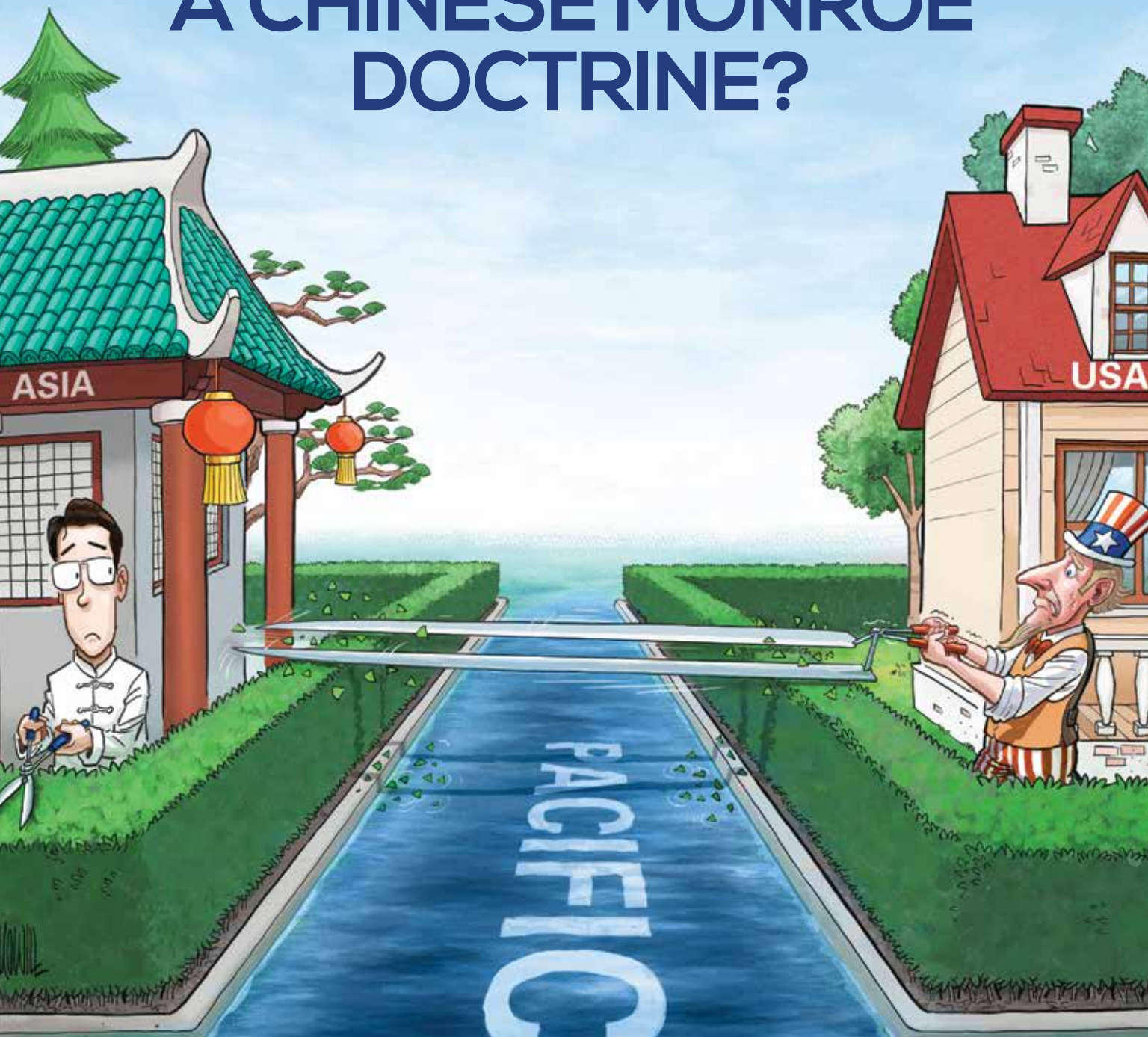


## SHOULD U.S. CONSIDER ACCEPTING A CHINESE MONROE DOCTRINE?



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05

## COVER STORY

### Should U.S. Consider Accepting a Chinese Monroe Doctrine?

Washington has pursued a policy toward China that some American scholars have dubbed “conengagement”—a mixture of engagement and containment. While the engagement component is primarily economic in nature, the containment is more strategic in its purpose. Washington’s moves are motivated, at least in part, by a desire by the various parties to contain Beijing’s growing regional power and influence, writes Carpenter.

04

## EDITOR’S NOTE

05

## COVER STORY

### Should U.S. Consider Accepting a Chinese Monroe Doctrine?

Ted Carpenter, Senior Fellow, Cato Institute

## IN FOCUS

09

### Bringing Order Out of Chaos – the Investigation of Zhou Yongkang

Tong Zhiwei, Professor, East China University of Political Science and Law

14

### Beijing’s Guidance in Hong Kong’s Election Reflects a Deep and Righteous Tradition

Stephen Harner, Former US State Department Official



09

**IN FOCUS**

**Bringing Order Out of Chaos – the Investigation of Zhou Yongkang**

The downfall of Zhou Yongkang and Xu Caihou is of great practical significance, as it sets a new milestone in China’s deepening anti-graft campaign and clears the path for the rule of law, writes Tong Zhiwei.



14

**Beijing’s Guidance in Hong Kong’s Election Reflects a Deep and Righteous Tradition**

After China’s legislature ruled out open nominations ahead of the landmark Hong Kong Chief Executive election of 2017, Stephen Harner examines the deeply held cultural differences between the United States and China that are contributing to discord on the issue of universal suffrage.

17

**CHINA-US RELATIONS**

**The China-US Relationship Is Basically Good**

Wu Jianmin, Member of Foreign Policy Advisory Committee, China’s Foreign Ministry

20

**U.S.-China Relations: Setting Priorities, Making Choices**

Doug Bandow, Senior Fellow, Cato Institute

23

**China: Contributor, Not a Freeloader**

Shen Dingli, Associate Dean, Fudan University

33

**ECONOMY**

**The American Contribution to China’s Cyber Power**

Greg Austin, Professorial Fellow, EastWest Institute

36

**Anti-trust Move Essential for Market Economy**

Zhang Monan, Researcher, China Int’l Economic Exchanges Center

26

**PERIPHERY DIPLOMACY**

**Why Does Vietnam Claim There Is a Xisha Islands Dispute?**

Lu Yang, Beijing-based scholar in international relations

30

**A South China Sea Alternative to “Coop-frontation”**

Stewart Taggart, Founder & Principal, Grenatec



# EDITOR'S NOTE

ZHANG PING

The China-US relationship is one of the most consequential bilateral relationships in the world. The two countries should actively build a higher level of strategic mutual trust in order to manage their differences. By publishing selected articles from [www.chinausfocus.com](http://www.chinausfocus.com), it is our hope that this China US Focus Digest will help you review the key issues currently facing the two countries.

Ted Carpenter's article "Should U.S. Consider Accepting a Chinese Monroe Doctrine?" has been chosen as the cover story of this issue. The author suggests that the U.S. should accept Chinese primacy in East Asia, and consider alternatives to the fraying policy of "conengagement"—a mixture of engagement and containment towards China. This article provides a fresh perspective on China-US relations, because it implores Washington to opt for a strategy of sustainable engagement with China.

China's ongoing anti-corruption drive and Hong Kong's electoral reform are both hot topics. Tong Zhiwei, an expert on China's constitution, says the downfall of Zhou Yongkang and Xu Caihou has set a milestone in China's deepening anti-graft campaign and has cleared the path for the rule of law in China. On Hong Kong politics, Stephen Harner argues that the deep cultural differences between the US and China has contributed to discord over the selection process of the Hong Kong Chief Executive in 2017.

On China-US Relations, Ambassador Wu Jianmin writes that the foundation of the China-US relationship remains strong, despite many people believing that the relationship is pass-

ing through a rocky period and has dropped to a low point. In a separate article, Doug Bando suggests that the Obama administration should make hard choices and definitively guide US-China relations. Responding to President Obama's statement that China is "a free rider", Shen Dingli examines China's contributions to the current world order and claims that China is a contributor, rather than a free rider.

On the issue of China's periphery diplomacy, Lu Yang says that the Vietnamese government has gone back on its word by making territorial claims over China's Xisha Islands. Lu, a Beijing-based scholar in International Relations, presents some historical documents to support her argument. Stewart Taggart believes that by creating a "Joint Development Areas in the South China Sea", cooperation and mutual trust among claimants can be boosted. He suggests that a market-based plan for energy infrastructure could be a solution for building peace and prosperity in the region.

On business ties between China and the US, Greg Austin points out that the two countries have largely benefited from deepening relations in the ICT sector for over two decades, although they are at odds over cyber security. On whether China's on-going anti-trust investigation into Western companies is a form of protectionism, Zhang Monan argues that China's actions are essential for building a law-based market economy.

We hope you enjoy the October 2014 issue of Focus Digest.

Thank You.

With special thanks to BLJ Worldwide to its supports to [www.chinausfocus.com](http://www.chinausfocus.com) and China US Focus Digest.

# SHOULD U.S. CONSIDER ACCEPTING A CHINESE MONROE DOCTRINE?



**Ted  
Carpenter**

*Senior Fellow,  
Cato Institute*

Washington has pursued a policy toward China that some American scholars have dubbed “congagement”—a mixture of engagement and containment. While the engagement component is primarily economic in nature, the containment is more strategic in its purpose. Washington’s moves are motivated, at least in part, by a desire by the various parties to contain Beijing’s growing regional power and influence, writes Carpenter.

Washington has pursued a policy toward China that some American scholars have dubbed “conengagement”—a mixture of engagement and containment. The engagement component is primarily economic in nature. China is America’s third largest trading partner, and Chinese financial institutions now hold some \$1.3 trillion in U.S. government debt. The containment component is primarily strategic in nature, especially as the United States has moved to strengthen its military ties with such traditional allies as Japan, South Korea, the Philippines and Australia, as well as develop such ties with new strategic partners (e.g., Vietnam and India). Those moves are motivated, at least in part, by a desire by the various parties to contain Beijing’s growing regional power and influence.

Beginning with the Nixon administration’s initial outreach to the Chinese government in the early 1970s, and continuing through successive administrations until the early years of the twenty-first century, the engagement aspect in U.S. policy was dominant. But during the administrations of George W. Bush and Barack Obama, the emphasis shifted. Containment, albeit implicit rather than explicit, has now become the principal feature—and that trend is accelerating. Washington prods its East Asian allies to devote greater efforts to defense, and U.S. officials seek to transform the bilateral alliances with those nations to cover broader, regional security contingencies. Especially during the Obama years, U.S. policy has tilted in favor of countries such as Vietnam and the Philippines, which are embroiled in territorial disputes with China involving the South China Sea, and

has backed Japan in its contentious confrontation with Beijing over the disputed Senkaku/Diaoyu Islands in the East China Sea.

Such informal manifestations of containment deceive no one—least of all, Chinese officials. Washington’s current strategy is fomenting growing tensions with China, and they could ultimately lead to a military collision in East Asia between the two powers. Perhaps most troubling, Washington has seemingly adopted a de facto containment policy almost by default, concluding that there are no feasible alterna-

tives, despite rising Chinese anger. Before we continue down that path, we should at least assess more seriously whether other, less confrontational and more sustainable, options exist.

One admittedly controversial option would be to accept the likelihood that China, by virtue of its greater population and mounting economic and military capabilities, is destined to become the dominant power in East Asia. Even the hint of recognizing Chinese

regional pre-eminence, though, always produces shrill allegations of “appeasement.” And that term has an especially odious connotation because of the disastrous appeasement policy that the Western powers pursued toward Adolf Hitler in the late 1930s.

But so-called appeasement has a much longer and more productive history than the calamitous 1930s model would suggest. Indeed, the United States was the principal beneficiary of a milder version that Britain adopted in the 1890s. In response to a nasty boundary dispute between Venezuela and a neighboring British

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***One admittedly controversial option would be to accept the likelihood that China, by virtue of its greater population and mounting economic and military capabilities, is destined to become the dominant power in East Asia.***

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colony, London faced a stark choice. It could confront an increasingly powerful United States, which was mightily annoyed at what it perceived as a challenge to Washington's cherished Monroe Doctrine barring European interference in the Western Hemisphere. The alternative was to concede that the United States was now the dominant power in that region and to accept Washington's policy preferences. British officials chose the latter course, a move that ended decades of tensions between the two countries over various issues and created the foundation for what would ultimately become an extremely close alliance.

U.S. officials need to at least consider whether a similar concession might create the basis for a new, far less contentious, relationship with China while still protecting important American interests in the Western Pacific. In other words, is it time to recognize a Chinese equivalent of the Monroe Doctrine

in East Asia—accepting that China is now the pre-eminent regional power? There are essential caveats to such a dramatic policy shift. At a minimum, Beijing would need to embrace not only the original logic of the Monroe Doctrine, but also the so-called Roosevelt Corollary. The latter, adopted during Theodore Roosevelt's administration, promised Britain and the other European powers that the United States would maintain order in the Western Hemisphere and discipline irresponsible governments in the region.

That requirement would have direct applicability to a pre-eminent role by Beijing in East Asia. Specifically, China would need to accept responsibility for preventing rogue powers like North Korea from disrupting regional peace and tran-

quility. Even if that meant direct Chinese action to remove an offending regime in Pyongyang, Beijing would need to be willing to undertake such action. Reducing the danger of North Korean aggression against its East Asian neighbors (and perhaps someday even against the United States) would provide a significant benefit to America. Beijing's willingness to undertake that responsibility would be a crucial prerequisite for any U.S. decision to accept China's regional pre-eminence. Unwillingness on Beijing's part to embrace the role of stabilizer would greatly reduce the appeal of a more accommodating U.S. policy.

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***Washington should not summarily dismiss the Monroe Doctrine model as a basis for U.S. policy toward China in the coming decades.***

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Even with a responsible Chinese policy, there would be significant obstacles and objections to U.S. recognition of a Chinese equivalent of the Monroe Doctrine. Two problems especially stand out.

The United States was, by far, the leading power in the Western Hemisphere

by the late nineteenth century, and it would become even more dominant in the subsequent decades. Countries such as Mexico, Brazil, and Argentina were no more than anemic competitors. Britain could proceed with confidence that, if it conceded hemispheric pre-eminence to the United States, Washington could maintain stability without serious challenge. Today's geostrategic environment in East Asia is much more complex. Although China is the leading regional power, it faces a credible competitor in Japan, which is also a U.S. treaty ally. Not only would Washington have to extricate itself from the alliance with Japan, there is no certainty that Tokyo would accept second place in the regional status hierarchy. The prospects for stability in East Asia, therefore, would be murkier.

An even more serious obstacle to applying the Monroe Doctrine model to East Asia is the great difference in political systems between the United States and China. It was reasonably easy for London to concede regional primacy to Washington, since both countries were liberal, capitalist democracies. Moreover, both of them shared major cultural features. Such unifying factors are absent in the Sino-American relationship. China is still a one-party, nominally communist, state, and it would not be easy for U.S. policymakers to place trust regarding geostrategic behavior in such a country.

Still, Washington should not summarily dismiss the Monroe Doctrine model as a basis for U.S. policy toward China in the coming decades. Given Beijing's rapidly rising economic and military clout, it will become difficult, perhaps prohibitively so, for Washington to maintain U.S. hegemony in a region thousands of miles distant from the American homeland. Officially or tacitly accepting Chinese primacy in East Asia may prove to be the least bad option available. And if China should gradually democratize, that option may become quite reasonable and attractive. In any case, U.S. policymakers need to consider alternatives to the fraying engagement model before a crisis erupts in relations with Beijing.





# BRINGING ORDER OUT OF CHAOS

## -THE INVESTIGATION OF ZHOU YONGKANG



**Tong Zhiwei**

*Professor, East China University of Political Science and Law*

The downfall of Zhou Yongkang and Xu Caihou is of great practical significance, as it sets a new milestone in China's deepening anti-graft campaign and clears the path for the rule of law, writes Tong Zhiwei.

The downfall of Zhou Yongkang and Xu Caihou, both senior officials that used to be considered immune to corruption investigations, is of great practical significance, as it sets a new milestone in China's deepening anti-graft campaign. What we should remember, however, is that as a former member of the Political Bureau Standing

Committee of the CPC Central Committee and its Political-legal Committee, Zhou had served as China's political-legal helmsman for as long as a decade. How much money he and his connections had rendered is not a big concern. Instead, of most consequence is the harm resulting from his malfeasance in the political and legal fields

during all those years. Over more than 10 years, Zhou polluted almost every part of the country's political-legal realm. The effect of his actions has manifested itself in mechanisms and latent rules running against the requirements of the rule of law.

With this understanding, it is not enough to merely focus our efforts on an investigation into Zhou Yongkang's corrupt, law-breaking and discipline-violating responsibilities or to take them just as individual cases. Instead, we should take this opportunity to reexamine and rectify those systems, mechanisms and latent rules in a political-legal realm in the context of the rule of law.

China's anti-graft campaign, and the downfall of Zhou Yongkang and several other 'big tigers,' has cleared the way for the rule of law, a topic to be discussed at the 4th Plenary Session of the 18th CPC Committee scheduled for October. It is our belief that the meeting will further open the prospects for China's rule of law, including efforts to install anti-graft and clean-government systems and mechanisms.

On the eve of this important CPC meeting, China should try to understand the magnitude of the harm that took shape and gained new ground during Zhou Yongkang's time. Many of his actions ran against the requirement of the rule of law, and therefore the Chinese society should fully realize the necessity to bring order out of chaos under the leadership of the CPC Central Committee. To paint a full picture of the irregularities associated with Zhou's rule of the country's political and legal field, we have classified them into six categories:

**1 Giving personal comments and instructions on specific cases, intervention into specific cases, and concluding cases before they are heard.**

Left over from the days before China's reform and opening-up drive, these malpractices kept happening during Zhou Yongkang's time. In 1979, the CPC Central Committee issued its No 4 document, which called for the termination of these practices. In the amendment of the Constitution of 1999, in particular, it was stipulated that China would build socialism

in accordance with law and turn itself into a country under the rule of law. These measures helped redress the above-mentioned malpractices to a noticeable extent. When Zhou ascended to the helm, the situation should have continued and been improved. But, it went the other way. He

took the lead to give instructions on specific cases, overstepping laws and regulations. He also brought in non-judiciary departments and organs to 'coordinate' cases and encouraged his juniors to follow his example, totally messing up the country's judiciary system and operation in accordance with the Constitution and other legal regulations.

**2 Sabotage of the lawyer system, the sowing of tension and conflicts between lawyers and courts, procuratorates and public security departments**

Not long before he took command of the country's political and legal division, Zhou took

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*Over more than 10 years, Zhou polluted almost every part of the country's political-legal realm.*

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the liberty to revise the definition of lawyers and their profession, driving a wedge between lawyers and courts, procuratorates and public security departments. As clearly stipulated in the Act of Lawyers, lawyers are ‘law practitioners engaged or appointed to offer law services to parties concerned.’ Zhou, however, changed it into ‘socialist legal workers with Chinese characteristics.’ This change has, in fact, reverted the definition of lawyers and their profession to what it was in the late 1970s and early 1980s. At that time, all lawyers were officials working with judicial administrations, and their top obligation was to safeguard national interests, with legal services to clients coming in second. As stipulated in the newly amended Act of Lawyers, lawyers should be employed by their client for legal services. What Zhou insisted, however, is that lawyers should take side with and serve courts, procuratorates and public security departments, purposely sowing the seed of conflict.

### **3 Creation of a lasting source of social turmoil, by acquiescing the erosion of extra-legal dispute settlement mechanisms, such as petitions and complaints handing operations into the country’s overall judicial system**

The petition and complaint settlement arrangement has played a very important role in redressing many cases of wrong, false and unjust cases during political campaigns, especially during the Cultural Revolution. It was, after all, an extraordinary measure that had to be taken during an extraordinary period, and as such should have been abolished when a democratic legal system began to develop. This is why the term ‘petition and complaint handling arrangement’ has never been written into any of the country’s laws or regulations. During Zhou’s reign of China’s political and law realm, however, this

extra-legal mechanism kept gaining profile and even came to rival the country’s general judicial system, totally messing up the country’s dispute settlement mechanism.

While trying to disrupt the country’s judicial system with the petition and complaint settlement mechanism, Zhou obviously felt the subsequent pressure of a weakening of judicial roles and the loss of control of petitioners. To deal with the situation, he masterminded a nationwide campaign to suppress petitioners through non-judicial departments. This led to a flood of cases that infringed upon the fundamental rights of citizens. Many petitioners or latent petitioners were put into private jails, illegally arrested, or forced to ‘travel for the purpose of maintaining social order.’

### **4 A smaller instead of bigger degree of freedom of the person, freedom of speech and freedom of the press**

Since China’s start of reform and opening-up, Chinese citizens have seen a continuous improvement in their personal rights and freedom, with the exception of a fairly short period of time. During Zhou’s time, however, this situation reversed, with malpractice and even criminal behaviors such as extortion of confessions by torture flooding the petition and complaint handling sector, as well as fields devoted to reeducation through labor, removal of housing for construction projects, punishment of speech, and so on.

Reeducation through labor, for instance, is a measure to strip citizens of personal freedom by administrative means for a long period of time. It does not meet even the minimum standard on the rule of law. After 1999, when the rule of law was first written into China’s Constitution, reeducation through labor became even more unconstitutional. As the top executive of the

legal sector, Zhou should have worked to abolish this unconstitutional mechanism. But he did not. Instead, he winked at some regions and local leaders maximizing its law-violating and human rights infringing effects, as in the case of Bo Xilai, former Party chief of Chongqing Municipality and Wang Lijun, former police chief of the municipality.

As for the forced removal of residents for new construction projects, it was just a measure of expropriating property. The popularization of this practice has a close bearing on the system of tax distribution and the land-based finance propped up by pertinent central government policies. It does not have any positive connection with Zhou Yongkang. Given the unprecedented violence, bloodiness and infringement upon human rights in this sector during the years when he took charge of the legal sector, however, Zhou should shoulder a major portion of the responsibilities. If Zhou had valued the Constitution and acted in strict accordance with law, it would not have been so violent, so bloody, or so disrespectful of the basic rights of citizens.

To declare a person guilty for his speech was a practice popular during the Cultural Revolution, which could even result in the death sentence. Even after China's start of the reform and opening-up drive, this practice has not been given up. Some fundamental changes, however, have taken place. When Zhou came to rule the political and law realm, however, the situation began to deteriorate. Its ripples continue to extend even today.

To extort confessions by torture and to collect

evidence by coercion are barbaric crime-investigating methods that violate human rights. They were rooted out in Western civilizations a long time ago and labeled as unlawful and criminal in our country. During Zhou's 10-year reign of

China's political and legal realm, however, these barbaric and unlawful practices remained widespread and rampant in the judiciary sector. Even today, few cases of extortion of confessions or collection of evidences through violence have ever been dealt with in strict accordance with law. Even when some cases are brought to trial under some extremely special circumstances, few of the police involved have ever been sentenced.

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***It is our belief that the meeting will further open the prospects for China's rule of law, including efforts to install anti-graft and clean-government systems and mechanisms.***

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## **5 Widespread and excessive loss of private assets and property rights due to the lack of protection rendered in accordance with the law**

During the days of revolution, the Communist Party of China led the poor to suppress land tyrants and divide their land, and take possession of private capital in the name of a public-private partnership. That, however, was history. When China started a drive to reform and open-up, it stipulated in its Constitution that it should follow the basic economic system in which the public ownership is dominant and diverse forms of ownership develop side by side. It also declared the constitutional protection of the existence and development of the private economy, the mainstream sector of the non-public economy. It specifically stipulated in Article 13 of China's Constitution (2004 edition) that 'the lawful private properties of all citizens are

inviolable,' and that 'the State protects the private properties of citizens and their right of inheritance in accordance with law.'

Strangely enough, however, Zhou Yongkang turned a blind eye to these constitutional stipulations and introduced in his realm another set of judiciary policies running counter to the Constitution and allowing relentless deprivation of the property rights of private enterprises and private businesspeople. The so-call gang crackdown masterminded by Bo Xilai and Wang Lijun in Chongqing, for instance, was actually targeted at private businesses. Without going through any legal procedures, they simply deprived these businesses of their properties and property rights through confiscation, auction or trusteeship, propped by Zhou's policies.

## **6 Disorder of the country's legal system due to attempts to control society by the will of a leader instead of law and bringing "social stability" before a strict implementation of the law**

Exercise of social control through legislative, executive and judiciary means is the cornerstone of the rule of law, but it is a goal that is not so easy to achieve. It calls for all citizens, and the rulers in particular, to respect, understand, abide by and execute law. It also calls for the creation of a legal order through the strict enforcement of law.

The basic elements of the legal order include a willingness to see individuals fully exercise their rights and restrain from all deeds forbidden by

law, the full exercise of power by State organs in line with laws and regulations so as to guarantee citizens' enjoyment of fundamental rights and punish law-breaking behaviors, and permission of individual citizens and public power executors to rationally interact with one another within the legal framework. Efforts to maintain social stability, meanwhile, are aimed at bridging a superficial harmony between officials and ordinary citizens, between officials themselves, and between all individuals, and to give prior-

ity consideration to the will of leading officials. The genuine logic and true goal in the drive to maintain social stability is, therefore, to keep citizens from speaking or acting recklessly. According to this logic, to achieve this goal, the current leaders may employ all kinds of resources, and even violate

the Constitution and other laws and regulations. This is ridiculous, and conflict with the principle of rule of law.

To carry its anti-graft campaign to an even greater depth and consolidate the results achieved so far, and to keep corruption at the minimum, China must take the path of rule of law. To take this road, it has to set things right in the six sectors mentioned above. This will be a task of great difficulty, and cannot be fulfilled just through the brainstorming of a few people or the occasional promulgation of some documents. The first and foremost condition for its completion is to free our mind, create opportunities for airing views, review the lessons in the judiciary field over the recent decade, and bring officials and the general public to achieve, through full interaction, some common understanding about reforms.

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***Exercise of social control through legislative, executive and judiciary means is the cornerstone of the rule of law.***

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# BEIJING'S GUIDANCE IN HONG KONG'S ELECTION

## REFLECTS A DEEP AND RIGHTEOUS TRADITION



*Stephen Harner*

*Former US State Department  
Official*

After China's legislature ruled out open nominations ahead of the landmark Hong Kong Chief Executive election of 2017, Stephen Harner examines the deeply held cultural differences between the United States and China that are contributing to discord on the issue of universal suffrage.

The decision of China's central government to put selective stipulations on candidates for 2017's unprecedented one-man-one-vote election of Hong Kong's chief executive has met with a chorus of righteous indignation, and some condescending condemnation, from America's media, both on the left and right.

That Western, and particularly American, approaches in matters of this kind, when put into practice in places like Iraq and Egypt, have led to disaster and misery for the local people, and that a country and its people can adopt substantially different approaches, seems beyond the reflective powers of *The Wall Street Journal* and even *Forbes.com*.

As MIT professor Barry R. Posen put it recently in an excellent book on "grand strategy," the United States may be uniquely incapable of accepting the reality of that other countries can – and usually do – possess deeply held, culturally and historically determined, attitudes and values different from America's own, and that

these values are reflected in indigenous political cultures and systems.

Such American blindness seems illogical, since the same people who would profess the validity of "universal" (read: American) values would be also be the first to proclaim "American exceptionalism." Analysis of how something that is "exceptional" can (or should) also be "universal" quickly leads to the darker sides of national psychology: imperiousness, hauteur, and condescension, if not racism.

Americans, it seems, simply cannot suppress a desire (or need) to proselytize and promote – and occasionally to impose – their concepts of the right and the good on others.

A particularly blatant expression of this was the "America's Future In Asia" speech by Obama's National Security Advisor Susan B. Rice at Georgetown University last November, reviewed in *China-US Focus* on December 5, 2013.



*Hong Kong's Chief Secretary Carrie Lam (R) poses during a press conference in Hong Kong to call for public acceptance and support. Hong Kong's government unveiled its vision for electoral reform as public pressure for democracy grows and activists pledge to take over the city if their demands are not met.*

America's problem accepting other systems seems particularly pronounced in relations with China. This is partly understandable (if not forgivable, especially in people in positions like that of Susan Rice, or, while at the State Department, Hillary Clinton) difficulty in comprehending attitudes so starkly opposed to those one has psychologically internalized.

America's political traditions and culture ARE, to put it plainly, almost the opposite of those of China. America was founded on the principle that political authority derives from the consent of the people. The tradition in China was that "Heaven" conferred authority on righteous sovereigns.

The American tradition has been one of valuing individualism, local autonomy, federalism, republicanism, and restricting the power of

higher authority. Chinese tradition has been one defining and directing individual obligations in service to larger units of society, the family and the nation, with higher authority – acting within traditions of morality – the principal source of guidance.

These traditions have led to starkly disparate political cultures, which is to say expectations and demands of citizens toward their respective governments, and the nature of governmental legitimacy.

It is not to exaggerate much to suggest, as the eminent Sinologist John K. Fairbank did, that American and Chinese political cultures are virtually mirror images, that is, almost completely in opposition in many fundamental respects.

One respect would be expectations and de-

mands by citizens toward government ordering of society, including – as in the case of Hong Kong – maintaining order while providing a mechanism for “democratic” political expression. Chinese tradition, and the overwhelming desire of Hong Kong citizens, requires that the ultimate result of political evolution not become a serious threat to social stability.

Chinese people look to their government first and foremost for personal and social security, especially security from the kind of social upheaval that was seen as recently as 40 years ago. Governmental authority and the legitimacy are one, unitary, emanating from the center (the national level in Beijing) to the provinces and localities.

In Chinese tradition, there is no concept of local sovereignty (nothing like American federalism). There is only one seat of ultimate sovereignty and it is in the central government in Beijing.

Chinese tradition, both political and cultural, invests responsibility and authority to set and enforce moral and behavioral values for individuals in higher orders of society: the family and the state. To an extent this is true in every culture and society, including America’s, but China’s tradition is in most cases deeper and richer, and therefore more deeply held, respected, and cherished by its people.

To emphasize the point: China possesses a rich and deep political tradition, that is in many respects very different to America’s, it is also that Chinese people are deeply and justifiably proud of and loyal to their tradition. The overwhelming majority of Chinese believe in the rectitude and appropriateness of their highly centralized, basi-

cally authoritarian system, a system currently and for the foreseeable future without significant multiparty competition.

So what should we make of the vocal protests of some Hong Kong activists and the sympathetic echoes in Western media toward Beijing’s stipulations regarding future candidates for Hong Kong chief executive?

It is almost certainly true – and has been reflected in recent polling – that the majority of Hong Kong resi-

dents firmly support Beijing’s prudential initiative.

Therefore, there is no proper basis for American journalists, commentators, or particularly, politicians, to express disdainful opinions about China’s policies in Hong Kong. That they seem so ready to do so says more about their ignorance and lack of perspective than about the realities of Hong Kong politics.

No authority, moral or other, is taking the interests of Hong Kong citizens to heart to a greater degree, and with deeper consideration, than the responsible authorities in the Chinese central government in Beijing. We might want to call this “Chinese exceptionalism.”

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***America’s political traditions and culture ARE, to put it plainly, almost the opposite of those of China.***

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# THE CHINA-US RELATIONSHIP IS **BASICALLY GOOD**



**Wu Jianmin**  
*Member of Foreign Policy  
Advisory Committee, China's  
Foreign Ministry*

While many believe that the China-US relationship is passing through a rocky period and has dropped to a low point, Wu Jianmin suggests that the foundation of the relationship remains strong.

A few days ago, I was in Washington, DC for a conference. On the sidelines of the conference, I met some American friends. We had an interesting discussion about China-US relations. It seems to me that a debate is going on in the United States on that subject. There are mainly two different viewpoints in the debate. The first camp believes that the China-US relationship is going through a rocky course and has dropped to a “low point”, with many tough issues sur-

facing. The second maintains that the overall China-US relationship is good, notwithstanding the present difficulties. I share the second viewpoint for the following reasons:

First, the foundation of the China-US relationship remains strong. Let me quote President Xi Jinping's speech at the opening of the sixth round of China-US Strategic and Economic Dialogue on July 9th:



*US President Barack Obama and Chinese President Xi Jinping walk the grounds at The Annenberg Retreat at Sunnylands in Rancho Mirage, California June 8, 2013. (PHOTO by Lan Hongguang)*

“In the past 35 years since the establishment of diplomatic ties, relations between China and the US on the whole have moved forward and made historic progress, although there have been ups and downs. There are now over 90 mechanisms for dialogue, and last year, the bilateral trade volume exceeded \$520 billion, bilateral investment accounted for over \$100 billion. There are over 41 pairs of friendly provinces or states from both sides, and 202 sister cities. People-to-people exchanges exceeded 4 million every year. China-U.S. cooperation not only benefits our two peoples, but also promotes peace, stability and prosperity in the Asia-Pacific region and the world as a whole.”

Both in China and the United States, there are people complaining about the lack of strategic trust between the two countries. They mentioned quite a few facts to illustrate their worries. No one can deny the facts. However, every coin has two sides. A comprehensive vision for the China-US relationship is very much in need. I went to the

United States for the first time in 1971 to attend the UN General Assembly Session. At that time, the trade between China and the US was merely 5 million US dollars. Last year, it amounted to 520 billion US dollars. In the 1970s, 80s and even 90s, such a rapid growth in bilateral trade was beyond anybody’s imagination. If there had been no mutual strategic trust, how could this growth have been achieved? It would simply be inconceivable. I strongly believe that mutual strategic trust can be achieved and strengthened through practical projects of cooperation. It thus calls for the two sides to make more efforts to increase our cooperation in all fields.

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***In the past 35 years since the establishment of diplomatic ties, relations between China and the US on the whole have moved forward and made historic progress.***

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Second, President Xi Jinping and President Obama have reached an important consensus on the new model of a major country relationship. The two leaders held an informal summit in Sunnylands, California, in June, 2013. They agreed to build a new model of major country relationship. They were determined not to let the bilateral relationship slip into a Thucydides trap. This summit had a historic significance. Never in history had an established power and a rising power made such an agreement. The two leaders mean what they say and have decided to steer the China-US relationship towards a new model of major country relations, for the benefit of the two countries and the rest of the world.

Third, we have a series of mechanisms through which we can talk to each other and manage our differences. I don’t deny the existence of many problems in the bilateral relationship. The China-US relationship is one of the most important bilateral relationships in the world. If we look around the world, no bilateral relationship is problem-

free. There are problems when the relationship moves backward. There are problems when the relationship stays at a standstill. There are also problems when the relationship moves forward. I think that most problems have appeared along with the advance of the China-US relationship.

China and the United States are two quite different countries. We have different histories, traditions and cultures. We have different political and social systems. It is quite natural that we have problems. What matters is that we have a series of mechanisms to cope with those problems. President Xi Jinping and President Obama meet frequently. They call each other by

telephone from time to time and they exchange letters. At a ministerial level, our two sides meet regularly. In addition to track I exchanges, track II is quite active and dynamic in our mutual consultations on issues concerning the relationship.

Ms. Susan Rice, the U.S. President's National Security Advisor, came to China not long ago to prepare for the forthcoming visit of President Obama to China and his participation in the APEC Summit. She met President Xi Jinping, State Councilor Yang Jiechi and Foreign Minister Wang Yi. Her talks with Yang Jiechi lasted more than eight hours. Both sides were quite happy with that visit, because it enabled the two sides to enhance mutual understanding, coordinate policies on global issues and pave the way for the success of President Obama's forthcoming visit to China.

A few weeks ago, I gave an interview to an Asahi Correspondent based in Beijing about the China-US relationship. He focused on the problems. I said there was no denying that there were problems in China-US relationship.

What is more, one should not underestimate the problems. However, what determines the quality of a bilateral relationship are common interests. The common interests between China and US far outweigh the differences. In trying to properly manage our differences, through various mechanisms, summit meetings, strategic and economic dialogues, etc., the two sides are learning how best to deal with their differences, and consequently, our bilateral relationship is growing mature.

The US is the only superpower in the world today. China is the largest developing country and

the second largest economy. A good, stable and robust China-US relationship is not only good news for the two countries, but also for the rest of the world.

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***What determines the quality of a bilateral relationship are common interests. The common interests between China and US far outweigh the differences.***

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# SETTING PRIORITIES, MAKING CHOICES FOR U.S.-CHINA RELATIONS



*Doug Bandow,  
Senior Fellow, Cato Institute*

How can the Obama administration improve U.S.-China relations, while applying greater pressure on North Korea? According to Doug Bandow, this will be a difficult endeavor and require compromises from both nations.

The United States confronts increasingly complex challenges. Iraq faces disaster at the hands of Jihadist extremists, Syria's horrific civil war rages on, and Russia is underwriting separatist forces in Ukraine. Washington's policies are failing.

The Obama administration has been doing a little better, but not good enough, with China.

There is no open conflict between the two, but tensions are high. Territorial disputes throughout the South China Sea and Sea of Japan could flare into violence. North Korea is more disruptive than ever. Other important issues lurk in the background.

While there should be no surprise when important powers like the U.S. and People's Republic

of China disagree, the two must work through such issues. Unfortunately, the U.S. is far better at making demands than negotiating solutions. In particular, Washington seems to ignore the interdependence of issues, the fact that positions taken in one area may affect responses in others.

For instance, the U.S. famously initiated a “pivot” to Asia, or “rebalancing” of U.S. resources and attention to the region. In practice, the plan hasn’t amounted to much. Washington moved a few thousand Marines to Australia—enough to irritate the PRC but not to achieve anything if hostilities occurred.

Washington implausibly claimed that the shift had nothing to do with China. But the residents of Zhongnanhai are not stupid. For what other reason would the U.S. reaffirm military alliances and augment military forces in Beijing’s backyard?

Yet at the same time the Obama administration was pressing the PRC to apply greater pressure on North Korea to end the latter’s nuclear program and constant provocations. The North has no other close relationships and relies on the PRC for most of its energy and food, as well as the vast majority of outside economic investment. If only China would step on Pyongyang’s windpipe North Korea would have to yield, runs the argument.

The U.S. acts as if it was asking for a small favor. In fact, no one knows how the Democratic People’s Republic of Korea would react. Attempting to coerce Pyongyang would risk China’s relationship with its only ally in the region.

The DPRK might grudgingly give ground, while

shifting its economic and political ties to Russia or the West, leaving China with another hostile power on its border. Or Pyongyang might successfully resist Beijing’s pressure, while making a similar geopolitical shift to others.

Or the North might resist and collapse. China then would face the prospect of chaos next door, losing its economic position, facing a flood of refugees, and risking a violent spillover. Worse geopolitically would be eventual Korean reunification, which would leave an expanded U.S. ally hosting American troops on the Yalu.

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***Unfortunately,  
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at making demands than negotiating solutions.***

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The latter would be unpleasant for Beijing even without the “pivot.” A unified Korea could play a significant role in any campaign to contain the PRC. What matters most are not Washington’s professed or even actual intentions, but America’s perceived intentions.

The Obama administration’s attempt to moderate territorial disputes in the region runs into the same problem. America is committed to one side, maintaining defense relationships, deployments, and treaties with several interested parties including Japan. While Washington’s call for a peaceful resolution of disagreements is well founded, in practice it acts as an endorsement of the status quo—which favors America’s friends and allies.

The PRC likely would be skeptical even if it saw the U.S.-led bloc as benign. However, America’s senior ally is Japan, still remembered for its World War II depredations in China. Other nations, such as the Philippines, also contribute to what Beijing perceives to be an attempt at containment. Why should China comply with U.S. demands?

The U.S. has sought Beijing's aid in overthrowing the government of Syrian President Bashar al-Assad and forcing Iran to abandon any nuclear weapons ambitions. Washington sees these issues as matters of moral and practical necessity. However, the PRC's acquiescence would expand American influence and even perhaps create a new U.S. client state. That is not obviously in the PRC's interest, especially when America is seen as attempting to maintain its dominance in East Asia.

Other issues also cannot be considered in isolation. While human rights are not a security question, American pressure on Beijing to respect political activities hostile to the Communist Party's monopoly of power may be seen to be no less threatening than Washington's military moves. Talk of values and rights are coming from a country attempting to preserve its privileged geopolitical position in China's neighborhood.

Moreover, U.S. attempts to convince Beijing to combat climate change by limiting energy use—which would inevitably slow China's economic growth—look more sinister when Washington is working to constrain the PRC's influence. Talk of necessary sacrifice is less convincing in the context of the larger geopolitical struggle. Suggesting that this policy is part of a sinister plot gives Washington too much credit, but perception matters more than reality.

In foreign policy the urgent often pushes out the important. The Ukrainian and Syrian conflicts, for instance, are dominating headlines today. But over the long-term the status of Ukraine and Syria are not important, let alone vital, to

America. Relations with China, the world's second largest economy and potential military superpower, matter far more.

There inevitably will be disagreements and misunderstandings. The two nations must manage such controversies. And doing so will require recognizing that issues are interrelated. In particular, the U.S. must accept the necessity of trade-offs, most notably that it cannot be seen as leading a coalition against Beijing if it hopes to convince the PRC to adopt policies seemingly against its own geopolitical interests, such as sacrificing its ally North Korea.

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***Much can be  
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tive relationship.***

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Much can be achieved if the world's superpower and incipient superpower develop a sustained cooperative relationship, as did imperial Great Britain and rising America. That requires Washington to manage the important even as it confronts the urgent.

# CHINA: CONTRIBUTOR, NOT A FREELOADER



*Shen Dingli*  
Associate Dean,  
Fudan University

Responding to statements made by President Barack Obama in an interview with *New York Times'* columnist Thomas Friedman, Shen Dingli examines China's contributions to the current world order, and provides two reasons why China would be hesitant to proactively act in the international system.

In an interview by Thomas Friedman of The New York Times on August 8, President Barack Obama stated that China has been a "free rider" of the world order for the past 30 years.

If President Obama had stated that China had hopped on the bandwagon of globalization for the past three decades, he would make sense though his remarks were not fully precise. He should first recognize that China has caught up with the trend of globalization by relinquishing its vision of "proletarian internationalism". Then, he should commend China's wisdom of riding the wagon, which the U.S. is proud to drive. He should also appreciate China for its willingness to respect and contribute to the world order the U.S. has hard built.

First, by riding the wagon of contemporary international political and economic thought, China has embarked on its economic reform and ridded obsolete its "proletarian internationalism." True, there was a time when China was not a free rider of the then international system, which was dominated by Western imperialism and capitalism. China had envisioned changing such a system through exporting its own values and institutions. For quite some time America was concerned by China, which assumed its self-imposed obligation of leading a worldwide

revolution.

Three decades after the People's Republic of China was founded, however, Beijing started to rethink its social and economic path, concluding to employ market economy and international cooperation. China needs a friendly international environment so as to import foreign capital, technology, management and access to external markets. Indeed, America has responded positively. In Washington's view, it is America that has allowed China to join the bandwagon. To be fair, China has certainly benefited from its economic reform and international collaboration, in which the role of the U.S. has been indispensable.

Second, the U.S. actually has no viable alternative but to welcome China's jump on the American express. With China's ending of its mission to liberate the world, Americans are sure to continue to present themselves as world's savior so they have to welcome China to return to market economy. The U.S. has pushed for a world order of free trade, and without China's participation such an order is definitely not global. Even for alleviating the Soviet threat, Washington could not afford if China would be uninterested in partnering with America.



*In a New York Times interview on August 8, President Barack Obama stated that China has been a “free rider” for the past 30 years. (A screen shot from the interview)*

Honestly speaking, the U.S. may have benefited no less than China from Sino-US cooperation. In terms of investment, for the recent three decades, China has permitted America’s access to massive Chinese labor and consumption market, especially in allowing the U.S. to tap this inexpensive human capital. The United States’ inability to stop its outsourcing is simply due to China’s vast appeal. With China’s middle class continued ascension, its ability to consume and import is also on the rise. Therefore, it shall not be a surprise that China will overtake America in a few years to become the number one importer of the world and the number one American export destination.

Taking American tourism for example, in 2012 there were one million Chinese tourists who visited America, spending \$7,000 per person on average. Compared with all Chinese visit-

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***Honestly speaking,  
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ing abroad in 2012, some 70 million, only 1.4% of them had a chance to tour America at that time. Two years ago, compared with a Chinese population of 1.3 billion, only 7 out of 10,000 Chinese would have had such an opportunity. This has pressed President Obama to call for a 40%

increase in the issuance of Chinese visas in two years. By now, the U.S. has already issued 1.4 million visas in China in one year, when all Chinese visiting abroad will surpass 100 million in 2014.

Third, China’s riding of the globalization train has not only benefited the U.S., but also the world. Among all P5 countries, China is now dispatching the most peacekeepers under the United Nations mandate. Lately, China has started to send combatant troops in the UN uniform, running higher risks. Chinese navy ships not only joined in America’s 2014 RIMPAC exercis-



es, but also served the UN mission to dismantle Syrian chemical weapons and to protect the sea lane of commercial communication in the Gulf of Eden, with permit of Somalia government.

Chinese contributions to world peace and security are abundant. On the anti-terror front, China works with the U.S. and other governments to share political will and intelligence resources amongst each other, as well as to create financial and physical barriers for terror groups. On the nonproliferation of weapons of mass destruction, China joins the international community to demand that the DPRK and Iran end their respective nuclear weapons programs or suspicious nuclear programs, and impose relevant sanctions along the UNSC line. In conducting such international cooperation, China certainly pays some cost as for a while it has reduced oil imports from Iran.

On the economic and financial area, when the U.S. and the world were stricken by a financial “tsunami” in 2008, China joined the rest of the world by increasing its domestic spending so as to revitalize its own market. In addition to borrowing the over \$1.3 trillion in U.S. Treasury bonds and setting up the Strategic and Economic Dialogue to institutionally advance China-US cooperation and dispel challenges they face, Beijing has enthusiastically embraced the newly established G20 and played an active role in strengthening international financial institutions and economic sustainability. Since 2011, China has proposed establishing an SCO Development Bank, BRICS Development, and Asian Infrastructure Investment Bank. These shall contribute to Asian and world development, especially for those underdeveloped and emerging markets.

Understandably, President Obama would complain that China has not acted more proactively in the international system that China has benefited. However, there are two reasons

for this that have not been explored. The first is that not all of the world order has been healthy enough for China to benefit and contribute. For instance, the U.S. launched a “pre-emptive” strike in 2003 against Iraq, which has generated great damage to both Iraq and the United States. China would not support America to challenge the world order by launching a war against another country without solid evidence and UN mandate. Given how much Iraqi governance was weakened, now the region is plagued by ISIS, and China has not blocked efforts in the UN for the U.S. to intervene. It is a damage the U.S. has generated and America has to be responsible. It is unreasonable to expect China to send its armed forces to Iraq to quell the disturbance.

The other reason is that China is still under development as measured by per capita income. Therefore, mainland China is not capable of unifying Taiwan, which is under American protection, and Beijing has deep suspicion of the United States. Naturally, China would have reservations over supporting the world order that America has made and dominated. It will take time for the U.S. to relieve China’s legitimate concerns and garner Beijing’s more wholehearted endorsement of a world order that is fair and balanced, rather than being a so called freeloader.

# WHY DOES VIETNAM CLAIM THERE IS A XISHA ISLANDS DISPUTE?

*Lu Yang*

*Beijing-based scholar in international relations*

The Vietnamese government has gone back on its word by making territorial claims for China's Xisha Islands, and Lu Yang believes that it is a violation of the principles of international law.

Recently, Vietnam has made quite a few public claims of sovereignty over China's Xisha Islands. However, according to the Chinese government, the Xisha Islands have always been an integral part of China's territory and are under no dispute. China perceives that the purpose of Vietnam's move is to create a dispute where none exists. This article is to help clarify China's position.

## **I** Xisha Islands Are an Inherent Part of China's Territory

China was the first to discover, develop, exploit and exercise jurisdiction over the Xisha Islands. During the Northern Song Dynasty (960-1126 AD), the Chinese government had already established jurisdiction over the Xisha Islands and sent naval forces to patrol the waters. In 1909, Commander Li Zhun of the Guangdong naval force of the Qing Dynasty led a military inspection mission to the Xisha Islands and reasserted China's sovereignty by hoisting the flag and firing a salvo on Yongxing Island, which is the biggest island in the Xisha Island chain. In 1911, the Chinese government announced its decision to put the Xisha Islands and their adjacent waters under the jurisdiction of Ya

County of Hainan Island.

In accordance with the Cairo Declaration, the Potsdam Proclamation and the Japanese Instrument of Surrender issued during World War II, the Xisha Islands, which had been invaded and occupied by Japan in 1939, were legally returned to China. The Chinese government sent senior officials boarding military vessels to the Xisha Islands in November 1946 to hold the ceremony for receiving the islands, and a stone tablet was erected to commemorate the handover and troops were stationed there afterwards. The Xisha Islands were thus returned to the jurisdiction of the Chinese government.

In 1959, the Chinese government established the Administration Office for the Xisha, Zhongsha and Nansha Islands in the South China Sea. In January 1974, China exercised the right of self-defence enshrined in the Charter of the United Nations to drive the invading army of the Saigon authority of South Vietnam from the Shanhu Island and Ganquan Island of the Xisha Islands and defended China's territory and sovereignty. The Chinese government enacted the Law of the People's Republic of China on the Territorial Sea and the Contiguous Zone in 1992 and published the base points and baselines of the territo-

rial waters of the Xisha Islands in 1996, both of which reaffirm China's sovereignty over the Xisha Islands and the extent of territorial waters of the islands.

## 2 Vietnam's Claims of Sovereignty over China's Xisha Islands are Contradictory

Prior to 1974, no Vietnamese government had ever challenged China's sovereignty over the Xisha Islands. Vietnam had officially recognized the Xisha Islands as part of China's territory. This position was reflected in its government statements and diplomatic notes as well as its newspapers, maps and textbooks.

During a meeting with the *chargé d'affaires* ad interim Li Zhimin of the Chinese Embassy in Vietnam on 15 June 1956, Vice Foreign Minister of the Democratic Republic of Vietnam Ung Van Khiem solemnly stated that, "according to Vietnamese data, the Xisha Islands and Nansha Islands are historically part of Chinese territory." Le Loc, Acting Director of the Asian Department of the Vietnamese Foreign Ministry, who was present, specifically cited Vietnamese data and pointed out that, "judging from history, these islands were already part of China at the time of the Song Dynasty."

On 4 September 1958, the Chinese government issued a declaration (see Annex 1/4), stating that the breadth of the territorial waters of the People's Republic of China shall be 12 nautical miles and making it clear that "this provision applies to all the territories of the People's Republic of China, including ... the Xisha Islands". On 14 September, Premier Pham Van Dong of the government of Vietnam sent a diplomatic note (see Annex 2/4) to Premier Zhou Enlai of the State Council of China, solemnly stating that "the government of the Democratic Republic of Vietnam recognizes and supports the declara-

tion of the government of the People's Republic of China on its decision concerning China's territorial sea made on September 4, 1958" and "the government of the Democratic Republic of Vietnam respects this decision".

On 9 May 1965, the government of the Democratic Republic of Vietnam issued a statement with reference to the designation by the U.S. government of the "combat zone" of the U.S. armed forces in Vietnam. It says, "U.S. President Lyndon Johnson designated the whole of Vietnam, and the adjacent waters which extend roughly 100 miles from the coast of Vietnam and part of the territorial waters of the People's Republic of China in its Xisha Islands as 'combat zone' of the United States armed forces ... in direct threat to the security of the Democratic Republic of Vietnam and its neighbors ...".

The World Atlas printed in May 1972 by the Bureau of Survey and Cartography under the Office of the Premier of Vietnam designated the Xisha Islands by their Chinese names (see Annex 3/4) rather than the so-called "Hoang Sa Archipelago". The geography textbook for ninth graders published by Vietnam's Educational Press in 1974 carried in it a lesson entitled "The People's Republic of China" (see Annex 4/4). It reads, "The chain of islands from the Nansha and Xisha Islands to Hainan Island, Taiwan Island, the Penghu Islands and the Zhoushan Islands ... are shaped like a bow and constitute a Great Wall defending the China mainland."

But now the Vietnamese government has gone back on its word by making territorial claims on China's Xisha Islands. From China's perspective, that is a violation of the principles of international law, including the principle of estoppel, and the basic norms governing international relations.

It is up to the Vietnamese government to explain why it changed its position.



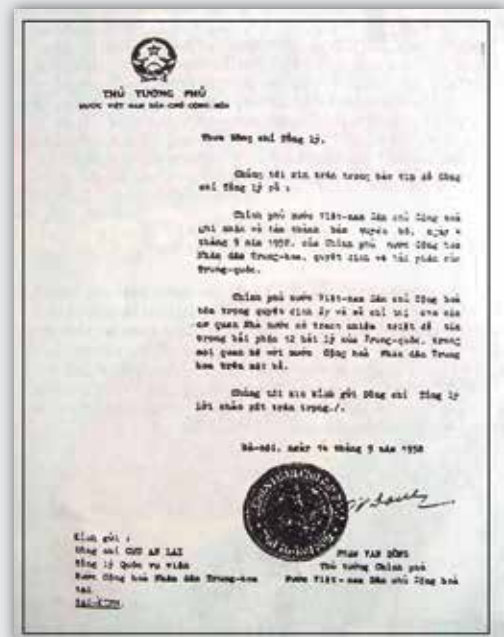
Annex 1/4: Declaration of the Government of the People's Republic of China on China's Territorial Sea published on 4 September 1958



English Version



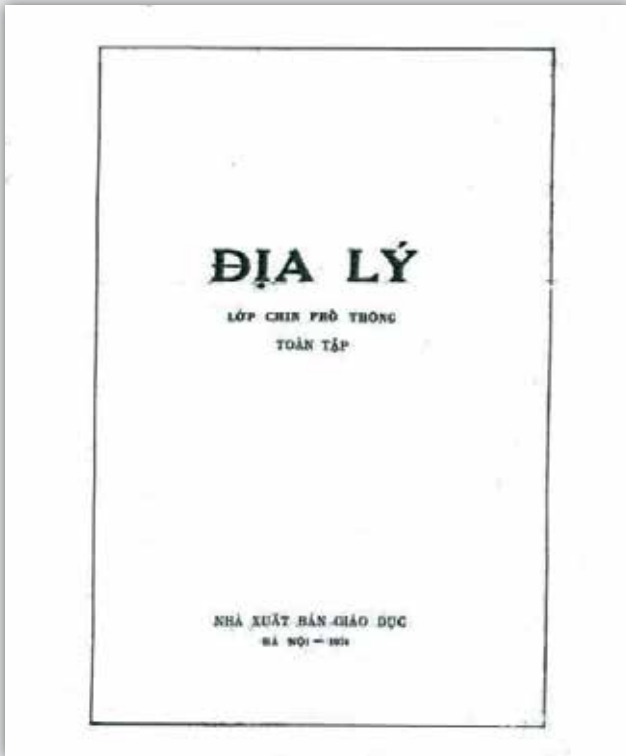
Annex 3/4: Cover of the World Atlas printed in May 1972 by the Bureau of Survey and Cartography under the Office of the Premier of Vietnam, and the page on the Philippines, Malaysia, Indonesia and Singapore.



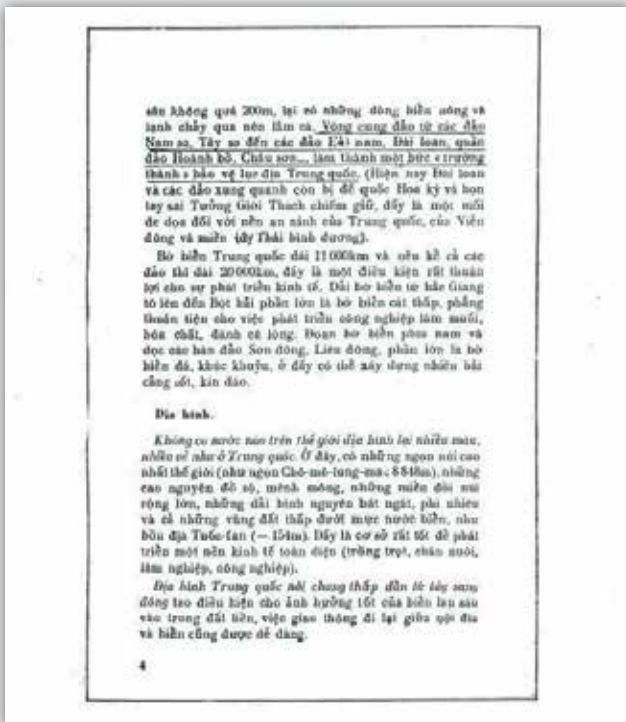
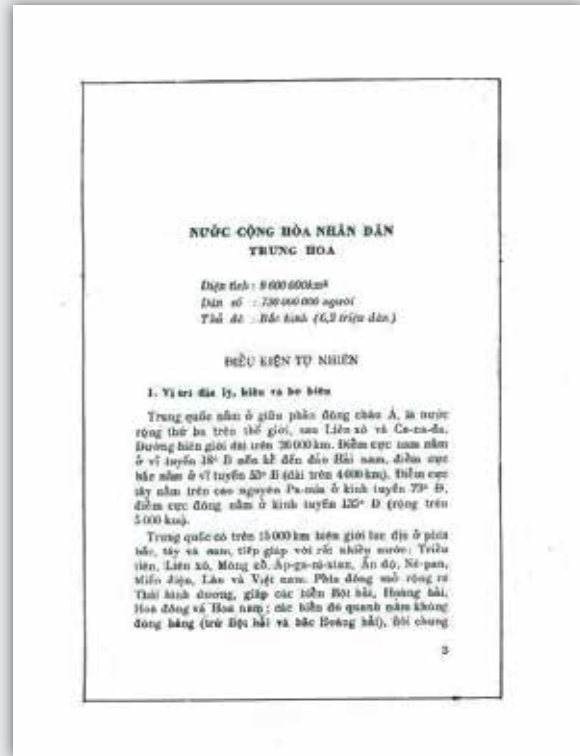
Vietnamese Version

Annex 2/4: The note sent on 14 September 1958 by Premier of the Government of the Democratic Republic of Vietnam Pham Van Dong to Premier Zhou Enlai of the State Council of the People's Republic of China

Cover



Page 3



Annex 4/4: The lesson entitled “The People’s Republic of China” in the geography textbook for ninth-grade students published by Vietnam’s Educational Press in 1974

Page 4

Documents provided by Lu Yang

# A SOUTH CHINA SEA ALTERNATIVE TO “COOP-FRONTATION”



*Stewart Taggart*  
*Founder & Principal,*  
*Grenatec*

Can a market-based plan for energy infrastructure provide peace and prosperity in the South China Sea? Stewart Taggart, a former financial journalist, examines recent tensions and describes how creating Joint Development Areas could boost cooperation and mutual trust.

Multilateral South China Sea energy infrastructure connected to offshore Joint Development Areas (JDAs) offers an attractive solution to territorial tensions.

My research organization, Grenatec, has developed a market-based plan for peace and prosperity in the South China Sea. This plan benefits everyone by replacing gunboat diplomacy with the power of markets.

The vision centers around creating Joint Development Areas (JDAs) on the eastern and western flanks of the South China Sea. Development rights would be allocated through competitive auction. Proceeds would be recycled into building interconnection infrastructure. The template would be the Association of Southeast Asian Nations' proposed Trans-ASEAN Gas Pipeline and Trans-ASEAN Electricity Grid (TAEG).

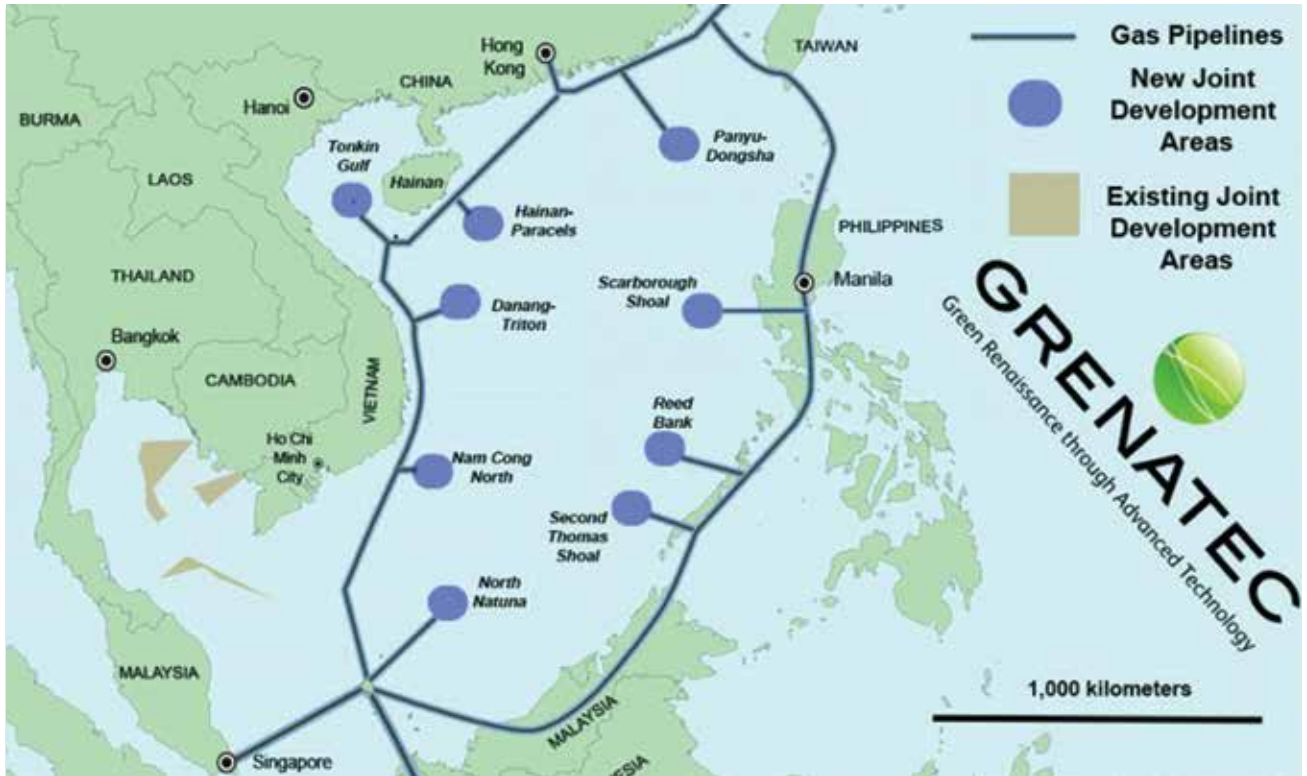
The Asian Development Bank and China's proposed Asian Infrastructure Investment Bank would oversee the recycling of JDA proceeds into infrastructure. The operational headquarters of the system would be Singapore. Shenzhen could trade the carbon.

Over time, the network would be expanded into northeast Asia (Japan, South Korea). There, a similar combination of JDAs and infrastructure could take shape in the East China Sea. The system could also be extended southward to Indonesia and Australia. There, JDAs and infrastructure could spur energy development in the Timor Sea and Australia's Northwest Shelf.

The end result of all this would be a Pan-Asian Energy Infrastructure (PAEI) built from a South China Sea nucleus. The first step would be to build gas pipelines connecting offshore JDAs to cross-border, land-based pipeline networks. High-capacity power lines could be added later.

Such a flexible, adaptable, 'future proof' Pan-Asian Energy Infrastructure could serve Asia for a century or more. It would dramatically reduce Asian carbon emissions.

The positive implications of thinking big, thinking multilaterally and thinking long-term about energy security, energy market reform and large-scale carbon emission reduction are hard



(PHOTO by Stewart Taggart)

to overstate.

That’s because rising territorial tensions in the South China represent a classic economics case of the ‘Tragedy of the Commons.’ This occurs when ambiguous resource property rights create an incentive for aggressive, environmentally unsustainable exploitation by the nimble. The reason: delay leads to sharing.

China’s nine-dotted line, China’s placement of an ‘exploratory’ oil rig in waters claimed by Vietnam and recent statements by Chinese energy giant CNOOC Group it may deploy Floating Liquid Natural Gas (FLNG) technology in other disputed South China Sea areas can all be seen as a logical ‘first mover’ strategy to take advantage of a ‘tragedy of the commons’ situation.

Joint Development Areas (JDAs) have been around since the 1960s. They exist all over the

world. Under JDAs, countries with conflicting offshore territorial claims agree to postpone the resolution of the claims while they cooperate to develop the resources within them.

Two JDAs already exist in the South China Sea. The Tonkin Gulf, lying between North Vietnam and China’s Hainan Island, is an ideal location for a third.

There, China and Vietnam are already engaging in joint offshore exploration. Should developable resources be found, China and Vietnam could jointly develop these under a JDA. This could set a precedent for others off central and southern Vietnam, Malaysia, the Philippines and even southern China. Consortia of companies would develop the projects, spreading investment risks.

At present, offshore gas field investment is almost always funded by multi-decade contracts

between buyers and sellers. But these are based upon little more than guesses where long-term prices may go. The results can be gluts, shortages and volatile spot prices as such guesses diverge from reality. This benefits only speculators -- a sign of market ill health. By contrast, more liquid and responsive markets enabled by a network architecture can help supply and demand stay in better sync, creating more predictable pricing.

A strong argument can be made that participating in multilaterally auctioned JDAs/MDAs in the South China Sea where proceeds are recycled into infrastructure offers China greater opportunities than aggressive unilateral development.

The reason is that China's state champion oil and gas companies (such as CNOOC and Petrochina), gas pipeline construction companies and electricity infrastructure companies (such as State Grid Corp of China and China Southern Power Grid Company) are almost certain to be prime beneficiaries.

One can easily argue China's motivation for creating its proposed \$100 billion Asian Infrastructure Investment Bank (AIIB) was to recycle her multi-trillion trade surpluses into offshore infrastructure opportunities for her state champions.

That's because these companies face atrophy without new projects as China's internal infrastructure needs are increasingly met.

Handled right, this international re-orientation of China's infrastructure-building industry can benefit everyone. The key is to ensure such infrastructure is built and operated on an 'open access, common carrier' basis, open to everyone and immune from political decision-making. This shouldn't be controversial. China is already applying such reforms to its internal market.

Applying it externally enhances market consistency.

Southeast Asia's centrally-located, energy trading city state of Singapore is ideally suited to playing the 'honest broker' in managing a multilateral South China Sea energy infrastructure. Singapore's already slated to play a major role in ASEAN's proposed Trans-Asian Gas Pipeline (TAGP) and Trans-ASEAN Electricity Grid (TAEG). These are Southeast Asia's two regional templates that could serve as the core of a Pan-Asian Energy Infrastructure.

Later this year, China hosts meetings of the Asia Pacific Economic Cooperation Group. China has indicated it wants infrastructure and deeper regional economic integration to be among chief topics of discussion. Later, Australia will host the annual meeting of the Group of 20 largest economies. Australia similarly wants infrastructure investment on the agenda.

APEC and the G20 offer the perfect opportunity to discuss the deeper multilateral energy networks of tomorrow and the economic benefits they can provide. This could enhance recognition of the role efficient multilateral energy infrastructure can play in reducing climate change -- a key agenda item at next year's crucial COP21 meeting in Paris.



# THE AMERICAN CONTRIBUTION TO CHINA'S CYBER POWER



**Greg Austin**  
*Professorial Fellow,  
EastWest Institute*

For all of the techno-nationalist heat coming out of both the United States and China on issues of cybersecurity in recent years, the two countries have largely benefited from a deepening relationship in the ICT sector for more than two decades.

This year is the 20th anniversary of the first meeting between Bill Gates, then the Microsoft boss, and a General Secretary of the Chinese Communist Party, at the time Jiang Zemin. This meeting, one of several between the pair, was a launch pad for a deeper American involvement in the development of China's cyber power. For all of the techno-nationalist heat coming out of both the United States and China on issues of cybersecurity in recent years, the two countries have in the main benefited from a deepening relationship in the ICT sector for more than two decades.

China cannot achieve its ambitions of becoming an advanced information society by 2050 unless it nurtures this relationship. Leading American corporations see China as an essential part of their future. Microsoft's Asia Pacific R&D lab, set up in Beijing in 1998, is now its biggest such center outside the United States. Yet to date, the level of dependence of China on the United States has been higher than in the reverse direction.

Without U.S. good will and open trade in most high technology products with China, the latter's cyber power would be much more backward than it is today. Yet there is little analysis in

detail of the interdependence between the two countries in the cyber domain. The relationship is not just about buying and selling, but about the business regimes, legal structures and international norms under which technology transfer occurs. In this regard, it may be tempting to focus on the issue of industrial espionage from China on U.S. corporate secrets. That is an important issue but it is only a small part of a much bigger and on the whole more positive story. This more upbeat story is not necessarily one that involves a smooth ride. The history of U.S. transfer of information and communications technology to China has been a very bumpy and challenging road, and that remains the case. In 2014 alone, Microsoft has become the target of a number of administrative and legal actions inside China.

There is an organization in Beijing little known outside specialist circles which has been a forceful influence on China's ability to work with U.S. corporations in this sector. The organization stands as a metaphor of the success of the relationship. It is the United States Information Technology Office, formally registered in China in 1995 as a non-profit organization. (It was established in part with a U.S. government grant.) It is a membership-based lobby group



representing four industry peak bodies in the United States (semiconductors, information technology, software, and communications) and an additional 50 individual firms with business interests in the ICT sector in China. One of its main missions, apart from promoting the opening of the China market to U.S. technology, has been to promote the development in China of appropriate laws for open commerce, including intellectual property rights protection. USITO comments regularly on draft domestic legislation in China and is the main policy interface between the ICT sector in the United States and Chinese agencies. The claim on its website to be a trusted organization is one that can be taken at face value in part because of the depth and consistency of its engagement, including on sensitive negotiations with China's Ministry of Public Security on cryptography and source codes.

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***China cannot achieve its ambitions of becoming an advanced information society by 2050 unless it nurtures this relationship.***

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News this week that China will soon release a new operating system with the aim of quickly displacing foreign models sounds like the entrenchment of a techno-nationalist vision that portends the decline or weakening of China's dependence on the United States in the ICT sector. There is however considerable counter-vailing news, including a new partnership, also announced this week, between China Telecom and IBM on cloud computing services. Based on UN figures for 2012, China (including Hong Kong) led the world in ICT exports (41 per cent share by value), but it also led the world in ICT imports (29 per cent share by value). These gross figures disguise a multitude of detail and subtlety. But the real measure of trade in those things on which cyber power depends cannot be measured just by statistics on traded goods in that sector. Cyber power depends on the

computer technologies in a variety of modern equipment in many sectors (health, agriculture, transport, and aerospace to name a few) that are not included in ICT trade statistics. Moreover, as the IBM/China Telecom agreement suggests, trade in services, including education services in information technology, from the United States to China remains essential for the latter's modernization. As Xi Jinping said in February on 214, when he became the first General Secretary to head the appropriate Leading Group, "there can be no modernization without informatization".

The intent of raising this question of interdependence is to highlight the proposition that in spite of large differences in policy preferences between China and the United States on management of cyberspace, the two countries have a relationship of dependence in the technologies (knowledge as well as equipment or infrastructure) that needs to be better understood. As argued in my new book released this month, *Cyber Policy in China* (Polity Press, Cambridge UK), the government of Xi Jinping may actually need to increase its dependence on the United States, and adopt more "information friendly" values if it wants to increase its cyber power.



China's anti-trust authorities recently started investigations of Mitsubishi, Qualcomm, Microsoft, Chrysler, Audi and Mercedes Benz. (DFIC PHOTO)

## ANTI-TRUST MOVE

### ESSENTIAL FOR MARKET ECONOMY



**Zhang Monan**

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Are China's anti-trust investigations into Western companies a form of protectionism? Companies like Qualcomm, Microsoft, Chrysler, and Audi were not the first to be subject to China's anti-monopoly laws. Zhang Monan explains that many domestic companies have also faced penalties, allowing China to establish a law-based market economy.

China's anti-trust investigations of Mitsubishi, Qualcomm, Microsoft, Chrysler, Audi and Mercedes Benz have aroused suspicions from international media outlets. They claimed that the moves were selectively targeted at foreign

companies to protect Chinese enterprises and their products.

This allegation is unfair.

The latest moves taken by the anti-trust authorities were part of China's effort to regularize its anti-trust administration, a must for furthering its market-oriented economic restructuring. It is a common practice around the world to forbid any enterprise, foreign or domestic, from practicing monopoly to the detriment of consumers' interests. The recent anti-trust investigations in China covered food, medicine, telecommunications, Internet services and automobile, all of which are closely related with the public's daily life.

Take the automobile industry. It is an indisputable fact that cars China imports from overseas are the most expensive in the world. A Range Rover 5.0T is priced at RMB 2.798 million when exported to China and soars to RMB 3.2 million in the end market. However, it sells at an equivalent of only RMB 1.052 million in Japan and RMB 1.036 million in Germany. In Britain, its home country, the deluxe SUV can be had for a mere RMB 835,000; while in the United States it's even cheaper at RMB 833,000.

Such price monopoly by transnational giants stemmed from the fact that China has never really gained the right of setting prices in foreign trade. In the automobile trade, transnationals such as Audi, BMW and Mercedes Benz use the price-setting right they obtained through monopoly to control the market and the sales of auto parts. For instance, the "parts-to-unit" ratio of the Mercedes Benz C-class model of W204 is as high as 1273%, in other words, the aggregate price of all the parts of one W204, when sold for repair and maintenance, is equivalent to that of 12 vehicles of that model.

In the telecommunications sector, the situation is similar. Qualcomm has allegedly abused its intellectual property rights to exploit consumers and stave off competition by charging unreasonably exorbitant prices. Microsoft has been suspected of monopolizing the market by raising the prices of its applications in the name of "anti-piracy" efforts.

What these global giants have done goes against the principle of fair market competition.

Anti-trust law enforcement has long been a regular administrative work in Europe and the United States. As the world's largest economy and the most mature market economy, the US has practiced an anti-trust system for more than 100 years, during which constant contradictions and improvement led to a dynamic coexistence of monopoly and competition. According to its statistics, the anti-trust bureau of the Department of Justice made 92 anti-trust investigations in 2013, sixty-five of which involved merger and acquisition while 25 were related to attempts to hamper market competition.

The European Union began anti-trust legal actions only 10 years ago but the strength and extensiveness of the moves have been unparalleled in the world. Nearly all famous companies, ranging from auto and pharmaceutical makers to Internet and telecom service providers, have been investigated or penalized. Anti-trust laws in EU countries are usually called the law on competition. They are implemented to prohibit market monopoly and encourage competition so that all enterprises can develop in a fair, open and efficient environment. These laws and prac-

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***The anti-monopoly campaign holds the key to China's success in turning its economic system into a law-ruled one.***

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*Microsoft office building in Beijing. China's State Administration for Industry and Commerce (SAIC) said on Sept. 1 it has given Microsoft Corp 20 days to reply to queries on the compatibility of its Windows operating system and Office software suite amid a probe into the world's largest software company.*

tices are applicable to all countries, whether they are developed or developing, including China.

Practices throughout the world have proven that the anti-trust campaign should start with those industries that are prone to monopoly by encouraging competition among all state-owned, private and foreign companies on equal footing. Like other countries, China's anti-monopoly moves are also indiscriminate. As early as 2011, the National Development and Reform Commission, one of China's major anti-trust administrations, penalized China Telecom and China Unicom with hefty fines for their monopoly behaviors.

Since China launched the Anti-monopoly Law six years ago, anti-trust investigations have covered both domestic and foreign-invested companies. All enterprises are equal under the law. There has never been discrimination against foreign companies. For instance, in China's "first anti-trust case" in 2013, the liquid-crystal panel makers that received "astronomical figure" fines included both foreign – such as Japanese and

Korean – companies and Taiwan-based Chinese companies. In the same year, the penalties for Maotai and Wuliangye – the two most popular liquors in China – were no less lenient. Numerous domestic companies in the dairy and automobile industries have been investigated and penalized. The anti-trust campaign will extend to more sectors as China's reform drive goes to deeper levels.

From a long-term point of view, the anti-monopoly campaign holds the key to China's success in turning its economic system into a law-ruled one. In its attempt to build a market economic system, China has not done enough to impose necessary restraints on power and capital. That may lead China to an unhealthy market economy. To avoid the risk, the ruling party decided at the Third Plenum of its 18th Central Committee that China's market economy must be ruled by law to get rid of the past illnesses such as unequal rights and ambiguous responsibilities and realize fairness in rights possession, chance access and law enforcement.

From the perspective of international conditions, significant changes have taken place in global trade since the financial crisis broke out in 2008. Instead of favoring “free trade”, the new trend is to emphasize “fair trade”. More noteworthy are the global discussions about such topics as pre-entry national treatment, state-owned enterprises’ neutrality in competition, negative inventory management and fair market competition. Therefore, the on-going anti-monopoly campaign is an important step China has taken to establish a law-ruled market economic system as well as participate in global economic rebuilding. Once fair competition has become common in society, it will greatly benefit not only China but also the rest of the world.

## About China-United States Exchange Foundation

Based in Hong Kong, the China-US Exchange Foundation was established in 2008 by individuals who believe a positive relationship between the strongest developed nation and the most populous, fast-developing nation is essential for global wellbeing. The Foundation is a non-government, non-profit entity and is privately funded.

## About China-US Focus

China-US Focus, published by the China-United States Exchange Foundation, is built on the principle that China and the United States hold the most important bilateral relationship of the 21st century.

China-US Focus is the only open-platform website where Chinese and American thought leaders can openly express their views on the myriad issues that face the two nations, thus promoting communication and understanding between the peoples of China and the United States.

China-US Focus also provides comprehensive resources on current and historical facts and information related to the bilateral relationship.

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# CHINA US Focus Digest

CHINA  US Focus  
ENGAGE. STIMULATE. IMPACT.

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