

## Staying the Course



# CHINA<sup>US</sup> Focus

ENGAGE. STIMULATE. IMPACT.

**Tung Chee Hwa**  
**Chairman**  
**China-United States Exchange Foundation**

**Publisher**  
**Alan Wong**

**Editors**  
**Zhang Ping**  
**Hong Chang**

**Special Advisor**  
**Zhu Yinghuang**

**Assistant Editor**  
**Peng Hui**

China-US Focus Digest is a bi-monthly magazine of exclusive commentaries on China-US relations. The articles express views of influential opinion leaders and scholars in China and the US on the issues faced by the two nations. Its contents are independent and do not necessarily reflect the views of the China-US Focus team.

@ China-United States  
Exchange Foundation, 2016

For comments, please send to  
[digest@cusef.org.hk](mailto:digest@cusef.org.hk)



[www.chinausfocus.com](http://www.chinausfocus.com)

With special thanks to BLJ Worldwide and Shanghai Institutes for International Studies for their supports to [www.chinausfocus.com](http://www.chinausfocus.com) and China-US Focus Digest



## COVER STORY

### **Staying the Course: Maintaining Momentum in U.S.-China Relations**

U.S.-China relations are too important for the people of the two nations and for the world. At this point, protecting U.S.-China relations must be the first priority. It is time for the two countries to rethink and re-evaluate, with urgency, the issues involved.

04

## EDITOR'S NOTE

08

## COVER STORY

### **Staying the Course: Maintaining Momentum in U.S.-China Relations**

C.H.Tung, Chairman, China-United States Exchange Foundation

13

## SOUTH CHINA SEA

### **Balancing the U.S. Rebalance**

Lucio Blanco Pitlo III, Assistant Professorial Lecturer, De La Salle University

20

### **On Tip-toe in the South China Sea**

Joan Johnson-Freese, Professor,  
US Naval War College



13



20

## SOUTH CHINA SEA

### Balancing the U.S. Rebalance

Lucio Blanco Pitlo III compares China's One Belt, One Road initiative with the U.S.'s Rebalance to Asia, ultimately advising that for the U.S. to be seen as not reacting to China's growing regional influence, it would need a better appreciation of the security needs, growing aspirations, and economic demands of rising powers.

### On Tip-toe in the South China Sea

Whereas aircraft carriers have long provided the U.S. naval primacy as floating islands, China is creating its own artificial islands, complete with deep channels, harbors, berthing areas and airfields, all manned by thousands of troops, to counter that primacy. The consequences of a military clash could easily be disastrous and must be avoided.

26

## CHINA-U.S. RELATIONS

### China Needs a Foreign Policy that Makes Friends

Doug Bandow, Senior Fellow, Cato Institute

40

## PEACE AND SECURITY

### Internet Governance Faces the Divide of East-West Values

Rogier Creemers, Research Officer, Programme for Comparative Media Law and Policy, University of Oxford

29

### Chinese American Voters: A Curiously Overlooked Demographic

Colin Moreshead, Freelancer in Tokyo

43

### Why China Hasn't Sent Troops to Strike IS

Wang Zhen, Director of Security Studies Program, Shanghai Academy of Social Sciences

33

## NORTH KOREA

### U.S.-China Nuclear Handshake Stays Firm

Richard Weitz, Senior Fellow, Hudson Institute

46

## ECONOMY

### Opportunity Knocks 5 Times

He Weiwen, Co-director, China-US/EU Study Center, China Association of International Trade

36

### THAAD No Defense for South Korea

Zhou Bo, Honorary Fellow, PLA Academy of Military Science





# Editor's Note

Zhang Ping

## Staying a Steady Course

China's relations with the U.S. have never been easy. Trade, cyber security, human rights, you name it. A case in point: the ever-evolving developments surrounding the South China Sea disputes where the U.S. is frequently sending its war ships there, fueling the tensions in that region.

Nobody would like to see the prospects of two militaries confront each other, jeopardizing the most important bilateral relationship today. Stakes are too high, not just for China and the U.S., but also for the region and the world. In the cover story of this issue of Digest, C.H. Tung, chairman of the China-United States Exchange Foundation, lays out a convincing case in support of China's position on the South China Sea issue and calls for the two countries to "Stay the course: maintaining momentum in U.S.- China relations."

We cannot agree more with Mr. Tung's conclusion that protecting the U.S-China relations is the first priority when tensions seem to be heating up. A mechanism needs to be in place for the leaders of the two countries to manage and control rifts to prevent disagreements escalate into serious distraction.

Again, what's in your hands are collected topical and insightful commentaries by our contributors on a range of issues: South China Sea, Global Governance, Security and China's Economy, that often grab our readers' interest the most.

Joan Johnson-Freese points out that the South China Sea is "where Chinese great power ambi-

tions meet American military power" and "the wolf closest to the shed" is to avoid a military clash between the two nations. She makes clear that the unintended consequences of that could easily be disastrous and must be avoided.

Another regular Focus contributor, Lucio Blanco Pitlo III, examines the U.S.'s Rebalance to Asia policy as well as its implementation, pointing out that "the U.S. has to understand that it cannot play an effective role in the South China Sea dispute resolution."

Doug Bandow paints a global portrait of China's strategic partnerships and "non-alliance" policies, concluding that China may remain a "modest geopolitical player" if it fails to win favor from at least some of its neighbors and other nations of influence around the world.

As the war against IS continues, allegations that China had been 'hitchhiking' in the Middle East linger. Wang Zhen argues China's decision to not send troops to strike IS is due to its limited military capability, lack of political will as well as limited public support.

On a more positive note on China-U.S. economic and trade ties, He Weiwen encourages U.S. businesses to seize the opportunities outlined in China's 13th Five-Year plan for an "early harvest" in areas such as China's "Internet plus," hybrid-engine automobiles, alternative energy as well as the service sector.

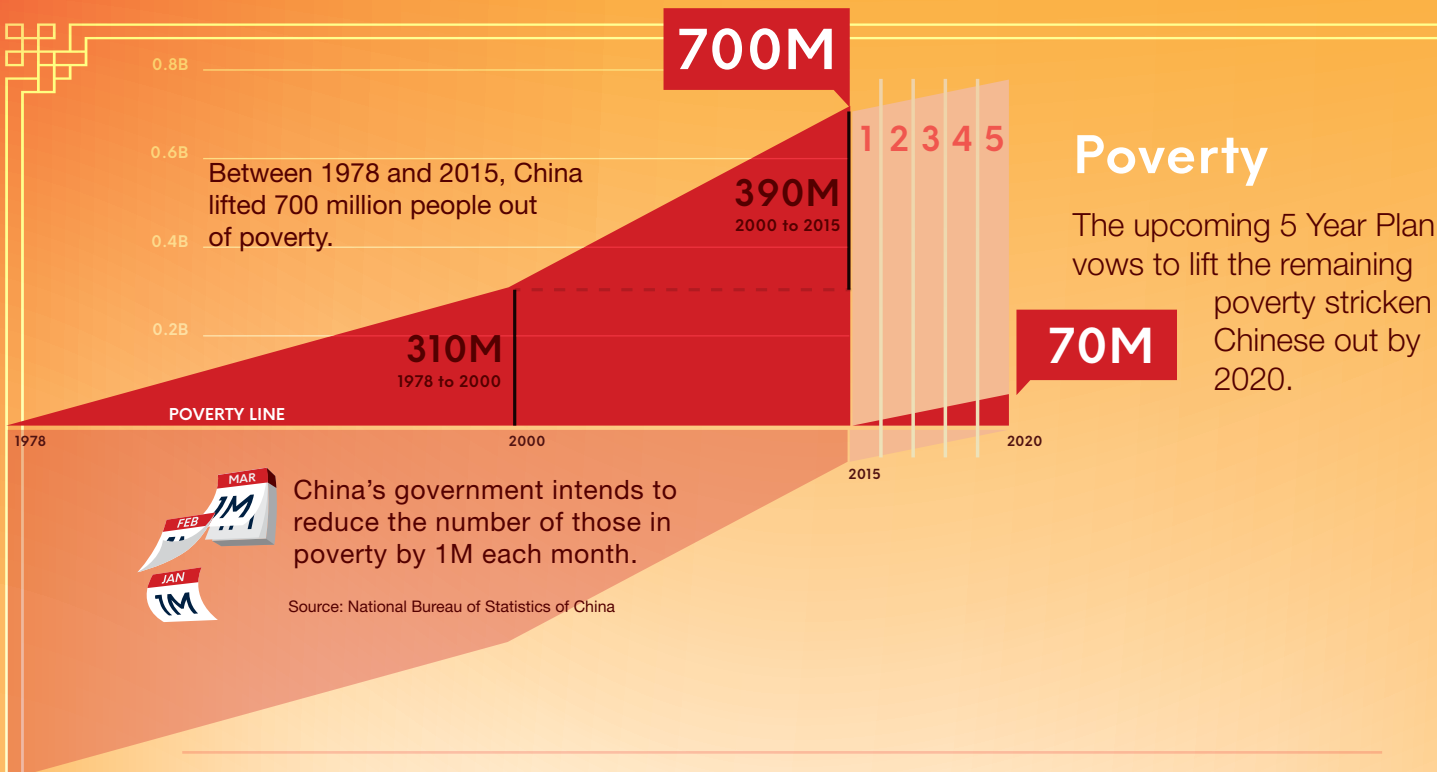


Download Our  
**eDigest Now**

CHINA & US Focus Digest

Apple App Store





## THE THIRTEENTH 5 YEAR PLAN

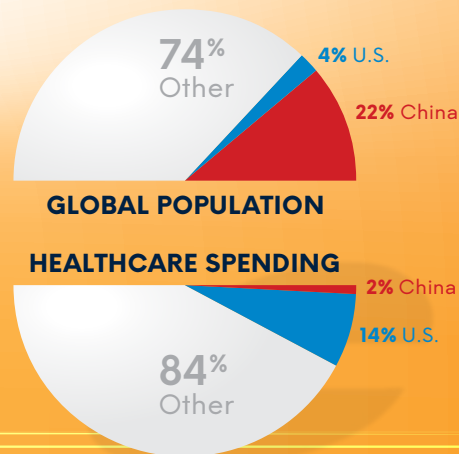
# A Changing China

## Charting a Course from Poverty to Prosperity

### Healthcare

2 out of 7 people still living in poverty are most vulnerable<sup>1</sup>

<sup>1</sup> Mentally and physically disabled, seniors living alone, people living in extreme rural poverty



Source: The State Council Leading Group Office of Poverty Alleviation and Development, Deloitte

While China is home to 22% of the world's population, it only has a 2% share of global spending on health care in comparison with 14% in the U.S. However, health care spending in China is expected to grow at an average annual rate of 11.8% from 2014 – 2018.



Sources: World Bank, IMF, World Economic Outlook

POPULATION

**0.32B**



POPULATION

**1.35B**



**GDP**

The per capita GDP of China is only 1/7 that of the U.S.

China contributed to approximately one third of total global economic growth between 2009-2015.

## Renewables Market

Leading the world in generating capacity of clean energy...

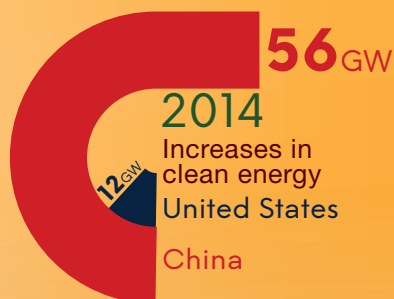
**433GW**

**CHINA**

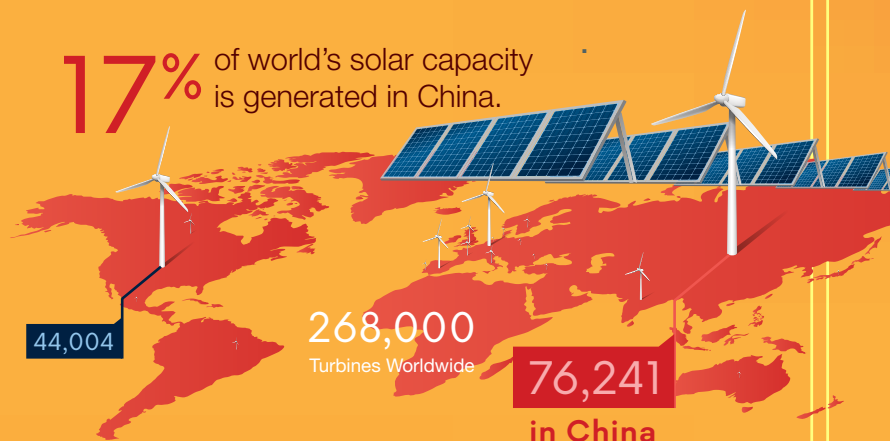
**182GW**

**U.S.**

...and the gap is still widening



**17%** of world's solar capacity is generated in China.



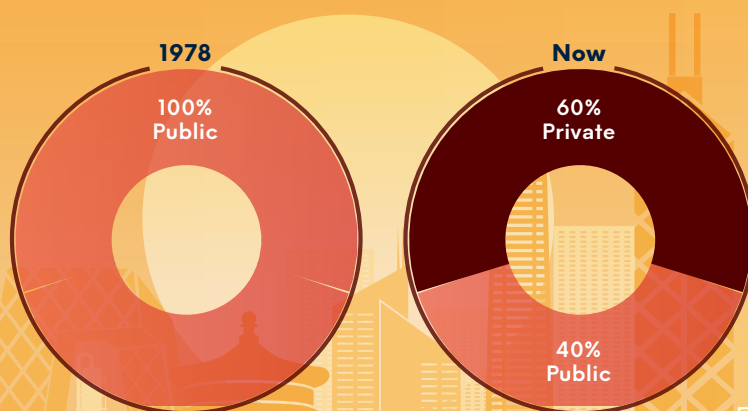
**That's 500% more than 2012**

Sources: Bloomberg New Energy Finance, National Development and Reform Commission, Global Wind Energy Council, Bloomberg Intelligence, International Atomic Energy Agency

## Private Sector

Today, private sector enterprises account for over 60% of China's GDP.

Source: All-China Federation of Industry and Commerce



**CHINA** **US Focus**







# Staying the Course: Maintaining Momentum in U.S.-China Relations

U.S.-China relations are too important for the people of the two nations and for the world. At this point, protecting U.S.-China relations must be the first priority. It is time for the two countries to rethink and re-evaluate, with urgency, the issues involved.



The South China Sea issue is now on the front pages, almost daily. While the Americans feel that the Chinese are being assertive, aggressive, unreasonable, and fail to adhere to international legal norms, the Chinese people feel strongly that history, logic and the law is on their side.

China cannot understand why America takes a different view and be oblivious to the historical facts, and even goes so far as to frequently carry out military exercises in the South China Sea to make its point. U.S.-China relations are too important for the people of the two nations and for the world at large. At this point, protecting U.S.-China relations must be the first priority for all of us. It is time for us to rethink and re-evaluate, with urgency, the issues involved.

The Chinese discovered the Spratlys (known as Nansha Island in China), with the earliest archaeological evidence of their use dating back hundreds of years. Navigation guides for fishery activity, compiled by fishermen from China's Hainan Island as early as the 18th century, not only designated specific names to most features in the Spratlys, but also provided detailed narratives on the direction and distances (expressed in the length of travel time) of the navigational routes. Chinese fishermen would live on these islands during the more favorable fishing seasons.



**C.H. Tung**

*Chairman,  
China-United States  
Exchange Foundation*

In addition, China exercised sovereignty over the Spratlys going back to the Yuan Dynasty

(1271 – 1368 AD) starting with an official survey of Chinese territories covering the Spratlys followed later by the formal incorporation of the Spratlys as well as Hainan Island into the administration of Guangdong Province during the Qing Dynasty (1644 – 1911 AD).

In more recent history towards the end of the Second World War, there begun ample, clear and convincing evidence that China has sovereignty over the Spratlys and that is recognized by the international community including the U.S. These can be found in the very important international treaties and declarations.

First is the Cairo Declaration of November 27, 1943. Second is the Potsdam Declaration of July 26, 1945. Third is the Treaty of Peace, also known as the Treaty of San Francisco, signed on September 8, 1951, between 48 nations and Japan. (Because of the onset of the Cold War, neither the PRC nor the ROC was invited to San Francisco). Fourth is the Sino-Japanese Peace Treaty, signed on April 8, 1952, between Japan and the Republic of China (ROC). Fifth is the United Nations General Assembly Resolution 2758, passed in 1971, recognizing the People's Republic of China as the only lawful representative of China to the United Nations, in place of the Republic of China. And lastly, the Joint Communiqué of the Government of Japan and the Government of the People's Republic of China, signed on September 29,



*C.H. Tung, chairman of China-United States Exchange Foundation, delivers a speech titled “Staying the Course: Maintaining Momentum in US-China Relations” at a forum held at the Carnegie Endowment for International Peace in Washington, DC on May 11, 2016.*

1972, which acknowledged that all territories stolen from the Chinese shall be restored. In each one of these treaties or declarations, reading them individually, or reading the six all together, you will find definitive evidence supporting the legal position that the Spratly Islands actually belong to China.

Let’s examine what has been happening in the Spratlys since the 1950s. Since that time, the Vietnamese have been actively and aggressively taking over many of the features in the Spratlys. The Philippines has also done the same, starting in the 1970s. So today, of all the features in the Spratlys, Vietnam occupies 29, the Philippines eight, and China nine.

By the 1970s, there was a discovery that the South China Sea possessed a wealth of oil and gas reserves. This resulted in a dramatic escalation of interest in the region, particularly by

Vietnam and the Philippines. As a result, increased tension ensued.

The situation was further exacerbated in 1982, when the United Nations Convention on the Law of the Sea (UNCLOS) was promulgated, establishing a 12-mile from shore territorial water, and a 200 nautical mile from shore economic zone (also known as the EEZ). This has further complicated the claims and counter claims, and enticed even more ASEAN countries to make claims in the South China Sea.

Since the 1970s, China urged restraint. And while insisting on its sovereignty, China suggested that peace can be maintained if the countries agreed to explore the resources jointly, sharing the resources together, and leaving the sovereignty dispute for future generations to resolve. China began bilateral negotiations with the other claimants.

1943

“...Japan shall be stripped of all the islands in the Pacific which she has seized or occupied since the beginning of the First World War in 1914, and that all the territories Japan has stolen from the Chinese, such as Manchuria, Formosa, and The Pescadores, shall be restored to the Republic of China. Japan will also be expelled from all other territories which she has taken by violence and greed.”

**Cairo Declaration, November 27, 1943**

“(b) Japan renounces all right, title and claim to Formosa and the Pescadores.”

“(f) Japan renounces all right, title and claim to the Spratly Islands and to the Paracel Islands.”

**Treaty of Peace with Japan, aka Treaty of San Francisco, September 8, 1951**

1951

Recognizing People's Republic of China was the only lawful representative of China to the United Nations, in place of the Republic of China.

**UN General Assembly Resolution 2758, October 25 1971**

1971

1945

“8. The terms of the Cairo Declaration shall be carried out and Japanese sovereignty shall be limited to the islands of Honshu, Hokkaido, Kyushu, Shikoku and such minor islands as we determine.”

**Potsdam Declaration, July 26, 1945**

1952

“It is recognized that under Article 2 of the Treaty of Peace which Japan signed at the city of San Francisco on 8 September 1951 (hereinafter referred to as the San Francisco Treaty), Japan has renounced all right, title, and claim to Taiwan (Formosa) and Penghu (the Pescadores) as well as the Spratly Islands and the Paracel Islands.”

**Sino-Japanese Peace Treaty, April 28, 1952**

“3. The Government of the People's Republic of China reiterates that Taiwan is an inalienable part of the territory of the People's Republic of China. The Government of Japan fully understands and respects this stand of the Government of the People's Republic of China, and it firmly maintains its stand under Article 8 of the Potsdam Proclamation.”

**Joint Communiqué of the Government of Japan and the Government of the People's Republic of China, September 29, 1972**

1972



Unfortunately, there has been no progress in those negotiations, but since that time, more than a thousand oil wells have been drilled, mostly for the accounts of the Vietnamese and the Filipinos. But up to now, China has not drilled a single well in the area.

Over this period, Vietnam built an airstrip on one of the Spratly features. Last year, China decided to proceed with the construction of an airport on one of the features it occupies. China has also built four lighthouses in the Spratlys to support international navigation.

By 2002, because of intensive efforts of ASEAN countries and China, a Declaration of Conduct was agreed upon, promoting bilateral negotiation among the disputing nations over sovereignty issues, and calling for the unfettered freedom of navigation in the South China Sea for all nations of the world. A Code of Conduct between the ASEAN countries and China reflecting the above-mentioned principles is now being actively pursued. China believes that this process, although at times fraught with difficulty, continues to be the best way to resolve the dispute.

China's activities in the South China Sea have neither been aggressive nor assertive, but rather have been restrained, and aimed at promoting peace and common prosperity.

There have been allegations that China does not follow legal norms

on the settlement of sovereignty disputes in the South China Sea. It is not commonly known that the United Nations Conference on the Law of the Sea successfully produced a convention, only after nine years of marathon discussions and negotiations. The stalemate was broken because the convention provided the parties with an option to make an exception in cases concerning national sovereignty and making boundary delimitation.

China ratified the Convention on June 7, 1996. It made a declaration upon ratification reaffirming its sovereignty over all its archipelagos and islands, including those of the Spratlys. On August 25, 2006, China made a declaration under Article 298 of the Convention that any sovereignty and maritime boundary delimitation issues are excluded from the jurisdiction of any dispute resolution mechanism under the Convention. Similar position is taken by over 30 other countries.

This is the legal ground under which China has declined to participate in the Permanent Court of Arbitration hearing at The Hague, called for by the Philippines. Legal experts considered China's position in this regard is proper and legal.



SOUTH CHINA SEA (March 4, 2016) USS John C. Stennis (CVN 74) participates in a replenishment-at-sea with the fast combat support ship USNS Rainier (T-AOE 7) and the guided-missile cruiser USS Mobile Bay (CG 53), providing a ready force supporting security and stability in the Indo-Asia-Pacific. (U.S. Navy Photo)

## Balancing the U.S. Rebalance

Lucio Blanco Pitlo III compares China's One Belt, One Road initiative with the U.S.'s Rebalance to Asia, ultimately advising that for the U.S. to be seen as not reacting to China's growing regional influence, it would need a better appreciation of the security needs, growing aspirations, and economic demands of rising powers.

**Lucio Blanco Pitlo III**  
*Assistant Professorial Lecturer,  
 De La Salle University*



It is not easy to be an established world power – and the lone surviving world power post Cold War for that matter – in a fast-changing geopolitical and geo-economic environment. The international community looks upon you for leadership, initiative and boldness. Either way, you get criticized for being there and for not being there, or for coming there too late and indecisively. In the context of the rise of new emerging powers, notably China, U.S. foreign policy and the values that it promotes seem to be on the defensive. While China's nascent grand strategy One Belt, One

*The Rebalance may have prompted OBOR, if not accelerated it, but China's resurgence and the anxieties and uncertainties generated by the same will naturally elicit a reaction from established powers.*

Road (OBOR) initiative seems to be gaining steam, attracting interest as well as apprehension, its American counterpart, the U.S. Rebalance is still distancing itself from perceptions of being uni-dimensional (given its original defense/security orientation) and for being more reactive and less strategic.

China's OBOR seems to have stronger economic motivations in its desire to export surplus capital and capacity while gaining new markets, and less security motivations—although if one would argue for economic security, OBOR promises long-term economic security gains for China. The fact that China was able to attract a lot of countries to take part in OBOR and one of its financing vehicles, the Asian Infrastructure Investment Bank (AIIB), in a short span of time, suggests that China is tapping into a pressing regional need for infrastructure and public works. In contrast, the Rebalance initially took off from a strong military impulse (increase U.S. Navy and Air Force deployment in the Asia-Pacific to 60%) and it requires serious effort to move beyond this

security genesis.

Seen from this angle, the Rebalance appears to be antagonistic or adversarial in nature, especially on the part of the purported target country, China, and the westward direction of OBOR appears to be a countermeasure to mitigate potential adverse effects of containment in the east. Rebalance appears to be an effort to counter growing Chinese influence and power projection in East Asia but U.S. should balance not only against China's increasing assertiveness in the region's contested territorial and maritime spaces, but also against China's increasing trade and economic clout. The fact that regional states showed less enthusiasm in openly supporting the Rebalance in its initial iteration reflects strong domestic self-interest at play – China is their biggest trade partner and investor and they would not want to jeopardize those burgeoning economic ties by siding or being seen as siding with its geopolitical rival.

Even disputants in the South China Sea (except the Philippines) that engage the U.S. in the defense/





*The Obama administration's foreign policy rebalance or "pivot" to Asia has been widely interpreted in China as an attempt to contain its rise. (Source: The Military Balance 2015)*

security aspect, likewise engage China in varying capacities on the same field in an effort to demonstrate their balancing act. That balancing act includes participation in the Trans-Pacific Partnership, an economic pillar of the Rebalance, which helps to firm up the case that the Rebalance is more than military and is in fact comprehensive.

The Rebalance may have prompted OBOR, if not accelerated it, but China's resurgence and the anxieties and uncertainties generated by the same will naturally elicit a reaction from established powers. China's neighbors, especially those with

which it has unresolved territorial and maritime disputes, will obviously be concerned too about how China's economic weight and increased military spending and capability will impact the settlement of said disputes. Regional states would then calibrate their security engagement with the U.S. and Japan, depending on their external threat perceptions, while at the same time maintaining good trade relations with China. Hence, after leaving a power vacuum in the region since the end of the Cold War and stretching itself thin in different theaters, the U.S. is now pivoting back to East Asia in order to balance China's economic and military growth over the last few decades, which has encouraged China to act more confidently in tackling regional and global issues.

*President Xi Jinping had personally championed OBOR, along with the China Dream, as his key foreign policy legacies so it is expected that the rest of the government will toe the line.*

The U.S. is therefore seen as reacting against China, and both the Rebalance and OBOR plans are seen, rightly or wrongly, as part of the action-reaction dynamics; regional states must learn how to dance depending on the tune. Hence, if



OBOR calls for the creation of an economic land belt that includes countries on the original Silk Road through Central Asia, West Asia, the Middle East and Europe, as well as a maritime route that connects China's coastal regions to Southeast Asia, Africa and Europe.  
(China-US Focus Graphics)

The Trans-Pacific Partnership (TPP) is a proposed trade agreement among 12 Pacific Rim countries, including the U.S. and Japan, with the purported goals of lowering trade barriers and promoting investment.  
(China-US Focus Graphics)



the U.S. wants to package Rebalance as non-divisive, not directed against any country and more strategic, it must bear in mind some key considerations.

First, the U.S. must re-assess the role it wants to play in the region in light of contemporary developments: Does it wish to continue on with its traditional role or does it wish to assume a new role? China, in no

uncertain terms, obviously wishes to play a greater role in the region and in the world to the point of proposing to the U.S. a new type of major-power relations. China may have remained ambiguous or vague in some aspects but this is one area where no quarter for confusion was allowed. OBOR emerges as China's grand strategy to address domestic development needs and overcapacity, while at the same time enhancing China's regional

*Regional states will continue to count on the U.S. as a counterweight to China, although they would have hoped to see greater decisiveness and initiative on the part of Washington.*

and global influence and standing. President Xi Jinping had personally championed OBOR, along with the China Dream, as his key foreign policy legacies so it is expected that the rest of the government will toe the line. OBOR had also tremendous buy-in from provincial and local governments all over China, many of whom had been very busy finding ways to benefit from this massive central government-led undertaking. In contrast, the Rebalance still has to graduate from general statements stressing the importance of the Asia-Pacific for the U.S. to be able to assemble all the key departments that will play significant roles in its success.

Second, even in the defense/security field, which forms the nucleus of the Rebalance, the U.S. response to Chinese assertive actions in the South China Sea remains rather lackluster, which has serious long-term implications for the U.S. to position itself as the regional security guarantor. After months of seeming procrastination, over-cautiousness and erosion of trust among security allies in the region, the U.S. finally decided to demonstrate its displeasure to Chinese artificial island-building projects in the SCS by conducting freedom of

navigation operations. This came out after the MOU Regarding the Rules of Behavior for Safety of Air and Maritime Encounters (2014), Code for Unplanned Encounters at Sea (2014) and Supplement to the 2014 MOU relating to Safety of Air-to-Air Encounters (2015), which suggests that the U.S. had already prepared China for this eventuality and China already see it coming. It seems a point of no return has been reached; instead of this strategy being launched right at the onset of China's island building, retroactive planning suggests that this is more of a face-saving measure for the consumption of America's allies in the region rather than a strong U.S. determination to deter game-changing unilateral actions on the ground. This is not lost among regional states, especially littoral claimants. Furthermore, China, in recent years, had also been making successful inroads in this traditional U.S. turf, engaging Southeast Asian states in military exercises (e.g. 2012 PRC-Indonesia anti-terror exercises, 2013 PRC-Indonesia naval exercise, 2015 PRC-Thailand air force exercises, 2015 PRC-Singapore naval exercises, 2015 PRC-Malaysia Non-traditional security threats and HADR exercises, etc).



Third, the U.S. has to understand that it cannot play an effective role in South China Sea dispute resolution, as it has not been seen as an impartial and disinterested party. China obviously does not want extra-regional and non-relevant states to interfere in the area, and even other claimants are reluctant to elect the U.S. as a mediator in the disputes knowing full well its failed record in this respect, as well as the ongoing Sino-U.S. rivalry. In the 2012 Bajo de Masinloc (Scarborough Shoal) standoff, the U.S. tried to arrange for both the Philippines and China to simultaneously withdraw from the shoal, a move performed by the Philippines but which was not reciprocated by China. This resulted in China now having controlled the feature, which prompted the Philippines to initiate arbitration proceedings. The takeaway lesson learned in this episode was that any future U.S.-brokered/mediated agreement in the South China Sea will yield only undesirable results and may even complicate things. However, regional states will continue to count on the U.S. as a counterweight to China, although they would have hoped to see greater decisiveness and initiative on the part of Washington. The limits of what U.S. can do in the South China Sea may also prompt regional states to engage other powers, notably Japan, Australia, India and even Russia, and while this would not be warmly greeted by Beijing, any of them (except Japan) may still be preferred over the U.S. This would then diminish

U.S. significance in this critical theater.

Fourth, the U.S. has to shed the image that it is blocking OBOR because of Sino-U.S. rivalry instead of offering a viable alternative in its place. The U.S., along with Japan and other countries, has voiced concerns over labor, the environment, the quality of the construction, and governance standards associated with projects that may fall under the OBOR framework. But China apparently has been making efforts to address these concerns so that such criticisms may no longer hold sway. The fact that the Asian Development Bank (ADB) has decided to co-finance projects with the AIIB suggest efforts by this new China-led bank to adopt prevailing international financial norms. China displays a higher appetite for risk in its lending decisions, especially by its policy banks. But while this is criticized by the mainstream financial establishment, it is celebrated by many recipient states, especially those who have long been cut off, neglected, or marginalized by established development banks because of various conditions on proposed projects deemed un-creditworthy from a commercial standpoint.

This raises the profile of China as a no-conditions lender to fellow developing states, which contains an underlying existential challenge to postwar U.S.-led international financial architecture, which largely ties grants and loans to

*Indeed, being a major world power is both a blessing and a curse – if you are not at the table, you are on the menu.*

market-oriented and political reforms. With China's entry into the huge trillion-dollar annual infrastructure gap, authoritarian states may afford to postpone or even discard reforms (especially political) altogether and still get financing. So far, there seems to be no indication that the U.S. will renew direct funding for infrastructure in the region so it remains to be seen how the U.S. will advocate for prudent and norms-based lending without appearing to be setting or imposing its own values. Without mobilizing money (or more money) where its mouth is, U.S. advocacy will eventually reach its limits.

Fifth, the U.S. markets the Rebalance as supporting a rules-based regional order without making any serious attempt to find out if there is indeed general consensus within the region of what exactly amounts to such shared rules. It is convenient to sweep differences under the rug but variances in the approaches taken by regional states in dealing with recent developments suggest the hollowness and absence of strong solidarity towards said rules. There are a few general points that the U.S. can built upon in order to develop consensus on these rules, such as opposition to the use of force and adherence to international law in resolving the SCS disputes, but even in the latter, the U.S. may also hit the ceiling. China, for all the recent assertive actions it had taken in SCS, is still a party to UNCLOS and it,

rightly or wrongly, justifies its non-participation in the arbitration on the basis of the reservations it made upon ratification. American legal and moral high ground on the matter, on the other hand, is undermined by its failure to ratify UNCLOS, although it had long been observing UNCLOS as customary international law. China's ratification of UNCLOS, despite provisions that may have harmed its interests, demonstrates some level of acceptance to play according to the rules (although again its recent actions weakens this), while the U.S. is seen as playing it safe by not being a formally bound party. By remaining outside the fold, U.S. leadership promoting such rules-based order may remain tenuous.

Indeed, being a major world power is both a blessing and a curse – if you are not at the table, you are on the menu. But this is a challenge and a scourge that the U.S. should embrace if it wants to retain its position. Leadership does not come cheap! A better appreciation of the security needs and growing aspirations of rising powers to assume greater regional if not global responsibilities, and, at the same time, a sound understanding of the security and economic demands of smaller regional states and allies are key pieces in balancing the Rebalance to make it more responsive to the changing Asia-Pacific.

# On Tip-toe in the South China Sea

Whereas aircraft carriers have long provided the U.S. naval primacy as floating islands, China is creating its own artificial islands, complete with deep channels, harbors, berthing areas and airfields, all manned by thousands of troops, to counter that primacy. The consequences of a military clash could easily be disastrous and must be avoided. The politics of keeping the overall U.S.-China relationship on track is a particular challenge in the U.S. during a presidential election year, when candidates are posturing to an unexpectedly populist electorate.

The South China Sea is where Chinese great power ambitions meet American military power. The Pentagon's 2016 Annual Report to Congress on China's military states that China has added more than 3,200 acres to the seven South China Sea sites it occupies.<sup>1</sup> Whereas aircraft carriers have long provided the U.S. naval primacy as floating islands, China is creating its own artificial islands, complete with deep channels, harbors, berthing areas and airfields, all manned by thousands of troops, to counter that primacy.

While there are a number of political and legal issues regarding the South China Sea involving multiple countries, U.S. and Chinese emphasis most immediately needs to be on preventing military confrontation—in any one of the many ways that it might be triggered. While there are positive signs on both sides regarding the need for addressing and priority of that task, the politics of posturing must not be allowed to get in the way. Communication, promotion of regional risk-reduction measures, and tamping down intemperate actions will each be key to maintaining stability.

Sovereignty disputes over South China Sea territory involving China, Vietnam, Brunei, Malaysia and the Philippines have been brewing for years. With the exception of China, the involved countries have based their respective



**Joan Johnson-Freese***Professor,  
US Naval War College*

territorial claims on international law arguments, while China has also invoked historical claims with its nine-dash territorial line put forth even before its modern-day Communist lineage. Most relevant now is a dispute between China and the Philippines over China's right to expand to areas traditionally used by Philippine fisherman, which the Philippines submitted to a Hague tribunal for arbitration in 2013. Posturing for an expected mid-2016 decision, China appears both ready to reject a legal settlement in favor of the Philippines, and tacitly ready to accept the political momentum of a legal ruling that goes its way. A May 2016 editorial in the *Global Times*, an organ of the Chinese Communist party, referenced the dispute, stating "it seems that as we get closer and closer to a verdict for arbitration on the South Sea, the American media wants to use the time to pressure and slander China."<sup>2</sup>

China has also lobbied other countries for support of its position,<sup>3</sup> as part of the political posturing being undertaken by both sides and their supporters. At stake in the Philippines-China case specially, and more generally, are not just rights to potential oil and gas reserves in the region, but also Chinese potential to restrict or even close vital shipping lanes, and more generally, interject itself into freedom of navigation activities. As a champion of freedom of navigation rights, that is a major concern to the United States.

The U.S. has not been hesitant in using a show of naval force to

demonstrate it will not be deterred from what it says are normal operations in the region. That has led to an escalating number of close encounters between the Chinese and U.S. militaries. A U.S. naval strike group led by the aircraft carrier USS John C. Stennis conducted what it called "normal" operations in the South China Sea this spring, often followed by Chinese warships. In May, the USS William P. Lawrence sailed with 12 nautical miles of Fiery Cross Reef,<sup>4</sup> claimed by the Philippines, China and Vietnam, but occupied by China. China launched two navy jet fighters, one early warning and three ships to track and warn off the U.S. ship.

China analyst Bonnie Glaser has cited other, similarly contentious, encounters that have occurred not within the South China Sea, but within the Chinese 200 nautical mile Exclusive Economic Zone.

China routinely intercepts U.S. reconnaissance flights conducted in its EEZ and periodically does so in aggressive ways that increase the risk of an accident similar to the April 2001 collision of a U.S. EP-3 reconnaissance plane and a Chinese F-8 fighter jet near Hainan Island. A comparable maritime incident could be triggered by Chinese naval vessels harassing a U.S. Navy surveillance ship operating in its EEZ, such as occurred in the 2009 incidents involving the USNS Impeccable and the USNS Victorious. The large growth of Chinese submarines has also increased the danger of an incident, such as when a Chinese submarine collided with a U.S.



*China appears both ready to reject a legal settlement in favor of the Philippines, and tacitly ready to accept the political momentum of a legal ruling that goes its way.*

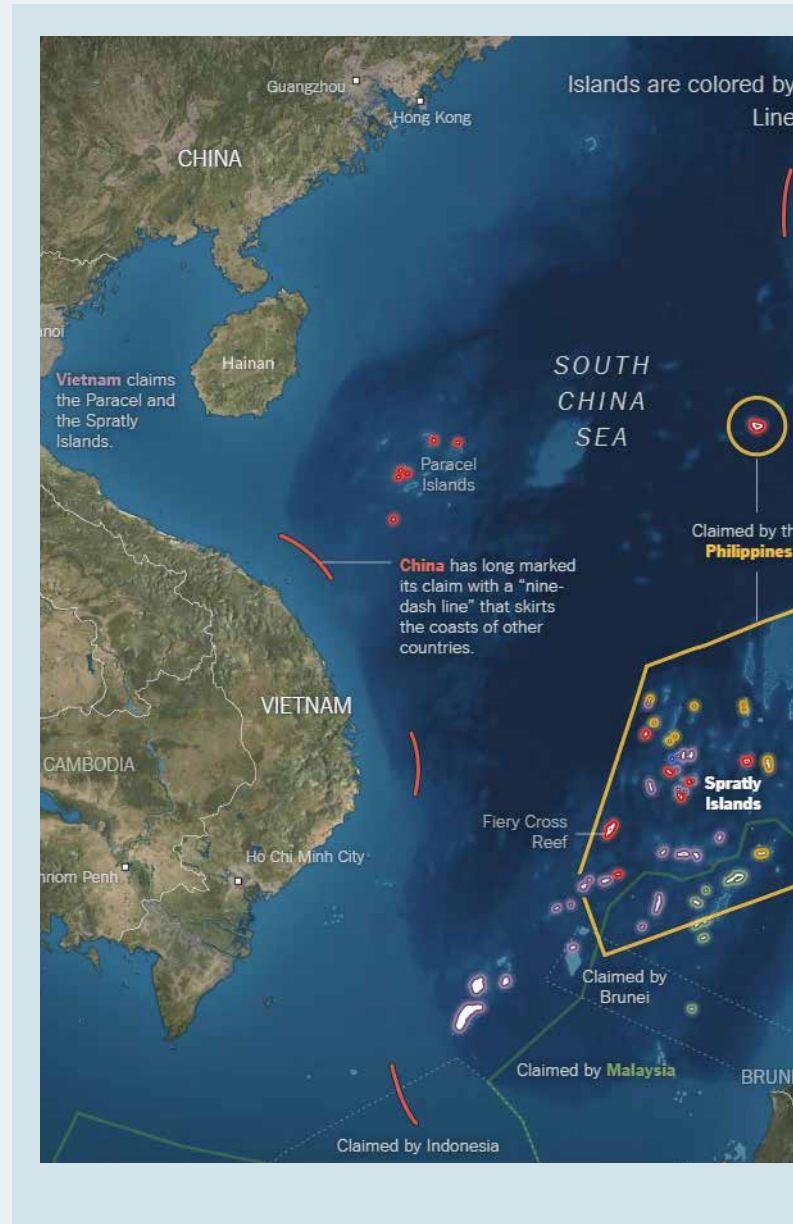
destroyer's towed sonar array in June 2009.<sup>5</sup>

U.S. reconnaissance aircraft and ocean-surveillance vessels are not armed. Consequently it is not unreasonable to assume that Chinese behavior considered dangerous toward them might draw a call for armed escorts. Misunderstanding, miscalculation or even simple misinformation between armed U.S. and Chinese could result in an exchange of fire, and inadvertently a military confrontation that could quickly spin out of control.

The U.S.-China relationship, already important to both countries, regionally and to the global economy at large, is expansive and growing. If that relationship were to sink, so too might globalization as well, and with it the potential for economic growth. Consequently it is in the strategic best interests of both countries to find peaceful solutions to what will inherently be contentious and competitive issues between a rising and ruling state.

Tough talk from both countries is to be expected for both domestic political consumption, and as signals to each other when "lines" are being approached that won't be tolerated.

China cancelled a port visit by the Stennis to Hong Kong subsequent to the strike group patrolling in disputed waters, saying only it was 'inconvenient.'<sup>6</sup> But continuing discussions and interaction is essential. Soon after the destroyer traversed Fiery Reef waters, China said it



wanted to talk.

A request from the Chinese army for a videoconference between General Fang Fenghui, chief of the Chinese joint staff department, and Marine General Joseph Dunford, U.S. Chairman of the Joint Chiefs of Staff, was positively received in the U.S. The first of what may be more of those

videoconferences took place on May 12, 2016.<sup>7</sup> Communication channels are important for routine discussions and in times of crises. In the past, U.S. confidence in the capability to conduct crisis communications and the willingness of the Chinese to even participate has been tenuous. During the teleconference General Dunford affirmed with his counterpart that if called, “someone will answer and listen.”<sup>8</sup>

Communication at all levels is essential to avoiding unintended consequences to actions intended as innocuous. The Navy Times published an account of communications between U.S. and Chinese ships during the Stennis’ recent interactions with the Chinese Navy, which were described as professional and non-threatening. “Based on the bridge-to-bridge communications USS Chung-Hoon had with the [People’s Liberation Army-Navy] ships, it is clear that the Chinese Navy prides itself on professional communications and interactions,” said Cmdr. Tom Ogden, commanding officer of destroyer Chung-Hoon.”<sup>9</sup>

Vice Admiral Joseph Aucoin was welcomed to Shanghai shortly after the Stennis was turned away from Hong Kong, to hold talks with his Chinese counterpart later this spring to discuss steps to increase communication and military-to-military engagements. During a visit to China, sailors from the command ship Blue Ridge were scheduled to engage in sports with their counterparts. While these may seem small steps, they are hopefully a prelude to bigger steps.<sup>10</sup>

Increased communication would be useful toward implementing the Military Maritime Consultative Agreement (MMCA) set up in 1988. That agreement was intended to act much like the U.S.-Soviet Incidents at Sea Agreement (INCSEA) in establishing “rules of the road” to reduce the risk of an



Sources: C.I.A., NASA, China Maritime Safety Administration

accident between ships and aircraft. While the MMCA has not been successful to date, the time might now be ripe.

There are also multilateral mechanisms and procedures already in place that might be more fully utilized. The Western Pacific Naval Symposium (WPNS), founded in 1988, brings together naval leaders from the United States, China and all Association of Southeast Asian Nations (ASEAN) members except Laos and Burma on a biennial basis to discuss maritime security. Glaser explains the type of work done through this and other organizations.

In 2000, it produced the Code for Unaltered Encounters at Sea (CUES), which includes safety measures and procedures to facilitate communication when ships and aircraft make contact. China, however, never used this. There are also other mechanisms available such as the International Maritime Organization's Regulations for Preventing Collisions at Sea (COLREGS) and the International Civil Aviation Organization's rule of the air.<sup>11</sup>

CUES was re-negotiated as "CUES 2.0" in 2014: Code for Unplanned Engagements at Sea. Expansion of the work done in existing organizations and the creation of new dialogue mechanisms serves to provide venues for management of issues.

Described as a new "wild card"<sup>12</sup> in the situation is the recent election of Rodrigo Duterte as Philippine president. The bombastic new president has sent mixed messages to all countries involved. While the Philippines and the U.S. have grown closer of late than they have been in many years, as a presidential candidate

Duterte said he might sever relations with both the United States and Australia, two of the Philippines closest allies.<sup>13</sup> He has also stated that he may perhaps simply take a jet ski to the disputed island to personally lay claim to it.<sup>14</sup> Imprudent words or actions could provide the Chinese an excuse to be dismissive of the forthcoming arbitration ruling; in other words, if the Philippines "breaks the rules," that can give China license to do so as well. More dangerously, if imprudent Philippine acts somehow led to a military altercation with China, the U.S. could be drawn in through the 1951 Mutual Defense Treaty between the U.S. and the Philippines.

To use a military slogan, "the wolf closest to the sled" in the South China Sea is avoiding a military clash between the U.S. and China. The unintended consequences of that could easily be disastrous and must be avoided. But addressing that issue is a necessary but not sufficient part of addressing the larger issues of territorial sovereignty. Legal minds have been engaged in determining an acceptable, creative approach for some time, but turning an idea into an approach takes time. Meanwhile, the politics of keeping the overall U.S.-China relationship on track while managing multiple contingent issues is a challenge -- especially so in the U.S. during a presidential election year when candidates are posturing for a far more clearly populist electorate than in the recent past, and in China because economy growth no longer placates an increasingly demanding populace. It is up to the leadership of both countries to keep focused on the required end state of stability.

*The views expressed are those of the author alone and do not reflect the U.S. government, the Department of Defense, or the U.S. Navy.*

*While the MMCA has not been successful to date, the time might now be ripe.*



*Described as a new “wild card” in the situation is the recent election of Rodrigo Duterte as Philippine president.*



*On April 5, 2016, China's Ministry of Transport held a completion ceremony for the construction of a lighthouse on Zhubi Reef, of Nansha Islands in the South China Sea. [Xinhua Photo]*

- 1 p. i. <http://www.defense.gov/Portals/1/Documents/pubs/2016%20China%20Military%20Power%20Report.pdf>
- 2 Cited by Tim Daiss, “‘Nonsense’ Claims China’s State media Over South China Sea Reporting,” *Forbes*, May 12, 2016. <http://www.forbes.com/sites/timdaiss/2016/05/12/non-sense-claims-chinas-state-media-over-south-china-sea-reporting/#3d6c13921a1c>;
- 3 Michael Forsythe, “Beijing Tries to Whip Up Support for Its South China Sea Claims,” *International New York Times*, May 13, 2016. [http://www.nytimes.com/2016/05/14/world/asia/south-china-sea-philippines-hague-ruling.html?\\_r=0](http://www.nytimes.com/2016/05/14/world/asia/south-china-sea-philippines-hague-ruling.html?_r=0)
- 4 Gordon Lubold, “U.S. Warship, Sailing Near Chinese-Claimed Island, Challenges Beijing,” *Wall Street Journal*, May 10, 2016. <http://www.wsj.com/articles/u-s-warship-sailing-near-chinese-claimed-island-challenges-beijing-1462855738>
- 5 Bonnie Glaser, “Armed Clash in the South China Sea,” *Contingency Planning Memo #14*, April 2012. <http://www.cfr.org/world/armed-clash-south-china-sea/p27883>
- 6 David Larter, “This U.S. Navy Carrier was Scheduled to Visit Hong Kong. Then Beijing Pulled the Welcome mat,” *Navy Times*, May 1, 2016. <http://www.navytimes.com/story/military/2016/04/29/stennis-hong-kong-port-visit/83700884/>
- 7 DoD News, “Dunford, Chinese Leader Speak Via Video Teleconference,” May 13, 2016.
- 8 Ibid.
- 9 David Larter, “After U.S. Show of Force, China Takes Hard Line on South China Sea,” *Navy Times*, March 9, 2016.
- 10 Chris Pleasance, “U.S. Navy command ship docks in Shanghai days after carrier was turned away from Hong Kong amid tension over South China Sea,” *Daily Mail (U.K.)*, May 6, 2016. <http://www.dailymail.co.uk/news/article-3577506/Navy-command-ship-USS-Blue-Ridge-docks-Shanghai-days-carrier-group-turned-away-Hong-Kong-amid-tension-South-China-Sea.html>
- 11 Glaser, 2012.
- 12 David Tweed, “China, U.S. Vie for Superpowers Support Before South China Sea Ruling,” *Bloomberg*, May 13, 2016.
- 13 “Philippine presidential candidate Rodrigo Duterte Says He May Sever Australian Relations Over Rape Row,” *Australia Broadcasting Corporation*, April 21, 2016. <http://www.abc.net.au/news/2016-04-21/philippines-rodrigo-duterte-may-cut-ties-with-australia/7347412>
- 14 Frances Martel, “Philippines: Presidential Frontrunner Vows to Personally Retake South China Seas Islands on a Jet Ski,” *Breitbart*, April 25, 2016. <http://www.breitbart.com/national-security/2016/04/25/philippines-presidential-frontrunner-vows-to-retake-south-china-sea-islands-on-jet-ski/>





# China Needs a Foreign Policy that Makes Friends

Doug Bandow takes a global portrait of China's strategic partnerships and "non-alliance" policies, arguing that as the great Eastern power grows so must its capacity to create not just military allies but friends.



**Doug Bandow**  
Senior Fellow,  
Cato Institute

Rising powers tend to be cocky and pushy. They believe their time has arrived and they want their just deserts—now. So it is with China.

Alas, there's a downside, which Beijing has discovered. Rising powers don't make many friends. The more obnoxious their behavior, the harder diplomacy becomes.

If you listen to the debate in the U.S. presidential campaign—not recommended for the faint-hearted!—you'd think America was a helpless Third World state, besieged by enemies deploying vast armies and armadas. It is errant nonsense, of course, but it has a certain popular appeal.

In fact, the U.S. dominates the globe. It retains the most important

*There are many reasons Washington has so much international clout. Not least is the fact that U.S. policy has emphasized making friends and acquiring allies.*

and productive economy, strongest military, most over-powering culture. People around the world still see America as a land of opportunity. And Washington is allied with every major industrialized state besides China and Russia—and friends with many more.

The latter point underscores America's extraordinary global reach. There are many reasons Washington has so much international clout. Not least is the fact that U.S. policy has emphasized making friends and acquiring allies.

There are downsides to this approach. Washington tends to ignore the risks of constantly adding weak, non-essential nations as "allies" requiring protection. Nevertheless, overall the U.S. is stronger because it has a cooperative relationship with so many other countries. Shared interests are buttressed by a basic trust in Washington's objectives.

As all Americans know, their leaders sometimes do stupid things. Yet no one in Asia really believes that the U.S. plans to forcibly seize territory, conquer nations, acquire resources, compel deals, or otherwise impose its will. Other than China and North Korea, no Asian country is arming itself to deter Washington.

Contrast the international response to Beijing's so-called peaceful rise.

The People's Republic of China is essentially friendless. Its one ally of sorts, North Korea, is at best a "frenemy." Neither

country cares much for the other. Their relationship is forced. No one else will underwrite Pyongyang, while Beijing fears the consequences of a collapse of the Democratic People's Republic of Korea. Despite the latter's persistent truculence it has been desperately looking for a counterweight to the colossus next door.

China has a solid relationship with Pakistan, though that offers only modest benefits, given Pakistan's weakness and the PRC's lack of nearby military operations requiring support. Ties between Beijing and South Korea were on the upswing, but the Republic of Korea has become disillusioned by China's unwillingness to do more to punish the North for its irresponsible course.

Until recently Beijing was close to Myanmar, too close, it seems. One reason Burma's military stepped into the background and welcomed the relaxation of Western sanctions was to gain breathing room. Like North Korea, Myanmar cannot ignore its giant neighbor. But Naypyidaw saw China's embrace as something other than friendly.

Beijing recently moved closer to Thailand, but mostly as a result of Bangkok's estrangement from Washington over the Thai military's seizure of power. U.S. ties with Thailand run deep, however. The PRC may gain some practical benefits, but is far from forging a long-term, enduring relationship.

Beyond Asia China has gained clout because of its economic prowess, but "winning" in

*If Beijing can't find a way to win favor from at least some of its neighbors and other influential nations around the globe, it may remain a modest geopolitical player.*

such pariah states as Sudan and Zimbabwe is a dubious accomplishment at best. In Zambia perceived Chinese arrogance became a political issue. While the PRC has made economic and political gains elsewhere in Africa, they remain limited. During the Cold War Washington made a substantial investment in many of the same nations, with little lasting benefit.

Beijing's most important relationship may be with Russia. But the two nations at most are "strategic partners," and only because the U.S. foolishly pushed them together. Moscow is the weaker of the two and many Russians worry about Chinese influence in Central Asia and desires on Siberia. The PRC's tendency to copy Russian weapons purchased has dampened the arms trade between the two. Once the West's sanctions end Moscow is likely to look west again.

While China can count on few friends, it has accumulated numerous adversaries. Japan is arming itself, mostly in response to Beijing's aggressive behavior toward the Senkaku/Diaoyu Islands. The Philippines is pushing for a closer military relationship with Washington. Even Vietnam, which with the PRC's support fought a long war against America, is looking toward the U.S. for aid against China.

Last month Indonesia, the world's most populous Muslim nation, had an ocean confrontation with Beijing over the seizure of a Chinese boat caught fishing illegally in Indonesian waters. Around the same time Malaysia's defense minister talked of "pushback"

by Southeast Asian states against the PRC. Australia has grown increasingly wary of Beijing despite strong bilateral economic ties. India's relationship with the PRC remains strained because of a territorial conflict running back a half century. Moreover, New Delhi has become a diplomatic, economic, and military player throughout Southeast Asia, countering Chinese influence.

This is an appalling record for Beijing. Yan Xuetong of Tsinghua University's Institute of International Relations criticized Beijing's "non-alliance principle," but China's behavior would make U.S.-style alliances difficult in any case. The PRC is not an attractive partner for countries that matter. Chinese officials complain that the U.S. is embarked on a policy of "containment." In fact, Beijing is doing much to contain itself.

Given its international ambitions, the PRC needs friends if not formal military allies. But China already is discovering that money does not guarantee love. If Beijing wants to compete with America globally, the former must follow Washington's lead and build a network of mutually cooperative states. Until now, however, the PRC has been pushing countries away. China's obnoxious behavior looks likely to continue. If Beijing can't find a way to win favor from at least some of its neighbors and other influential nations around the globe, it may remain a modest geopolitical player.



# Chinese American Voters: A Curiously Overlooked Demographic

China-related messaging from both parties has been scattered, providing limited examples and talking points for economic and foreign policy discussions, and rarely drawing connections to Chinese-American voters. Republicans will continue to lose the Asian-American vote if they don't reshape their stances on immigration, trade policy and defense. Democrats can expect to keep the Asian-American vote in general elections, but candidates for internal races will perform better if they court Asian-Americans for the party coalition.



**Colin Moreshead**  
*Freelancer in Tokyo*

The 2016 presidential primary races have once again highlighted the effect that race has had on political outcomes in the United States. Nonwhite voters have made Hillary Clinton the presumptive nominee of the Democratic Party, delivering more primary delegates thus far than Senator Bernie Sanders' largely white base. An "autopsy report" of the 2012 election, commissioned by the Republican National Committee, found that the party needed significant minority voter outreach to compete with Democrats. As candidates like Donald Trump and Ted Cruz double down on xenophobia, the prognosis for 2016 is even worse.



Though both contests have put the spotlight on race in America, Asian-Americans have gone strangely overlooked. While African-Americans and Hispanics still represent the largest minority groups in the United States, there are 18 million Asian-Americans and their numbers are increasing faster than those of any demographic. Though America's Asians hail from dozens of different countries and a variety of socioeconomic backgrounds, the nearly 5 million Chinese-Americans have become a major population in their own right.

One reason for the massive growth seen in the Asian-American population is immigration. Pew Research Center reports that over 70 percent of Asian-Americans 18 and older are foreign-born, and Chinese-Americans are the largest group among them. Foreign origins might typically mean that a demographic is up for grabs, or at least open to the ideas of either major political party. Pew reports that Asian-Americans emphasize family values and working hard to get ahead, which are two predictably conservative talking points. Asian-American voting behavior has become overwhelmingly liberal, however, and if Republicans

know why, they haven't done anything about it.

Exit polls point to a leftward shift in Asian-American voting patterns over the last six presidential election cycles. In 1992, only 31 percent of Asian-American voters supported Bill Clinton, edging out even white voters as the single most conservative bloc in the election. The pattern was turned upside down in only twenty years; 71 percent of Asian-Americans voted for Barack Obama in 2012, making them the second-most liberal racial group.

Though Asian-American support for Democrats has been noted in media coverage, journalists and politicians have referenced the group in monolithic terms. Political strategists have collected ample data to analyze the differences in voting patterns between sub-demographics like Cuban Americans and Mexican Americans, but the nuances of Asian-American voting behavior remain curiously unstudied. According to Pew, more than half of Asian-Americans identify strongly with their family's country of origin, and that could complicate things as political candidates wade into the discussion of Asia policy on the campaign trail.

*The geographic distribution of Asian-American voters — and Chinese-Americans in particular — will begin to shape Democratic primary elections in the next few years.*



*Democratic presidential candidate Hillary Rodham Clinton, right, waves next to San Francisco Mayor Ed Lee after visiting Red Blossom Tea Company in Chinatown in San Francisco, Wednesday, May 6, 2015. (AP Photo/Jeff Chiu)*

Mentions of China during the 2016 presidential race have been both numerous and unsubstantive. Though some former candidates like Dr. Ben Carson and Carly Fiorina called for cooperation with China in conducting North Korean diplomacy, the majority of Republican rhetoric this year has been antagonistic. It's unclear how much Chinese-American voters care about Donald Trump's proposal for tariffs on Chinese goods, but they bristled at the Republicans' more xenophobic messaging: Jeb Bush's claim that anchor babies are mostly Asian drew the ire of Asian-American politicians and media. It should be noted that while Republicans have been by and large more overtly anti-China than Democrats, Bernie Sanders has cited a trade imbalance and echoed 2012 GOP presidential nominee Mitt Romney in accusing China of currency manipulation.

Asian-Americans are still too small

a group to exert significant influence on the outcomes of national political contests. Several states with rapidly growing Asian-American populations could become more predictably liberal during the 2020s — Nevada, New Hampshire, and even Texas are already showing signs of bluing in some areas. In most cases, Asian-Americans represent only a marginal edge for Democrats in general elections, and hardly enough of one to shape campaign strategy. But the geographic distribution of Asian-American voters — and Chinese-Americans in particular — will begin to shape Democratic primary elections in the next few years.

The United States' largest concentrations of Chinese-Americans can be found in California and New York, by far the two largest contests among Democratic presidential primaries. In New York, Asian-Americans already account for nearly nine percent of the population,

*In California, Asian-Americans are already the second-largest racial minority group after Hispanics; Chinese-Americans alone are approaching parity with the state's African-American population.*

and Chinese-Americans comprise the lion's share. In California, Asian-Americans are already the second-largest racial minority group after Hispanics; Chinese-Americans alone are approaching parity with the state's African-American population.

California and New York award 548 and 281 Democratic delegates, respectively. Democratic presidential candidates can be and have been decided on the support of voters from those states, and their Chinese-American voters will only continue to gain strategic importance, particularly during prolonged races like the one between Hillary Clinton and Bernie Sanders. Assuming racial voter representation proportional to population, the Asian-Americans of New York and California command a larger slice of primary delegates than the whole state of Colorado — Chinese-Americans are the largest subset of that group.

Political strategists may not yet fully grasp the significance Chinese-American voters will have in coming elections. Vote for vote, they may be the most under-analyzed bloc in American politics. China-related messaging from both parties has been scattered, providing

limited examples and talking points for economic and foreign policy discussions and rarely ever drawing connections to Chinese-American voters. Republicans will continue to lose the Asian-American vote if they don't reshape their stances on immigration, trade policy and defense. Democrats can expect to keep the Asian-American vote in general elections, but candidates for internal races will perform better if they court Asian-Americans for the party coalition. To do so, Democratic politicians will have to develop a deeper understanding of various Asian-American groups, especially Chinese-Americans.

# U.S.-China Nuclear Handshake Stays Firm

With the end of the nuclear security summits and major Russia-U.S. security tensions, China-U.S. nuclear security cooperation is needed more than ever. Fortunately, both governments are pursuing projects to counter nuclear smuggling, to reduce the use of dangerous nuclear fuels, and to augment other international institutions that counter nuclear terrorism.

**Richard Weitz**

*Senior Fellow,  
Hudson Institute*



One promising development in recent years has been the growing China-U.S. cooperation against nuclear terrorism. This new partnership represents a welcome development to the international nuclear security regime, which is challenged by sectarian hatred, revolutionary technologies, and frigid Russian-U.S. relations. The end of the nuclear security summits and major Russia-U.S. security tensions require improved and more frequent China-U.S. cooperation to compensate for these setbacks. China-U.S. cooperation in this field also represents a most successful dimension of Sino-American security collaboration, against a backdrop of many disputes and tensions.

Xi Jinping and Barack Obama continued to develop this partnership when they met multiple times, bilaterally and in group sessions, at the March 31-April 1, 2016 Nuclear Security Summit in Washington. Since President Obama launched the nuclear security summits in 2010, he has seen China's help as indispensable. In turn, a high-level Chinese team, led by the president, has attended all four summits and contributed helpful support and ideas for augmenting safeguards against nuclear terrorism.

In their "U.S.-China Joint Statement on Nuclear Security Cooperation," issued at the recent summit, the two governments made a "commitment to working together to foster a peaceful and stable international environment by reducing the threat of nuclear

*But in the relatively new field of countering nuclear terrorism, China can join as an equal partner to build a system of rules and procedures to benefit itself as well as others.*





*U.S. President Barack Obama, center, speaks as Xi Jinping, China's president, right, and Francois Hollande, France's president, left, listen during a P5+1 multilateral meeting at the Nuclear Security Summit in Washington, D.C., U.S., on Friday, April 1, 2016. (Photo By Andrew Harrer/Pool/Getty Images)*

terrorism and striving for a more inclusive, coordinated, sustainable and robust global nuclear security architecture for the common benefit and security of all.”

Several factors have driven this China-U.S. partnership: the transformation of the terrorist threat confronting both countries, which has become more militant and nihilistic; the stake both states have in protecting global commerce; and the strong commitment by both governments to expand the use of nuclear power at home and internationally.

Furthermore, enhanced nuclear security offers opportunities for the kinds of “win-win” solutions that China strives for. Everyone would suffer from a major nuclear terrorist incident wherever it occurred. When President Xi attended his first Nuclear Security Summit in 2014 at The Hague, he recognized that collective global nuclear security was only as strong as its weakest link: “The amount of water a bucket can hold is determined by its shortest plank. The loss of nuclear material in one country can be a threat to the whole

world.”

In this area, moreover, Beijing has had an opportunity to become a regime-maker rather than a regime-taker. In the international economy, the UN system, and even in the WMD nonproliferation domain, China has had to accept the existing rules of the game to become a major player—changing its policies to adhere to preexisting institutions and treaties designed by others. But in the relatively new field of countering nuclear terrorism, China can join as an equal partner to build a system of rules and procedures to benefit itself as well as others.

There are of course differences between the two countries’ approaches to nuclear terrorism beyond their mutual opposition to it. The Chinese government is less concerned with limiting the spread of uranium enrichment technologies to new countries, supports the reprocessing of spent plutonium (though not in Japan) into new nuclear fuel despite the proliferation risks, and sees the United States as overly concerned with combating

*The vector of their future cooperation in this domain was evident in the China-U.S. construction of a joint Center of Excellence (COE) on Nuclear Security in a suburb of Beijing.*

the symptoms of nuclear proliferation and nuclear terrorism while ignoring its root causes (which some Chinese describe as U.S. threats and an inequitable U.S.-led international order).

Fortunately, in practice the two countries have focused on pragmatic measures to advance nuclear security. China and the United States depend on international trade for their prosperity, so have been cooperating to counter nuclear and radiological trafficking through Chinese ports. Through the Container Security Initiative, the Megaports Initiative, and joint training of customs officers, the two countries pool their resources to deter, detect and interdict nuclear smuggling. With U.S. encouragement, China has developed a multi-tiered system of export controls built in ministerial decrees, state regulations, company compliance programs, and national laws and international treaties.

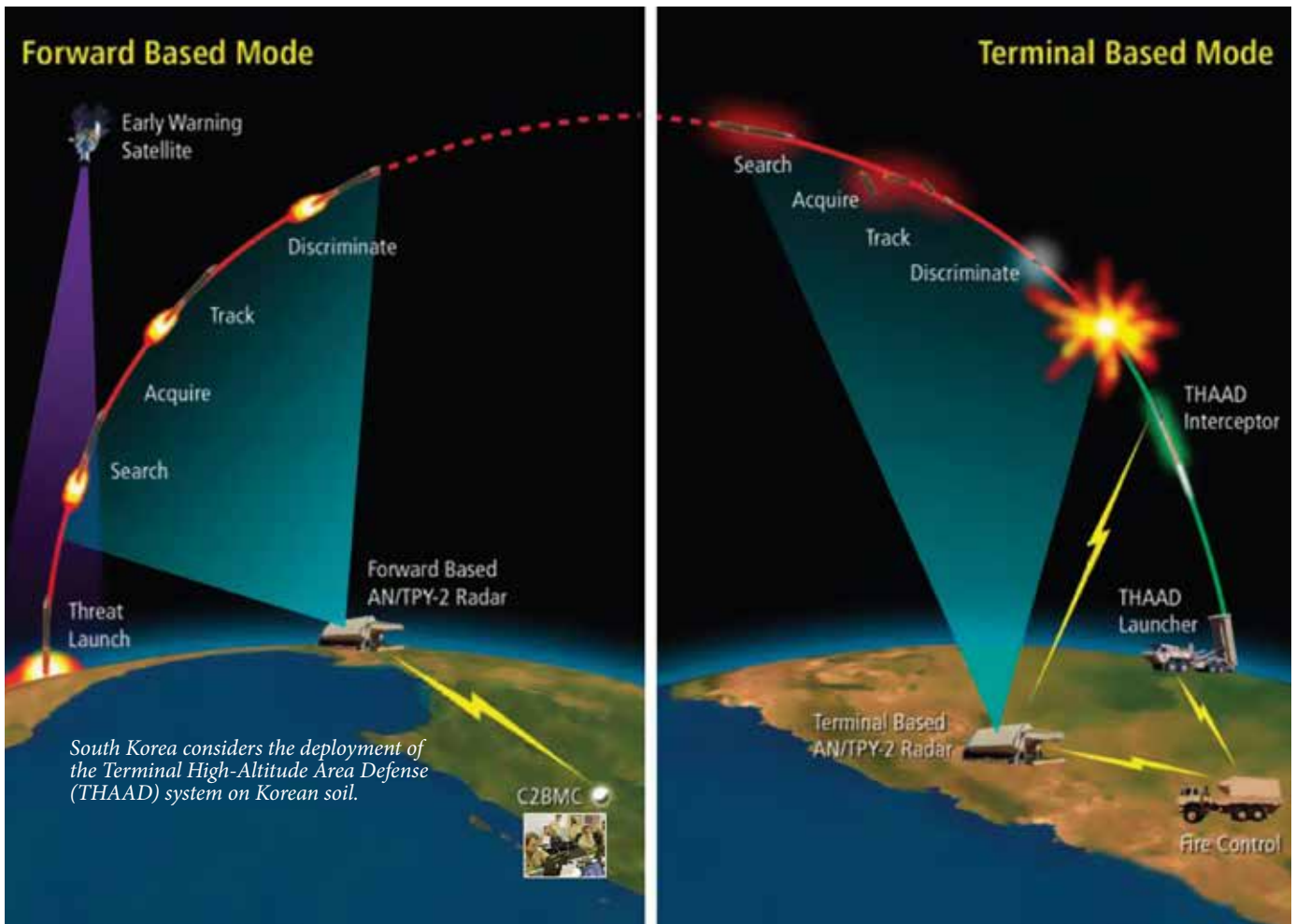
This February, China and the United States held their first round of dedicated bilateral talks devoted to nuclear security. In Washington, they joined other nations in pledging to pursue measurable improvements in nuclear security even in the absence of further presidential summits.

The vector of their future cooperation in this domain was evident in the China-U.S. construction of a joint Center of Excellence (COE) on Nuclear Security in a suburb of Beijing. This complex, the largest such center in East Asia, is run by the Chinese

government but will include U.S.-provided equipment. It can train up to 2,000 scientists and technicians annually in technologies and practices for protecting nuclear materials and facilities.

Another area for further improvement lies in enhancing the safety and security of nuclear energy production. A major problem with such technology is that it can be misused to make nuclear weapons. China and the United States are cooperating to convert research reactors from using highly enrichment uranium (HEU) fuel to employing low-enrichment uranium (LEU) fuel, which is harder to make into a nuclear weapon. China is prepared, with U.S. and other international assistance, to help other countries, such as Ghana and Nigeria, to convert their Chinese-made research reactors from HEU to LEU.

Due to distrust and past problems, it is unlikely that China-U.S. cooperation will extend soon to include resumed laboratory-to-laboratory cooperation or the military sector, even if most fissile materials fall under military control. But China can play a critical leadership role in the Global Initiative to Combat Nuclear Terrorism, the Global Partnership Against the Spread of Weapons of Mass Destruction, the United Nations and other international institutions weakened by Russian-U.S. differences. The last nuclear security summit issued actions plans for how these institutions might make major contributions to nuclear security in coming years.



# THAAD No Defense for South Korea

A U.S. installation of a THAAD system would offer no real protection from the North's usable weaponry, and would surely provoke the DPRK into a new, vicious cycle of action vs. reaction. The idea has already stirred strong protests from the Chinese and Russian governments, which believe THAAD, if deployed, will threaten their security interests. The idea of deploying THAAD on Korean soil is a bad example of how anger can replace rational response.

**Zhou Bo**  
*Honorary Fellow,  
 PLA Academy of  
 Military Science*

Let's face it: In the wake of the DPRK's fourth nuclear test and launching of a satellite, uniformly condemned by the international community, it is difficult to dissuade the aggravated government of the ROK from acting to beef-up its military defense.

However the deployment of the Terminal High-Altitude Area Defense (THAAD) system is not a good option.

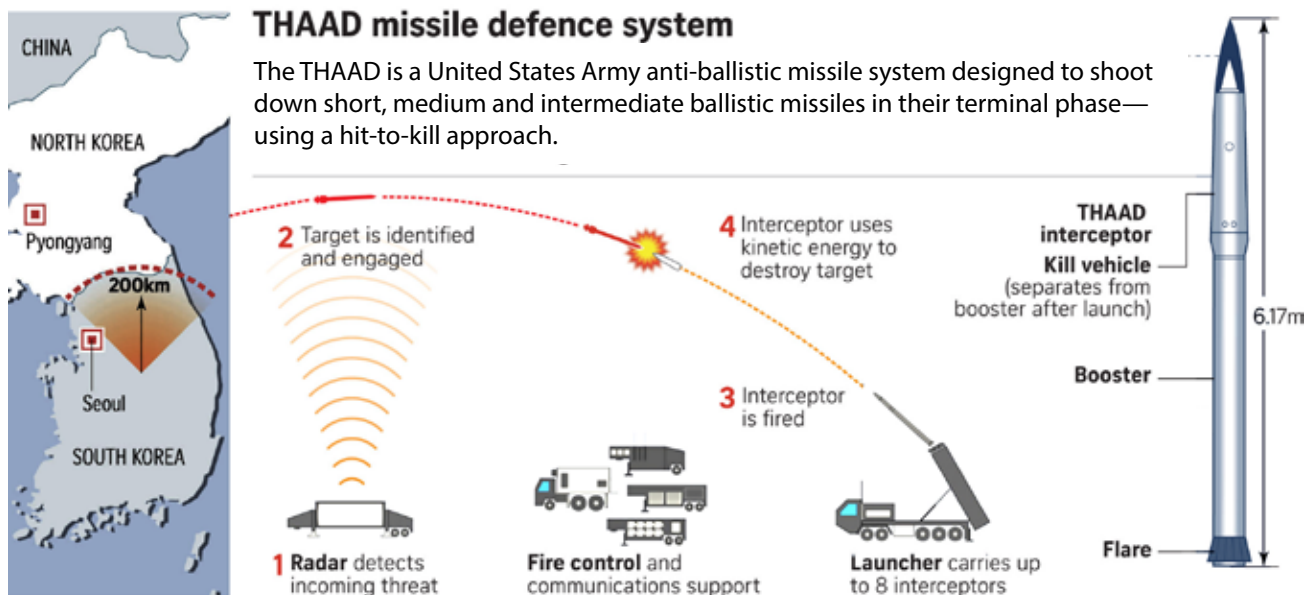
The THAAD is a United States Army anti-ballistic missile system designed to shoot down short, medium and intermediate ballistic missiles in their terminal phase—using a hit-to-kill approach. The Korean Peninsula is only 1,100km long and Seoul only 40km from the demarcation line. So most, if not all, of any DPRK missiles targeting the ROK can only be short-range ballistic missiles that have a maximum range of 1,000km.

The THAAD is not primarily designed, if at all, for missiles flying at low altitude. The missile threats from the North to the South essentially come from KN-02, which can reach up to 120km and Hwasong-5 and Hwasong-6 with ranges of 300km and 500km respectively. If they carry conventional warheads, the threats from these short-range missiles are not greater than those Scuds fired sporadically and inaccurately by

Saddam Hussein into Israel in the Gulf War. The ROK already has Pac-2 deployed against it. Seoul has been developing its own missile-defense system. Besides, the ROK military allied with the U.S. military won't wait for revenge until all missiles from the North fall on the soil of the South.

Contrary to what the Ministry of Foreign Affairs of the ROK has expressed, a scenario of the North launching a nuclear attack against the South is next to impossible in the near future. The DPRK has only conducted four nuclear tests. Whether that means it has developed weapons-grade nuclear warheads is up for debate among nuclear scientists and policy makers. But making small and reliable warheads that can be fitted onto short-range missiles is difficult — second only to developing multiple nuclear warheads in terms of technological difficulties.

## TERMINAL • HIGH • ALTITUDE • AREA • DEFENSE





*Contrary to what the Ministry of Foreign Affairs of the ROK has expressed, a scenario of the North launching a nuclear attack against the South is next to impossible in the near future.*

Should the DPRK have short-range ballistic missiles with tactical nuclear warheads one day, a successful nuclear strike from the North (and even a successful interception by any missile defense systems including THAAD from the South) is unthinkable. It will certainly inflict unbearable damage to both sides because of the geographic proximity between the North and the South. The lingering radioactive dust would make any victory on either side meaningless.

Such short-range missiles don't appear to be a priority of the DPRK today. Its primary focus is on improving the capability of its nuclear bombs as demonstrated in its fourth underground nuclear test on Jan. 6. The DPRK has also invested in developing an ICBM capability as demonstrated in its satellite launching on Feb. 7. The purpose of the latter is to extend the range of the missiles to reach the continental USA so as to create maximum panic on America's part and thus increase DPRK's bargaining chips on the table.

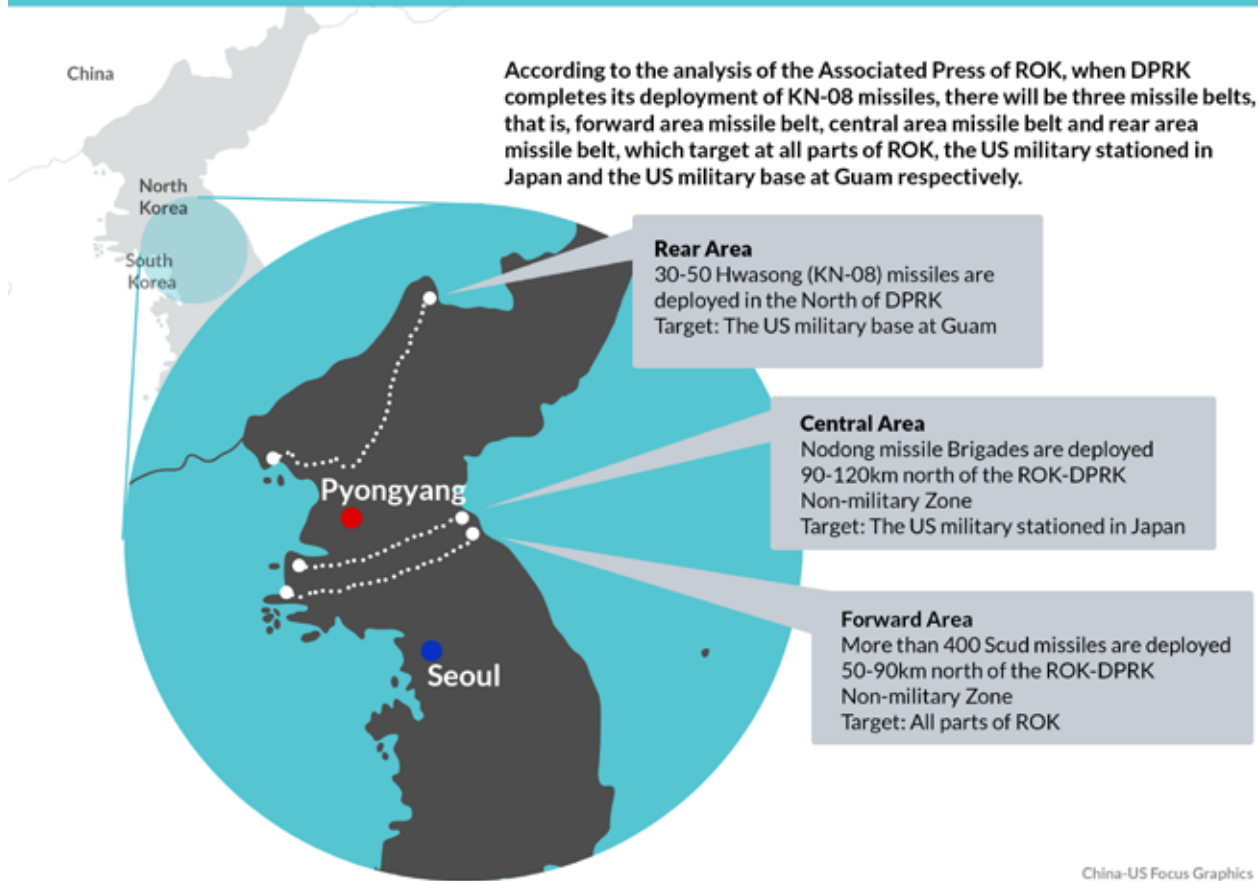
The real lethal weapons of the North are its 700 long-range artillery pieces – Koksan 170 MM howitzers and 240 mm multiple rocket launchers – that are capable of bombarding Seoul, a city of over 10 million people. Over a

decade ago the ambassador of the U.S. to the ROK remarked impressively at a forum that the distance between the North and the South is only 53 seconds! That, he explained, is the time of flight of a howitzer shell landing into Seoul from the 38th parallel. Indeed it is not rare to hear from the North how its preemptive strike could turn Seoul into “a sea of fire.” Admittedly, no defense systems including the THAAD would be able to shield off a shower of artillery shells in such a doomsday scenario.

While DPRK threats loom, it is tempting to match them with the threat of THAAD, however the use of such a defense system seems to stem from paranoia that has hijacked the South Koreans. Or it could be a deliberate play of populism to pacify people. Most likely, it is a bit of both. But it comes at financial and political costs, too.

Financially one battery of THAAD defense system consists of launcher, interceptors, a fire control and communications unit, and an AN/TPY-2 radar, at a cost of no less than \$1 billion. This is more than the \$866.5 million paid in 2014 by the South Korean government for 28,500 U.S. troops stationed in Korea. South Korean defense officials said at least

## Deployment of DPRK Missiles



two THAAD batteries are needed to thwart missile attacks from the North, but who is going to pay – Washington or Seoul? Why the US if South Korea is a free rider? And why South Korea if it is, as claimed, meant more for protection of American troops?

Politically, such an installation will surely be taken by the DPRK as provocation and accelerate the vicious cycle of action vs. reaction. Last but not least, it has already invited strong protests from the Chinese government, which believes THAAD, if deployed, will be integrated into the American missile defense network in East Asia,

affecting China's security interests. Russia, too, believes it destabilizes strategic equilibrium in the region.

The deployment of THAAD on Korean soil can only be a bad example of how anger and angst can overpower and replace rational response. It is like seeking a hare in a hen's nest.

# Internet Governance Faces the Divide of East-West Values

Rogier Creemers argues that for global Internet continuity, the West must recognize China has legitimate interests and claims that must be respected, even if the foundational values of its political system are diametrically opposed. Conversely, China must come to terms with the fact that not all rules in the global playing field are seditious attempts by the U.S. to expand its own power, and that it also must be bound by them in order to maintain global stability and prosperity.

Over the past few years, China's leadership has increasingly sought to establish national sovereignty as the foundational norm of Internet governance. At the recent Wuzhen World Internet Conference (WIC), Xi Jinping reiterated China's position, that countries should "respect each country's rights to choose its online development path, its network management model, its public Internet policies and equal participation in international cyberspace governance, not engage in cyber hegemony, not interfere in other countries' internal affairs, and not engage in, tolerate or support online activities harming the national security of other countries".



**Rogier Creemers**  
Research Officer,  
Programme for Comparative  
Media Law and Policy,  
University of Oxford

This state-dominated approach stands in sharp contrast to the multi-stakeholder approach prevalent in numerous existing Internet governance forums, and embraced by various governments, NGOs and experts. Foreign observers have largely treated China's approach with a mixture of concern and disdain, holding up China's well-known plethora of Internet control measures, as well as its reputation for industrial espionage and cyber-intrusion. Prominent Internet governance commentators



have also lambasted the foreign participants' willingness to support the WIC, as well as the Wuzhen Initiative that was established in its wake. These include businesses such as Kaspersky, NGOs such as the EastWest Institute, as well as existing Internet governance bodies such as APNIC.

To be sure, instances such as the reported alteration of the transcript of a speech by Jimmy Wales, cofounder of Wikipedia, do little to improve China's image in the outside world. Nevertheless, a – for many uncomfortable – truth is that China now has the world's largest online population, is a major producer of IT hardware and, increasingly, software, and is rapidly developing world-leading businesses of its own. The WIC also demonstrated that China is rapidly building a regional coalition of like-minded countries. This is part of a broader plan in which the leadership pursues an increasingly significant role on the global Internet governance stage. Whatever one might think of China's stance, it seems inevitable that some form of engagement will be required if the integrity of the global Internet is to be preserved.

As such, rather than dismissing both its attitude to global Internet governance and its domestic Internet control scheme, it is perhaps useful to consider the roots of China's position, as well as why this position might be attractive to other governments. The conflict between the "open Internet" model proposed by the United States, the United Kingdom and other Western nations and China's sovereignty-based approach reflects both an opposing conception about the international order and the role of liberal values therein, as well as of the proper function of the state in domestic and global governance.

The existing global order is, in many ways created or strongly influenced by the United States, reflecting its decisive victories in the Second World War and the Cold War. The idea of

liberal democratization as the end of history, still strong in the minds of many U.S. policymakers, is seen as the irreversible achievement of half a century of global engagement. Consequently, any derogation to that system by non-liberal democratic powers can only be considered as a clear symbol of decline and backsliding. For China, on the other hand, memories of its engagement with the emerging global reach of Western nations are largely negative, compounded with its miserly treatment during World War II and decades of isolation until the Nixon visits of the 1970s. China's leaders therefore do not consider it has ownership of the current global status quo, as China had little or no role in creating it, and find it often functions counter to the national interest. Moreover, they often see the existing rules of the games as a hypocritical disguise for the naked exercise of power by status-quo powers, particularly the United States.

This contrast is compounded by fundamentally opposed conceptions of the legitimate state and its role in Internet governance. Liberal-democratic notions, accompanied by a strong anti-government bias, have been tremendously influential in shaping the belief systems of Internet governance stakeholders hitherto. Such notions of legal and legitimate limitations to state power are absent in the Chinese context, where the historical experience of successive governments has been that a strong, capable state is necessary to ensure national power and prosperity. In other words, where it is often inconceivable that the state plays a dominant role in regulating cyberspace in Western views, in Chinese eyes, it is equally inconceivable that it doesn't.

Lastly, China's leadership has designated the Internet as a crucial "battlefield" in its increasingly complex relationship with the United States. Beijing has always been cautious about the subversive potential of information technology, and this has been exacerbated in



recent years. Its analysis is that the United States government, as well as U.S. businesses, have played a significant role in fostering regime change and “color revolutions” that are largely aimed at supporting the U.S. national interest. Moreover, the Snowden revelations highlighted China’s vulnerability in technological terms, accelerating a drive towards indigenization of software and hardware, as well as greater assertiveness concerning the thorny question of cross-border hacking, surveillance and intelligence.

The results of these tensions are quite visible: China’s new Internet administration is presenting successive measures to enhance its effective control over domestic and cross-border online processes, strengthening the Great Firewall, building coalitions to counter the status quo in various regional and global Internet governance forums, and changing facts on the ground in order to enhance its own discursive and substantive power. It is likely that it will use the Shanghai Cooperation Organization and the One Belt One Road initiative to buttress its position by developing more powerful hardware and software businesses, as well as by creating standards and regulatory frameworks that reflect China’s desires and aspirations for adoption elsewhere.

This does not mean that all cooperation between China and Western countries in cyberspace is impossible. There is broad agreement about the technological underpinnings of the Internet, even if the on-going ICANN transition has raised a few political issues, and China is seeking to expand its footprint there as well. China boasts broad and successful international connections in, for instance, countering child pornography and financial fraud. China and the U.S. have recently concluded agreements concerning cyber espionage and hacking, and while some caution is necessary, this seems to have somewhat attenuated the previous escalation.

However, it does seem that some important questions present themselves. In cyberspace and elsewhere, Western governments and observers may have to come to terms with, as James Mann put it, “a wealthier, more powerful China [that] continues to be run by a one-party regime that still represses organized political dissent much as it does today, while at the same time [...] is also open to the outside world and, indeed, is deeply intertwined with the rest of the world through trade, investment and other economic ties.”

If relationships with such a China are to be cordial, it must be recognized that it also has legitimate interests and claims that must be respected, even if the foundational values of its political system are diametrically opposed. Conversely, China must come to terms with the fact that not all rules in the global playing field are thinly disguised attempts by the U.S. to expand its own power, and that it also must be bound by them in order to maintain global stability and prosperity. Indeed, as the relative power disparity between China and the U.S. grows smaller and other players join the global game, such rules – properly observed by both sides – become even more important. These questions are profoundly difficult, and those who have to address them face an unenviable task. But the world is a complex place, and although simplistic approaches may play well to the home crowd, more sophistication and humility will be required from those in charge.





China has neither the military infrastructure nor the political will and public support to strike IS forces on the ground in Syria. But as China continues to build its military capacity, it is by no means looking for a “free ride” in the Middle East.

## Why China Hasn't Sent Troops to Strike IS



**Wang Zhen**

*Director of Security  
Studies Program,  
Shanghai Academy of  
Social Sciences*

As the Islamic State (IS) forces grew to increase havoc in the Middle East last year, major global powers intensified their military strikes on the terrorist group. China, however, is the only country among the permanent members of the UN Security Council that has not taken military action against IS, which caused a flurry of whispers among critics on the international scene. Some Western media accounts and scholars drew on this fact to support their allegations that China had been “hitchhiking” in the Middle East.

Yet, why has the Chinese government

not attempted a military option against the IS forces in the region? In my opinion, at least three factors have tempered Beijing's decision: lack of military capacity, a lack of precise targets, and a lack of public consensus.

First, China lacks military capacity to launch direct strikes on IS targets. Military analysts often hold that a nation needs at least two capabilities to take military action against IS. The first is an ability to collect sufficient intelligence on the tactical level, in order to locate targets precisely, assess the results of the attack, or exercise

*If China were to take military action in Syria, the main target most probably would be the Uyghur jihadists.*

an emergency rescue. The other is the ability to deliver military force over a long distance.

For a long time, China has been building its military capability with an eye on development around the Taiwan Straits. It has never had any military presence in the Middle East. Although it has made rapid progress in recent years in developing long-distance delivery ability, China still finds it too politically difficult to send its troops to the Syrian battlefield.

China lacks a military base and security ally, in the true sense, in the Middle East. The Liaoning, its only aircraft carrier, doesn't have any experience in battle, and none of its warships currently cruising near the Gulf of Aden are large enough to allow a fighter aircraft to land.

These critical questions of capacity would need to be answered before China

takes any military action in the region.

Second, China doesn't have a clear and definite target in Syria. Countries currently engaged in strikes against the IS forces all have their own national and political interests behind their moves, despite the excuses they cite to justify them. Some of the motives can be announced overtly, such as fighting international terrorism and safeguarding peace in the region; some are not to be divulged, for instance, bolstering friendly forces in the region and winning political support at home.

If China were to take military action in Syria, the main target most probably would be the Uyghur jihadists. Since the civil war broke out in Syria, more and more Uyghur militants have been entering Syria via Turkey. Even their colleagues, who had traditionally been active in the Afghanistan-Pakistan border area, began to shift to Syria.



**TARGET AREAS THE ISLAMIC STATE WANTS TO DOMINATE**

These events are unknown to most people. Media put the number of Uyghur militants in Syria at somewhere between several hundred and several thousand. Armed personnel have joined IS forces and even participated in the military acts of some opposition forces, such as Liwa al-Islam (Islamic Army). Therefore, striking IS solely is not enough to settle China's concern about the Uyghur terrorist forces. If China were to extend its strikes in a wider range, it would incur accusations from the West that it is as just as blameworthy as Russia.

Whether China should involve itself in the war against IS already is a controversial question within the country. Common people, academics, and decision-makers are widely divided in their understanding of the issue, which can basically be boiled-down into two opposing positions.

People of the first opinion insist that IS poses a grave future threat to China since it has specifically targeted China several times in its statements. The opinions follows that China should participate in the international community's military action against IS. By doing so, they argue, China can both prove its commitment to the idea of "international responsibility" as a rising global power and avoid "lagging behind others" in the global war against terrorism.

The other group claim that IS isn't a "terrorist force" in a traditional sense, but rather a result of the intensified conflicts among political and religious sects in the region. China, they say, would be "courting disaster" if it took military actions blindly, for that would draw vindictive attacks from international terrorist forces and even leave China's relations with the Islamic world in a predicament. What is more, many scholars argue, the global anti-terrorist practices after 9/11 have proven that military actions cannot lead to ultimate victory. It seems that more people hold the second point of view, which is also particularly welcomed by China's Muslims.

It is thus clear that China is neither militarily strong enough nor has the political will and social support for strikes against IS. In the foreseeable future, China will not take direct military action in Syria as some Western countries have done. However, this does not mean that China will not expedite the building of its ability in this regard. Certain Western countries accused China of "freeriding" in the Middle East. But that stance is ridiculous if they continue making irresponsible remarks on China's military build-up and refuse to share intelligence and resources of power in the Middle East.

*China, they say, would be "courting disaster" if it took military actions blindly, for that would draw vindictive attacks from international terrorist forces and even leave China's relations with the Islamic world in a predicament.*



# Opportunity Knocks 5 Times

The years ahead offer parallel tracks for growth for both countries, and an “early harvest” for U.S. enterprises, if opportunities are seized in innovative new industries, such as China’s “Internet plus,” hybrid-engine automobiles, next-generation information and telecom technology, biotechnology, alternative energy, and an expanding service sector – especially in the healthcare sector.



**He Weiwen**

*Co-director,  
China-US/EU Study Center,  
China Association of  
International Trade*

The recently concluded National People’s Congress (NPC) Session along with Chinese Premier Li Keqiang’s “Report on Government Work” have given a clear, comprehensive picture of the Chinese economy for the next five years. With the backdrop of a persistently weak and uncertain world economic data and continuing downside pressure on China’s industrial output, the world’s second-largest economy will maintain an annual growth rate of 6.5% for the 13th Five Year Plan (2016-2020), only marginally lower than last year’s 6.9%. If realized, China will contribute roughly 0.9 percentage points to world GDP growth each year for the next five years running, and thus ensure the world more reliable and predictable support.



## 6.5% Growth Needed to Hit 2020 Goal

Five years ago, China set a goal to double its 2010 real GDP and per capita income by 2020. From 2011 to 2015, its GDP grew by an aggregate 46%, leaving 37% growth for the next five years, resulting in an average annual growth rate of 6.5%. Failing to achieve 6.5% means missing China's 2020 goal.

By that growth rate, China's total GDP (RMB 67.7 trillion) will reach RMB 92.7 trillion (static) by 2020, or \$ 14.15 trillion at the current exchange rate, which is approximately two-thirds of what the U.S.'s GDP is predicted to be by then. This is an increase from 2015, where China's GDP was 58.2% of the U.S.'s. China certainly needs more time to catch up with the U.S. in the size of economy.

Chinese has had a net population growth of 6 million annually over the last five years. If this trend continues, its total population would likely hit 1.4 billion by 2020, leaving a per capita GDP of around \$10,000, achieving a moderate level of well-being for the nation, yet not high-income status.

### Biggest Threat to Growth: Unsustainability Instead of Slowing

The world has focused too much on the falling growth rates of China, instead of its healthiness and sustainability. The slowdown from double-digit

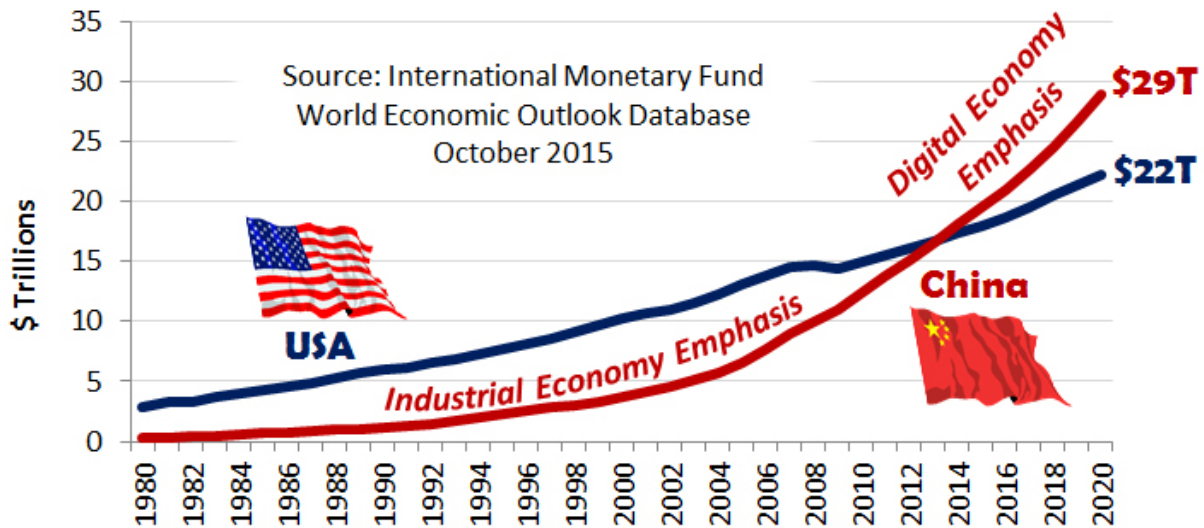
growth rates to a level below 7% is not only inevitable but also necessary. The extraordinary high growth rate in the past decade has resulted in a series of structural issues, which have eroded economic fundamentals. An outstanding issue is the serious over-capacity in steel, coal mining, cement, plate glass, electro-aluminum, and other heavy industries. China's crude steel output surpassed 800 million tons in 2015, 50% of the world total, and has contributed to a worldwide steel glut and a depressed market. The total capacity is 350 million tons more. Premier Li Keqiang's report announced plans to slash 150 million tons of steel capacity, 500 million tons of coal mining capacity in 3 years, which would displace 1.8 million employees.

The serious over-capacity has not only depressed manufacturing, but also contributed to onerous pollution in many parts of the country. Many companies with heavy over-capacity and poor performance have become zombie enterprises, creating huge corporate debt and helping to push the Chinese debt ratio to a new high.

Another major issue is the tremendous amount of unsold stock in the property market, estimated at 6.9 billion square meters, enough for a 24-month supply. The excess properties have pushed up the property market bubble and debt levels, including local government bonds, real estate developers, and

*The slowdown from double-digit growth rates to a level below 7% is not only inevitable but also necessary.*

## Gross Domestic Product Based on Purchasing Power Parity (PPP)



home buyers' bank loans, only to end up in rising non-performing loan rates of commercial banks.

The above two factors are key threats to the Chinese economy, both in the short and long term. If not addressed drastically, the Chinese economy will lose critical growth drivers, and face systemic financial risks. The 13th Five Year Plan is set "lessen capacity, lessen stocks, and deleverage," among others, as key goals. This will undoubtedly cut the growth rate by 1-2 percentage points, plus another percentage point by poor export performance. Slower growth is only logical.

### New Engines for Growth

The 13th Five Year Plan does not envisage any fresh large-scale fiscal stimulus, or extensive monetary QE (quantitative easing). It only requires an active fiscal policy (fiscal deficit at 3% of GDP in 2016, for instance), and a prudent plus

monetary policy (slightly easing). Top priority will be given to supply-side reform and structural changes. New engines for growth will be:

1. The persistent growth of consumption. Consumption, alone, contributed 4.6% to China's GDP growth in 2015, and is likely to gain further momentum in the next five years. Chinese people are buying more merchandise and housing due to a growing disposable income (by around 7-8% each year), and an estimated 100 million new urban migrants. Also, service consumption will likely grow even faster to include education, healthcare, travel, entertainment, and care for elderly people.
2. Robust growth in innovative, emerging, and high-tech industries. The industries include aerospace, hybrid-engine automobiles, next-generation information and telecom technology, biotechnology, alternative energy, environmental protection industries, high-speed rolling

stocks, nuclear-power reactors and turbines, new materials, machinated manufacturing, and maritime equipment. Those industries have grown at 8-10% per annum over the past few years, and will likely accelerate in the next five years. For instance, China is already the world's largest producer of electric cars and will continue to be a world leader in this area. They will serve as a strong engine for the economic growth over the next five years and beyond.

3. A comprehensive upgrade of traditional industries, which still account for 88.2% of total industrial output value.

4. The advancing of "Internet plus" and 5G telecom technology, covering e-commerce, e-logistics and online-to-offline (O2O), is quickly changing the nations' economy. Online retail spending is estimated to hit \$ 1,132.8 billion in 2020, almost tripling the 2014 figure (\$442.2 billion). The Internet penetration rate is estimated to reach 70% by 2020, from 50.3% in 2015.

5. A significant expansion and upgrade of the service sector will happen during the

action, maternity hospitals and child-care services will also witness fast growth. With a quickly aging population, there will be an extensive build-up of elderly care centers across the country. As a result, the medical industry will grow simultaneously, with its total output value estimated at 10 trillion yuan by 2020, 247% up on its 2015 level (2.88 trillion).

### U.S. Business Should Lose No Time for an Early Harvest

There has been no lack of skepticism from the U.S. media, academia, and business. While China should be open to all their criticism, U.S. businesses should lose no time in finding new commercial opportunities, striving for an early harvest. The following sectors are full of potential:

1. An increase of exports to China. Globally, the U.S. enjoys top competitive advantages in a series of industries and could logically offer more to the Chinese market. They include clean-energy technologies, biotechnology, high-tech manufacturing, environmental and eco-friendly industries, the aerospace industry, and so on. U.S. consumer goods, ranging from food and apparel to high-tech companies like Apple, as well as machinery and equipment in high-tech manufacturing, aircraft manufacturing, ICT, medical equipment, and clean-energy technology goods, will see an ever expanding market in China.

2. Increased investment in R&D and manufacturing in China. Besides increasing exports, they could also step up investment in China, especially in

*The 13th Five Year Plan does not envisage any fresh large-scale fiscal stimulus, or extensive monetary QE (quantitative easing).*

13th five-year plan. Healthcare, among others, will be a case in point. With healthcare service open to private and foreign operators, hospitals will expand quickly to offer better public services and goods. With the second-child policy in



*While China should be open to all their criticism, U.S. businesses should lose no time in finding new commercial opportunities, striving for an early harvest.*

nine key areas: intelligent manufacturing, clean-energy, agricultural modernization, infrastructure, “Internet plus” and 5G telecom, environmental protection and eco-systems, the One Belt, One Road Initiative, Beijing-Tianjin-Hebei Integration, and Healthcare. U.S. entertainment and theme park companies will also see huge potential of growth in China.

3. Enhance technology cooperation in agriculture. A top priority for the 13th five-year plan is the modernization of agriculture. China’s agricultural productivity is less than \$ 1,000 in farm output value per laborer, compared to over \$60,000 in the U.S. This is a massive and urgent opportunity.

4. Increased market access in the tertiary sectors. The 13th five-year plan will envisage significant progress in China’s reform and opening. The comprehensive reforms of SOEs will offer enormous market access for private and foreign players. The establishment of a “negative list” will be completely enforced across the country. China will offer much more market access in banking, insurance, accounting, legal services, entertainment, architecture design, education and healthcare. The construction of new hospitals, education centers, pre-school education services, and especially elderly-care centers will provide abundant opportunities.

5. China’s capital market. Direct financing through capital markets lags far behind the business needs in the country. It accounted

for only around 4% of total social financing, with indirect financing, mostly by banks, playing a dominant role and contributing to the high corporate-debt ratio. The reform and opening of capital markets will be another key task during the next five years. With the largest and most sophisticated capital market, the U.S. capital market players have a good chance to participate in this reform.

During this process, plenty of issues will exist or arise. China in turn, could also obtain further advice from the U.S. on intellectual property rights protection, transparency, fair competition, and developing a sophisticated capital market. All those will help China implement its new five-year plan while helping the U.S. business community in their own market expansion.

## 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 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-United States Exchange Foundation  
15/E, Shun Ho Tower  
24-30 Ice House Street, Central , Hong Kong

Tel: (852) 2523 2083  
Email: [digest@cusef.org.hk](mailto:digest@cusef.org.hk)  
Website: [www.chinausfocus.com](http://www.chinausfocus.com)

Editor's Email: [zhang.ping@cusef.org.hk](mailto:zhang.ping@cusef.org.hk)

# CHINA↔US Focus

Engage, Stimulate and Impact



## Go Bilingual

We have expanded footprint and reach by making Focus contents available in Chinese.



WeChat

ID:Chinausfocus



## Go Mobile

Wherever you go and whenever you want, China-US Focus is just a tap away on your mobile or tablet.

Facebook

Chinausfocus



## Further Insights



The bi-monthly magazine's readers range from policy-makers to diplomats, from scholars to opinion leaders from both countries.

We are available at [chinausfocus.com](http://chinausfocus.com)