US Election Note: China Policy After 2016
Summary

- One of the most significant relationships that the next US president will have to manage is that with China. In the seven years since President Barack Obama took office, China’s global influence has expanded significantly. Given the country’s recent economic turmoil, however, its continued rise is more uncertain.

- The US–China relationship has significant areas of possible collaboration – from countering piracy and addressing environmental issues, to fighting Islamic extremism and dealing with North Korea. However, competition and conflict between the two countries could put such collaboration at risk.

- Hillary Clinton’s China policy would be the most predictable of the presidential candidates and largely in line with that pursued by President Obama – one that is more collaborative than conflictual. Her strong record of involvement with Asia as well as her hawkish perspective, however, would likely make Clinton more receptive to the interests of US allies in the region; and thus more assertive in pushing back against perceived Chinese muscle-flexing in the traditional security environment and in the cyber sphere.

- Donald Trump’s China policy would likely be driven more by economic goals (in terms of opportunities for engagement as well as tough responses to perceived Chinese unfair practices, such as cyber espionage or currency manipulation) than by security concerns. Trump would be far less likely to act based on the interests of US allies in Asia. However, his more extreme positions would be tempered by Congress, centrist advisers and government bureaucracy.

- The US–China relationship under a President Bernie Sanders would likely be a dysfunctional one given his focus on domestic issues of inequality. With regard to China, his priorities would be to mitigate the impact it has on jobs and wages in the United States, and to focus on its human-rights abuses. Collaboration on other issues would thus likely slow to a trickle.
Introduction

According to US Secretary of Defense Ash Carter, President Obama sees Asia as the ‘part of the world of greatest consequence to the American future, and that no president can take his eye off of this’.\(^1\) Whether the US strategy in Asia is driven by policy towards China or vice versa has been the subject of some debate; however, the two approaches are intrinsically linked. As President Obama’s ‘Asia rebalance’ made clear, even while the United States engages in a broader relationship with the region as a whole, dynamics there are dictated by its relationship with China. Getting this balance right will be one of the most important foreign policy objectives for the next administration.

The incoming president will have to develop their Asia policy during a time of rapid change and uncertainty in the region, particularly in China. Beijing’s relationships in Asia have been testy for some time, not least as Japan looks to strengthen its security posture. China has gained significant economic leverage in Asia and globally as its economy continued to grow through the 2008 recession. But its economic prospects have also been complicated by its recent slowdown and by rising domestic challenges stemming from President Xi Jinping’s focus on corruption as well as by continued security, environmental, infrastructure and health challenges.

This Election Note provides an assessment of the context in which the US–China relationship is going to develop and the likely policy responses that a Democratic or a Republican president would lead. Finally, it provides a perspective on the implications of these policies for a broader international audience, particularly in Asia and Europe.

Background

When Barack Obama ran for office, the United States had just entered the 2008 recession and China was thought by many to be driving the global economy. American economic hegemony appeared to be newly vulnerable, while China’s economic rise was viewed as unstoppable – unique among the emerging nations of a comparable size (particularly as growth rates declined or reversed in Russia, Brazil and South Africa). The US–China relationship is in a very different place today and the next administration will have to take the following factors into consideration as it defines its policy towards China.

Economics

According to the IMF, in 2014, China’s GDP in purchasing-power-parity terms surpassed that of the United States for the first time.\(^2\) Despite this positive top-line statistic there are several reasons to be less than optimistic about China’s economic trajectory relative to that of the United States.\(^3\) First, in real terms, China’s economy remains behind that of the United States and is not forecast to

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Footnotes:

exceed America’s economic position until 2021 (and far later in per capita terms), thus limiting its market power relative to the United States.\textsuperscript{4} As China’s annual GDP growth has slowed over the past few years (it was forecast at 6.5 per cent in 2015, down from 10.3 per cent in 2010), there are also concerns that it could be about to hit the middle-income trap.\textsuperscript{5} Reinforcing these concerns over China’s growth are its recent stock-market woes and its housing bubble, which have been compounded by the ineffective and erratic responses from the ruling Communist Party.\textsuperscript{6}

Conversely, the US economy has stabilized, with growth back at 2.4 per cent in 2015 (although this is still lower than the 2006 pre-recession growth rate of 3.3 per cent), and unemployment down to around 5 per cent.\textsuperscript{7} In conjunction with the domestic energy revolution, the country has again become an attractive environment for industry (including the reshoring of some manufacturing back from China) and it remains the investment destination of choice among Western countries.\textsuperscript{8}

Defence and security

Over the past five or so years, China has pursued a particularly assertive security policy in Asia and has worked to reinforce what it perceives as its zone of influence through an anti-access/area denial (A2/AD) strategy. In 2013, it declared a new Air Defence Identification Zone in the East China Sea. Furthermore, it has used land reclamation in neighbouring waters to ensure more broadly that it has control over all dynamics in the region.\textsuperscript{9} China has asserted its rights around a number of disputed islands, for example, by moving an oil rig into waters that Vietnam considers its own and launching a coast guard vessel into waters claimed by Malaysia. Throughout 2015 and into 2016, China has invested significant resources towards constructing an airfield capability on Mischief Reef and building on other reefs.\textsuperscript{10} Finally, its relationship with Taiwan could once again become an area of friction following the return to power there this year of the more independence-oriented Democratic Progressive Party.

China has been working to strengthen its offensive and defensive cyber capabilities. In recent years, there have also been increased allegations of Chinese-originated hacking and cyber-espionage against the United States’ government and businesses.\textsuperscript{11} This has become an area of great sensitivity in the bilateral relationship. President Xi’s September 2015 comments that ‘governments will not be

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engaged in or knowingly support online theft of intellectual properties’ have done little to alleviate US concerns. China is working more broadly to strengthen its offensive and defensive cyber capabilities.

All these activities have been supported by the continued rise in China’s defence spending, which is expected to increase by 7.6 per cent to around $150 billion in 2016. While only the equivalent of one-quarter of the US defence budget for the same period, this is more than triple and almost quadruple Japan and India’s respective budgets. China’s defence spending is forecast to nearly double to $260 billion in 2020. However, spending does not directly correlate with operational capabilities, particularly in those cases where countries might work together (such as the United States collaborating with Japan and Australia).

Strategic competition and collaboration

Despite China’s continued A2/AD policy and its broader military muscle-flexing in the region, it has engaged more actively, and at times collaboratively, with the United States in several global strategic arenas. The most obvious instance was its 2014 agreement with the United States on climate change and its subsequent announcement in advance of the December 2015 Paris Climate Conference on cutting carbon emissions. China’s creation and leadership of the Asian Infrastructure Investment Bank could also be considered a positive development in the global commons, notwithstanding US concerns. China also continues to promote its global role through other means, from the ‘One Belt, One Road’ initiative, which will expand trade ties into Central Asia, Europe and Africa, to the creation of other institutions such as the BRICS states’ New Development Bank.

However, China has also taken some less positive geopolitical positions, including, in particular, its unwillingness to condemn Russia’s invasion of Ukraine and its apparent inability or lack of desire to take strong action against North Korea’s continued assertiveness in the nuclear, cyber and military space.

Regional relations

Predictably China’s actions are causing a reaction in the region, not least from US allies and partners. Trends towards a closer relationship between some of the United States’ friends in the region have continued, most notably between India, Japan and Australia.

The United States has also stepped up security ties with countries such as Vietnam and the Philippines. China’s
assertiveness is thus promoting regional collaboration, though not universally: the prospect of deeper engagement between Japan and South Korea, while showing some small measures of improvement, continues to be stymied by their mutual historical grievances.

At the same time, the bipolar US versus China perspective of the region is still prevalent; many continue to analyse broader Asian geopolitics through this lens. However, this perspective is becoming increasingly inaccurate. Japan and India are ramping up their own defence capabilities. At the same time, India, starting from a much smaller base, achieved a higher rate of GDP growth than China in 2015 for the first time since 1999.\textsuperscript{17} A far wider analytical frame, which encompasses these other actors, must be used to more thoroughly understand the regional subtleties.

The completion of the Trans-Pacific Partnership (TPP) negotiations, still pending ratification in most member states including the United States, is another indicator of the desire for closer regional collaboration and is a possible mechanism for Asian countries to mitigate their economic dependence on China.

Thus, the context for the next US administration is increasingly one in which China policy fits more naturally within an integrated Asia policy. It is also one in which China is demonstrably stronger than it was at the start of the Obama administration, even if its continued rise, relative to the United States, is more in doubt.

**Policy positions**

*Hillary Clinton*

As secretary of state during President Obama’s first term, Hillary Clinton was the driver of the ‘Asia rebalance’ strategy. Previously, in the Senate, she was a strong proponent of the 2005 nuclear deal with India and, like former President Bill Clinton, she is considered a close friend of India.\textsuperscript{18} Her longstanding interest and engagement in Asia can be seen as a precursor to her policy if she were to become president – she would undoubtedly continue to see China through a broader Asian lens.

While the strategy was emphasized by the Obama administration, the rebalance to Asia has effectively been underway since the George H.W. Bush administration. It is a strategic position that Clinton will maintain. So too will she continue a more multilateral approach to the region. Given her track record of developing strong relations with a broader Asia, she could also be more attentive to the concerns of US allies and partners there. The differences between Obama and Clinton in this area, however, will be in the margins. Clinton would likely be more willing to take firmer positions with regards to China’s territorial ambitions and back this up with shows of US force, more public statements, and joint exercises with allies and partners in the region.\textsuperscript{19} She would build on the


\textsuperscript{18} So too are members of her likely foreign policy team, including Kurt Campbell, who was assistant secretary for East Asia and the Pacific during Obama’s first term, and Michelle Flournoy, formerly undersecretary of defense.

\textsuperscript{19} While it should be noted that Clinton is at the more hawkish end of the democratic spectrum, like Obama, she is likely to be wary of engaging militarily unless strongly provoked.
activities to enforce freedom of navigation that are being implemented by Defense Secretary Carter.\(^\text{20}\)

A stronger policy in rhetoric and action, importantly, could reassure America’s allies in the region. Japan and South Korea have felt America to be unreliable under President Obama.\(^\text{21}\) Clinton would have to calibrate her policy carefully, though, so as to ensure that it does not lead to overly aggressive postures towards China by these allies.

Another area in which Clinton’s firmer stance could play out would be with regard to cyber space, with a focus on government and corporate espionage. Assuming the levels of Chinese hacking remain high, she would likely increase the US response, potentially moving beyond the sanctioning of individuals.

Despite her election rhetoric questioning the TPP, if elected Clinton would likely put her weight behind the agreement, even if this means she will have to move slowly. In addition, as President Bill Clinton had to, when opening trade links with partners she will likely have to overcome some objection from her own party, which has a substantial protectionist element.

While Clinton would include democracy and human rights on the agenda with China, they are unlikely to be a priority. In this her approach would not differ drastically from that which she took as secretary of state.

Finally, Clinton is a realist. Despite her more hawkish tendencies, she would follow in President Obama’s footsteps to find areas in which to collaborate with China. Continued exploration of joint activities in combatting piracy, in counterterrorism and on the environment would be likely. As is continued engagement on economic issues and with regard to North Korea, an issue of great mutual interest. While Clinton, as with Obama, would be wary of China’s global engagement strategy (e.g. One Belt, One Road), she would search for areas in the broader environment in which collaboration may be possible.

** Bernie Sanders**

Where Clinton’s policy would likely be more centrist than Obama’s, Bernie Sanders’ would be to the left of it. He is largely driven by domestic issues and his foreign policy would reflect this. Sanders’ focus on domestic growth and equality would inevitably have implications for how he approaches China. So too would his strong instinct towards prioritizing human rights and labour standards – issues certain to be front and centre in any Sanders dealings with the Chinese and which could quickly put a dampener on collaboration on other issues.

Sanders’ policy would differ from Clinton’s in two major areas. First, in security issues he is far less interventionist than Clinton and Obama. As a result, China would likely become more assertive in enforcing its A2/AD strategy and, more broadly, its territorial ambitions. At the same time, the United States’ allies in the region would feel themselves further left out in the cold and likely act


accordingly, in particular with regard to building their own military and diplomatic capabilities as well as greater strategic engagement among themselves. This could have negative consequences with the United States increasingly finding itself caught between a rock (China) and a hard place (its commitments to its allies).

The second significant area of divergence between Clinton and Sanders regards the TPP. Under a Sanders administration the TPP would be left to flounder. This would have implications for US allies in the region and embolden China to reinvigorate and pursue more strongly its own trade initiative, the Regional Comprehensive Economic Partnership. China’s economic influence over the region would thus increase.

**Donald Trump**

Despite his antagonistic rhetoric towards China throughout the campaign, Trump’s policy would likely be driven by perceived economic opportunities rather than challenges in the security space. This would be supported by his apparent preference for more transactional and short-term calculations, and his lesser regard for historical alliances or longer-term consequences. But, as well as Trump being a pragmatist, his more extreme impulses would likely be held back by Congress, centrist advisers and the wider government bureaucracy.

Trump would prioritize economic engagement far more than Clinton or Sanders. If he believes that free trade is advantageous to the United States, then that is what he would pursue. If, however, he feels China is cheating through subsidies or dumping, he would take a very strong approach in taxing Chinese imports, even while suing it at the WTO.

Security issues under Trump would take a back seat. While he would support a strong military response to any Chinese aggression that he feels directly threatens the United States (such as if trade or energy flows are disrupted), he would be far less likely to take action in support of an aggrieved ally. He has made clear that the United States’ allies need to take more responsibility for their own security. However, acts of economic aggression (such as corporate espionage) that directly target American businesses would receive a heavy response.

Unlike the most recent Republican president, George W. Bush, Trump is unlikely to prioritize human rights and democracy, including in his engagement with China.

**International implications**

The future of the US–China relationship will have repercussions around the world in a diverse range of arenas, from the environmental to cyber and, more broadly, within global institutions.

The ability of the United States and China to work together has significant implications for global institutions. The UN works more effectively in an environment in which the United States and

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China collaborate well. Meanwhile, reform of the Bretton Woods institutions would also be far more likely in a context where their relationship is not adversarial. The efficacy of these institutions has implications in all sectors from economics to security, terrorism, cyber, space activities and many more. These are all areas for potential collaboration, but they could wither in a confrontational environment between the United States and China.

As the largest carbon emitters, the two countries recently have made real progress together in fighting climate change. A Trump administration, however, with a more adversarial relationship combined with the fact that this issue is unlikely to be on the US domestic agenda would bring to a halt such cooperation. Given the necessity of real leadership if the Paris climate agreement is to be implemented, global progress is extremely unlikely if Trump becomes president.

The region most affected would inevitably be Asia itself. The other powers in the region have long been made nervous by a stronger and closer US–China relationship (as a result of which they might be ignored) as well as by a weaker, more disputatious one (in which they are stuck in the middle). Predictably, most Asia-Pacific powers would find Clinton’s policy more aligned to their interests, not least as it would be more likely to actively take them into consideration and be more familiar.

If the US–China relationship declines in the coming years, this could also have implications for America’s European allies. They have traditionally seen China more in terms of commercial interests than of strategic concern. If the United States moves towards a more hawkish position on China, emphasizing the latter’s potential threat, Europe is likely to find its own policy increasingly divergent, which would potentially cause transatlantic rifts. A United States embroiled in an Asian conflict would also be far less likely to be able to assist Europe with challenges to its east and south.

The Middle East will be impacted by the US-China relationship to a lesser extent. However, China – and Asia more broadly – is becoming more dependent on Middle Eastern energy. In a perfect world, the United States and China would work more closely bilaterally and with others to promote Middle Eastern stability and ensure sea lanes remain open. However, a worsening relationship would make this difficult. On the other hand, this could be an area of common strategic interest where the two countries can collaborate more effectively in spite of other tensions.

Finally, the greatest unknown concerns North Korea. If Kim Jong-Un continues to pursue expanded nuclear capabilities and to take aggressive acts against US allies (such as South Korea), the United States would, in time, expect China to act to rein it in. If China were to respond positively, then such a collaboration would serve to further strengthen the US–China relationship. However, if US–China relations are rocky, then the international community’s ability to respond to North Korean militarism will be diminished, resulting in potentially disastrous consequences.
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The November 2016 US presidential and congressional elections are occurring at a time of change inside the United States and uncertainty in the world. How the next administration adapts to a host of international challenges will be central not only to the United States’ prosperity and security, but also, given its continuing global economic and political power, to the prosperity and security of countries across the world.

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