

CHINA & US Focus Digest

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COVER STORY

A New Doctrine Emerges

Shaping, coordinating, and stabilizing domestic and international expectations concerning the Belt and Road Initiative will maximize the positive effect of economic policy and minimize potential negative side effects. Four years of achievements and experience have made it clear that the initiative not only promises huge immediate and long-term business opportunities but also requires striking a balance between seizing every opportunity available and guarding against possible risks.

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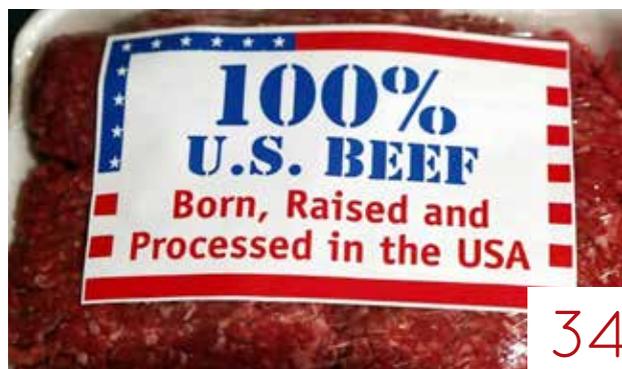


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ONE BELT ONE ROAD

A New Vision for U.S. Engagement

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Editor's Note

Zhang Ping

Early Harvest & Hiccups

In China's view, relations with the U.S. were put on a steadier footing after President Xi Jinping's meeting with President Donald Trump in Florida in April. The 100-day action plan, one of the outcomes from the summit, has reaped early harvests, dismantling fears of a trade war. Trump also sent one of his senior advisors to the "Belt & Road" international forum in Beijing, despite the lukewarm reception to the China-led initiative from the Obama administration. To prevent the situation on the Korean Peninsula from exploding, Beijing and Washington are working together more closely than ever.

Hiccups exist in the bilateral ties – the USS Dewey conducted a "routine" Freedom of Navigation patrol in the South China Sea in May, the first since Trump took office; China twice dispatched fighter jets to intercept U.S. planes along China's shores during the month; the U.S. deployment of THAAD anti-missile system in South Korea, put on hold, still presents uncertainties.

There has been much talk in the news media and corridors of power and offices of think tanks in each country's capitals, and among the public, about the prospect of a more assertive China filling the leadership void left by the U.S. Trump's policy initiatives, including the U.S. withdrawal from TPP and his "America First", as well of pulling out from the Paris Climate Accord, appear to point to a more isolationist America. Many seem to have also turned to China in the hope that it can step up to the plate to be the guardian of free trade and globalization and the chief cheerleader in climate change.

To some degree the hope and expectations are hyped. China has its eyes on the prize – that is growing its economy, managing a variety of domestic

priorities, including an anti-poverty campaign and implementing the regional "Belt and Road" infrastructure plan that has a direct impact on the country's economy. Its global role, while growing significantly, will be limited with its means, and aligned with its domestic priorities.

So far, there has been no indication that China is bucking its head against the U.S. in managing bilateral relations and global issues. Instead, China seems fine going along with the established rules within the existing global governance structure. Chinese initiatives, such as the "Belt & Road", aim to improve upon the global system and bring about new opportunities. Our contributors Douglas Paal and Matt Ferchen suggest that China is largely a rule-taker rather than a rule-maker in many aspects of the international order.

For this issue, the highlighted commentaries are on the "Belt & Road" initiative. Chen Dongxiao, who chairs the Shanghai Institutes for International Studies, participated in the May 13-14 "Belt & Road" international forum. He calls for better expectation management when it comes to implementing the initiative and a "collective identity" among the participating countries. Paul Sedille and Vasilis Trigkas suggest that the initiative can be viewed as part of an emerging "Sino-centric" "Silk Road system" very symbiotic to the U.S.-shaped Bretton Woods.

Another theme is the 100-day trade talks between China and the U.S. He Weiwen, while lauding the "early harvests", lists high-tech, energy, steel and infrastructure financing as bankable opportunities beyond the 100-day action plan. Christopher McNally pinpoints the transactional approach to the talks that he believes will lead to an impasse.



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A New Doctrine Emerges

Shaping, coordinating, and stabilizing domestic and international expectations concerning the Belt and Road Initiative will maximize the positive effect of economic policy and minimize potential negative side effects. Four years of achievements and experience have made it clear that the initiative not only promises huge immediate and long-term business opportunities but also requires striking a balance between seizing every opportunity available and guarding against possible risks.



■ This preliminary map is based on the proposed geo-economic cooperation as described in the Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road document. Actual routes may differ and may also extend to encompass other territories as the project develops. (Source: HKTDC)

The much anticipated inaugural Belt and Road Forum for International Cooperation has been successfully concluded, producing a fair number of agreements. More importantly, Chinese President Xi Jinping announced at the closing ceremony that China would host the second Belt and Road Forum in 2019, marking the

institutionalization of the forum as a brand-new platform for closer international cooperation. As a formal attendee at this important event, I have witnessed the keen interest and enthusiasm on the part of all the participants and the press corps with respect to the forum per se and its positive outcomes.



Chen Dongxiao

President, Shanghai Institutes for International Studies

Opportunities in 5 Key Areas



■ *The five major goals of the Belt and Road Initiative are: policy co-ordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds.*

Contrary to the doubts of some international media outlets and observers in the past few years, all the participants that I talked with praised the event itself and China's relentless efforts to translate the Belt and Road vision into a detailed blueprint and remarkable achievements. In my view, this contrast between what naysayers had anticipated and the highly positive evaluations I heard at the conference is attributable to three factors. First, all the outcomes of the Belt and Road Initiative presented during the forum, including a long list of 76 items comprising more than 270 concrete results in five key areas, have far exceeded expectations and reinforced a sense of gain on the part of the countries and regions along the two routes, increasing their confidence and dispelling initial suspicions. Second, a new concept of international cooperation based on the principle of "extensive consultation, joint building, and benefit sharing"—the New Silk

Road Spirit, or in my own phrase, a Belt & Road Initiative Doctrine — has begun to take shape as a governing norm for Belt and Road cooperation, creating a reassuring effect among all relevant parties. Third, the Belt and Road Initiative is now converging with other major development agendas, such as the United Nations' 2030 Agenda for Sustainable Development and the Paris Agreement on Climate Change, indicating that instead of reinventing the wheel, Beijing's effort aims to complement and enhance existing international economic cooperation and global economic governance. So the initiative is, to some degree, leading the way in strengthening current multilateral cooperation.

As a milestone event, the first forum has been not only about stocktaking but more importantly about sound planning for expanded international cooperation. In order to steer the Belt and Road

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As a policy entity, the government should effectively and regularly communicate information and policies on the Belt and Road Initiative so as to help market entities reduce miscalculations in their decision-making.

Initiative toward greater success, I think greater efforts should be made in the following aspects.

First, improving expectation management, i.e., shaping, coordinating, and stabilizing domestic and international expectations concerning the Belt and Road Initiative will maximize the positive effect of economic policy and minimize possible negative side effects. Four years of achievements and experience have made it clear that as a “project of the century” with a vast span in time and space, the Belt and Road Initiative not only promises huge immediate and potential business opportunities and economic interests but also presents a variety of political, economic and security risks and uncertainties. As a market entity, the enterprise should strike a balance between seizing every opportunity available and guarding against possible risks. As a policy entity, the government should effectively and regularly communicate information and policies on the Belt and Road Initiative so as to help market entities reduce miscalculations in their decision-making.

Second, it is vital to reduce the constraining effect of institutional transaction costs on the Belt and Road Initiative. On the one hand, history shows that an essential indicator of the efficacy of international cooperation is whether such cooperation can substantially reduce the transaction costs between and among partners with diverse policies, regulations, standards and laws. Those incurred costs are also defined as institutional transaction costs. That is why policy consultation at the governmental level is always given precedence and “dovetailing” of policies, rules and standards is regarded as an institutional safeguard for enhancing further cooperation. On the other hand, as one of the means to reduce institutional transaction costs, policy consultation at governmental level involves potential resource re-allocation and interest redistribution among all stakeholders, and is sure to encounter considerable obstruction unless there is broad-based social consensus and approval.

Therefore, it makes strategic sense to working on the consensus-making and confidence-building by strengthening

The history of the evolution of human society has shown that a common historical memory and shared experience of concerted efforts constitute the basis of a collective identity, which, if strengthened, can reduce or even resolve conflicting interests and ideas.

people-to-people bonds and promoting cultural, educational, science and technology, think tank, and personal exchanges between China and countries along the routes. Just like philosophy of traditional Chinese medicine goes, opening the human body's main and collateral channels will ensure the smooth circulation of vital energy. Strengthened people-to-people bonds, which function as the social basis for reducing transaction costs, will facilitate the reconciliation of policies, rules, and standards among all stakeholders.

Third, sustain the provision of public goods for the Belt and Road Initiative. Such an epochal project requires the steady supply of public goods, including a peaceful environment and sound institutions, to create any positive "spillover" effect. Therefore, all stakeholders in the project, including national governments, international organizations, enterprises and nongovernmental organizations need to make their respective input. National governments should provide adequate security and legal safeguards by leading the efforts of policy coordination and strategy synergy. Meanwhile, international organizations, enterprises, and nongovernmental organizations should be actively involved in policy consultations on trade and investment connectivity in order to promote greater transparency and benefit sharing in rule-making and

expand the institutional spillover effect of Belt and Road cooperation. Continued provision of public goods for the Belt and Road Initiative also requires recruitment of high-caliber thinkers and innovators to provide intellectual support, creating an "Intellectual Silk Road."

Last but not least, a sense of collective identity needs to be fostered. The history of the evolution of human society has shown that a common historical memory and shared experience of concerted efforts constitute the basis of a collective identity, which, if strengthened, can reduce or even resolve conflicting interests and ideas. Coordinating policy consultation, trade promotion, infrastructure connectivity, financial cooperation and people-to-people exchanges will enable all stakeholders in this grand project to raise their awareness of burden sharing and increase mutual trust. It is not only a viable way to break through the traditional pattern of international politics, which is all about interest, but also an integral part of the effort to build a community of shared destiny.

The rhetoric and policies of the Trump administration, alternately threatening to upend, or redouble support for, American trade and alliance commitments in East Asia and elsewhere, have only served to highlight China's status on the world stage at a time of heightened uncertainty in the international order.

sees as a changing international power structure. Especially in its own neighborhood, including Southeast and Central Asia, China is actively seeking ways, including through initiatives like the BRI, to influence patterns of commerce and geopolitics in a way that aligns with its perceived interests.

Against this backdrop, America's retreat from East Asian trade initiatives like TPP and its questioning of regional alliance commitments contrasts sharply with China's more activist, many would say assertive, regional economic and security policies. Yet if China is not more generally seeking, or able, to supplant the United States as leader of a post-World War II liberal international order, a crucial issue for U.S. foreign policy is how to reshape its relations not only with China but with East Asia more generally in a way that accommodates China's new status and foreign policy activism but that also directly sets out a strategy for America's role in a heterogeneous and dynamic region that is paying keen attention to the maneuverings of both the United States and China.

One starting point is to think anew about America's engagement with China as well as both developed and developing countries in Asia on important topics such as economic opportunity and public goods such as economic development and economic governance in

a post-Trans Pacific Partnership (TPP) strategy for shaping trade, investment and multilateral economic governance in East Asia.

To address these important issues, we recently set out to better understand whether China was best understood as a rule-maker or a rule-taker across a range of issue areas and regions. The results largely confirmed that on many important aspects of the existing international order that China is, in fact, more of a rule-taker than a rule-maker. Yet at the same time, it is very clear that while China largely does not aim to directly and fundamentally overturn the existing international rules governing trade and relations among sovereign states, it has nevertheless entered a new period in its foreign policy where it seeks to actively shape its economic and security environment in a way that aligns with its new status and what it

The results largely confirmed that on many important aspects of the existing international order that China is, in fact, more of a rule-taker than a rule-maker.

the region. Especially with its withdrawal from TPP, the United States cannot afford to be seen as ambivalent about the region's many economic challenges, and opportunities, especially at a time when China is promoting high-profile institutions such as the Asian Infrastructure Investment Bank (AIIB) and regional trade and development initiatives like the BRI. The Obama administration's misguided hostility toward the AIIB can and should be corrected with a willingness to take a role in that organization. At the same time, while China has declared that the BRI will be China's most important contribution to date toward the provision of regional public goods, it has also gone out of its way to declare that the initiative is not a Chinese Marshall Plan.

One venue where the U.S. and China should seek to address these issues, and the potential for misunderstanding, is in the newly restructured Comprehensive Dialogue that replaces the increasingly bloated and inefficient Strategic and Economic Dialogue. To make headway in reducing rising strategic rivalries, leaders on both sides will have to make a conscientious effort to discuss the possible, and real, overlap between economic, geopolitical and security issues surrounding Chinese-led development institutions and initiatives.

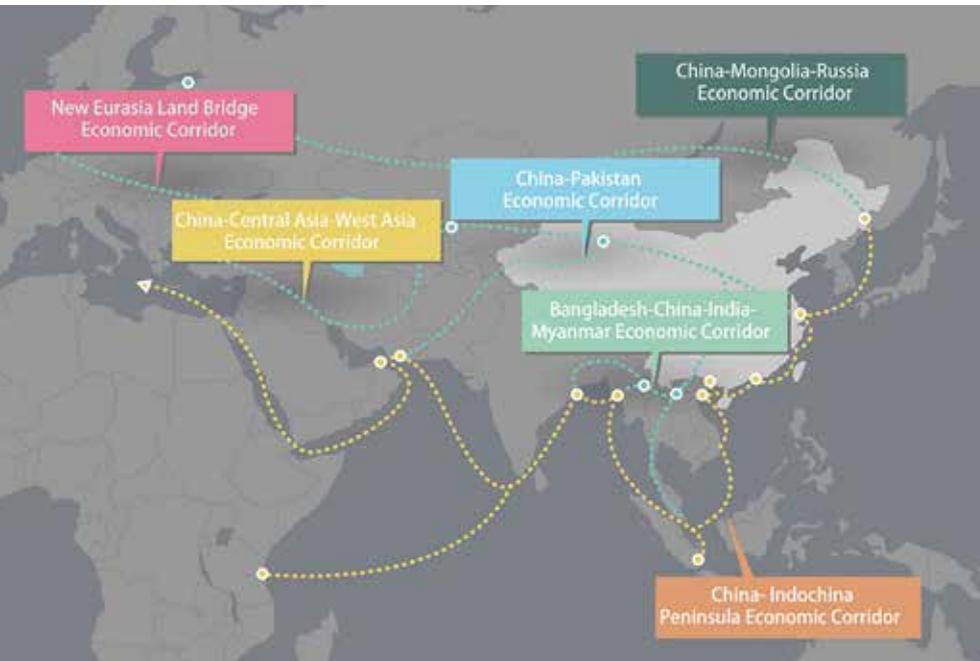
Yet the United States should not cede the important ground of economic development, including transportation and energy infrastructure, and more broadly of regional economic governance, to China's initiatives alone. Instead it must seek ways to actively engage China in multilateral institutions like the AIIB as well as on open-ended initiatives like the BRI. But more broadly it should seek to take a leadership role in helping to provide an updated Bretton Woods structure for East Asia that establishes cooperative and transparent structures that offer opportunities for countries big and small.

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Toward a Symbiotic “Bretton Woods”?

As the new U.S. administration has undercut its commitments to multilateral institutions and challenged free trade orthodoxy, China has upgraded its image as a pillar of globalization and doubled down on its Belt and Road Initiative. Amid the ongoing uncertainty for the future of globalization, it is thus possible to understand China’s BRI as part of a formative “Silk Road system,” an emerging economic substructure – “Sino-centric” yet symbiotic to the U.S.-shaped Bretton Woods.



■ The six Belt and Road economic corridors

“Right, as the world goes, is only in question between equals in power, while the strong do what they can and the weak suffer what they must”. This categorical quotation was used two millennia ago by the Athenians to impose their imperium over the small island of Melos. It might also have been quoted by Harry Dexter White in the 1944 Bretton Woods Summit. When John Maynard Keynes, the impeccable representative of the faltering British Empire, cited

highly sophisticated economics, White, his American counterpart, spoke the formidable language of Realpolitik. Armed with a potent industrial economy and the world’s sole nuclear arsenal, the American negotiator ultimately carried the day.

Since then the world has been inarguably shaped by American economic and political

imperatives. In retrospect, the then seemingly potent power of revolutionary communism – arousing fear for almost four decades – had only been an aberrational distraction to the unyielding rise of the Pax Americana. Today however, a new contender has risen. China has returned from its self-proclaimed century of humiliation and seems to be both willing and able to reshape a system born in her absence.



Paul Sedille

*Founder,
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Vasilis Trigkas

*Onassis Visiting Scholar,
Columbia University*

China today, though on the rise, cannot outmatch the concerted forces of serious competitors in its periphery let alone project global military power.

A wide array of voices in the Chinese Communist Party including influential strategists like Yan Xuetong have now called for the abandonment of Deng Xiaoping's "keeping a low profile" dogma (also known as hide one's might and build one's strength - taoguang yanghui 韬光养晦) and have argued for a more proactive China both in its economic and, in a sharp departure from recent precedent, also in its strategic and political outreach.

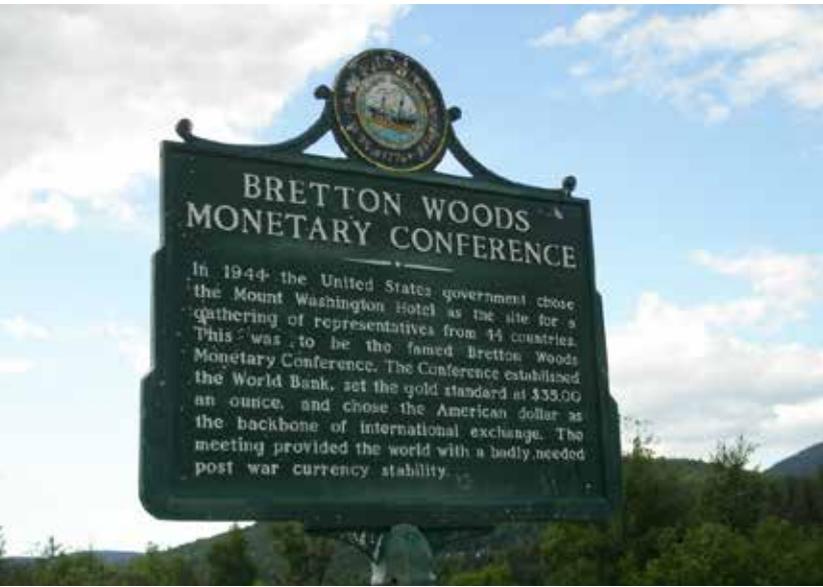
These new calls for a China "striving for achievement" reflect the widespread belief among Chinese elites that the power gap with the United States has narrowed and since the 2008 Wall Street meltdown the legitimacy of U.S. global rule has been enervated.

In core indicators of power and influence the Middle Kingdom already equals and often surpasses the United States: China has, as of 2017, a larger GDP (PPP); it has become the world's largest industrial exporter; it has reached parity in the disruptive techs of the 21st century (mainly Artificial Intelligence and Quantum Communications); and in the age of globalization, the Middle Kingdom has become the most important bilateral trade partner of 124 countries, significantly outperforming the U.S., which can count only 74.

Amidst commercial turbulence and the U.S.'s neo-isolationist

drive, China has cultivated its image as a mighty force for globalization with President Xi Jinping's presenting eulogy at Davos. Even before Xi's Davos speech however, China had been carefully planning its own institutional structures along the lines of global capitalism. Gradually but with decisive strikes, Beijing has established its own rating agency (Universal Credit Rating Group), upgraded the international role of its currency (set up offshore renminbi centers and successfully won the RMB's inclusion in IMF's special drawing rights), contributed most to UN peacekeeping by a large margin, and set up its own version of the World Bank with the Asian Infrastructure and Investment Bank (AIIB). As Zhang Jun, the director general of the department of international economic affairs of the ministry of foreign affairs has put it, China has gently yet unswervingly upgraded its normative power in global governance. China, Zhang declared, "is marching toward a new era where its economic diplomacy can make remarkable achievements," and has already sponsored daring declarations like the G20 Action Plan on the 2030 Agenda for Sustainable Development.

Along with these already impressive institutional innovations, China has for the past five years put forward what appears to be



- *The Bretton Woods Conference, formally known as the United Nations Monetary and Financial Conference, was held from July 1-22, 1944 at Mount Washington Hotel in Bretton Woods, New Hampshire.*

The Bretton Woods Agreement drafted at the meeting is a vital piece of financial history. The International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) were also created during the meeting, initially to oversee and monitor the Bretton Woods System.

Henry Kissinger has captured this in his latest book "World Order", declaring that Eurasian economic integration turns the U.S. into a peripheral geopolitical island.

the most ambitious economic integration project in modern history outmatching the financial instruments of the Marshall Plan by many orders of magnitude: The New Silk Road or as it has been officially framed: the 'Belt and Road' Initiative. According to recent statements from senior Chinese officials, this initiative is already offering "early harvests" through international cooperation and has propelled China to the forefront of the global stage. Now the uncertain international environment and the unpopularity of Trump in Europe makes the Chinese willing to grab the momentum and take the BRI to a new level.

The Silk Road Summit in Beijing

The Silk Road Summit, officially called the 'Belt and Road' Forum for International Cooperation took place on May 14-15 in Beijing. Officially announced at Davos by Xi Jinping, Chinese

government bodies and state media have since then carefully let out information surrounding the summit. Two dozen world leaders attended the summit, coming from Asia, Europe, Africa and Latin America. Along with them, ministerial delegations, representatives from international organizations, former dignitaries, well-known industry figures, and influential experts were also present. Echoing in opposite the recent declarations of the Trump administration, the theme of the summit revolved around a core tenet of globalization: trade connectivity.

The summit has been officially described as "the most important Chinese diplomatic event of 2017," "a strategic move to invigorate world economy," "a major platform to deepen international cooperation," and an occasion to "draw out the blueprint for the 'Belt and Road,'" all this as China

is gradually upgrading its responsible leadership role internationally. The summit also provided China an opportunity to clarify its ‘Belt and Road’ initiative, known for its grand but vague ambition. Ultimately, it is in line with China’s loud condemnation of protectionism, and continued championing of globalization.

A game changer?

Faced with the grandeur of the ‘Belt and Road’ project and the spectacular investment numbers touted by the press, commentators have not hesitated to declare this still thinly described initiative “a global game-changer” and to suggest similarity with the sharp rise of the United States after WWII.

Nonetheless, obvious historical differences separate the world that the U.S. faced back then from the world that China faces today. WWII had annihilated Europe and Asia, allowing the U.S. to stand supreme and unchallenged in a major power asymmetry with the rest of the world. The Bretton Woods was, quintessentially, a U.S. unipolar moment and it was U.S. unmatched military and industrial mass that ultimately determined the global trade norms. China today, though on the rise, cannot outmatch the concerted forces of serious competitors in its periphery let alone project global military

power. Increasingly, however, Beijing has found itself capable of projecting commercial, technological, and to a certain extent institutional power abroad. This new might is at the core of the Belt and Road Initiative, and may justify a parallel with historical events that have shaped global dynamics since 1944.

Very much like the Bretton Woods conference, the initial impulse of the ‘Belt and Road’ and its summit stems from an eagerness to address the economic woes of our age and challenges to globalization. In 1944 there was a collective consensus that the catastrophic mid-war period stemmed from the denial of the U.S. to provide public goods while it had already surpassed Great Britain as the leading industrial economy — a case well understood by Charles Kindleberger, the intellectual architect of the Marshal plan.

Today, the Belt and Road’s larger effect is to solidify a greater world community around a dominant core, China, and a wider periphery, Eurasia. It is the latter that has the potential to bring about new relations of power within the world economy. This is not to say we are seeing the birth of a new global system per se, but rather a shift in the current one—a shift of its center of gravity from the Atlantic Ocean to Eurasia. Henry Kissinger has

The basic structure of the BRI is that of a substantial liquidity provision by the Chinese, encouraging a greater interdependence and connectivity of Eurasian economies.



■ The U.S. Secretary of the Treasury, Henry Morgenthau, Jr., addresses the delegates to the Bretton Woods Monetary Conference, July 8, 1944.

While in 1944 Harry Dexter White could simply veto the demands of the British, today Washington will have to engage with China on a much less assured footing.

captured this in his latest book “World Order”, declaring that Eurasian economic integration turns the U.S. into a peripheral geopolitical island. Though the general rules of the game remain valid, some big players lose their advantage and others rise to the occasion, while the disruption allows many more to enter the game. In the same way, post-Bretton Woods England lost its primacy while Germany, a renewed European Community, Japan and many parts of Asia rose simultaneously.

Therefore, despite obvious differences between the Bretton Woods power dynamics and today’s uncertain present, there remains a major similarity: the naissance of both an abstract community and an institutional structure capable of upholding a global political-economic system

— previously guaranteed by the United States and today placed slowly under the guardianship of the Middle Kingdom. In fact, this renewed system’s major institutions and policies have already been decided. From the AIIB which is seen by the United States at least as a competitor to the World Bank, to the countless bilateral and multilateral agreements that have tied the economic fate of countries around the globe to China, a great part of Eurasia is now infused by the structures and stories needed to create a new Sino-centric status quo. In a multipolar world, the formation of global governance architecture is not episodic, but an ongoing systematic process, and Beijing’s BRI summit was not designed to plot for a compelling Chinese victory, but instead orchestrate China’s

return as a vigorous global power.

From the international community to a Sino-centric community of fate?

The basic structure of the BRI is that of a substantial liquidity provision by the Chinese, encouraging a greater interdependence and connectivity of Eurasian economies. This summit strived to give the 'BRI' global recognition based on a "community of fate" (mingyun gongtongti), mirror image of the still largely Western "international community" that solidifies the openness of world economy and free trade.

The Bretton Woods system, beyond the institutions and practices it put in place, stands for the global economic status quo, the economic mega-deal of an international community, which both made and were made by these institutions and practices. Our contention is that such a catalyst's role might be shared by the Silk Road Summit. It took two years to prepare the discussions the delegates were to have in Bretton Woods in July 1944. With its own plethora of negotiations, the 'BRI' vision of the Chinese has been in the making since official speeches announcing its launch in 2013. Like the talks held at Bretton Woods, the Silk Road Summit could be understood as the formal crystallization of a process that precedes and exceeds it, a process it is meant to embody.

The success of the Silk Road Summit, however, will not be judged by the ambitious catchphrases that

surround it but by the commitments that China and the participating countries will undertake in issues of global governance. China has the opportunity to set the bar high from global warming and inequality to reciprocal free trade and global development, and to prove that "with great power comes great responsibility."

Sino-U.S. fiduciary institutional symbiosis

While in 1944 Harry Dexter White could simply veto the demands of the British, today Washington will have to engage with China on a much less assured footing. Boycotting Beijing's initiatives, wishfully thinking that China lacks the capacity for institutional entrepreneurship, would be a self-inflicted wound.

The renowned British historian and diplomat, E. H. Carr, authoritatively attested that the core pursuit of the study of international relations is, "to establish methods of peaceful change." The BRI with its developmental agenda and grand vision for an integrated and economically flourishing Eurasia offers an attractive roadmap for the United States and China to work together. Instead of institutional contention the two nations in the spirit of amity must look for an institutional symbiosis that could serve the highest ideals of both. Neither nation is unassailable from bilateral conflict.

The BRI with its developmental agenda and grand vision for an integrated and economically flourishing Eurasia offers an attractive roadmap for the United States and China to work together.

“Belt & Road” v.s. Liberal Order

If there is anything about B&R that can contribute to the future of global governance and world order, it is the inherent opportunity in that proposal to further democratize international relations and make globalization an equal, more sustainable process for sharing benefits among all nations.



He Yafei

*Former Vice Minister,
Ministry of Foreign Affairs*

Will the U.S. continue to provide global commons in this new era of globalization or will it backpedal and go into an isolationist Mode Vivendi as has been the American tradition?

This is really the best of times and worst of times. With the rise of a large number of developing and emerging countries and relative decline of “advanced countries”, the global convergence of power is accelerating and the balance of power continues to tip in favor of the developing countries.

This big picture provides a useful prism through which a clearer view of the world today and tomorrow, including the future of globalization, global governance and the global liberal order, becomes clear in our minds.

Liberal order in crisis

Without any doubt, a crisis has been raging across the “liberal democratic world” for some time with “black swan events” appearing in the U.S. and in many European nations. These have wreaked havoc with the political eco-system in the Western world, weakening the centrist and progressive forces that used to underpin the U.S.-

led postwar world liberal order.

The challenges to liberal order as well as liberal democracy come from both within and outside, mostly from within, which raises many questions as to whether the U.S.-led and U.S.-defined liberal order can survive.

Among challenges from within, first and foremost is the loss of credibility of economic neo-liberalism as the governing ideology for global economic order since the 2008 financial crisis, which has made many countries turn to the East, in particular to China, for new ideas and concepts.

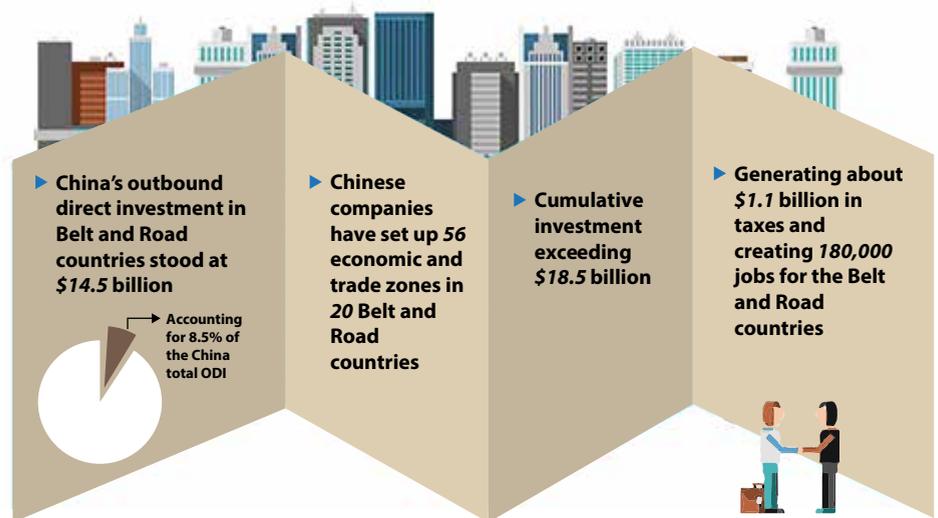
Next naturally are the “Trump Phenomenon” and its copycat versions in European countries, though the result of French election has given people some relief as Europe stares into the abyss of EU disintegration.

President Trump has been in office for a bit more than four months, during which his

China's trade with Belt and Road countries in 2016 amounted to

\$955.39 Billion

An increase of 0.6% over the previous year.



Source: Chinese official statistics

pronouncements and actions, together with his midnight tweets, are perceived both at home and abroad as risking an end to the role by the U.S. as guarantor of this liberal world order. His view of American decline and his instinctive contempt for the norms and values of liberal democracy, long held as sacrosanct by Western nations, are too blunt to miss or to ignore. Hence comes the question: Will the US continue to provide global commons in this new era of globalization or will it backpedal and go into an isolationist Mode Vivendi as has been the American tradition? That is why Francis Fukuyama repeatedly asks that “irksome” question of “do we still live in the liberal international order” as he gives talks and writes about the fast dismantling of that order based on liberal democracy.

China offers an alternative?

The Belt & Road Initiative is both a national developmental strategy and an innovative initiative by China to global governance offering huge opportunities for greater cooperation among countries concerned on the basis of equality and mutual benefit. The widely acclaimed success of the recent B&R Forum of International Cooperation in Beijing testifies to its popularity worldwide. The number of countries (and regional and international

organizations) that have signed MOUs on B&R with China had increased to 68 by the closing of the forum.

Nevertheless, B&R has been viewed with deep suspicion – some in the West portray the initiative as China's attempt to grow its sphere of political and economic influence, with a hidden agenda to overthrow the current international system of liberal democracy.

Here we have to distinguish between two things that are not really related. The liberal democracy and liberal order as defined in the Western narrative are indeed under siege and in crisis, because politically and economically they have been used or abused to impose a Western model of governance onto other nations regardless of their domestic conditions, including the “Washington Consensus” and “Responsibility to Protect”. It has also been followed rigidly in Western countries themselves for capital-holders to extract as much profit as possible from the society — overlooking the negative impact it has on some segments of the population, especially those who have only unskilled labor to offer. The French economist Thomas Piketty in his famous book entitled “The 21st Century Capital” described this ugly phenomenon in great detail.

The widening gap and exacerbating conflict between the rich and the poor have been blamed on globalization per se. The fact that governments in those countries failed to address this glaring problem has been conveniently forgotten.

Here lies another reason why China's proactive B&R proposal is so popular.

There are at least two things that make B&R an attractive proposition. One is that this idea of new international cooperation is deeply rooted in the success of China's economic growth and its domestic governance, including the enormous efforts in poverty reduction and elimination. China was successful in lifting over 700 million people out of poverty in the last four decades.

The other is the fact that China's success has been achieved by taking its own path of development with strong institutional guarantees from government led by the Chinese Communist Party. In other words, China has not followed the governance model of neo-liberalism offered and sometimes imposed by Western nations. Other developing countries and emerging markets, as well as many advanced industrial nations, have come to the conclusion that China offers an alternative model, though by no means to be simply copied, to economic growth and good global governance.

B&R is a solid example.

President Xi solemnly promised at the B&R Forum that the new Silk Road will be "the road of peace, prosperity and innovation with inclusiveness and civilization integration". B&R is also offered as a way to deal with the serious global challenges of peace deficit, governance deficit and development deficit.

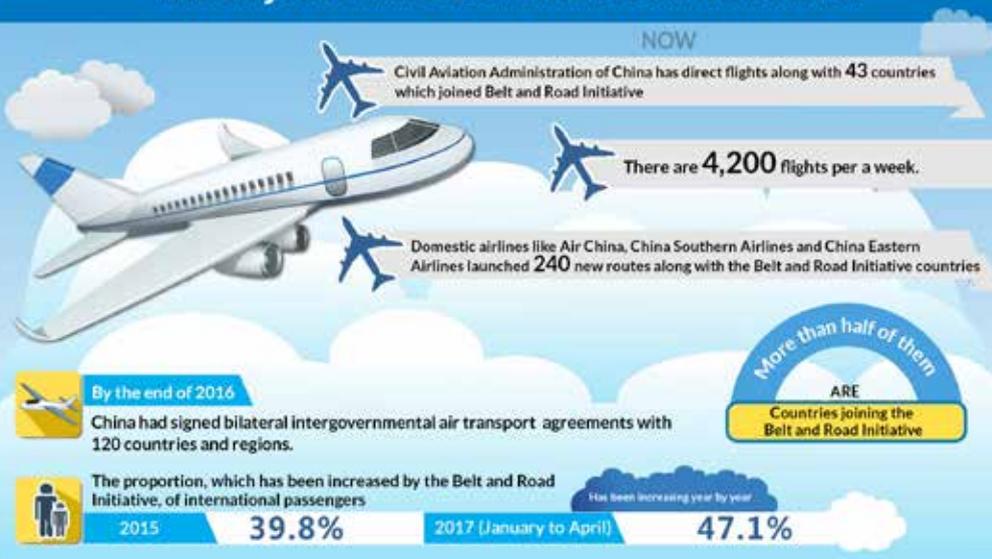
It is quite clear that B&R has nothing whatsoever to do with the decline or non-decline of the liberal order or liberal democracy as claimed by some scholars and experts in the West. If there is anything about B&R that can contribute to the future of global governance and world order, it is the inherent opportunities of that proposal to further democratize international relations and make globalization an equal process for sharing benefits among all nations and therefore more sustainable.

B&R is also offered as a way to deal with the serious global challenges of peace deficit, governance deficit and development deficit.

Global Development, Chinese Characteristics

Much as the relocation of East Asia's labor-intensive industry to lower-wage China stirred a virtuous economic cycle that went much beyond mere capital accumulation, so also China-Africa production capacity cooperation and transfer can create a sum bigger than its parts. Far from being a new form of colonialism, as the critics have panned it, the transfer of industrial capacity and world-class infrastructure will reduce transaction costs in Africa. But success abroad must first begin at home.

China has direct flights between more than 40 countries which joined the Belt and Road Initiative.



In September 2013, a five-point proposal to jointly build a New Silk Road Economic Belt was unveiled by President Xi Jinping in Astana during his 10-day visit to Central Asia. A month later he also outlined a complementary vision of a 21st century Maritime Silk Road during a speech to the Indonesian parliament.

On May 14-15, the presidents of Kazakhstan and Indonesia were both on hand in Beijing, along with 27 other heads of state or government, to collaboratively chart the next steps forward with President Xi at the

Belt and Road Forum for International Cooperation. Earlier in March 2015, a Vision and Action Plan listing a set of guiding principles and cooperation priorities and mechanisms had been released.

When the Belt and Road Initiative (BRI) is fully realized, it will comprise a far-flung network of highways, railways and connectivity corridors, both brick-and-mortar and digital, as well as a set of port infrastructure and blue economy projects that link China by road and sea as far as Europe and Africa via South, Southeast and Central Asia and the Middle East. Tellingly, it is being billed as the “project of the century.”

The logic of the initiative is at once both simple and revolutionary. In resurrecting the ancient silk routes that had embodied the spirit of peace and cooperation, openness and inclusiveness, and mutual learning and mutual benefit, China aspires to preserve and consolidate the ideals of the United Nations-centered, post-World



Sourabh Gupta

Senior Fellow,
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■ The Ganzhou port in east China's Jiangxi Province opened its first China-Europe freight train on June 1, 2017. The cargo trains will carry Russian timber to Ganzhou and then return to Kyrgyzstan loaded with furniture. The new route is expected to build Ganzhou into a port for international timber trade.

War international order that it had fought to create. Equally, by reviving the spirit that underlay these ancient routes, China also aspires to write – and share – a bright new chapter in global development that is informed by the growth model that facilitated its meteoric rise and lifted hundreds of millions out of poverty. This emphasis on growth and development is particularly apposite at a time when the global economy is constrained by a relative lack of growth drivers.

International cooperation on production capacity-sharing and between China and other middle income, developing and less developed countries forms a core element of BRI. Detractors have branded this as a barely transparent attempt to offload its excess and outdated production capacity to susceptible neighboring countries. Such criticism is misplaced. To the contrary, such production capacity cooperation is informed by China's own successful post-1978

model of industrial development and upgradation. That model was premised on two cardinal tenets.

First, as an agrarian, labor abundant but capital and resource scarce economy, China's industrial structure needed to conform to its prevailing – not preferred - factor endowments. Corresponding investments that would jumpstart growth, notably direct investment in human and physical capital rather than soft institution-building, too, had to be geared to near-term domestic realities rather than abstract rich society prescriptions or a one-size-fits-all model. As this investment in human and physical capital accumulation translated into a virtuous cycle of growth and poverty reduction, industry would need to upgrade its existing structure and scale the production value-chain at a rate that was as swift as China's rapid level of development.

Second, trade liberalization and market forces were to be the

Tellingly, it is being billed as the "project of the century."



■ Kenyan President Uhuru Kenyatta (R, front) attends the unveiling ceremony of Nairobi Terminus of Mombasa-Nairobi Standard Gauge Railway in Nairobi, capital of Kenya, on May 31. The passenger train service of the 480-km railway paves the way for the nation's industrialization and prosperity.



primary mechanisms for resource allocation. Yet due to infrastructure deficiencies, institutional shortcomings, rent-seeking, and a general lack of competition, industrialization-led development could not be left to market forces alone. Active industrial policy was a necessary complement. As industry scaled the product-sophistication ladder, government's interventionist touch and its accompanying hard and soft infrastructural enhancements, too, needed to evolve to facilitate such an upgrade of the production base. And until China attained middle-income status, this symbiotic relationship between activist policy and production structure would need to flexibly adapt to the country's rapid level of development.

The success of China's three decade-long experience with production capacity management

can be originally attributed to the international production capacity transfer that it received at the outset from its foreign partners as it opened-up to the outside world. Huge competitive strengths have been amassed over the past decade-and-a-half in sectors such as electronics, construction materials, railways, machinery, aviation and maritime engineering. By moving these production lines abroad as part of BRI, China can now pay it forward and assist its developing and less-developed country partners to create jobs, improve industrial capacity, and stimulate growth on lines that bear a resemblance to China's own industrial jump-start in the 1980s.

In Central Asia, such production capacity cooperation could range from co-funding and construction of strategically important trans-border transportation corridors,

and industrial and digital logistics hubs, as well as fertilizer and synthetic fuel plants. In Africa, production capacity cooperation could crack the development bottlenecks of backward infrastructure, human resource limitation, and inadequate finance. By facilitating agricultural modernization and industrialization, it could also rid these countries of overdependence on commodity exports as their solitary growth driver.

Much as the relocation of East Asian labor-intensive industry to lower-wage China stirred a virtuous economic cycle that went much beyond mere capital accumulation, so also China-Africa production capacity cooperation and transfer can create a sum bigger than its parts. Far

from being a new form of colonialism, as the critics have panned it, the transfer of industrial capacity and world-class infrastructure will reduce transaction costs in Africa and enable these countries, as ex-chief economist of the World Bank Justin Yifu Lin has pointed out, to unleash a dynamic upward spiral of growth and development in sectors where they enjoy latent comparative advantages.

The open-ended design, the level of ambition and the long-term vision that underpins BRI attests to President Xi's resolve to elevate peaceful development to the forefront of China's economic diplomacy. The reference to the 'belt' and 'road' concepts in the reform document that was unveiled after the 3rd plenary session of the 18th Central Committee

International cooperation on production capacity-sharing and between China and other middle income, developing and less developed countries forms a core element of BRI.

■ A freight train loaded with 2,000 tonnes of liquid chemical departed on May 26, 2017 from Korla city in northwest China's Xinjiang Uygur Autonomous Region to the German city of Ludwigshafen. It was the first time that Xinjiang has exported liquid chemical to Europe via the China-Europe freight train route. The train was expect to reach its destination in 15 days, 10 days shorter than before.





■ *The Beijing-Xinjiang expressway, which links Beijing and Urumqi of Xinjiang, is expected to open by June 30. With a length of 2,582 kilometers and crossing Inner Mongolia region, the new expressway will become the fastest and most convenient access to the sea for the northwestern inland region, connecting Xinjiang Khorgas Port and Tianjin Port in the east. It is designed to be an important component of the New Asian-European Land Bridge.*

The open-ended design, the level of ambition and the long-term vision that underpins BRI attests to President Xi's resolve to elevate peaceful development to the forefront of China's economic diplomacy.

meeting in November 2013 also attests to the transitional imperatives facing the Chinese economy – particularly the need to derive domestic growth drivers beyond its successful but dated producer-side model. That model, which China now seeks to export to its developing-country peers, had been authored by Deng Xiaoping exactly 35 years earlier at the 3rd plenary session of the 11th Central Committee meeting in November 1978. If the ‘belt’ and ‘road’ is to be Xi Jinping’s lasting legacy 35 years down the line, he must engineer an analogous rebalancing of the Chinese growth model to a more consumption-led one with the same political acumen and zeal that Deng displayed four decades earlier. When China ultimately serves as a ‘consumer of last resort’ for the increasingly sophisticated industrial-goods exports of its rapidly growing developing and less-developed country partners,

BRI will truly have bolted the development strategies of numerous countries, sought out complementary win-win advantages, and realized the common development and prosperity that it had envisioned for a vast chunk of humanity. Success abroad must first begin at home.

Benefits for People's Livelihood

With the implementation of the Belt and Road Initiative, what real benefits could it bring to the peoples of the countries along the route?



To ease food shortage and improve food security.

More than 70 million people across the world are in urgent need of grain aids.

\$8.8

Billion



To be used for livelihood projects.

Mainly in the form of aids and interest-free loans.



“100” assistance projects.

100 happy home projects,
100 poverty alleviation projects and
100 health care and rehabilitation projects.



To promote South-South cooperation

The base of \$2 billion provided by the Assistance Fund for South-South Cooperation will be expanded to \$3 billion.



\$1
Billion

For international organizations to conduct cooperation projects in the developing countries

In fields of poverty alleviation, agriculture, education, health, environmental protection, industrial development and trade promotion.

(Data from Chinese official statistics)

Win-Win Cooperation



Digital Silk Road

Strengthening cooperation in such frontier fields as digital economy, artificial intelligence, nanotechnology and quantum computing.

Promoting big data, cloud computing and smart city construction, and building and connecting the 21st century digital Silk Road.



Richer and colorful cultural life

China has signed broadcasting and television cooperation agreements with more than 60 countries along the Belt and Road, sponsored 20 cultural exchange activities, and signed 43 governmental cooperation agreements.



Improving ecological environment

China will construct a big data service platform for ecological and environmental protection.

China has called for the establishment of a Belt and Road green development alliance.



Bright prospects for tourism

China has signed agreements with 55 countries along the Belt and Road for visa-free arrangements for different types of passports, and 22 countries have granted visa-free or visa-upon-arrival treatment for Chinese nationals.

During the 13th Five-Year Plan (2016–2020), it is estimated that China will accommodate 85 million trips by people from countries along the Belt and Road, leading to \$110 billion in tourism-related consumption.



More jobs, higher incomes

Chinese enterprises have set up 56 economic and trade zones in more than 20 Belt and Road countries, generating about \$1.1 billion in taxes and creating about 180,000 jobs.

A consensus has been reached to promote trade and investment along the Belt and Road.



Sharing the “big cake” of globalization

More than 130 countries and regions and more than 70 international organizations sent representatives to Beijing for the forum in May.

The Belt and Road Initiative involves 60% of the world’s population and 30% of its GDP.



Higher-quality medical services

China calls for jointly building a “Health Silk Road”.

In August 2017, the Belt and Road & Health Silk Road high-level symposium will be held in Beijing.



Education, the light of hope

China promises to provide 10,000 scholarships each year to students from countries along the Belt and Road, and set up the “Silk Road” Chinese government scholarship.



Convenient transport

The initiative promotes connectivity of land, maritime and aviation transportation, and builds connected highway, railway and port networks.



Financial services

China’s technologies such as fast-developing mobile payment are helping the countries along the Belt and Road to develop inclusive finance.

(Data from Chinese official statistics)

A New Engine Driving Global Trade

Since its inception, the initiative has become a new engine driving global trade and promoting changes in the global economic governance. An analysis of 120 million pieces of trade data showed that amid sluggish global trade, trade between China and Belt and Road countries remained strong in the past few years. The initiative is bringing opportunities and new wealth to the countries along the routes.



In 2016, China's trade with countries along the Belt and Road amounted to **\$955.39 billion**, accounting for **25.7%** of China's total trade.

In 2016, China ran a trade surplus with **52** Belt and Road countries, and a trade deficit with **12** Belt and Road countries.



NO. **1**

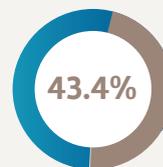
China is the biggest export market for major trading partners along the Belt and Road.

Trade by countries along Belt and Road accounts for **20%** of the global total

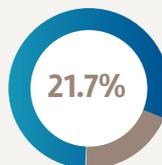
GDP
The size of economies of the countries along the Belt and Road stands at **\$12 trillion** accounting for **16%** of the global total.



The population is **3.21 billion**, accounting for **43.4%** of the global total.

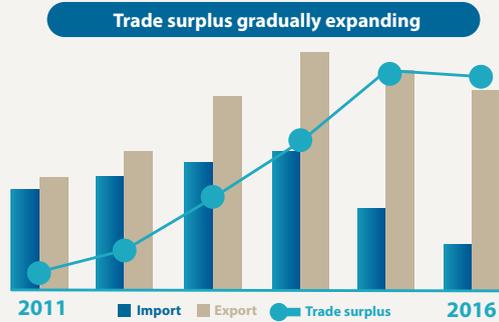


Foreign trade of countries along the Belt and Road amounted to **\$7.19 trillion**, accounting for **21.7%** of the global total.



(Data from Chinese official statistics)

China's trade with countries along the Belt and Road remains strong



China is the major export market for the top 10 major trading partners along the Belt and Road



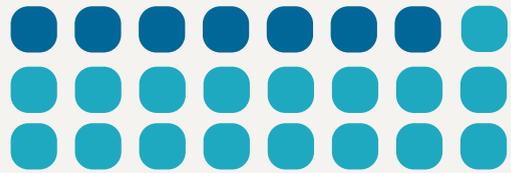
Major features of trade and cooperation



China's trade and cooperation status with countries along the Belt and Road

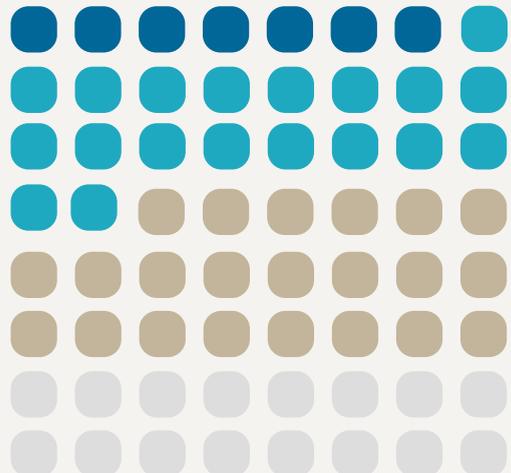
7 countries

Comprehensive cooperation



22 countries

Unitary trade and cooperation structure



19 countries

Growing potential

16 countries

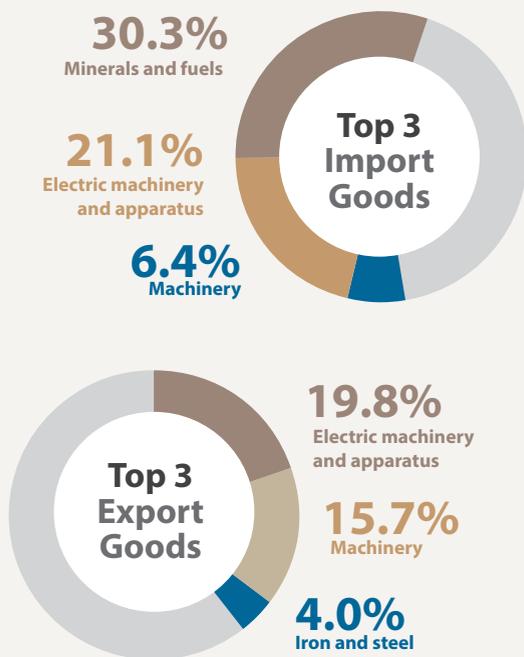
Trade and cooperation yet to be improved



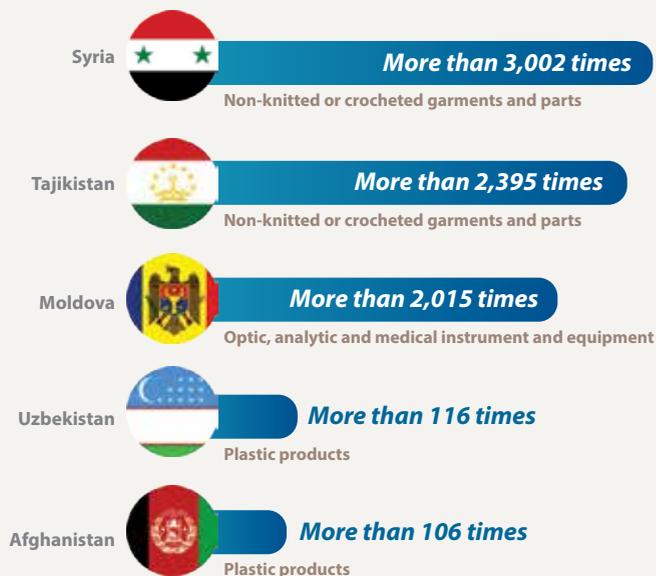
In 2016, trade between Vietnam and China stood at **\$98.68 billion**, making it China's **largest** trading partner among countries along the Belt and Road.

(Data from Chinese official statistics)

Minerals and fuels, electric machinery and apparatus among the top commodities on the import and export lists



In 2016, China's imports from countries along the Belt and Road grew at exceptionally high rates.



Challenges for future trade development

Challenges



Trade Barriers



Trade Frictions



Low Transport Efficiency



Weak Financial Support

Countermeasures

- Strengthening connectivity of infrastructure
- Improving mechanisms and platforms for trade and cooperation
- Deepening industrial cooperation
- Further optimizing the environment for trade facilitation

(Data from Chinese official statistics)

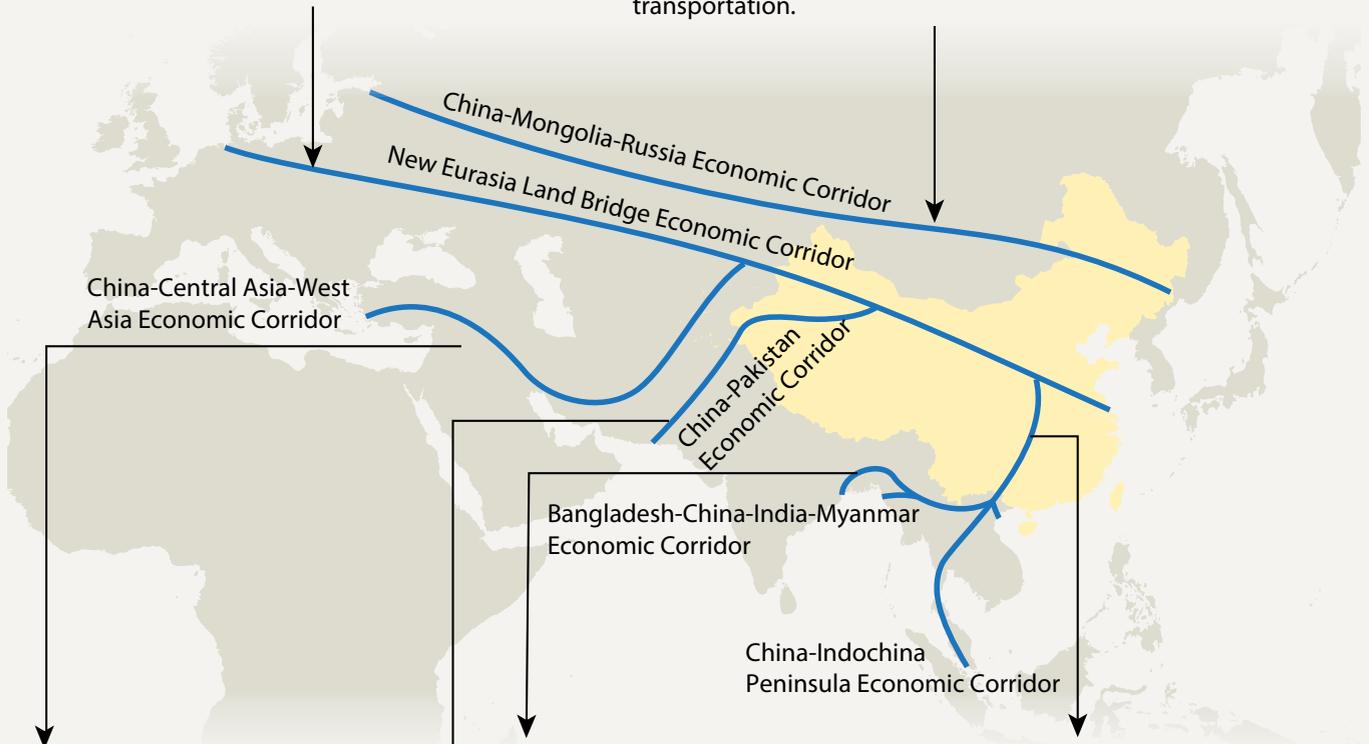
Six Belt and Road Economic Corridors

New Eurasia Land Bridge Economic Corridor

The New Eurasia Land Bridge is an international railway line running from China's Jiangsu Province through Xinjiang to Rotterdam in Holland. Capitalising on the New Eurasia Land Bridge, here are different kinds of new rail routes between China and other Europe and central Asia countries like Germany, Czech Republic and Poland.

China-Mongolia-Russia Economic Corridor

Linked by land, China, Mongolia and Russia have long established various economic ties and co-operation. In September 2014, the three countries agreed to bring together the building of China's Silk Road Economic Belt. This commitment will strengthen rail and highway connectivity and construction, advance customs clearance and transport facilitation, and promote cross-national co-operation in transportation.



China-Central Asia-West Asia Economic Corridor

The China-Central Asia-West Asia Economic Corridor runs from Xinjiang in China and exits the country via Alashankou to join the railway networks of Central Asia and West Asia before reaching the Mediterranean coast and the Arabian Peninsula. The corridor mainly covers five countries in Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan) as well as Iran and Turkey in West Asia.

Bangladesh-China-India-Myanmar Economic Corridor

China and India jointly proposed the building of the Bangladesh-China-India-Myanmar Economic Corridor. The four parties (China, Bangladesh, India and Myanmar) signed meeting minutes and agreed the joint study programme, establishing a mechanism for promoting co-operation among the four governments.

China-Indochina Peninsula Economic Corridor

Starting from Guangxi and Yunnan in China, China-Indochina Peninsula Economic Corridor ends in Singapore by passing through several major Southeast Asian cities like Vietnam, Laos, Cambodia, Thailand, and Malaysia, etc.

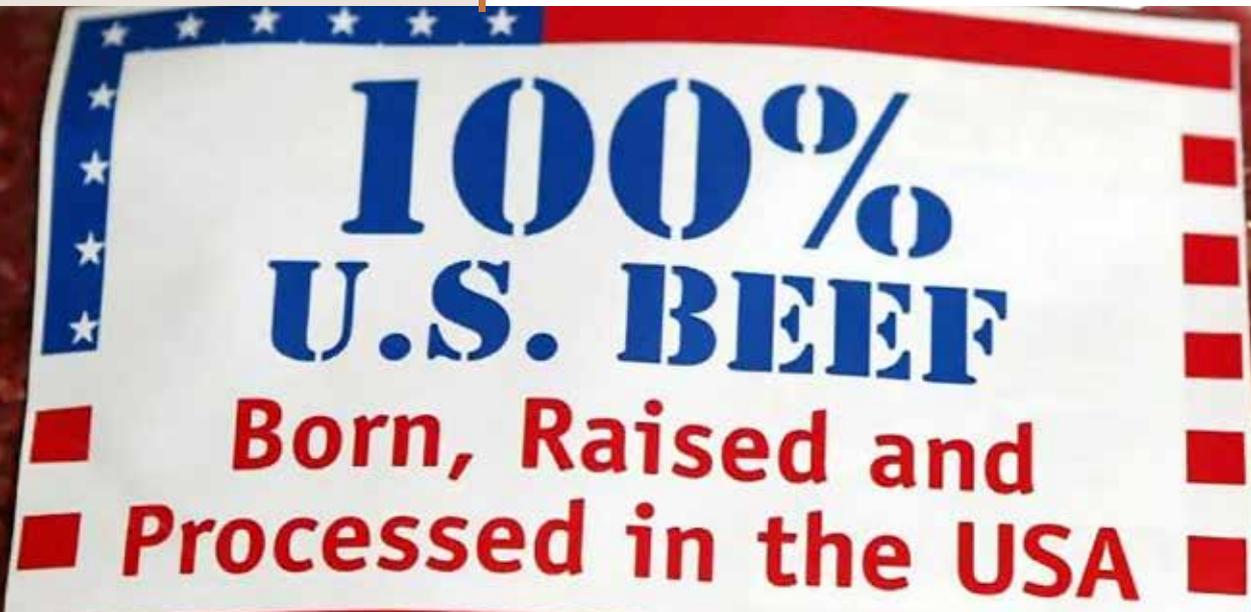
China-Pakistan Economic Corridor

The objective of the China-Pakistan Economic Corridor was to build an economic corridor running from Kashgar, Xinjiang, in the north, to Pakistan's Gwadar Port in the south. The two governments have mapped out a provisional long-term plan for building highways, railways, oil and natural gas pipelines and optic fibre networks stretching from Kashgar to Gwadar Port.

(Data from Chinese official statistics)

The initial deals represent more intangible benefits than tangible ones, but high-tech, energy, steel and infrastructure financing all offer bankable opportunities for both countries beyond the 100-day action plan.

What's Next After Beef?



He Weiwen

*Vice President and Senior Fellow,
Center for China and Globalization*

China and the U.S. on May 11 announced simultaneously the 10 initial results of the 100-day action plan of the U.S.-China Comprehensive Economic Dialogue. We can call it an early harvest. The 10 results are delicately balanced, benefiting both the U.S. and China, with six mostly for the U.S., including beef, biotechnology products and LNG exports to China, market access for EPS, credit rating and bond underwriting. The four for China include cooked poultry exports, extension of current non-action relief to SCH, equal banking regulatory standards and a U.S. official attending the One Belt One Road Forum in Beijing.

Intangible more than tangible results

The early harvest, while tangible, has a far more significant intangible implication. It shows to the world that China and the U.S. are anchoring their thorny

China and the U.S. are anchoring their thorny business relations on a practical, item-by-item, trouble-shooting basis for mutual benefit ruled by law, rather than harsh attacks, trade-war threats based on an arguable logic about currency manipulation, the trade deficit and job losses.

business relations on a practical, item-by-item, trouble-shooting basis for mutual benefit ruled by law, rather than harsh attacks, trade-war threats based on an arguable logic about currency manipulation, the trade deficit and job losses. It will serve not only as a basic approach for future Comprehensive Economic Dialogue and managing other trade and investment issues, but also as a stabilizer for world trade uncertainties.

The six items for U.S. business have a much larger intangible significance. The potential export increase in beef and other biotechnology products will be far outweighed by its political ramifications. Agricultural production, while accounting for 2% of the total U.S. economy, plays a much larger role in Congress and agriculture-state politics. The author was formerly the economic and commercial counselor at the Chinese consulate general in San Francisco 20 years ago, and personally spent much time and energy in tackling the U.S. Northwest wheat export to China (banned over the smut disease issue) and Californian citrus export to China (banned over the Mediterranean fruit-fly issue). The import ban was ultimately lifted on the two items, which generated a heated repercussion in the states of Washington and California, in the Congress and in the

Clinton Administration. China and the U.S. achieved WTO agreement only after the lift of the ban. The resumption of beef exports, the endorsement of LNG to China, and fresh market access for U.S. financial MNCs will certainly make the agriculture states, the energy industry and Wall Street happy. All three are important constituency bases for the Trump administration.

The four early harvest results for Chinese business also have larger intangible significance. They have provided further assurance of national treatment for Chinese investment and banking operations in the U.S. It also shows that Trump Administration is not quenching Chinese export to the U.S. for cutting its huge trade deficit. The most significant result is the U.S. official participation in One Belt, One Road Initiative proposed by China. It will be a milestone in both China-US cooperation and OBOR development. Even the six results “for the U.S.” have constructive effects in China. The three items in the financial sector, among others, fit China’s own direction in comprehensive deepening reforms and opening up, and thus could serve as an actual catalyst.

Later harvest on horizon

China and the U.S. are expected to

Top 10 Categories of U.S. Imports from China

(The first nine months in 2016)

Categories	AMOUNT (MILLION USD)	Share in U.S. imports (%)	Ranking
Electronics and machinery	161,610	34.4	1
Furniture, toys and household goods	40,495	58.5	1
Textiles and garments	29,882	35.9	1
Base metals and articles	17,329	21.9	1
Footwear, umbrella	14,254	61	1
Rubber and plastic	13,483	24.6	1
Other transportation equipment	11,029	4.7	6
Chemicals products	9,668	6.6	5
Medical Equipment, optical products and watches	9,290	14.6	2
Leather products; Luggages	5,817	55.3	1

■ (Source: Ministry of Commerce, China)

Note: The share and ranking in the table refers to the share and ranking of Chinese imports in total U.S. import volume.

tackle more difficult issues over the remainder of the 100-Day Action Plan development. The following issues should be identified and advanced.

First, more high-tech products should be exported to China.

The increase of U.S. agricultural products exports to China, though significant politically, does not contribute much to balancing the bilateral trade in goods. Total U.S. agricultural products exports worldwide was only \$ 77.48 billion in 2016, 5.3% of its total exports. Out of the \$ 77.47 billion, China took \$ 19.50 billion, or 25.2%, more than twice the volume taken by Canada, the second-largest importer of U.S. agricultural products. Even if China takes another \$ 20 billion, the U.S. goods trade deficit with China could only be cut

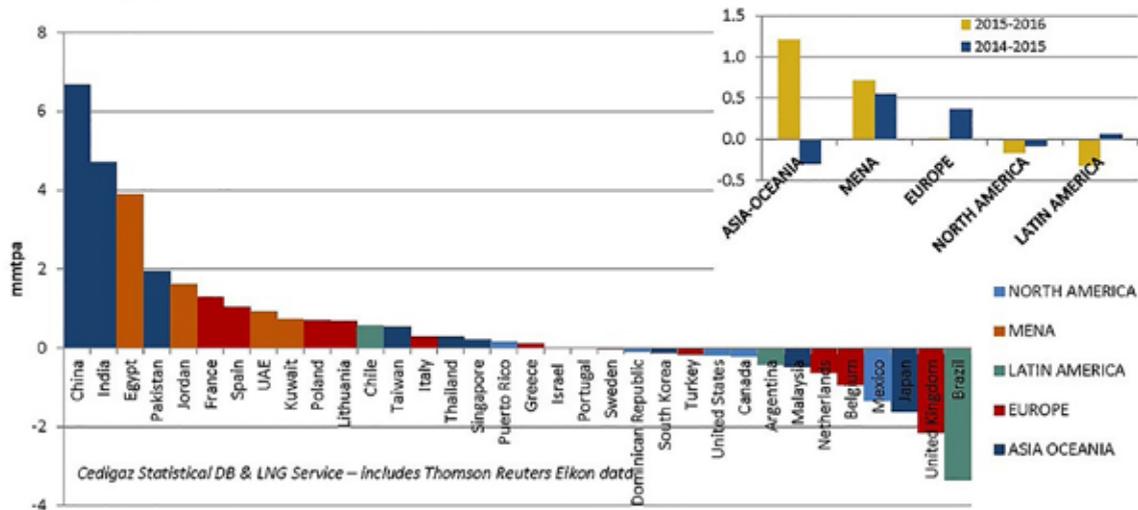
by 5.3%. It is unlikely that China could take unlimited agricultural products from the U.S., as China is already the world largest producer of grain and meat. What is more, the early harvest again gives an impression that the U.S. is only strong in offering primary resources (agriculture, energy) when trading with China. The actual advantages of the U.S. export are transportation equipment, computer and electronics, machinery, semi-conductor, environmental goods and new materials. There should be a major breakthrough in US export expansion to China in those areas.

Second, energy infrastructure cooperation should follow the LNG trade.

According to the U.S. Department of Energy, the U.S. exported 1783.5

Annual Changes in LNG Net Imports (2015-2016)

Preliminary figures



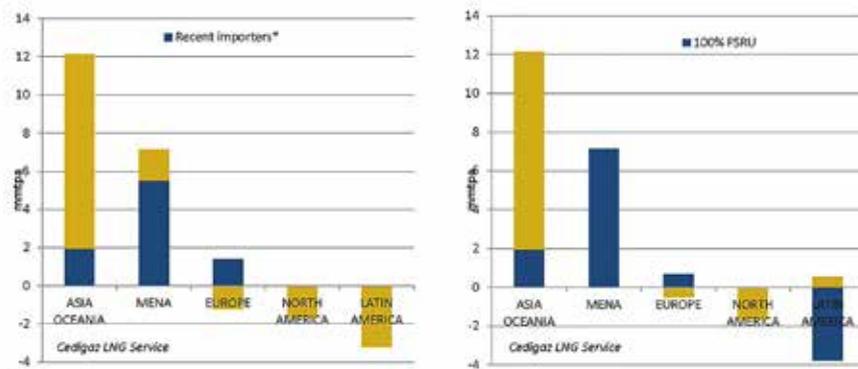
European Gas Conference - January 23-25, 2017 - Vienna

- New LNG demand in 2016 demand from Asia (esp. China & India) & MENA. Stagnation in Europe. Major role of new importers and FSRU countries.

Bcf of natural gas in 2015. Out of the total, LNG accounted for only 28.4 Bcf, and pipeline transmission for 1,754.9 Bcf (to Mexico and Canada). U.S. natural gas could not be shipped to China through a pipeline, but must be liquefied to LNG and be shipped by sea. However, large volume LNG export depends on an infrastructure advance. The two countries could find good cooperation opportunities in this field. The author also engaged in a proposal in Alaska natural gas export to China

Recent importers (since 2015) and FSRU's played a key role

Preliminary figures



European Gas Conference - January 23-25, 2017 - Vienna

in 1997 when serving at the Chinese consulate general in San Francisco. During a Chinese trade mission to Alaska buying oil, we had a trip to Prudhoe Bay, the North Slope of Alaska. It was reported then that a huge natural gas reserved had been identified there. BP, Arco (a leading oil engineering company in Alaska) and other oil giants wanted to launch a mega project with total cost of roughly \$ 15 billion.

China's participation in American natural gas infrastructure investment, with part of the LNG supplied to China, could ensure a long-term, sustainable energy project benefiting both countries.

The project envisaged a new trans-Alaska gas pipeline, parallel to the existing oil pipeline, to the southern port Valdez, and a new liquefaction facility there. They hoped that China could participate in the investment. In turn, part of the LNG would be shipped to China, with American companies participating in receiving facilities investment in China east coast. We worked hard for that opportunity. However, the proposal was not moving and the federal government banned Alaska oil and gas export later. After 20 years, we should consider the collaboration in U.S. energy infrastructure rebuilding once again, as a part of President Trump's plan in massive infrastructure investment across America. China's participation in American natural gas infrastructure investment, with part of the LNG supplied to China, could ensure a long-term, sustainable energy project benefiting both countries.

Third, the steel trade issue needs new solutions.

Chinese investment, especially greenfield investment, in the U.S. rust-belt area steel industry should be encouraged. The investment should advance the existing facilities and build up new technologies, create jobs and help find new market along the One

Belt, One Road economies. Instead of trade frictions, steel industry of the two countries could find a new horizon for future growth.

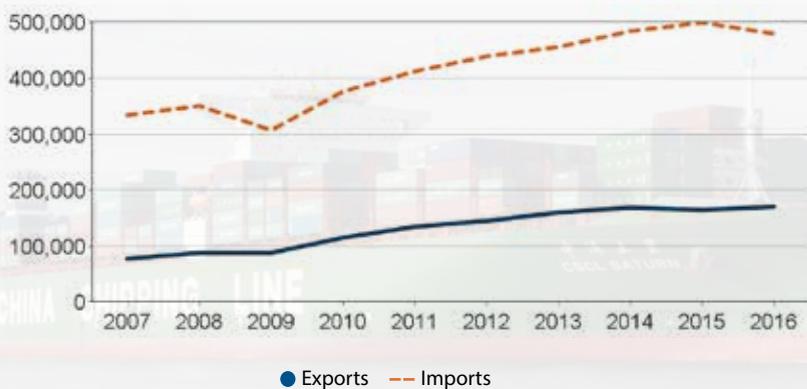
Fourth, financial cooperation should develop along One Belt, One Road.

The massive infrastructure and industrial investment along the route has shown a financial resources gap of hundreds of billions of dollars. While AIIB, ADB, WB and Chinese government and state-owned bank loans cover a large amount of financial needs, the greater part will be from private capital. The United States has by far the world's largest capital market and sophisticated PPP experiences. China and U.S. could discuss, during later stages of 100-days plan, practical projects along the One Belt, One Road that offer potential for cooperation. Both countries could find enormous new markets and new opportunities, thus leading to new win-wins.

Transactional Policy in Impasse?

The Mar-a-Lago meeting between presidents Trump and Xi has started to generate concrete results, the recently announced trade agreement between the countries shows. However, the transactional approach risks leading to an impasse; it needs to be buttressed by more fundamental deals, such as the U.S.-China Bilateral Investment Treaty.

U.S. Exports of Goods and Services to China in 2016



■ In 2016, U.S. exports of goods and services to China were \$169.8 billion, up 2.8% from 2015, and imports from China were \$479.6 billion, down 3.9% from 2015. As a result, the trade deficit with China decreased to \$309.8 billion. (Data from: Bureau of Economic Analysis)



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The recent announcement of a new trade agreement between the United States and China illustrates how the Mar-a-Lago meeting between presidents Trump and Xi has started to generate concrete results. The deal has something in it for both sides and will enable U.S. beef products, liquefied natural gas (LNG), and certain financial services to access Chinese markets.

Although the deal's impact on bilateral trade will be quite small, running in the range of a few billion U.S. dollars over one to two years, it highlights the warming ties being nurtured by the two presidents. It

also expresses a major change in tone in the China-US relationship.

Under the Obama administration's "pivot to Asia" the two countries increasingly came to see each other as competitors for geopolitical and geo-economic space. Indeed, President Obama consciously sold the Trans-Pacific Partnership as "our rules, not China's," an exhortation for the United States to continue to lead the international trading order in contradistinction to China.

Gone are those days. In their place, a much more transactional, deal-oriented modus operandi is shaping

In their place, a much more transactional, deal-oriented modus operandi is shaping China-U.S. relations.

China-US relations. This is much more in tune with Chinese thinking on creating “win-win” solutions to bilateral problems. The most immediate impact of the trade deal will be on U.S. beef exports to China, something long sought by the American beef industry. China in return will acquire the opportunity to export cooked poultry to the United States.

Similarly, U.S. LNG exports to China, which will take time to ramp up, are part of Beijing’s strategy to diversify energy imports and move to cleaner fuels. The access granted to U.S. financial services firms to conduct credit ratings and bond underwriting and settlement in Chinese domestic markets are all part of China’s wider policies to reform its financial system.

In a nutshell, these are all mutually beneficial transactions. While pleasing both sides, this transactional approach also has potential pitfalls. The first is that under this approach the forward momentum of economic relations can be easily held hostage by politics. In a rather rare bipartisan move, the U.S. Senate confirmed Robert E. Lighthizer as the next U.S. trade representative. Although serving as deputy trade representative under the free trade-oriented Reagan administration, Lighthizer has voiced, in keeping with the Trump administration’s overall mantra, a much more protectionist

outlook on international trade. His confirmation further shows how classical free traders are becoming rare in the U.S. Senate.

Therefore, at some point a day of reckoning might emerge, since even a large number of bilateral deals will not address the large trade deficit that the United States runs with China. Already the Trump administration harbors many appointees critical of Chinese economic policies, including Lighthizer, Peter Navarro and Wilbur Ross, the commerce secretary.

This brings us to another, more fundamental pitfall in the Trump administration’s transactional approach: It does not really deal with the underlying causes of the bilateral imbalance in trade. The U.S.-China trade deficit is directly related to saving/consumption imbalances in both countries, and the role the US dollar plays as the world’s sole monetary anchor.

As long as foreigners are willing to hold US dollars as an insurance against currency crises, the dollar will remain higher valued than otherwise. And as long as Americans’ propensity to save is too low to meet U.S. investment needs, the United States will import capital from abroad. The flipside of these two dynamics is that the United States runs a trade deficit; otherwise global payments cannot balance.

This fundamental situation will not be fixed by bilateral deals. It

While pleasing both sides, this transactional approach also has potential pitfalls.

China

\$21.4 billion

U.S. Agricultural Exports, 2016

Top 5 U.S. Exports

- 1 Soybeans (\$14.2 billion)
 - 2 Course Grains* (\$1.0 billion)
 - 3 Hides & Skins (\$949 million)
 - 4 Pork (\$578 million)
 - 5 Cotton (\$550 million)
- *Excluding Corn

Export Growth

2006-2016



#1

Among U.S. Agricultural Export Markets, 2016

U.S. Agricultural Exports to China, 2016

Source: FAS Global Agricultural Trade System (GATS) BICO HS- 6

United States Department of Agriculture
Foreign Agricultural Service



would require higher American savings that would depress consumption, and hence economic growth in the short term. This contradiction in Trump's economic policies could come back to haunt the administration.

There is no doubt that China's political economy has employed a number of protectionist policies to support infant industries and build up the market share of domestic players. The Trump administration has put China on notice that it will pursue these protectionist economic policies. In return, the U.S. is willing to yield on certain points to China, such as easier access to U.S. markets for Chinese banks and cooked poultry.

This is an improvement over the zero-sum geopolitical competition the Obama administration was slipping into. There are benefits for both China and the United States, and in spirit it brings the two nations closer together. Credit is due for this.

However, the danger is that any number of such bilateral deals will do little to dent the U.S. trade deficit with China. In the not too distant future, can the U.S. administration step down from its heated rhetoric to, as Wilbur Ross stated, see "tangible results" to bring down the U.S. trade deficit with China? Will elected representatives and/or Trump supporters go along?

The transactional approach risks leading to such an impasse. It is a step in the right direction, but it needs to be buttressed by more fundamental deals, such as the US-China Bilateral Investment Treaty. Moreover, the administration must recognize that constantly harping on the bilateral trade deficit risks a political backlash that could derail the world's most important trading relationship. Not only cooler heads but cooler rhetoric would help to sustain the recent positive momentum in China-US economic relations.

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Moreover, the administration must recognize that constantly harping on the bilateral trade deficit risks a political backlash that could derail the world's most important trading relationship.

New Strategic Thinking on Korea



China must reconsider its approach to the DPRK nuclear issue, reverse its passive strategic position, and not equate the security of North Korea with the security of the Kim regime. Beijing should openly state that it will neither allow a war in North Korea, nor merely look on while North Korea becomes Northeast Asia's "Middle East".



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The situation on the Korean Peninsula has remained tense since the beginning of 2017.

The dangerous state of affairs on the peninsula involves China's own security and development. Its roots lie in North Korea's nuclear program. The tensions can't be fundamentally dissolved; peace and stability in Northeast Asia can't be preserved until Pyongyang forsakes its nuclear pursuit. In the early 1990s, China and the US worked together to make it possible for North and South Korea to simultaneously join the United Nations. On the basis of the DPRK and ROK recognizing each other's sovereignty, China and the ROK normalized relations in 1993. The US, rather than seeking

to normalize ties with the DPRK as anticipated, continued to exert pressure on the latter. As for the two countries that had previously provided security guarantees for Pyongyang, the Soviet Union collapsed, and China has joined the US-led world order through reform and opening up.

North Korea began to develop nuclear weapons in 1994, in a bid to provide strategic deterrence for national security, or at least to offer a powerful bargaining chip. In Pyongyang's eyes, the key to its security is in the hand of Americans. Therefore the only request it has adhered to since launching its nuclear program is to hold direct dialogue with Washington, and hence normalize

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bilateral relations. During the Obama presidency, the US had completed its global nuclear materials (transport) monitoring regime, and thus had sufficient confidence in blocking the outflow of nuclear materials from North Korea. So Washington displayed fresh strategic thinking regarding the DPRK nuclear issue. The Obama administration observed that North Korea's nuclear pursuit exposed China's strategic dilemma. On one hand, given its special relations with Pyongyang and the latter's critical role in China's security environment, Beijing had no alternative but to "persuade" the DPRK to forsake its nuclear pursuit. On the other hand, for its own "peaceful development", China must preserve stable China-US relations, and therefore wouldn't make enemies again with the US and ROK because of Pyongyang. For North Korea, this meant it couldn't count on China to provide a fundamental security guarantee. It was precisely that Chinese strategic dilemma that has allowed Pyongyang to become increasingly reckless down the road of nuclear adventure in total disregard of Chinese security interests.

Meanwhile, both Japan and South Korea tended to distance themselves from the US when Obama was elected. After assuming national leadership in 2009, Japan's Democratic Party openly proposed to not extend the agreement on the US military base in Okinawa. Under such a circumstance, pressing hard to resolve the DPRK nuclear issue may not only further deplete US strategic resources in the Asia-Pacific, but also weaken US control over Japan and South Korea. The US has found a stronger need for closer security alliance with Japan and South Korea since Obama put forward the strategy of "rebalancing" to the Asia-Pacific in 2010.

In an obvious break from the proactive postures of his two immediate predecessors on the Korea nuclear issue, Obama adopted a policy of continuing to exert pressure, yet refraining from rushing to a resolution. On one hand, Washington ignored North Korea's calls for dialogue, dragged its feet on various China-proposed resolutions, and "froze" six-party talks; on the other hand, it sustained high pressures on North Korea, constantly escalating US-ROK military exercises with North Korea as the imaginary enemy, and imposing economic sanctions at the same time. The aim was to press North Korea into the corner, and make it attack in desperation.

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The outcome has been the vicious circle of "sanction – nuclear test – new sanction – new nuclear test" since 2009.

The fundamental US goal in doing this was to turn the DPRK nuclear issue into a Chinese strategic weakness, so that it can exploit it and contain China, killing two birds with one stone.

First, the US took advantage of China's strategic dilemma that it was neither capable

of persuading North Korea to abandon its nuclear program, nor willing to take sides with the US, Japan and South Korea to suppress Pyongyang — creating the impression in the international community that only China could prevent North Korea from developing nuclear weapons, but it is unwilling to do so. By shifting responsibilities for the DPRK nuclear issue onto China and making it a “Chinese problem”, the US attempted to deprive China of its moral high ground, and take advantage of the vicious circle over the nuclear issue to exhaust Chinese strategic resources.

Second, escalating tensions over the DPRK’s nuclear program not only helped the US to tighten its grip on Japan and South Korea strategically, but also offered it a forceful excuse for deploying THAAD in South Korea. In fact, as China upgrades its long-range strike forces and Russia deploys more forces for strategic strike in the Far East, the US will have to incorporate the area into its global missile defense system. By deploying THAAD in South Korea, the US can monitor both China and Russia, tilting regional strategic balance in its favor.

The Obama administration’s strategy obviously worked. On one hand, China-DPRK relations keep deteriorating. There has not been a summit meeting since Xi Jinping and Kim Jong-un assumed office, which is unprecedented in bilateral ties, demonstrating rare embarrassment and tension. On the other hand, with THAAD being deployed, China-ROK relations have dropped to a nadir since diplomatic relations were established in 1992. More seriously, China’s awkward position on the DPRK nuclear issue



■ North Korea fired what appeared to be multiple land-to-ship missiles off its east coastal city of Wonsan on the morning of June 8; the missiles flew about 200km, South Korea’s Office of Joint Chiefs of Staff said in a statement. (Archive photos)

has begun to show negative impacts on Chinese diplomacy and the Belt and Road Initiative.

China must reconsider its approach to the DPRK nuclear issue, make decisive moves and reverse its passive strategic position. During his phone conversation with Donald Trump, Xi put forward three principles for resolving the DPRK nuclear issue:

1. It must be handled in accordance with UN resolutions;
2. All parties should exert restraint, so as to prevent conditions from worsening;
3. All parties concerned should make concerted efforts and solve the issue via negotiations.

Under these principles, China should unequivocally present its own proposals, and play a proactive role.

It must be made clear that “North Korea abandoning nuclear weapons” is an unshakeable

By shifting responsibilities for the DPRK nuclear issue onto China and making it a “Chinese problem”, the U.S. attempted to deprive China of its moral high ground.

principle of China’s; Beijing should also clarify that “friendly cooperation” is the basis and premise of the China-Korea Treaty on Friendly Cooperation and Mutual Assistance. Since North Korea has single-mindedly gone its own way in developing nuclear weapons, disregarding significant Chinese interests and concerns, it is neither friendly, nor cooperative, and has completely destroyed the basis for “mutual assistance”. Only when North Korea forsakes nuclear weapons can China fulfill its responsibilities for the DPRK’s national security as stipulated in the treaty, and actively help the latter with its modernization drive, including modernizing its defense technologies.

In both theory and practice, stability of the Kim regime must be distinguished from that of North Korea as a country. The Kim administration’s reckless, extremist deeds in the pursuit of nuclear capacity have not only endangered the peace and development on the peninsula and the Asia-Pacific, but have severely damaged North Korea’s own national security and people’s livelihoods. As a friendly, responsible neighbor of North Korea’s, China must assume due responsibilities for peace on the peninsula as well as the well-being of the 25 million North Koreans. But that does

not mean China is under any obligation to safeguard the Kim regime.

Together with the US, Russia, Japan and South Korea, China will faithfully implement UN resolutions. In the meantime, it will press the Kim regime to abandon its nuclear program through active negotiation, and make it aware that forsaking nuclear weapons is the only way out, or it faces the risk of losing power.

Finally, China should also openly state that it will definitely not allow a war in North Korea, not to mention looking on while North Korea becomes Northeast Asia’s “Middle East”.

Starting a war will absolutely not solve the problem. Instead, it will be the beginning of turbulence. With the ability and resolve of present-day China, no matter who triggers a war, China will prove the only country capable of controlling the situation and rebuilding order in a post-war North Korea.

More seriously, China’s awkward position on the DPRK nuclear issue has begun to show negative impacts on Chinese diplomacy and the Belt and Road Initiative.

The Right Time Is Now

Both the Chinese Communist Party and People's Liberation Army have a special interest in the PRC's relationship with the North. But presidents Xi Jinping and Donald Trump seem to understand each other on the Korean Peninsula issue, and there may be no better opportunity for the U.S. and Chinese governments to come to an understanding.

■ *A Navy carrier strike group led by the nuclear-powered USS Carl Vinson is heading to waters off the Korean Peninsula as part of moves to exert pressure on Pyongyang to stop its nuclear and missile development programs.*



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North Korea continues to be perhaps the most challenging issue between the U.S. and the People's Republic of China. President Donald Trump entered office apparently believing that he could force Beijing to make Pyongyang abandon its nuclear program; he threatened to "solve" the problem if China did not.

Yet even as he sent an aircraft carrier battle group to sit off the North's coast President Trump admitted that President Xi Jinping

had convinced him that "it's not so easy." The former also cited his "great respect" for the Chinese leader.

Which means there may be no better opportunity for the two governments to come to an understanding on the Korean Peninsula.

President Trump, known in business for making "deals," indicated his interest in coming to terms on the Democratic People's

Republic of Korea. He offered a favorable trade agreement if the PRC would confront the North, principally through tougher restrictions on economic cooperation. China could end all commerce—which accounts for almost 90 percent of the North's foreign trade—and most of the DPRK's energy and food imports.

But trade concessions are not enough to induce Beijing to make such a dramatic policy change. After all, North Korea is even more a political and security issue than an economic matter. Both the Chinese Communist Party and People's Liberation Army have a special interest in the PRC's relationship with the North. And though historical ties have frayed badly, China's relationship with the North is different than that with, say, Zimbabwe and Sudan, which are almost purely transactional.

Moreover, the PRC has significant interests at stake in the North. One is economic. Although North Korea is a difficult partner, Chinese firms have invested and traded much. U.S. commercial concessions might be seen as an offset, but the benefits likely would go to firms other than those which would suffer from tougher economic sanctions.

Although Pyongyang is a difficult actor, a Korean collapse could yield chaos on the PRC's border. The regime could dissolve, with factional conflict and even civil

war. Thousands or even millions of refugees could flee north across the Yalu River: South Korea's fortified boundary south of the DMZ would prevent any similar move in that direction.

Beijing also might feel it necessary to intervene to provide humanitarian assistance, install a pliant regime, or seize nuclear, chemical, and biological weapons and materials. That would risk confrontation with South Korean and U.S. forces, which might seek to do much the same.

Moreover, China would not welcome a united Korea allied with America hosting U.S. troops along the Yalu River. Although an army division wouldn't much matter in practical terms, it would be a powerful symbol, especially since the PRC intervened in the Korean War to prevent just such a development. Washington should not expect China to surrender its ally and help the U.S. construct a militarized containment system around the PRC.

These are significant barriers to an agreement, but, in fact, a bit of compromise might make a deal possible. For instance, the U.S., South Korea, and Japan should develop a diplomatic package to reward North Korea for freezing its nuclear program, with more far-reaching negotiations to follow. The offer should be presented to Beijing for its review, since the PRC long has blamed Washington for driving the North

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Trucks carrying parts of U.S. missile launchers and other equipment needed to set up the controversial Terminal High Altitude Area Defense (THAAD) missile defense system arrive at the Osan base, South Korea on March 7. (Photo: U.S. Forces Korea.)

into the proverbial corner. Then China could put its influence behind the allied offer.

The U.S. and neighboring states also should join China in studying the potential humanitarian needs if the Kim regime fell and disorder ensued. They should commit to enlist the United Nations and the Korean diaspora while working with the PRC. Washington and Seoul also should accept the possibility of temporary Chinese military intervention in the North and create a means to coordinate the activities of respective armed forces if the North's government implodes.

In fact, Washington should indicate its willingness to tolerate most any role played by Chinese troops in the aftermath of a North Korean collapse. Even reconstitution of the North Korean government with new leadership under increased

Chinese influence would be a fair price to pay to eliminate the threat of a North Korean nuclear arsenal.

Looking further into the future, Washington should pledge to withdraw U.S. forces from a reunified peninsula. They would have outlived their usefulness in deterring the North and could be sent home. Moreover, Seoul should commit to military neutrality, maintaining no permanent military relationship with either the U.S. or China. Beijing, Tokyo, and Washington should agree to respect that decision. Then reunification would be less threatening to the PRC.

Of course, as a sovereign nation the South is entitled to take any position that it wishes regarding future loyalties. But the Republic of Korea is stuck in a bad neighborhood. It would be worth sacrificing some of

its freedom of action in order to eliminate the existential military threat that it presently faces. In any case, the U.S. and Japan could agree not to ally with or station forces in the South.

Finally, President Trump should play a little geopolitical poker. During the campaign he suggested that it might be time for South Korea and Japan to build nuclear weapons. Of

The governments would have to make painful concessions.

course, mainstream thinkers were horrified, but the North's growing capabilities make it ever more dangerous for Washington to maintain the "nuclear umbrella" over allied states. Moreover, if Beijing believed the threat to be real, particularly the prospect of a nuclear Japan, China would have an even greater incentive to press Pyongyang to stand down.

Putting such a pact together on North Korea would be a challenge. The governments would have to make painful concessions. Some degree of trust would be necessary.

Moreover, even additional pressure might fail to break

Pyongyang's will. The Kim regime might emerge poorer but unbowed. Then everyone would have to reconsider policy afresh.

Even before taking office Donald Trump appeared to take a confrontational stance toward China almost across the board. However, he has softened his tone and appears to recognize that there are few simple solutions.

He should initiate serious negotiations with the PRC over what North Korea is and should become. Against the odds, Presidents Donald Trump and Xi Jinping just might find that they can do business together.

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China & Asia-Pacific Stability Initiative

Two major security concerns, a rising China and a nuclear North Korea, have prompted the Pentagon to endorse a plan to invest \$7.5 billion to strengthen the U.S. presence in the Asia-Pacific region over the next five years. However, it remains to be seen how this fits with Trump administration's broader policy and military posture for the Asia-Pacific.



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If China is convinced that the Trump administration is indeed seeking a transactional relationship with China, it will be more inclined to believe that cooperation rather than confrontation would be the theme of Trump's China policy.

In May, the Pentagon endorsed a plan to invest \$7.5 billion to strengthen the U.S. presence in the Asia-Pacific region over the next five years. The plan, namely the Asia Pacific Stability Initiative, was first proposed by Senator John McCain earlier this year and has been supported by American legislators. According to Senator McCain, the initiative “could enhance US military power through targeted funding to realign our force posture in the region, improve operationally relevant infrastructure, fund additional exercises, pre-position equipment and build capacity with our allies and partners.” The proposal, if adopted, would translate into an extra spending of \$1.5 billion for the region annually from 2018 to 2022.

It is easy to understand why the proposal is popular in the policy community. Even since before Trump's inauguration, people had been worried about his lack of prioritization of the Asia-Pacific region in his foreign strategy. Indeed, Trump had suggested during his presidential

campaign that U.S. alliance commitments to its Asian allies, including Japan and South Korea, are negotiable unless they are willing to share more financial burden. Developments after his inauguration seem to confirm the perceptions. Since he assumed office, Obama's signature campaign in Asia — the rebalancing to Asia strategy — has largely disappeared from U.S. government statements and narratives. On the economic front, the Trump Administration formally abandoned the Trans-Pacific Partnership trade agreement, Obama's key regional trade deal. Given the deep disappointment and frustration with Trump's Asia policy among Asia watchers, it is fair to say that the Asia Pacific Stability Initiative provided an encouraging message that the U.S. remains committed to the region.

The two major security concerns, a rising China and a nuclear North Korea, are easily identified to justify the initiative. In calling for the Trump administration to adopt the initiative, Senator

McCain rightfully pointed out that China's bullying behavior in the region requires the U.S. to adapt to the scale of China's challenges and address the questioned credibility of America's security commitments in the region. Besides China's growing capabilities, the intensification of the North Korean nuclear threat since the beginning of the Trump administration has also made the initiative timely and appealing.

Although the Asia Pacific Stability Initiative has received a largely positive response from the government and the policy community, it remains to be seen how it fits with Trump administration's broader policy and military posture for the Asia Pacific. So far, the administration has tried to reaffirm its alliance commitment to the region through senior level visits and statements. Both Secretary of Defense Jim Mattis and Secretary of State Rex Tillerson have visited Asia to send the message.

China's reaction to the Asia Pacific Stability Initiative has been minimal. This could be because that it is unclear at this stage how the initiative will secure its funding and it would be premature for China to react to a proposal that has not yet been materialized. But more importantly, China sees itself in a fairly comfortable position in terms of U.S.-China relations at this point. Despite the earlier fluctuation of relations with the U.S. before and at the beginning of the Trump Administration, bilateral ties seem to have taken a positive turn, especially after the Mar-a-Lago Summit between President Xi and President Trump in early April. Per the U.S. request, China has applied more pressure on North Korea, and the two sides have reached preliminary agreements on trade one month after the summit at an unprecedented speed.

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confrontation would be the theme of Trump's China policy. In that case, a proposal such as the Asia Pacific Stability Initiative might still generate some discomfort, but would not lead to major repercussions for U.S.-China relations. China is prepared to accommodate Trump on key issues in exchange for his cooperation on some other issues. For example, the Chinese are well-aware of the possibility of and need for more Freedom of Navigation operations under the Trump administration, yet Beijing will focus on whether those operations are conducted in a way that is high-profile, provocative and slaps China in the face. In this sense, the initiative by itself does not automatically translate into extreme antagonism against China, especially if China perceives it in a broader context of a U.S. cooperative/transactional attitude toward China.

The bigger question on the Asia Pacific Stability Initiative, even in Washington, does not lie in the direction it points to or the details it encompasses. Instead, it is about whether more military spending alone could strengthen American leadership in Asia. Although there are few disputes that a larger defense budget for the Asia-Pacific region is needed and welcomed, the key issues remain the U.S.' commitment to its allies, its strategy toward China, its belief in the liberal trade system in the region and its determination to uphold its leadership role when needed. These profound strategic issues transcend a simple transactional approach to international relations and require firm commitment to principles.

On China, people criticize Trump for his naivete to think that the problems between U.S. and China can be solved by simple transactions, while the fundamental challenge by China to the U.S. on our global leadership role is not reconcilable through a series of deals. If their perspective is indeed the president's mindset, the Asia Pacific Stability Initiative might be the first step to shepherd the U.S. policy course in the right direction.

Subdue the Enemy Without Using Force

Maritime trade accounts for 90% of world trade, therefore international “choke points” like the Strait of Malacca are critically important for China, the largest trading nation in the world. The PLA Navy harbors no ambitions to control these straits, but it doesn’t want the straits to be controlled by others, either. The psychological effect of a Chinese carrier offshore would help “to subdue the enemy without using force”.



■ *Liaoning (16), a Type 001 aircraft carrier, is the first aircraft carrier commissioned into the People’s Liberation Army Navy Surface Force. It is a Soviet-made vessel sold to China in 1998.*

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The April 26 launching of the first aircraft carrier designed and built in China is a big relief for all Chinese people. In less than four years, the Chinese shipbuilding industry has been able to produce the most sophisticated weapons platform so far found in the nation’s military arsenal. Although the as-yet unmanned vessel looks like a copy of the Liaoning aircraft carrier, considerable improvements

reportedly have been made. Most importantly, it has laid solid technological ground for China to produce upgraded aircraft carriers to come.

How useful is an aircraft carrier? For some, in today’s irregular, asymmetric warfare climate, such a large vessel seems little more than a slow-moving target for precision-guided cruise missiles. But there are others who argue the



- *The Type 001A aircraft carrier, launched on April 26, 2017 in Dalian, is China's first domestically built aircraft carrier. It will likely enter service in 2019 or 2020. The Type 001A looks very similar to the Liaoning, with updated destroyers and frigates that provide a more advanced layered defense and missile strike system.*

vessel is hard to find and the multiple layers of sophisticated air and sea defenses are difficult to penetrate. Whatever the case, no existing aircraft carriers in any country have ever been attacked. Moreover, the US, the strongest military power with the largest number of aircraft carriers, is still building a Gerald Ford supercarrier.

At the dawn of the 21st century, a stronger China craved such prestige as befitting the nation's status as both a global power and maritime

power. Having a domestically made aircraft carrier has the same cachet as having a Beijing Olympics and Nobel prizes. But it is more than sheer pride. China cannot forget the humiliation brought by the foreign invasion that came from the sea in the last Qing dynasty. Today, the risk of China being invaded on land is next to zero, but the nation's vulnerability is still felt at the sea.

A carrier strike group led by submarines, flanked by destroyers and frigates and armed with fighters and

At the dawn of the 21st century, a stronger China craves such prestige as befits the nation's status as both a global power and maritime power.

It remains to be seen how the U.S. could still make as many “freedom of navigation” operations in China’s EEZs if Chinese aircraft carriers become operational.

helicopters would remind the Chinese of the heyday of Chinese sea power, when the fleet of “treasure boats” led by Admiral Zheng He was second to none. It demonstrates in no small way the progress the PLA has made in power projection, air superiority and long-distance strike capabilities. It will bring revolutionary changes to the chain of command and control. It is a turning point for the PLA Navy, which is starting to become a truly blue-water navy.

It needs a bit imagination to think how the Chinese aircraft carriers could be used in a real combat situation. This is because China has enjoyed peace for nearly four decades. The first question raised by any American president during a crisis away from the homeland - “Where are my aircraft carriers?” - won’t be equally applicable to the Chinese leadership. China has been the beneficiary of its own peaceful rise. By all means, China can be expected to continue to exercise caution and restraint, particularly when use of the

aircraft carrier in an offensive attack has to be considered. It is difficult to imagine any scenario in which China would use such lethal and devastating force to help resolve, say, its territorial disputes with some competitive ASEAN claimants in the South China Sea.

It remains to be seen how the US could still make as many “freedom of navigation” operations in China’s EEZs if Chinese aircraft carriers become operational. Over the years China’s protests against such American military activities have fallen on deaf ears. In 2013, the USS Cowpens tried to approach the Liaoning during the latter’s sea trials and was intercepted by a Chinese naval ship in a narrow escape. With a fully operational Chinese carrier strike group around, US ships or aircraft intruding into Chinese EEZs will only feel more “inconvenienced”, to say the least. Any American ships preparing to sail again into 12 nautical miles of China-controlled islands in the South China Sea would have to think twice.

For the Chinese navy, no international sea lane is more important than China’s proposed Maritime Silk Road linking the Pacific Ocean with the Indian Ocean.

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For the Chinese navy, no international sea lane is more important than China's proposed Maritime Silk Road linking the Pacific Ocean with the Indian Ocean. Over 80% of Chinese energy imports go through the Strait of Malacca. The proposed China-Pakistan Economic Corridor and China-Bangladesh-Myanmar-India Economic Corridor, two mega-projects of the Maritime Silk Road, lie on the rim of the Indian Ocean. A workforce of over a million Chinese workers can be found in the littoral states. In 2011, a Chinese frigate stood on guard near the Libyan coast when over 35,000 Chinese workers were being evacuated over two weeks. Should a situation like this occur again, a huge Chinese aircraft carrier standing by would not only create awe but also use its huge capacity to evacuate Chinese and foreigners.

Maritime trade accounts for 90% of world trade, therefore international "choke points" like the Strait of Hormuz, Strait of Bab-al-Mandeb and Strait of Malacca are critically important for China, the largest trading nation in the world. The PLA Navy harbors no ambitions to control these straits, but it doesn't want the straits to be controlled by others, either. So far the Chinese military has one supply station in Djibouti. An aircraft carrier, like a city

afloat, could tremendously reduce the problem of not having enough logistical supply bases overseas.

The most-quoted teaching from ancient Chinese strategist Sun Tzu is "to subdue the enemy without using force". The question, now as then, is how such a desirable outcome can be achieved militarily if not diplomatically. For the Chinese navy, towering aircraft carriers with overwhelming military superiority and huge psychological effect are one of the best instruments ever found.

Reassured or Disappointed?

The Asia Pacific policy statement had all the core ingredients of the Obama administration, even though labels such as “rebalance” and “pivot to Asia” were missing. While the sense of continuity was reassuring, if the region is looking for creative and new approaches to maintain regional peace and stability, it must have been disappointed.



■ U.S. Secretary of Defense James Mattis delivered his keynote speech on U.S. Asia-Pacific security policy at the IISS Shangri-La Dialogue on June 3 in Singapore.



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US Secretary of Defense James Mattis delivered his keynote speech on U.S. Asia-Pacific security policy at the IISS Shangri-La Dialogue on June 3 in Singapore. He tried to live up to the expectations of more than 500 participants by reassuring the region of continuing U.S. security commitments. He presented an overview of the region, the priority his government placed on the region, its enduring defense and relationship commitments, its threat assessment and approaches to regional security. Much of what he said is inherited from his predecessors who had stood on the same podium before. Even the catch phrases sound very familiar. For example, Asia Pacific is defined as a “priority region” and the U.S. a “Pacific nation in both geography and outlook”. The U.S. supports “rules-based order” including freedom of navigation and over flight, and opposes disrespect for international law including unilateral change of status quo. Confronted with questions

on US withdrawal from the TPP and the Paris Accord, Mattis only murmured without explaining whether these withdrawals could be regarded as rules-abiding or rules-disrupting behavior.

A more careful study of his two-part speech (threat assessment, and approaches to threats) reveals much continuity but some deviations from the Obama administration’s Asia Pacific security policy.

The Obama administration had been consistent in naming North Korea, Russia, China and Iran as threat- or challenge-presenting state actors. Mattis did not change that assessment. Given he was talking about the Asia Pacific region, only North Korea and China were mentioned. However, they were defined in very different language. North Korea is “the most urgent and dangerous threat to peace and security”, with “nuclear-weapons program maturing as a threat to all”. Mattis stressed again that “the era of strategic patience

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is over”, which can be viewed as a shift from the Obama administration; the policy of strategic patience aimed to wait for the collapse of the DPRK and impose on China the responsibility of reining in its neighbor. Another change was his repetition of Secretary of State Rex Tillerson’s rejection of regime change as a policy goal. In fact, no US governments have ever made regime change a declared policy goal, but they all had implied, expected and desired such an end-state, which provided one of the major drivers for the DPRK’s nuclearization. The secretary urged China to recognize North Korea as “a strategic liability” and as the previous administration did, pushed China to do more.

China has been discussed in a much more sophisticated manner. Mattis presented China, first of all, as a challenge rather than a threat. The United States welcomes China’s economic rise, recognizes its legitimate position of influence, anticipates frictions, and does not accept its “actions impinging on the interests of the international community”, and “undermining the rules-based order”. While admitting competition with China was bound to occur, he also rejected the idea that conflict was inevitable. He elaborated on how

to work with China where interest overlapped, and how to manage competition where interests differed. It seems that the traditional China policy stressing “hedging” on the one hand and “engaging” on the other, will continue to guide American interactions with China in the Trump administration.

Apart from state actors, Mattis singled out the violent extremist organizations such as ISIS as top non-traditional security threats and called for cooperation in data sharing and maritime-domain awareness to better protect the people, and for coalitions, partnerships, and more timely and decisive actions to stop the threat from growing, especially in Southeast Asia.

In dealing with the threats and challenges, Secretary Mattis came up with a three-pillar approach: strengthening alliances, empowering countries, and enhancing military capabilities in the region. Commitment to strengthening alliances the U.S. has with five regional allies (Japan, Australia, the Republic of Korea, the Philippines and Thailand) has always been the mainstay in US Asia Pacific policy and we see little change in this regard. However, while elaborating the second pillar, he made a blunt statement not usually heard on multilateral

platforms such as the Shangri-La Dialogue. After citing India, Vietnam and Singapore as valuable security partners, Mattis pledged to “work with Taiwan and its democratic government to provide it the defense articles necessary”. The mentioning of Taiwan in the category of countries, and the pledge of continued arms sale under “Taiwan Relations Act”, provoked a sharp question on America’s One China Policy from a Chinese PLA officer, and the secretary had to confirm that the long-held policy had not changed. The last pillar is an echo of words and figures of the Obama administration, which adopted the strategy of “rebalance toward the Asia Pacific”. The secretary again listed as examples of US commitment to the region, the 60% of Navy ships, 55% of Army forces and two-thirds of Fleet Marine forces in the Pacific Command’s AOR (area of responsibility), and the additional 60% of overseas tactical-aviation assets. In the secretary’s own words, enhanced military power in the region could “strengthen the rules-based order by better positioning us to support regional stability in a changing region.”

In summing up, we can safely say that Secretary Mattis’ Asia Pacific policy

statement has all the core ingredients of the Obama administration, even though the labels such as “rebalance” and “pivot to Asia” were missing. Is his speech reassuring to the regional ears? It depends. If the region is looking for a continuation of U.S. regional policy, it must have been reassured. If the region is looking for creative and new approaches to maintain regional peace and stability, it must have been disappointed.

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Corrections: Photo Mix-up

On Page 48 of our March 2017 issue (Vol. 13), we erroneously misplaced the photos of Professor Chen Xikang of the Chinese Academy of Sciences and Associate Professor Xiong Yanyan of the China Southeast University, who are the co-authors, together with Professor Lawrence Lau of the Chinese University of Hong Kong, of the article titled “Real China-U.S. Trade Balance.” Professor Chen and Professor Xiong’s photos should be switched. We apologize for this editing oversight.

About China-United States Exchange Foundation

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