Times, January 30, 2019.

The Financial Times Limited does not accept any liability for the accuracy or quality of this edited version of the text.