

US/CHINA: Biden-Xi meeting may herald New Normal of managed antagonism

- The US and Chinese presidents agreed to a modest slate of deliverables on less contentious issues like military-to-military dialogue, fentanyl, AI safety, and climate cooperation.
- These outcomes do not change the fundamentally competitive and antagonistic character of US-China relations, but the meeting signals that both leaders want to avoid a downward spiral.
- For the business community, the meeting demonstrates that full decoupling is off the table and investment in China remains permissible, at least in non-sensitive industries.

Modest deliverables

US President Joe Biden and Chinese President Xi Jinping met for four hours on the sidelines of the Asia Pacific Economic Cooperation (APEC) leaders' summit in San Francisco on 15 November. The meeting matched [our expectations](#), with the two presidents agreeing to a slate of deliverables on less contentious issues. Though there was no joint statement, the respective readouts were largely consistent in tone and content. The tone was solicitous, and the readouts avoiding harsh criticisms. On content, the readouts confirm the following deliverables:

- Military-to-military dialogues will resume, after China suspended them following then-US House Speaker Nancy Pelosi's [visit to Taiwan](#) last year.
- A [new working group](#) will be established on counternarcotics, and the two sides pledged to cooperate on law enforcement against the manufacture and distribution of fentanyl.
- A new bilateral working group will be established on risks from artificial intelligence.
- Ahead of the meeting, US climate envoy John Kerry and Chinese counterpart, Xie Zhenhua, issued a joint statement pledging to enhance scientific exchange and technical cooperation, including on methane emissions. The presidential readouts affirmed this commitment.
- The two sides will encourage people-to-people exchanges — including students, tourists, athletes, businesspeople, and cultural representatives — and work to increase passenger flights. Such flights rose to 70 per week (35 round trips) at the start of November, up from 48 in October, but the readouts signal that further increases are likely next year.

Ahead of the meeting, media reported that Xi would agree to unlock Chinese airline purchases of the Boeing 737 Max that have been frozen since 2019, following deadly crashes, but that commitment was absent from the readouts. China might still resume Boeing purchases, however, given that Beijing was likely reluctant to acknowledge publicly that safety concerns were not the only reason for the freeze.

Beyond these deliverables, the two leaders reiterated familiar positions on less tractable issues like [Taiwan](#), the [South China Sea](#), [technology export controls](#), human rights, and fair treatment for [foreign companies](#).

New Normal

None of these outcomes changes the fundamental character of US-China relations, which remains competitive and antagonistic. Nevertheless, the meeting signals that both leaders want to avoid a downward spiral and cooperate where interests align. This desire partly reflects pressure from third countries and the business community. Both presidents want to present themselves as responsible leaders who are not recklessly pursuing conflict.

For the business community, the meeting demonstrates that full decoupling is off the table and that investment in China remains permissible, at least in non-sensitive industries. Beyond the readouts, the [images](#) of Xi and Biden take a one-on-one stroll — without their usual coterie of advisors — sends a strong signal of conciliation and even personal warmth.

Equally important, however, is the dinner that Xi attended with an array of prominent US chief executives after his meeting with Biden. This dinner occurred outside the White House's auspices, and the attending CEOs knowingly accepted the [predictable backlash](#) from hawkish media and legislators as the price of demonstrating to Xi their [commitment to the Chinese market](#). For Xi, who reportedly received a standing ovation, the event serves to signal that despite US political headwinds, Beijing can still mobilize support at the commanding heights of the US economy.

Looking ahead, an optimistic scenario is that US-China settle into a New Normal in which competition and antagonism continue but remain within certain boundaries. Regular military-to-military contacts should meaningfully reduce the risk that an accident in the South China Sea, East China Sea, or Taiwan Strait would escalate into armed conflict.

From the US side, the boundaries of decoupling — recently re-dubbed "de-risking" — are now reasonably well defined. The Biden administration has settled on a ["small yard, high fence"](#) approach to trade and investment controls. Advanced semiconductors, artificial intelligence, and quantum computing are squarely inside the protected patch. Areas like clean energy technology and critical minerals straddle the fence; US policies like the CHIPS Act and the Inflation Reduction Act do not ban trade and investment in these areas but seek to reduce US reliance on China through incentives for domestic investment and "friendshoring." The "friendshoring" objective suffered a setback, however, with the apparent collapse of the Indo-Pacific Economic Framework (IPEF)'s trade pillar, which Biden has abandoned due to domestic opposition.

From the Chinese side, Beijing has signaled its willingness to [weaponize its dominance](#) of critical minerals to retaliate against what it views as a US policy of broad economic containment for which national security concerns are largely pretextual. Overall, however, Chinese leaders will seek to [resist decoupling](#) and protect China's central role in global supply chains.

Risks to the New Normal

The New Normal scenario requires that the spirit of cooperation and risk management emerging from the Biden-Xi meeting proves durable. The risk to this scenario is that the presidential meeting represents a temporary high-water mark for bilateral relations before the downward spiral resumes.

As [previously discussed](#), Congress' year-end fiscal appropriations process offers an opportunity for China hawks to enact new coercive policies against Beijing. The US election may create new incentives for candidates and legislators to engage in hawkish rhetoric, while Biden may feel the need to impose new coercive policies to insulate himself from "soft on China" criticism. Taiwan's [tightening presidential election](#) raises the risk of mainland interference that would force Washington to respond.

In China, Xi's incentives to pursue rapprochement may diminish following the Biden meeting. As the leader of Asia's largest economy, Xi faced strong pressure to attend the APEC leaders summit. Having decided to attend, failing to meet with Biden would have been an embarrassment. Having agreed to meet Biden, a substance-free or conflictual meeting would have left Xi vulnerable to domestic criticism that he has managed relations with the US poorly. The unusually generous state media coverage of the US surrounding Xi's visit signaled his desire for at least the appearance of good feeling. With a successful meeting now achieved, however, Xi may pivot back to full-throated nationalism.

Client Portal >>

Gabriel Wildau
Managing Director
+1 (347) 714-4962
gabriel.wildau@teneo.com

© 2023 Teneo. All rights reserved. This material was produced by Teneo for use solely by the recipient. This communication is intended as general background research and is not intended to constitute advice on any particular commercial investment or trade matter or issue and should not be relied upon for such purposes. The views expressed here represent opinions as of this date and are subject to change without notice. The information has been obtained from sources believed to be reliable but no guarantees can be given as to its accuracy, completeness or reliability. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic or otherwise, without the prior consent of Teneo.