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Thank you, Mr Chairman, and it is a delight to be back at the World Policy Conference, which is an extraordinarily important gathering each year. My basic theme about the G2 will be that the bilateral relationship of the United States and China is both more stable than might be thought and worse than might be thought. I would therefore like to develop that theme.

At an abstract level, the United States and China share some important foreign policy goals: fostering world economic growth and maintaining an open global economic system; strengthening peace and prosperity in Asia; constraining North Korea's nuclear weapons and missile programmes; preventing nuclear proliferation more broadly; slowing down climate change; and promoting counter terrorism. Those are all very general shared objectives of Washington and Beijing and there are currently 60 Governmental dialogues taking place between the two Governments under the umbrella of these shared abstract foreign policy goals. Does that mean that there will be an evolving and strengthening G2? No, and a decisive no. Let me tell you why in my view it is a decisive no.

First, the United States and China in my judgment have competing strategic objectives in Asia. China is becoming an Asian superpower and America's vital national interest is to maintain the current Asian balance of power. Those two objectives are incompatible in my view over the long term. My ex-Harvard professorial colleague, Graham Allison, and I have just written a book on Lee Kuan Yew which is just coming out, and I would like to quote a paragraph from the book on observations by Lee Kuan Yew on the subject. As you know, Lee Kuan Yew is the founder of modern Singapore and a man that Henry Kissinger calls the most brilliant strategist currently alive.

Here is what Lee Kuan Yew says about this subject. 'Of course Chinese leaders are serious about displacing the United States as the number one power in Asia. In the world? Of course. Why not? They have transformed a poor society by an economic miracle to become now the second-largest economy in the world, on track, as Goldman Sachs has predicted, to become the world's largest economy in the next 20 years. There is a culture 4,000 years old with 1.3 billion people, many of great talent, a huge and very talented pool to draw from. How could they not aspire to be number one in Asia and, in time, the world? It is China's intention to be the greatest power in the world.' He concludes 'The concern of America is what kind of world they will face when China is able to contest their pre-eminence.' Therefore, incompatible U.S. and China strategic objectives will prevent a G2.

Second, the concept of G2 would clearly weaken US Asian alliances and strategic partnerships. There is no better way for the United States to alarm Japan, South Korea, India, Australia and the countries of the Association of Southeast Asian Nations (ASEAN) than to try to forge a G2 relationship with China. Why would the United States wish to do that?

You will all recall that there was a similar concept during the Cold War that the United States and the Soviet Union could be a kind of G2. Our European friends, led by the French, called it US-Soviet condominium. Of course it never occurred, for the reason that it would have split up the alliance, and a US-China G2 will not occur for the same reason. The Asian allies do not like the idea of a G2 any more than our European allies liked it during the Cold War. Indeed, instead of a G2, we have seen the pivot of the US to Asia by the Obama administration which all countries in the region, including Beijing, know is connected to the rise of Chinese power.

Third, there will be no G2 because of a vast gap between the United States and China on sovereignty and the use of force. As you are all aware, Beijing needs resources in export markets and does not wish to mix business with politics. This clashes with the American effort to prevent human rights abuses and improve governance.

Fourth, the two countries have conflicting political systems. There are few regimes anywhere in the world that have the magnitude of absolutely fundamental different political systems and values than the United States and China.



Finally, in terms of specific policy differences, I am just going to name eight of them and just say a word about each of them. You will notice the disconnect between the general abstract ideas on US-China cooperation and the failure of the two countries to work together on policy actions. There are many practitioners in the room, including some old friends, who know that what really matters in international affairs is not whether countries can make speeches at the United Nations (UN) General Assembly about cooperation but rather work day by day on acting together in a collaborative way. There are virtually no examples of that today between the United States and China. Let me therefore just list these US-China policy disputes for you. They will be familiar but the aggregation is impressive.

We have currency manipulation. You know that the Americans believe that Beijing sets the renminbi (RMB) at an artificially low exchange rate to boost exports and slow down imports. I am not going to look at the merits of the case for any of these because I am trying to be analytical.

China wants the United States to stop selling arms to Taiwan, stop meeting with the Dalai Lama and to lift its embargo on the sale of dual-use technology.

On North Korea, the Chinese continue to be extremely reluctant to put real pressure on the North Korean regime.

The South China Sea is in the news enough these days that I do not have to say much about it except that it is a volatile flashpoint in the region. The Secretary of State and the Chinese Foreign Minister recently had an exchange on this where the Americans tried to persuade the Chinese to settle the conflicting claims in a multilateral mechanism. The Chinese refused, with the Chinese Foreign Minister saying 'China has sovereignty over the islands in the South China Sea and the adjacent waters. There is plenty of historical and jurisprudence evidence of that.'

As regards Iran, China is by far Iran's largest trading partner now and is refusing to permit the Security Council to exact further sanctions against Iran.

With Syria, I will quote Secretary Clinton: "It's no secret that we have been disappointed by Russia and China's actions blocking tougher UN Security Council resolutions." Foreign Minister Yang has said "Beijing believes that any solution to the conflict must come from the Syrian people themselves and that backing one side over the other in Syria risks igniting greater regional conflict."

The seventh issue is cyber security. As you know, there is a massive theft of US intellectual property through cyber means, primarily from US private companies. A new report from the US Office of Counterintelligence says that the Chinese along with the Russians are the major actors in this space, which of course China denies.

Finally, on climate change, the United States and China are the two largest emitters of carbon dioxide and each, in my judgment, is using the other as an excuse for inaction and so there is no meeting of minds.

I have tried to demonstrate that in all eight of these cases and despite the high-blown rhetoric, there is little or no joint cooperation. The US-China relationship is therefore worse than you might have thought.

However, I now conclude by saying just in a word about what the factors are for US-China stability. First – and again these are familiar to you – the Asian and global economy would be seriously disrupted in the event of a major US-China confrontation and with both Governments being concerned with their enormous economic equities at stake, neither country wants to disrupt the Asian and global economies.

Second, both the United States and China want to concentrate, at least for the foreseeable future, on their domestic challenges, particularly their economic challenges. Neither of them wants to be diverted from their domestic agenda by a US-China confrontation.

Third, as regards US-China trade and economic interaction, these two economies are more and more intertwined and a confrontation would seriously hurt both nations.

The final reason and constraint on a confrontation is that all nations in Asia and indeed the world would be urging the United States and China to avoid such a collision.



Let me conclude with Lee Kuan Yew again on the future of the relationship: 'There will be a struggle for influence between the United States and China. I think it will be subdued because the Chinese need the US, need US markets, US technology, need to have students going to the US to study ways and means of doing business so they can improve their lot. It will take them 10, 20, 30 years. If you quarrel with the US and become bitter enemies, all that information and technological capability will be cut off. The struggle between the two countries will be maintained at a level that allows China still to tap the US. Unlike US-Soviet relations during the Cold War, there is no irreconcilable ideological conflict between the US and a China that has enthusiastically embraced the market. Sino-US relations are both cooperative and competitive. Competition between the two is inevitable but conflict is not.'

Therefore there will be no G2. US-China relations in the future will be plagued with these strategic and policy differences, but at the same time it will likely be relatively stable. However, there is one wild card, which is the competence of the two Governments. This is a relationship that is very delicate to handle in both countries, domestically in the first instance and then with each other. We all depend on a level of competence and skill from both Beijing and Washington to avoid the worst case.