

‘Post-American Era’ Arrives



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Arrival of 'Post-American Era'

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Editor's Note

Zhang Ping

Uncertainty, 'Health Checkup' and Trump's China Trip

Eight months into the Trump presidency, there's still significant uncertainty in the U.S.-China relationship. Yet one can expect a clearer outlook, come this fall after the Trump's state visit to China in November.

Under the pretense of the freedom of navigation, U.S. continues to challenge China's territorial claims in the South China Sea. President Donald Trump's decision to initiate a Section 301 investigation into China's commercial practices has raised fears of a trade war. North Korea's recent missile launches and nuclear bomb test raise the specter of war, one that could draw in both powers.

Yet, both Beijing and Washington recognize the importance of their relationship, and are mindful of the high-stakes of any conflict. The Mar-a-Lago summit between Presidents Xi Jinping and Trump and their multiple phone conversations have provided opportunity for them to reach an understanding. Trump's state visit to China will likely reinforce this relationship, and may bear tangible fruit. There's still ample room for both sides to manage their differences and to build a better future together.

In this issue, we feature perspectives from leading Chinese and American scholars and researchers, who provide the bilateral relationship with a "health checkup" and offer some thought-provoking proposals.

The complexities of the North Korean nuclear and missile program and the sensitivities of the South China Sea disputes are two subjects we focus on in this issue. Some of the other commentaries take a longer view, looking at the evolution of the Sino-American relationship over the next 50 years amidst China's rise and profound changes to the balance of power. The cover story by He Yafei, former Chinese Vice Minister of Foreign Affairs, discusses the prospect of a "post-American era" and the changes this will bring to global governance.

These are some difficult questions, but there's no better time to think about them. We hope you will enjoy this issue.

China This Week

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Arrival of 'Post-American Era'

The Post-America Era has arrived, but what does it mean? How will globalization, global governance, and the international balance of power be affected? Leading nations will emerge as America regresses, but the potential for peace and prosperity for all are at hand.



Many scholars argue about what era we live in now, but the answer is clear and simple. We have entered a “Post-American Era,” meaning that the so-called “Pax Americana” and the American century is over. We are witnessing not just the arrival of the new era, but also

a quickening pace of the epoch-making process. As a result, the world order is undergoing a dramatic metamorphosis. Chinese President Xi Jinping said that from a historical perspective, mankind is moving into a new era of great development, great changes, and great readjustments.



He Yafei
Former Vice Minister,
Ministry of Foreign Affairs

“America First” by itself is not a problem, but when it is pursued at the expense of other countries, it will create a serious issue for the international community.

This new era begins with the end of Pax Americana and its accompanying U.S. domination of the world. If we had to pin down a watershed year that points to the start of the new era, it could possibly be 2008, when the world financial crisis broke out with devastating economic and political consequences. 2017 could also be in the running as the point at which the on-going process of global transformation into the Post-American Era began. As the world adjusts to the realities of this new age, how did we get here and what are the major characteristics for future global relations.

A rise in populism due to economic inequality of neo-liberal order

In the first decade of the 21st century, the U.S. was forced to reprioritize its strategic objectives with the “global war on terror” on top of the list. With wars in Afghanistan and Iraq and a financial crisis all in one decade, America suffered huge loss in both hard and soft power. For this reason, the “Asia-Pacific Rebalance” strategy surfaced in the Obama administration. With China

always as its main target, the U.S. stance changed from passive military deterrence to active involvement—from the South China Sea and the East China Sea, to China’s relations with ASEAN, Japan, and India.

Globalization has undergone unprecedented transformation, and “re-globalization” will be an important feature in the Post-America era, with forces both for and against globalization battling on a collision course with a higher degree of intensity than before.

Ironically, this time around, the U.S. has reversed course and become a strong voice for populism and anti-globalization. President Trump’s decision to dump the Paris Agreement on climate change is a typical case. “America First” by itself is not a problem, but when it is pursued at the expense of other countries, it will create a serious issue for the international community. This “Great Role Reversal” began at the start of the Post-American era and must be closely observed as it determines what sort of role America will play in the transitional period of

Economic neo-liberalism places market, capital, and privatization above everything else and has caused extensive harm to the economies of many countries that adopted it as its guiding economic ideology.



■ U.S. President Donald Trump on March 16 unveiled the administration's first budget blueprint "America First: A Budget Blueprint to Make America Great Again," which seeks deep cuts across federal departments and agencies in order to fund rising defense spending.

One critical factor that has fueled populism all over the world is the widening gap between rich and poor. The balance of market efficiency and social justice needs to be maintained for a better distribution of benefits of globalization. That responsibility must be borne by governments and other important actors in society; it is futile to rely on market alone to do the job. Economic neo-liberalism places market, capital, and privatization above everything else and has caused extensive harm to the economies of many countries that adopted it as its guiding economic ideology.

a shifting world order. It is important to note that such a role reversal is not limited to North America; populist candidates have also emerged in Europe, beginning with the U.K.'s mid-2016 referendum to leave E.U., which placed the European integration project in jeopardy.

This round of globalization, beginning in 1950s, has brought economic prosperity to the world for more than seven decades. The liberalization of capital is a centerpiece of this ideology where capital should be made available where it is needed most for economic growth. Unfortunately, capital invariably goes where profits are greater, ultimately disregarding the social inequality it creates along the way.

What are the characteristics of a Post-American Era?

The most obvious characteristic of a Post-American Era is a reconfiguration of the global power balance, with developing nations gaining strength year by year. The so-called "Great Convergence," a phrase crafted by the IMF on the basis of Purchasing Power Parity (PPP), is becoming a reality. IMF predicts that the GDP of high-income countries would drop from 64% to 39% of the world's total. In the same timeframe, the GDP of Asian emerging economies and other developing countries would rise from 12% to 39%, with China comprising 21%. As America continues to debate the direction of its

The center of global power has transferred from both sides of the Atlantic to the Far East."

— *The Late U.S. National Security Advisor Zbigniew Brzezinski*

The end of Pax Americana does not mean the U.S. has automatically lost its top position in the world—only that the world is no longer unipolar.

economy while emerging countries grow, it appears the “Great Convergence” concept will be a defining aspect of this new era.

Moreover, the ideological and theoretical framework that typically provides guidelines and matrices for global economic growth and political progress is fundamentally shifting. With the collapse of economic neo-liberalism and its “Washington Consensus” recipe for economic reform, the ensuing void of overarching political and economic principles has been troubling countries for the last decade. Mankind is yearning for new thinking, new parameters, new ideas, and new plans of action in global governance. Increasingly, the world’s attention is turning east, specifically, toward China.

There are many viable reasons for China to become the focus of the world in the emerging Post-American Era. It cannot be denied that China rose from a poor country in the 1970s to the second largest economy today, and inevitably could catch up to the U.S. in terms of its GDP. But global attention is not solely because of the economic miracle China created, but rather the unique model of economic development China adopted and still embraces.

Given this success, China has been more proactive in playing a leadership role in global governance. China’s consistent support for global free trade and its decisive role in promoting the Paris

Agreement on climate change—with or without American participation—are a few examples of China doing the heavy lifting as a responsible power in the Post-American Era.

Offering profound insight into the future of global governance, President Xi’s thoughts on both domestic and global governance, developed with aspects from Marxism combined with the reality of China and globalization as a whole, have become increasingly popular in many



■ “Several studies have explored the title character of Captain America and his support of American nationalism. He narrates American identity in a way that other icons cannot, often referred to by fans and creators as an idealized version of what Americans can be.”

— Christian Steinmetz, “Captain America and the Struggle of the Superhero”

countries over the capitalist-rooted ideology of the U.S. and the West. This shift in global thought is another salient feature of the Post-American Era.

Even Steve Bannon, the former chief strategist for President Trump, noted after President Xi's speech at Davos and President Trump's inaugural speech that, "comparing [the] two Presidents' speeches, you will find two entirely different world views." Henry Kissinger said more generally that the international system is going through its most fundamental changes in 400 years, recalling the last structural change to be the 1648 signing of the Treaty of Westphalia that concluded the Thirty-Years War in Europe. The late U.S. national security advisor Zbigniew Brzezinski echoed Kissinger's words, commenting that, "The center of global power has transferred from both sides of the Atlantic to the Far East."

As the world order morphs, the Post-American Era holds the promise of a better future while also bearing uncertainty and the potential for instability due to a concurrent rise in geo-political risks.

The U.S. will no doubt remain the most powerful country for years to come. The end of Pax Americana does not mean the U.S. has automatically lost its top position in the world—only that the world is no longer unipolar. America's reaction to the arrival of the Post-America Era is no different from previous hegemonic powers.

It ignores the reality and continues to wave the banner of "America First" and "American Exceptionalism," refusing to believe the Pax Americana is beginning to crumble. The U.S. anxiety over the growing power of China and other developing nations has prompted it to redouble its efforts to counterbalance these rising powers.

How is China approaching "re-globalization"?

On both globalization and re-globalization, China will continue to provide steady and sturdy support. China has benefitted a great deal from globalization, and is one of the few countries that has successfully maintained a good balance between market efficiency and social justice, with the market and the government each playing different yet complementary roles.

The best example to illustrate China's devotion to globalization and re-globalization is its series of principles, doctrines, policies, and ideas on global governance proposed by President Xi Jinping in the past five years. Among others, "the Belt & Road Initiative," multilateralism with UN at its core, and a global partnership network are designed to build a stronger international community. "Sharing" is at the heart of the idea of common development and common prosperity that can address the issue of the gap between rich and poor.

The system designed and maintained by the U.S. and its military allies decades ago has frayed and is incompatible with the globalized and interdependent world in which we now live.

The Post-America Era will have to face the challenge of maintaining peace and security for the world. There are two main aspects defining this challenge: geopolitical entanglements and risks of major power conflict, and the overall dysfunction of the international security infrastructure.

The increasing geopolitical entanglements and possible confrontations among major powers require political wisdom and persistent peaceful efforts by all countries involved to find both short-term and long-term solutions. In particular, the so-called Thucydides Trap should be avoided. In this vein, China and the U.S. have reached a basic understanding through frequent dialogues between heads of state and other consultations at various levels.

Additionally, the slow disintegration and dysfunction of the global security system based on military alliances between the U.S. and its allies are posing problems. The system designed and maintained by the U.S. and its military allies decades ago has frayed and is incompatible with the globalized and interdependent world in which we now live. On the other hand, with the UN Security Council as the sole globally mandated organization to maintain world peace and security, the international collective security system as such has often been side-tracked or ignored.

China has proposed the idea of knitting a network of global partnerships that is open and equal in nature in order to foster more effective collective security through cooperation on all fronts. So

far, China has established different kinds of strategic partnerships with other countries as well as regional organizations, totaling 97 by the end of 2016. This new vision of security cooperation offers great potential and has been welcomed by many countries.

In sum, the Post-American Era has arrived and is here to stay. Our world of today facing triple challenges, on top of one another: geopolitical crises, the crisis arising out of globalization, and the continuing world economic crisis. They may not be dire yet, but if nothing is done in these areas, they could likely evolve into dramatic calamities. The world order is nevertheless shifting towards a fairer, more equal direction. The global governance system has to adjust accordingly. It is time for all countries, major powers in particular, to take these global challenges seriously and act carefully and forcefully. ☉

2017 Joint U.S.-China Think Tank Project on China-U.S. Relations

Experts from leading U.S. and Chinese foreign policy think tanks took part in an unprecedented joint research project from May 2016 to July 2017, and produced two parallel reports with thought-provoking analyses and policy recommendations on five critical areas that shape the China-U.S. ties: military relations, the Asia-Pacific region, economic relations, global governance, and domestic politics.

In this special section, we highlight the perspectives reflected in the reports that are publicly available, hoping our readers can get a quick look at how these experts view the key issues impacting the bilateral ties and what recommendations they have proposed to grow the ties.

 [You can download the full reports](#)



*Exploring a New Pathway to a
Win-Win Partnership (China Report)*



*The Future of U.S.-China Relations:
An American Perspective (U.S. Report)*

FUTURE OF CHINA-U.S. RELATIONSHIP



A Relationship Transformed



The China-U.S. relationship, with longstanding problems and new challenges, has experienced a fundamental transformation in the post-Cold War era. Leadership in both countries should step up efforts to avoid strategic miscalculations and prevent the huge risks and costs potentially brought about by a strategic drift in the bilateral relation.

The rise of China represented a strategic challenge to America that we could not ignore. The pivot formulation suggested a significant shift in American foreign policy.

**Great Rejuvenation Of
The Chinese Nation**

Make America Great Again



Domestic Priorities Sets External Policies



China is trying to realize the “great rejuvenation of the Chinese nation”. As a rising power, China has begun to evaluate and promote its foreign policies from a global perspective. The rapid expansion of China’s overseas interests also requires China to actively participate in international affairs and to find a new position in the global political, economic, and security landscape.

The U.S. is facing challenges in its “Make America Great Again”. President Trump was elected on a theme of “America First,” touching off a great debate that will stretch for months and maybe years about America’s leadership on the global stage.



Uncertainties and Distrust



Neither country can make an accurate assessment of the other's capabilities, intentions, and moves, which leads to potentially serious maladjustments and uncertainties. The China-U.S. relationship is entering a new normal of the simultaneous growth of cooperation and competition.

America cannot contain or isolate China. China cannot push America out of Asia. We do not have a mutually-agreed framework on how we relate to other Asian nations. But we are not doomed to confrontation.



How to Avoid Strategic Adversaries



- Keep sustained exchanges on their vision for the future of the current international order;
- Deepen understanding of each other's history and culture and avoid strategic miscalculations;
- Avoid being unduly affected or distracted by third-party factors and build a cooperative "China-U.S.+X" framework;
- Strive to develop a habit of cooperation and explore new ways to cope with new problems;
- Work out an explicit formula to define the bilateral relationship, and establish a more open, straightforward, and efficient dialogue mechanism

- Find ways to manage tensions constructively;
- Need a new process to baseline our converging interests;
- Need much stronger bilateral mechanisms to deal with unanticipated crises and problems



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GLOSSARY

"China-U.S.+X" Framework

Third-party factors have surged in recent years, and China-U.S. relations are increasingly affected by outside factors and actors, including the DPRK, the ROK, Japan, Vietnam, the Philippines, Russia, and many others. Suggested in the Chinese report, China and U.S. should make use of the positive effects of these third-party factors through improved management. Under the spirit of win-win cooperation and with an open and inclusive posture, China and the U.S. can build a new trilateral or multilateral cooperative "China-U.S.+X" framework.



China-U.S.+X

Explicit Formula Defining Bilateral Relationship

At the end of the 20th century, China and the U.S. proposed the notion of building a global constructive strategic partnership for the 21st century. In 2005, the U.S. proposed that China be a responsible stakeholder, and this proposal was met with a positive response from the Chinese side. In 2009, China proposed to build the China-U.S. cooperative partnership and top U.S. officials put forward the notion of strategic reassurance. In 2013, China proposed to build a new model of major-country relations between China and the U.S.. With Donald Trump taking office, both sides should work out an explicit formula to define their relationship.

TOWARD A GENUINE WIN-WIN ECONOMIC OUTCOME

— Both Agree on Trade Benefits —

Economic cooperation used to be the foundation of the Sino-US relationship. After the global financial crisis, the economic ties between China and the United States have evolved to a stage where mutual interests are now co-dependent and intertwined.

The commercial relationship between the United States and China has grown enormously in breadth and depth over the past four decades and has brought significant benefits to both countries, the Asia-Pacific region and the global economy.

— Weighing Competition & Cooperation —

The Chinese and U.S. economies are mutually dependent, with cooperation outweighing competition. China's economic restructuring will promote bilateral trade equilibrium and present more opportunities to further develop trade relations, in turn making the relationship closer.

The two economies appear less complementary and increasingly competitive. The traditional consensus within the United States that the relationship is broadly beneficial is eroding. Concerns in the United States are higher than at any point in the last four decades.



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Different Appeals



- Constructively alleviate trade friction;
- Strengthen cooperation in investment, and conclude talks on BIT;
- Strengthen cooperation in global infrastructure construction;
- Increase coordination and cooperation in macroeconomic policies.

- Build mutually beneficial and reciprocal commercial relations;
- Expand Chinese market access for U.S. imports and investment, and reduce non-tariff trade barriers;
- Beef up intellectual property rights and enforcement regime in China;
- Change the nationalist orientation of Chinese economic policies.



Different Outlooks



China is cautiously optimistic: Changes to either the American or Chinese economies will spur increases in both cooperation and competition between the two. The overall trend of the co-evolution of their economies has been good, but conflicts of interest in specific areas have been exacerbated.

U.S. is more pessimistic: The historical American approach of general cooperation and openness is unlikely to endure. American commercial policy toward China is most likely to shift toward more constrained or conditional cooperation. Reducing the extent of tensions will depend on how China responds to American concerns.



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GLOSSARY

Economic Cooperation: A Bedrock of Bilateral Relations

Bilateral trade in goods increased from \$2.5 billion in 1979 to \$519.6 billion in 2016, an increase of more than 200 times in 38 years. Bilateral trade in services were over \$100 billion in 2016. Cross-border investments in both directions accumulated to more than \$170 billion as of 2016. Trade and investment with China created about 2.6 million jobs in the U.S. in 2015 and contributed \$216 billion to the growth of the U.S. economy. Exports from China lowered consumer price levels in the U.S. by 1-1.5 percentage points.

More Constrained or Conditional Cooperation

U.S. authors expect the American commercial policy toward China is most likely to shift toward more constrained or conditional cooperation. The former one implies the U.S. would broadly maintain its open posture toward the global economy and China, but more assertively use and expand its existing bilateral trade and investment review tools, and more vigorously pursue cases at the WTO against China. The latter one means the U.S. would focus on achieving greater parity (or symmetry) in the level of market access American and Chinese firms face in the other country.

ASIA-PACIFIC SECURITY



Asia-Pacific or Pan Asia-Pacific?



China considers the Asia-Pacific to be East Asia and the Western-Pacific region and sees the U.S. as an external interventionist force.

U.S. entertains the concept of “Pan Asia-Pacific”. The U.S. is a resident power in Asia. Guam and Alaska are closer to Beijing, Tokyo, and Seoul than are India, Vietnam, or Australia.

Strategic Intention Questioned

The US sought to contain the rise of China, viewing China’s rise as one of the greatest strategic challenges in the world.

China tried to weaken the pillars of American leadership in the region as Chinese power grows. U.S. leaders have worried that China intends to eject the United States from the region, or to erode its most important interests there to create spheres of influence while excluding other actors.

Who to Blame for Rising Tensions?

China reckons America’s “Pivot to Asia” policy as the cause: Tensions in the South China Sea have escalated as U.S. intervention has intensified over the past two years. China’s actions to defend its sovereignty in the East China Sea and the South China Sea are countermeasures targeted at provocations from countries such as Japan and the Philippines.

US counters that China’s own actions are driving the regional demand signal for U.S. military presence. China’s use of coercive instruments undermines expectation of peaceful rise, U.S. commitments to the security of our allies, and freedom of navigation.

Inclusive Security or Alliance Security?

The U.S. cannot accommodate and care for non-allies in the Asia-Pacific, which, in turn, is the institutional cause of security contention and friction in the region. There is no pathway to achieve peaceful coexistence between China and the U.S. other than going beyond the security status quo by jointly building a more inclusive security order within the Asia-Pacific.

Washington has long seen its regional position as largely defined by the security and prosperity of its allies. Many American policymakers and analysts view the economic success and security of Asian allies as among the most important U.S. foreign policy achievements of the 21st century.



Avoiding Zero-Sum Competition



Understanding of mutual strategic interests

It is critical for the two nations to rationally define their interests and objectives, and accommodate each other's respective understandings of the world order.

Understanding of mutual strategic interests will have to be the starting point for reversing the downward trend in relations in the Asia-Pacific context.

Effective communication

Effective communication and dialogue is the basis for mitigating disagreements

What U.S. leaders can likely all agree to is that both the United States and China benefit from efforts to engage in substantive strategic dialogue.

Avoid zero-sum game and conflicts

The key to keeping bilateral relations dynamically stable and broadly beneficial lies in a continued persistence on both governments' side in employing cooperation, rather than confrontation, to tackle all issues that come upon them.

U.S. and China both have an interest in avoiding zero-sum competition for power and influence and each depends on the other's economic success.

PAN ASIA-PACIFIC ASIA-PACIFIC PIVOT TO ASIA



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Competing Perspectives between China and the United States in the Asia-Pacific and the Path for Mitigation (China Report)
Asia-Pacific Security Issues in the U.S.-China Relationship (U.S. Report)

GLOSSARY

Pivot to Asia

Throughout most of its history, U.S. relations with Europe dominated American foreign policymaking. Since the Obama administration, the U.S. has placed first priority on Asia, a region increasingly becoming the center of gravity for the global economic and political systems. To counter the strategic challenge presented by a rising China, the U.S. who reckons itself as a resident power in the region has become more engaged in regional affairs, a major cause of rising tensions in China's perspective.

Grand Bargain

"Grand bargain" means the U.S. retreats from core interests and principles in the Asia-Pacific region in order to enhance cooperation with China on global issues. U.S. authors reckon the idea as unrealistic. This concept may have support in some quarters in the U.S., but is not the basis of a durable policy given the U.S. has interests at stake in a secure, stable and open Asia-Pacific order.

New Model of Major Power Relations

In 2013, China proposed to build a new model of major-country relations between China and the U.S.. The concept has three core principles: no conflict or confrontation, mutual respect, and win-win cooperation. The concept, however, caused enormous discomfort in the U.S., because Washington is uninterested in any sort of "G2" arrangement, will never subscribe to any power configuration that excludes closest allies, and worries that the "New Model" and its emphasis on "core interests" may be an attempt to create spheres of influence while excluding other actors.

MILITARY AND DEFENSE DIMENSIONS



Different Assessment



Chinese experts hold a more pessimistic view: The two countries have maintained frequent, sustained, and stable military exchanges since 2008. However, the potential for clashes over security interests between the two countries has grown rapidly, leading towards zero-sum situations and increased geostrategic competition.

U.S. experts hold a relatively optimistic view: the U.S.-China military-to-military relationship is more stable than it has been in decades. The two defense establishments are engaged in a robust set of activities unprecedented since official military relations were established in 1980. There has never been more high-level contact, dialogue, and positive operational interaction between the two militaries than there is today. Moreover, defense ties are more resilient than in the past. However, the competitive aspects of the military and defense relationship are growing.

Neither Enemies, Nor Allies

China and the U.S. are not enemies. China and the U.S. have conflicting interests and, more importantly, overlapping interests.

The U.S. does not consider China an enemy. For obvious political reasons on both sides of the Pacific, Beijing is not and will not become an ally.



Both Have Bets Hedging

China follows the strategic military guideline of active defense. Should a military confrontation erupt, China's military strategy will consist of taking resolute actions to achieve victory.

The U.S. defense establishment's approach to China has two dimensions: strategic- and operational-level engagement and long-term operational- and tactical-level hedging. The latter one seeks to ensure that the U.S. military will maintain its war fighting advantages in the face of Chinese military modernization and strategic uncertainty.

‘Contain China’ VS ‘Push the U.S. out of Asia?’

The U.S. intends to contain China by strengthening its alliances and expanding its defense cooperation in the Asia-Pacific, leaving China with a strong sense of being excluded.

U.S. views its alliances as inherently defensive—intended to respond to aggression against the U.S. or a U.S. partner, not pacts aimed at any specific country. When Chinese criticize the U.S. alliance system, it raises questions in the U.S. as to whether China accepts that the U.S. has legitimate national security interests in the region, and whether China wants to “push the U.S. out of Asia”.

Crisis Management



The two militaries must place crisis management at the center of their effort to stabilize China-U.S. military relations and avoid military conflicts. The two countries shall reach an agreement on avoiding security dilemmas.

Managing the competitive dimensions of the military relationship should be considered by each side to be a key objective of military relations between the United States and China.



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GLOSSARY

Rebalance

American military presence in Asia-Pacific has been reinforced with the Obama administration's policy of “Rebalancing to Asia”, which includes bringing the most advanced weapons, platforms and systems into the region; developing and adopting new operational concepts; deepening and modernizing traditional alliances; networking existing alliances and new defense relationships; implementing a more geographically distributed force presence; building partner capacity; working for constructive military relations with China.

Thucydides Trap

Harvard professor Graham Allison coined the phrase “Thucydides Trap”, which means when a rising power causes fear in an established power, it may escalate into war. The past 500 years have seen 16 cases in which a rising power threatened to displace a ruling one. Twelve of these ended in war. Both U.S. and Chinese leaders are aware of this risk and have expressed their determination to manage U.S.-China relations to avoid the “Thucydides trap.”

POLITICAL FACTORS SHAPING THE RELATIONS



Political Disputes Impact Relations

China considers them as issue-driven: Political and ideological differences are long-standing structural conflicts that have impacted bilateral relations beginning in 1949 and throughout the Cold War era. Afterwards, while differences in political systems and ideologies were not the first priority, political disputes over issues such as human rights, democratization and religious freedom have exerted continuous influence on bilateral ties.

U.S. considers them as institution (actor)-driven: Through much of the 1980s and 1990s, both the Congress and the executive branch were key actors, and the Congress, in particular, was the central player in pressing China on issues of Taiwan, human rights and the most favored nation negotiations. Entering the 2000s, however, the executive, the White House in particular, became the central actor on China policy. In addition, the business community and NGOs have played a key role as well. The shifting constellation of different institutions, their changing influence and divergent interests combine to exert impact on the origins and implementations of America's China policy.



Color Revolution in China?

America's hidden agenda was to sabotage the political leadership of the China Communist Party and to change China's basic political system and mainstream ideology. The U.S. has been acting on the false presumption that China would transform from a socialist country to a standard capitalist country. When this policy has not yielded the results that the U.S. had hoped for, there has been mounting American anxiety and concern over a rising China.

While the view, that the U.S. seeks a "color revolution" in China, exists, it is in the minority. The consensus U.S. view is that the expanded U.S. economic and diplomatic cooperation with China will steadily lead to greater mutual trust and a gradual convergence of views on economic, diplomatic and potentially even political issues. The basic idea is that greater interaction between China and the world will shape Chinese perceptions, interests and preferences more in line with the U.S. and its allies and partners. America is optimistic about pulling China into such a network of interactions.

Disagreement over Political Fundamentals

The socialist system, the NPC and democratic centralism are China's basic political system, and the leadership of CCP is the political cornerstone of China's whole system.

Stronger civil society, religious freedom, and accountability would make China a more successful country, not less.

Internal Affairs or Foreign Affairs?

The U.S. prefers to “do unto others what one wants to do”, while China abides by the Golden Rule of “do unto others as you would have them do unto you.” China will never interfere in America's internal affairs and China hopes that the U.S. will respect China's political system and development path instead of imposing its own will and public policies on the other.

The U.S. has had a focus on values throughout its history.

The Glass Half Full or Half Empty?

China is tentatively positive: Focusing on common interests and working together are conducive to warding off political interference and ensuring the stable evolution of bilateral ties. It is important to remember that political and ideological differences have never outweighed pragmatic cooperation and collaboration over the past several decades, and today those differences remain manageable for both sides.

U.S. is doubtful: Over the past several years, key stakeholders in the relationship are growing more concerned about a seeming reversal of earlier trends. There has never been more doubt/debate about whether China's economic development will pave the way for social and political development and mutual trust.



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*Political Factors Shaping Sino-U.S. Relations (China Report)
The Changing Political Context of U.S.-China Relations (U.S. Report)*

TOWARDS BETTER GLOBAL GOVERNANCE

China's Role Grows

 China has increased enthusiasm for global governance, but China also faces constraints in actively participating in it. There may be a certain gap with some developed countries' expectation for China to undertake more responsibilities, feeding an impression of China selectively taking part in global governance.

 Both sides must recognize that leadership should be defined in terms of responsibilities. If the U.S. does not live up to its commitments on climate change, it will be ceding its leadership role in that domain, at least for the near term. If China seeks to gain a seat at the table for a major international effort but avoids taking on any real responsibilities in that effort, Beijing should not expect other countries to award China an expanded role in shaping the agenda.

Rules Rewritten?

 Neither Washington nor Beijing should automatically assume that the other side's initiatives are problematic: Beijing should not automatically assume that U.S.-led initiatives aim to benefit unipolar U.S. interests; Washington should not automatically assume that China-led initiatives seek to undermine the liberal international order.

 Both sides should avoid undermining prevailing institutions that have the support of the broader global community, such as the UN, WTO and G20.

Issues of Common Concerns



Climate Change

Regardless of the trajectory of the U.S. takes over the next few years, China has a clear opportunity to demonstrate a new type of Chinese global governance leadership in this domain. China is in a strong position to continue leading this global effort with or without the U.S.



Cyberspace

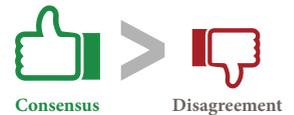
 China aims to control information flows across/within its own borders and views cyber espionage as a useful economic development tool; China stressed the need to balance security and develop; China's attention is more on fairness and equity.

 U.S. aims to protect cross-border information flows and privileged commercial information; the U.S. pays more attention to economic-interest considerations; the U.S. focuses on the effectiveness of existing governance mechanisms.

Nuclear Proliferation

 There already exists a quite strong global governance system to limit the proliferation of weapons of mass destruction-including, most importantly, nuclear weapons and chemical and biological weapons. But this system needs to be further strengthened.

 The U.S. and China worked together very productively in developing the Iran nuclear deal, and they need to continue strong cooperation to assure that deal's enforcement.



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GLOSSARY

Globalization 2.0

Globalization 2.0 means the interdependence of plural identities characterized by new forms of non-western modernity, instead of the old Western-dominated Globalization 1.0 which assumed the universality of one global culture. The new version of globalization was hastened by the 2008 global financial crisis, reflects the economic reality of rising emerging economies, and aims at promoting a more open, equal, balanced, and inclusive world economy.

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Pragmatism Likely to Dominate Next 50 Years

Even as the U.S.-China relationship goes through an inevitable crisis, there are grounds for cautious optimism.

As an ancient Chinese saying goes, “He who does not have long-term considerations cannot be free of present troubles”. Chinese leaders have been calling for a long-term perspective on China-US relations for some time. Now the American president has made the same call, and is looking 50 years ahead. This shows some consensus has been reached between the two parties.

Discussing the China-US relationship in a 50-year framework is meaningful because the relationship has reached a historical stage of transition. Changes have brought additional uncertainties, and the future orientation of bilateral ties will have to be reassessed.

Sometimes people compare China-US relations with a marriage. Since the two countries



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Strategic competition is gathering momentum, and is likely replacing the cooperation which previously drove the relationship.

established diplomatic ties in the 1970s, this marriage should have reached maturity. But like a mature marriage may also encounter a crisis, so too has the China-US relationship.

Strategic competition is gathering momentum, and is likely replacing the cooperation which previously drove the relationship.

The prevalent view now holds that since China's rise challenges US dominance, the two countries will fall into the Thucydides trap, wherein mutual distrust brings a rising and an established power into conflict. If America and China don't manage relations well, this may become a reality. It is no longer important whether this idea is correct or not. If both sides believe it's a risk, they need to find a solution. The obvious way out is for either one or both parties to change. Thus far, there's been little sign of that happening.

At the very least, however, they can manage problems and prevent them from spinning out of control before finding an ultimate solution. For this purpose, the two governments have made attempts to manage strategic competition, including endeavors to control risks and crises. This is the most feasible, realistic way for the bilateral relationship to peacefully go through its inevitable crisis. In recent years, the Chinese and American militaries have made headway in promoting communication and dialogue at various levels as well as facilitating mutual trust and building risk

management mechanisms. The Chinese and American joint chiefs of staff have just agreed to a framework for a dialogue mechanism between them.

The increasing competitiveness between China and the US will inevitably affect their judgment of each other's strategic purposes. We have witnessed the increasing effects of third-party factors on China-US relations in the Asia-Pacific. When the two parties coordinate and collaborate to deal with contentious issues in the region, things become even more delicate. As the two parties cooperate on the North Korean nuclear crisis, they face unprecedented tests of both mutual trust and strategic wisdom. US intervention on the issues of China-Japan maritime disputes in the East and South China Sea territorial disputes in the name of its security obligations to its allies has not only brought new, complex problems to its relationship with China, but cause Beijing to question what role the US alliance will play in the security order of the Asia-Pacific. This will be a question of increasing significance for future China-US relations, the answer to which needs to be discussed among China, the US, and other stake-holding countries.

Competition has also become increasingly prominent in China-US economic and trade relations. Trump has repeatedly pledged to resolve the so-called problem of "inequity" in trade with China, and takes it as an important goal in implementing his "America first"

If both sides believe it's a risk, they need to find a solution.

We have witnessed the increasing effects of third-party factors on China-U.S. relations in the Asia-Pacific.

principle, and has on multiple occasions threatened China with sanctions. The Trump administration has just decided to probe Chinese trade practices under Section 301 of the 1974 Trade Act. In response, China has vowed to take all necessary measures to safeguard its rights and interests, inspiring worries about a potential trade war.

The issue of a potential trade war is more like a quarrel as two parties in a marriage enter a mid-life crisis. There are plenty of reasons to believe the foundation for mutually beneficial, win-win cooperation in China-US economic and trade ties are solid enough, forces in favor of collaboration are strong enough, and the economic and trade ties will continue to support bilateral relations. Most importantly, these factors will support a new China-US relationship.

Changes in comparative strengths and increasingly close bilateral ties are altering the US-China relationship. China's "peaceful rise" is the active force driving this change, and the US "rebalancing" is the response to it. The two parties' interaction features both competition and cooperation, and this will be characteristic of the transitional period in the next 10 to 20 years. This will be an unprecedented change

in major power relations.

Within a 50-year time frame, the ideal scenario is to shift China-US relations from focusing mainly on managing competition and preventing confrontation to a more steady and active process of "common progress". For that purpose, politicians, strategists, and diplomats in both countries must not only confront present problems, but look to long-term goals. They must not only reflect on history, but also build consensus on the future state of bilateral relations. The future development of the China-US relationship rests on the endeavors they make together.

The past half-century of China-US relations demonstrates that pragmatism and rational weighing of advantages and disadvantages can always dominate decision-making on both sides. This is why we can be cautiously optimistic about the future. ☉

China's "peaceful rise" is the active force driving this change, and the U.S. "rebalancing" is the response to it.

Between Confrontation and Cooperation

China-U.S. relations will likely end up somewhere between hostile confrontation and friendly cooperation. They will likely continue to fluctuate between limited conflict and limited cooperation.

The rise of China, the relative decline of the West and the election of Donald Trump have introduced unprecedented uncertainty into China-US relations. For most of the 70 years since the founding of the People's Republic of China, China-US relations evolved as part of the international order dominated and shaped by the West, and the US in particular. Now, the rise of China and the relative decline of the West have eroded Western domination and the election of Donald Trump has put US global leadership into question. What does all this mean for China-US relations? Will the two countries go to war, as some argue? Or will they develop a new type of great power relationship as many have hoped?

Though some have predicted that China and the US, the rising power and the hegemonic state, will end up at war, the chance of that happening is still tiny. To begin with, we are living in an age of nuclear weapons. Neither country can afford a war that may turn nuclear. Also, China has not

pursued territorial expansion. In fact, the PRC has been seeking to fix its borders with its neighbors since its founding in 1949 and has successfully settled most of its land borders and some maritime borders through negotiations. And China is unlikely to pursue territorial expansion in the days to come. Despite its more assertive stance on maritime claims and some remaining land disputes, Chinese territorial claims have remained the same.

Furthermore, since China's reentry into the international system in the 1970s, especially after adopting the policy of reform and openness in 1979, China has gradually integrated with the existing international order and become a major stakeholder, just like the US. Therefore, it has no interest in overturning the existing international order. Indeed, China has an interest in maintaining it. This requires it to cater to other countries' wishes, especially those of the US, to obtain their cooperation. Finally, despite different national priorities, China and the US in



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Furthermore, as China rises, its approach to economic development increasingly conflicts with that of the US.

To avoid the fate of hegemonic decline, or at least postpone it as far as possible, the U.S. has no choice but to minimize the cost of maintaining world order.

principle share an increasing number of values including peace, stability, the rule of law, human rights, and democracy. As China modernizes, the difference between the two countries in the practice of these values is likely to decrease.

If the two countries are unlikely to end up in a confrontation, does that mean they will develop a new type of great power relationship characterized by non-confrontation, mutual respect and win-win cooperation? That would be difficult if not impossible. To begin with, the rise of China has altered its relationship with the US. After more than three and a half decades of rapid economic growth, the gap in power between the two countries has significantly narrowed. China's GDP in PPP terms exceeded that of the US in 2014. Economists project that it won't take long for China to replace the US as the largest economy in nominal terms. Despite the fact that China still has a long way to go to catch up with the US in comprehensive terms, this has already created anxiety on both sides. Amongst other things, both countries have found it difficult to treat each other as equals. Whereas China is increasingly worried about any American plans to encircle or contain China, the US is increasingly worried about any Chinese plans to expand

its territory or challenge the existing international order.

Moreover, China's rise has changed its identity and interests. China is less like the poor, backward, weak developing country it was before. At the same time, it is not yet a rich, advanced, strong developed country. It is neither and it is both. Identity defines interests. Thus China finds it hard to define its interests. For instance, on climate change, China has found it difficult to decide whether its interests demand prioritizing the right to development or pushing for the reduction of carbon dioxide because it is both a developing country and a developed one. National interests dictate foreign policy. As China has two sets of national interests on many issues, it finds it impossible to pursue a coherent foreign policy. That complicates its relationship with the outside world, including the US.

Furthermore, as China rises, its approach to economic development increasingly conflicts with that of the US. Over the years, despite the introduction of many market-oriented reforms, China's approach to economic development has remained state-centered. The Chinese government not only formulates and implements five-year plans for economic development, it also selectively promotes certain

industries through policy support and subsidies.

In the past, this was not an issue in China-US relations in part because China's economy was backward and uncompetitive and in part because existing economic theories suggested state intervention into the marketplace was unlikely to succeed. However, as China's economy grew in size and efficiency, Americans began to take China's state-centered developmental approach more seriously. They worry that Chinese practices distort the market at the expense of US interests. Accordingly, they demand the Chinese government abandon this approach. In recent trips to the US, I heard many Americans complain about the Chinese government's "Made in China 2025" program. This is a ten-year national plan aiming to comprehensively upgrade Chinese industry. The plan was drafted by the Ministry of Industry and Information Technology and adopted and published by the State Council in 2015. Will the Chinese government abandon its plan for economic development that is generally viewed by Chinese to have served China's interests? Not likely. The conflicting approaches to economic development are likely to haunt the relationship between the two countries in the days to come.

Finally, the election of Donald Trump and the associated

change in US foreign policy has introduced even more uncertainties into the relationship. Since WWII, the US has defined its relationship with the outside world in terms of leading, shaping, and maintaining world order. Americans think that the US can only promote its interests by maintaining world order. Consequently, the US is involved in world affairs at a level unprecedented in history.

Early on, Americans realized that maintaining world order is an expensive business. Historically, according to Paul Kennedy, Professor of History at Yale University, superpowers declined not because they were defeated by rising powers, but because they were overwhelmed by the cost of maintaining order. Imagine how much is needed to protect the international sea-lanes, to enforce WTO regulations and environmental treaties, to maintain the international non-proliferation regime.

To avoid the fate of hegemonic decline, or at least postpone it as far as possible, the US has no choice but to minimize the cost of maintaining world order. Broadly speaking, since the end of WWII, the US has done three things to address this challenge: (1) established a system of military alliances, (2) created a UN-centered group of international institutions, and (3) developed various partnerships with other countries. In return for their help,

On the other, differences are real, mistrust is strong, and the urge for demarche is difficult to resist.

the US has made various commitments to other countries. In general, this has enabled the US to make good use of them and to maintain the international order at minimum cost.

The election of Donald Trump may be changing all this. Trump has been pushing for the US to reduce its international commitments at the expense of its allies and partners. He wants the US to be a free rider rather than a caretaker and leader of the international order. Accordingly, he has advocated policies like: (1) America First; (2) allies paying much more for US protection; (3) reciprocal trade; and (4) bilateral deals.

If Trump gets his way, he may cut better deals with other countries in the short run because of unrivaled US power. However, in the long run, his approach undermines the existing global order from which the US has benefited so much and discourages the international cooperation that has been so important for the US to promote its interests.

US abdication of global leadership has broad implications for its relations with China. A weakened world order may: (1) lead to more uncertainty on how China and the US will deal with each other and with the rest of the world; (2) make it more likely for the two countries to get into a trade war and other kinds of conflict; (3) make it more difficult for the two countries to cooperate on growing global challenges; and (4) encourage US allies to take their security into their own hands, including exploring the nuclear option since this is the

cheapest way of defense. In short, it would further complicate the already very complicated state of China-US relations.

Some may say that Donald Trump's term is limited and his successor will undo what he's done when he's gone. Maybe. However, chances are some of his policies are here to stay. This is because his election is not an accident. It is the result of fundamental changes in American society in the context of globalization and in response to the policies of previous administrations.

In light of this, China-US relations will likely end up somewhere between hostile confrontation and friendly cooperation. They will likely continue to fluctuate between limited conflict and limited cooperation. On the one hand, stakes are high, shared interests are many, and the need for cooperation is great. On the other, differences are real, mistrust is strong, and the urge for demarche is difficult to resist. How this drama unfolds depends much on how leaders of the two countries exercise their vision, wisdom, and skills in managing the relationship. ☉

Straw Men and the Thucydides Trap

Graham Allison's characterization of China being on a collision course with the United States, a condition he calls the "Thucydides Trap," has been hotly debated in foreign policy circles. Jared McKinney examines the fault lines of a recent critique by Arthur Waldron, particularly taking issue with the historical evidence Waldron provides to argue that appeasement is more dangerous than measured conflict.



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Are there problems with Graham Allison's interpretation of Thucydides? Yes.

Over at SupChina, a website covering China-related news, Arthur Waldron, an American scholar of China, offers a harsh review of Graham Allison's new book, *Destined for War: Can America and China Escape the Thucydides Trap?* Waldron makes three principal arguments: Allison misinterprets Thucydides, the "lessons" of history tell us that accommodation is a mistake, and Allison ignores China's own economic and social difficulties. Overall, he finds Allison's book "superficial." The same, however, can be said of his review.

Are there problems with Graham Allison's interpretation of Thucydides? Yes. To my knowledge, my own October 2015 article, "Putting Thucydides Back into the Thucydides Trap" is still the most detailed piece on what Thucydides actually wrote and how it might be relevant to today. It is also true that Allison may understate the

enormous economic difficulties contemporary China faces. Does it then follow that everything Allison has written is bunk? No.

Waldron's commentary on Allison is uncharitable, and it sets up arguments Waldron feels confident he can quickly knock down. But here's the embarrassing bit: Waldron doesn't even manage to convincingly defeat his own straw men.

To defeat his first straw man, Waldron offers three counter examples. First, in Thucydides' actual history, war was certainly not inevitable, a fact most clearly shown by Archidamus' offer to the Athenians to remove the Megarian Decree; had Athens simply obliged this request, war could have been avoided. Second, Japan, the rising power, started a war with Russia, the established power in 1904. Third, in 1941, it wasn't America that started war with Japan, but



Japan with America; ditto for Germany in the 1930s.

Waldron's first counter-argument is perfectly true. The Peloponnesian War almost certainly would not have occurred if Athens had simply removed its Megarian Decree (apparently an embargo on Megarian goods and people), which Athens' Pericles had imposed as a punishment on Sparta's ally Megara (see Thucydides 1.67). But it is an argument that proves too much, a detail to which we will return below.

Waldron's second counter-argument is again perfectly true: Japan initiated war with Russia in 1904, and not the other way around. But that's just not the point. Waldron interprets Allison's argument over-literally, saying that the "Thucydides Trap" argument requires the status quo power to initiate a war with the rising power. In fact, Allison merely uses the phrase "Thucydides Trap" to refer to the general phenomenon of power transition in which war appears more likely, something long commented on by political scientists.

Waldron's third counter-argument is true enough to sound good, but not true enough to prove his point. Japan attacked America at Pearl Harbor. True enough. But did Japan attack in response to American actions meant to "eliminate the Japanese threat"? In fact, this remains an intensely debated question on which there is no consensus among historians. Serious historians have argued, for example, that the U.S. intentionally provoked war with Japan to block Japan from attacking the USSR or SE Asia or even as a way to enter the war with Germany. Other historians have

argued that the U.S. unintentionally provoked the attack. The provocation in question was America's freeze of Japanese assets and an embargo on fuel exports to Japan beginning 26 July 1941. Such a freeze threatened Japan's survival because Japan imported around 85% of its petroleum from the U.S. and the Dutch and British East Indies. Since Europe was at war and Germany had invaded the USSR, Japan now had no way to import petroleum. The Japanese realized that they faced literal impoverishment; only surrender or war could overcome the challenge. They chose war. More could be said, but the point is simple enough: history is not a morality tale, and in 1941 America did provoke Japan in significant ways; like the Athenians in the first example, the U.S. decided it would accept war rather than remove its offending decree. It is certainly not a coincidence that in both cases an economic embargo functioned as a provocation to war.

What then of the "lessons" of history? Waldron tells us that these "lessons" teach us that "Appeasement of aggressors is far

In fact, Allison merely uses the phrase “Thucydides Trap” to refer to the general phenomenon of power transition in which war appears more likely.

more dangerous than measured confrontation.” Here’s the second straw man. Anyone who has bothered to examine Allison’s argument should know that Allison does not advocate giving China a free hand to conquer Asia. In fact, he talks about vital interests on both sides and the necessity of “risking war” to defend these interests. Waldron applies the term “appeasement” to how the Obama Administration apparently “went AWOL” in the late 2000s in the South China Sea (SCS). No evidence is provided to justify this claim. Even more surprising, Waldron, an expert on China, makes no attempt to evaluate the extent to which the disputes in the SCS accelerated because of unplanned and unpredictable regional incidents, such as Japan’s arrest in 2010 of a Chinese fishing boat captain or Japan’s nationalization of the Senkaku/Diaoyu islands in 2012. In fact, many serious analysts of this period see China responding ad hoc to the perceived provocations of others.

The final irony of Waldron’s “lessons” of history is that his own historical examples not only do not support his conclusion—“Appeasement of aggressors is far more dangerous than measured confrontation”—but actually contradict it. Why did Athens not withdraw the Megarian decree? Because its leaders opposed backing down or conciliating Sparta; in other words, in Waldron’s derisive term, “appeasing” the

adversary. The failure to “appease” resulted in thirty years of war that destroyed the Athenian golden age. “What about Hitler?” Waldron would respond. Well, what about him? The belief in the late 1930s that appeasing him would satisfy his ambitions was foolish and wrong. But this does not mean that appeasement was responsible for WWII; Hitler was bent on war regardless. Nor does this mean that China’s leaders are modern-day Hitlers, an assumption Waldron’s argument makes but something he does not make explicit, and surely for good reason: it isn’t true. Does anyone think China’s leaders have an ideology equivalent to Hitler’s lebensraum, which mixed obsessions for food security, making Germany a continental empire equivalent to Russia and America, and racism hatefully directed against Jews, Slavs, and Roma, and—in Generalplan Ost—called for the destruction of the Polish nation, the starvation of the Ukrainians, the elimination of the Jews, and the extension of German territory far into the East? If so, justify your position; if not, stop talking about Hitler.

There is a real danger of war between the U.S. and China; if the two nations are to avoid war, they both need to make concessions and change their current behavior; time is running out. These are Allison’s points. A real review of his book would take them seriously. ☉

In fact, many serious analysts of this period see China responding ad hoc to the perceived provocations of others.

How to Approach the Next Economic Dialogue?

The first China-U.S. Comprehensive Economic Dialogue yielded no tangible results. But the two powers have plenty of room for agreement – if they can put their sense of exceptionalism aside.



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The first China-U.S. Comprehensive Economic Dialogue (CED) concluded in Washington, D.C. on July 19th without an agreement or joint communication. Even the scheduled separate press conferences were cancelled, first by the U.S., then by China. How should we interpret these signs for China-U.S. economic relations in the future?

First of all, it should be noted that such an outcome was not totally unexpected. For domestic political reasons, neither China nor the U.S. can give the appearance of making significant concessions at this time. On the Chinese side, the critical 19th Party Congress will be held within the next three months, and it is important for China to project confidence and strength. On the U.S. side, President Donald Trump has not had much luck in fulfilling his campaign promises, such as the repeal of President Barack Obama's Affordable

Care Act, the building of a wall along the entire Mexican border, and the re-negotiation of the North American Free Trade Agreement. The North Korean problem continues to look intractable and there is the ongoing investigation of his Russian connections. The President needs a clear and publicly visible win, not a compromise. He is a dealmaker—a transactional person—not a community builder.

The principles announced by both sides are non-negotiable. The U.S. side spoke of balance, fairness, and reciprocity. The Chinese side emphasized

For domestic political reasons, neither China nor the U.S. can give the appearance of making significant concessions at this time.



The U.S.-China bilateral trade deficit is actually not as large as it appears.

that the negotiations should be non-confrontational and produce mutually beneficial outcomes. But neither China nor the U.S. are accustomed to treating another country as a friendly equal. China, who as a dominant power in Asia for many centuries, and considered all neighboring countries as its vassal states, never treated or was treated by any other country as an equal. The same exceptionalism can be said of the U.S., which makes negotiations between them all the more difficult.

Some of the U.S. demands at the Dialogue were not even supported by U.S. businesses. For example, lowering automobile tariffs in China is not welcome by GM or Ford, both of which have large manufacturing operations in China, and benefit from the existing tariffs. The U.S. threatened to impose quotas or tariffs on imports of Chinese steel and aluminum, but such Chinese imports account for only a minuscule percentage of total U.S. imports of these materials, and will do very little to narrow the U.S.-China trade deficit. Such actions would be merely symbolic. There is also a possibility that the U.S. may choose to label Beijing a currency manipulator so that it can undertake additional protectionist measures against China. However, for the past year, if there was any manipulation on the part of China at all, it was to prevent the yuan from devaluing against the U.S. dollar—exactly the opposite of what it would need to do to gain an advantage for its exports. Moreover, one can also argue that the U.S. was actually an indirect currency manipulator through its recent quantitative easing policies.

The U.S.-China bilateral trade deficit is

actually not as large as it appears. A recent study that looks at domestic value-added, that is, the GDP created by exports of goods and services to each other in the two countries, has come up with an estimate for 2015 of a U.S. deficit of \$132.7 billion, compared to an estimate of \$367.4 billion based on U.S. data on exports of goods alone. Furthermore, this value-added estimate does not include the value of patent licensing fees paid by Chinese enterprises to foreign (e.g., Irish) subsidiaries of U.S. companies such as Apple and Qualcomm, which can amount to many tens of billions, and should be properly attributed as revenue from U.S. exports of services to China. If included, it would make the U.S.-China trade deficit even smaller.

In reality, reducing the U.S.-China bilateral trade deficit by reducing bilateral trade is not in the interest of U.S. workers and consumers. Let us consider an extreme case. Suppose bilateral trade ceases altogether, so that there is a trade balance of zero. This means exports to each other fall in both countries, leading to the loss of a significant number of jobs in both countries. The inflation rate will also rise, making goods much more expensive to their consumers. Both countries will lose.

The efforts of future CEDs should therefore be focused on increasing U.S. exports of both goods and services to China in order to lower the trade deficit. For example, China can increase the import of U.S. oil and gas, now that restrictions on such exports have been relaxed. It can also increase imports of high-technology products (if the export restrictions can be loosened), and agricultural products such as beef, pork,



Chinese Vice Premier Wang Yang (L) exchange views with U.S. Treasury Secretary Steven Mnuchin on economic and trade issues during the first China-U.S. Comprehensive Economic Dialogue in Washington on July 19, 2017.

rice and dairy products. The number of Chinese tourists visiting the U.S. will continue to rise, and the number of Chinese students studying in the U.S. may do the same. Chinese restrictions on wholly foreign-owned commercial banks and life insurance companies are likely to be relaxed, so long as they are reciprocal, and the financial institutions satisfy threshold capital requirements and operate with domestically capitalized subsidiaries. With a coordinated effort, the U.S.-China bilateral trade deficit can be significantly narrowed, if not closed altogether, within a few years.

A relevant factor for the bilateral investment relations between the two countries is the excess savings in China. Chinese national savings exceed 40% of GDP each year and,

given the existing excess capacities in almost all major manufacturing industries, cannot be productively deployed domestically. Thus, these excess savings will need to be invested overseas. The U.S. will be one of the natural destinations. Chinese savings can also be invested in U.S. infrastructure projects, either directly, or in their bonds, helping to realize one of President Donald Trump's campaign promises. While some people may fret about the possible impact on national security of foreigners owning U.S. infrastructure, the fact of the matter is that the infrastructure is located in the U.S. and the government can always intervene if and when national security is threatened.

In conclusion, there is little doubt that closer China-U.S. economic cooperation is a positive-sum game. In the foreseeable future, the rate of growth of Chinese demand for U.S. exports of goods and services is likely to be much higher than that of U.S. demand for Chinese goods and services, meaning that the U.S.-China trade deficit should be further narrowed. However, an all-out trade war will be damaging for both. I believe rationality and, more importantly, self-interest, will prevail and prevent a serious trade war from occurring. ☺

The efforts of future CEDs should therefore be focused on increasing U.S. exports of both goods and services to China in order to lower the trade deficit.

Sino-American Fault Lines

In the near-term, the trigger for increased China-U.S. tensions might be foreign policy-related, for example, a hardening of positions on North Korea or a maritime incident. Or it could come from the U.S. taking more punitive economic measures.



Yukon Huang

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China has argued that economic issues should be kept separate from political concerns. Thus Beijing enthusiastically welcomed the April Mar-a-Lago agreements that focused on opening rather than closing markets and toning down security concerns. Yet lack of progress on North Korea, and China's continued maritime assertiveness, has revived President Donald Trump's inclination to use America's economic levers to extract political concessions from Beijing. China, too, has not been completely innocent, as it's often used punitive economic actions to signal its displeasure with its neighbors' foreign policies.

The nature of these tensions is discussed in my book: *Cracking the China Conundrum – Why Conventional Economic Wisdom Is Wrong*. The tensions stem from basic misunderstandings of the nature of trade and investment relations between the U.S. and China.

More than previous rivalries, this one is driven by economic forces as China's rise has caused Washington to reckon with the extent to which its global dominance has diminished. Perceptions have been

unnecessarily distorted by China's huge trade surplus with the U.S. However, economic principles tell us that the trade balance of a country is determined largely within its own borders, not by its trading partners, and that employment gains or losses are rarely a trade issue.

America's trade deficit is the result of excessive government deficits and/or households consuming beyond their means. The countries that show up as being sources of the offsetting trade surpluses are incidental. The confusion stems from China's role as the final assembly point for the shipping of parts produced by other Asian countries to the U.S.

America's bilateral trade deficits were concentrated among the more developed East Asian economies in the 1990s, but this shifted to the Chinese mainland after it became the center of the regional production line in the early 2000s. Thus, the extent of the U.S. trade deficit with China is actually due to America's deficits with its allies — notably Japan, Taiwan and South Korea, where many of the higher-value components are being produced.

America's trade deficit is the result of excessive government deficits and/or households consuming beyond their means.

Yet despite the U.S. and China being the two largest economies, only about 1-2% of America's investment has been going to China over the past decade.

At this juncture, it would be useful to address investment rather than trade related concerns. But this discussion has also been hijacked by misguided populist sentiment. Conventional wisdom is that too much of America's foreign investment is going to China, resulting in job loss and declining competitiveness. Yet despite the U.S. and China being the two largest economies, only about 1-2% of America's investment has been going to China over the past decade. Likewise, only 2-3% of China's outward investment has been going to America. Rather than too much, there is too little investment flowing between the U.S. and China. Why is this?

Gaps in the data partially explain such low numbers since much of the global flow of foreign investment is channeled through tax havens that blur their origins. But country comparisons can help neutralize this distortion. Consider the EU which is comparable to the U.S. in economic size. Over the past decade, annual flows of the EU's foreign investment to and from China have been two to three times that of the U.S., although they began at around the same levels a decade ago.

The difference is due to the EU's manufacturing strengths being more complementary to China's market needs than America's. The EU's top exports to China are dominated by machinery and transport as well as high-end

consumer goods. These products require FDI flows to support market penetration and servicing.

In comparison, the top three categories of U.S. exports to China over the past decade include oilseeds and grains and, surprisingly, recycled waste (scrap metal and discarded paper), which does not lead to FDI. The third is largely Boeing aerospace products, but Boeing has refrained from opening operations in China until recently as its European competitor, Airbus, has established manufacturing centers in China since 2008.

Manufactured exports and related investments are largely welcomed in China's domestic market and cater more to EU strengths, while China's closed services sector has a more negative effect on the U.S. whose strengths lie in higher value services, notably in IT and finance.

Regarding outward investments, Europe turns out again to be more attractive because China and Europe are more complementary in their respective industrial structures than China is with America. Additionally, politically the EU is more welcoming of Chinese investment than America is.

For Chinese companies, the EU represents a much easier market to penetrate because it offers a greater choice of partners and is less preoccupied with

For Chinese companies, the EU represents a much easier market to penetrate because it offers a greater choice of partners and is less preoccupied with security concerns.

security concerns. This could be seen as a form of a “divide and conquer” strategy. If one EU country restricts access to its market, a Chinese company could still enter through a different member country to gain access to the greater EU market. Though partnerships with individual U.S. states are possible, overarching federal policies disadvantage Chinese investors, in contrast to the more open environment that the EU offers.

Promoting more investment flows in both directions would benefit both sides. But the Trump administration may resist any agreement that would encourage American firms to invest more abroad. Moving forward on the bilateral investment treaty that has been under negotiation for years, however, should be high on the agenda even if it is not politically expedient.

If not carefully managed, President Trump’s and President Xi Jinping’s respective efforts to consolidate authority could exacerbate tensions given their similar but conflicting political and foreign policy aspirations.

Both seek to elevate the profile of their countries — Xi by achieving his “Chinese Dream” and Trump by fulfilling his promise to “Make America Great Again”. Both cater to populist sentiment as income disparities widen.

Populism in the U.S. translates into the view that globalization has wiped out many industrial jobs, making protectionism central to the solution. In this environment, multilateral approaches will give way to distortionary bilateral options that mix economic and political objectives. America’s strategic alliances with Japan and South Korea

along with its dangling of the Taiwan card are seen by some in the White House as bargaining chips since traditional economic measures like WTO sanctions have proved ineffective in molding the China relationship.

In contrast, Beijing has moved more vigorously than the U.S. on its agenda to capitalize on a China-centric globalization. This is reflected in its support for trade liberalization, the establishment of the Asian Infrastructure Investment Bank and the “Belt, Road Initiative” to improve connectivity with Eurasia. Beijing’s leadership role, however, is limited economically by its restrictions on capital movements and ideologically because of its restrictions on the flow of information and ideas.

In the near-term, the trigger for increased tensions might be foreign policy-related, for example, a hardening of positions on North Korea or a maritime incident. Or it could come from the U.S. taking punitive economic measures like barring China’s exports. Whether such events lead to more serious conflicts or whether sensible minds can agree on a path that will allow the Asia region to remain stable and prosper remains to be seen. ©

Both seek to elevate the profile of their countries — Xi by achieving his “Chinese Dream” and Trump by fulfilling his promise to “Make America Great Again”. Both cater to populist sentiment as income disparities widen.

U.S. Trade Deficit with China is NOT That Big!

U.S. Claims :



China is the top contributor to the U.S. trade deficit on goods, accounting for **\$347billion** in 2016, or **47%**.

U.S. statistics

China's trade surplus with the U.S. equals to the combined total of **200 other countries and regions**, and it's unfair.



U.S. statistics

Key Facts about U.S. Trade Deficit with China :

Fact #1

Despite the huge trade surplus, China manufacturers make meager profits as China is still at the low end of the global value chain.



With iPod as Example

Components imported = \$200
iPod exported = \$209
Profit = \$9

But, **\$209** is calculated as China's exports to the U.S. !



Fact #2

Not all exports from Hong Kong are entrepot trade from the mainland. But the U.S. calculates all as China's exports !

U.S.-China Service Trade in 2016

Total bilateral service trade value : **\$118.1 billion**

U.S. had a surplus of : **\$55.69 billion**

≈23.3% of China's total deficit in service trade

Fact #3

The U.S. enjoys surplus in **service trade** with China.

Chinese companies paid billions of dollars in royalties to U.S. patent holders, and this should be part of U.S. service trade.

Unnecessary Belligerence over Intellectual Property

President Donald Trump’s decision to solve intellectual property disputes with China with unilateral action is a mistake. Instead, the U.S. should go through the existing WTO framework.



He Weiben
Vice President and
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and Globalization

President Donald Trump issued a presidential memo on August 14, directing the US Trade Representative (USTR) to examine China’s “forced transfer of American technologies and theft of American intellectual property (IP).” Robert Lighthizer, the USTR, subsequently announced an investigation into IP issues relating to China under Section 301 of the US Trade Act of 1974.

“A very big move”, President Trump called it. It is indeed a big move – backwards.

Since the Mar-a-Largo summit, both governments have set up official channels for dialogues and working level cooperation, including on IP issues. The bilateral government cooperation on IP protection has been fruitful for many years. Both the US and China are signatories to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) under the WTO and other relevant international conventions. The Trump administration could simply refer any IP issue to the WTO for resolution. What is the point of unilateral action under Section 301?

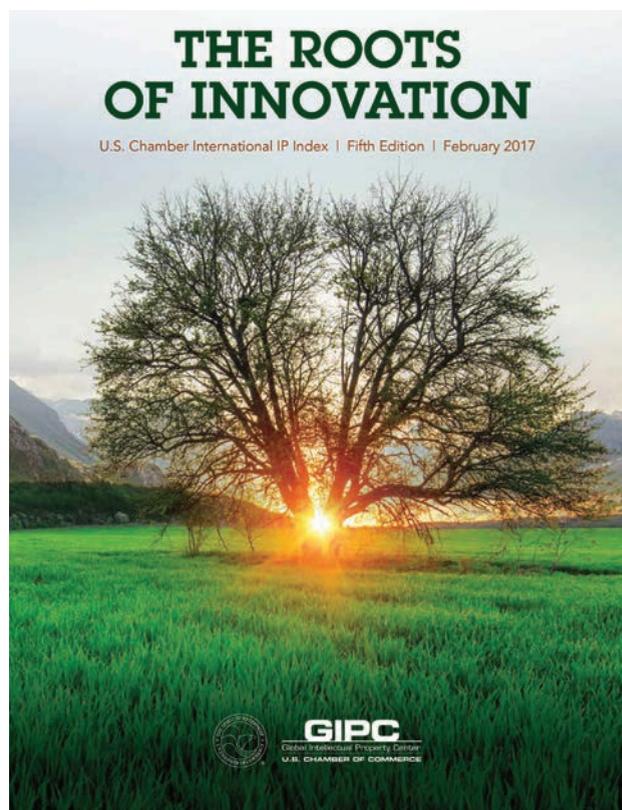
Section 301 has no jurisdiction over China

Section 301 authorizes the USTR to investigate if an American business has suffered unfair treatment in overseas markets, and to take action if it has. However, it is only American law, not Chinese or international law. Any actions on Chinese companies based on Section 301 findings will have no jurisdiction in China. On the other hand, the WTO has a special agreement on IP, TRIPS, which binds all WTO members including the US and China. Any IP issues involving China-US trade should be governed by TRIPS. IP disputes between WTO members can be referred to the WTO Dispute Settlements Mechanism.

In addition to doing no good for America, the USTR's investigation under Section 301 will severely harm its relations with China. The USTR will seek consultation with China before the investigation. However, this will not be a friendly dialogue, but a request backed by a threat, which will create resentment in China. If there is any commercial retaliation from the US, China will definitely retaliate in return. In any event, there will be no benefit to either side.

There are no forced technology transfers

It is a misunderstanding that high-tech foreign companies are forced to transfer technology to Chinese partners when investing in China. This has been denied both by Premier Li Keqiang and Minister Miao Wei of the Ministry of Industry and Information Technology. Chen Demin, former Minister of Commerce, said that, whilst China forced high-tech foreign companies to transfer technology before joining the WTO, this was scrapped after its WTO accession. Foreign investors are free to set up R&D centers in China, and don't need to transfer their technology to do so.



- Over the past five years, the annual report *International IP Index* of U.S. Chamber of Commerce has provided a valuable tool by which to gauge the global IP environment, offering a roadmap for policymakers and thought leaders to enhance their competitiveness through stronger IP.



- The Chamber's 2017 Index *The Roots of Innovation* benchmarks the IP standards in 45 global economies, representing roughly 90% of global GDP. China's overall IP index is 42% (with a score of 14.83 out of 35), ranking 27th.

The report states that 'China's overall score has increased as it has in each consecutive edition of the Index.'

SECTION 301

Section 301 of the Trade Act of 1974 provides the United States with the authority to enforce trade agreements, resolve trade disputes, and open foreign markets to U.S. goods and services. It is the principal statutory authority under which the United States may impose trade sanctions on foreign countries that either violate trade agreements or engage in other unfair trade practices. When negotiations to remove the offending trade practice fail, the United States may take action to raise import duties on the foreign country's products as a means to rebalance lost concessions.

The list of products on which the United States raises import duties is called a "retaliation list." Products included on a retaliation list

■ On Aug. 18, the U.S. Trade Representative Office announced an official investigation into intellectual property (IP) issues relating to China under Section 301 of U.S. Trade Act of 1974.

The '301 Survey' is to probe into China's laws, policies, practices, and actions related to intellectual property, innovation, and technology issues.

If a case of forced transfer is identified, the US company could provide evidence to the Chinese government. There is no doubt the matter would be dealt with.

China IP protection in progress

According to the US Chamber of Commerce's Global IP Center's annual report China's IP index was 42 out of 100, ranking China 27th out of the 45 economies surveyed. China's score was behind that of the US, UK, EU, and Japan, but far ahead of many developing countries. The report noted that over the past year, China has introduced new mechanisms for IP protection and set up IP courts, which helps the fight against IP infringement and piracy.

The American Chamber of Commerce in China, found in its 2015 white paper that only 22% of members thought China's IP protection satisfactory. However, 82% of them praised China's progress in IP protection. In its 2017 white paper, the top five concerns of its members with regard to China were: inconsistent regulatory interpretation, rising costs, increasing protectionism, shortage of qualified management, and difficulty in obtaining required licenses. IP issues have not been among the top five concerns over the past six years.

Those findings show that China's IP protection, though far from adequate, has been making great progress each year.

Dialogue and collaboration through WTO framework

The USTR should not proceed with the Section 301 investigation. Instead, the US and China should initiate an IP dialogue, as part of the bilateral dialogue mechanism based on WTO rules. Instead of escalating commercial tensions, both countries should come together to reach an amicable solution. ☺

United Front on North Korea

The escalating crisis over North Korea means that all parties, including both China and the U.S., must step up their efforts to restrain Pyongyang, and to present a united front on the issue.



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Beijing has long held three objectives for East Asia, and the Korean Peninsula in particular.

The first is to promote general peace and stability premised on North Korea's diplomatic normalisation with the United States and South Korea.

The second is to realise the denuclearisation of the Korean Peninsula by dissuading Pyongyang from continuing its nuclear weapons and nuclear-capable missile programs. For China, this is the key to avoiding the possible nuclearisation of the whole East Asian region.

Third, China aims to preserve a regional strategic equilibrium between itself and the United

States by maintaining its own defensive edge and a reliable level of strategic deterrence.

But the current security situation on the Korean Peninsula seems to be moving further away from Beijing's preferred objectives. Of most concern are the risks caused by North Korea stepping up its nuclear weapons and missile capabilities.

On the one hand, the prospect of rolling back the nuclearisation of the Korean Peninsula has faded away. Pyongyang has increased both the scope and speed of its nuclear weapons and missile capability development. Since Kim Jong-un inherited power six years ago, Pyongyang has already conducted three nuclear tests and a fourth test is said to be imminent. Pyongyang has also undertaken more than 75 short-to-immediate-range ballistic missiles tests, including launching a missile from a submarine.

In July 2017 alone, Pyongyang conducted two long-range missile tests. Many believe that the missiles tested are intercontinental ballistic missiles with enough range to strike the US mainland — a significant and surprising advance. Despite differing assessments of the missiles' targeting systems

To a large extent, the spiralling tensions over the North Korean nuclear issue should also be attributed to Washington and Seoul continuously flip-flopping in their policies towards Pyongyang.

Beijing needs to reconsider its quasi-alliance commitment towards Pyongyang unless the latter stops its nuclear weapons program and any other unilateral provocative actions jeopardising China's vital security interests.

and their ability to deliver a nuclear device or significant payload, Pyongyang's status as a de facto nuclear weapons country already seems beyond doubt. The real question now is how long Japan and South Korea will maintain their confidence in the US nuclear protection umbrella before they move to develop their own nuclear deterrent capabilities.

Meanwhile, the United States has increased its military assets and strategic presence in the region. Seeking to ratchet up military pressure on North Korea, the United States has conducted air operations over the Korean Peninsula. It has also participated in military exercises with its allies, South Korea and Japan.

Despite Secretary of State Rex Tillerson's 'four nots' reassurance to North Korea — that the US will not seek regime change, the collapse of the regime, an accelerated reunification of the Korean Peninsula, or an excuse to send the US military north of the 38th parallel — many in the United States, including a significant number in Congress, believe that the time for negotiation with North Korea is over. President Trump has been called upon to follow through on his 'maximum pressure' policy, including pressing China to impose sanctions and economic embargoes on North Korea.

Whenever hostility and tension between Pyongyang and Washington rises, so too

does the risk of miscalculation between them and the possibility of inadvertent military confrontation. President Trump's petulant and unpredictable personal character should not be understated in such a highly tense atmosphere. His recent provocative remarks of "fury and fire" did nothing to deter Pyongyang but further ratcheted up tension.

As a consequence, regional security and strategic stability are at risk of breaking down. The US deployment of the Terminal High Altitude Area Defense system (THAAD) in South Korea has not only undermined the strategic deterrence capabilities of both China and Russia, but also strained relations between Beijing and Seoul.

Perhaps more importantly, the North Korean nuclear issue has made Beijing's relations with Washington more unpredictable. Washington complains that Beijing, with its unique economic leverage over North Korea, has fallen short of its responsibilities to rein in Pyongyang's misbehaviour. Beijing in return argues that Washington has long failed in its own attempts at risk-reduction on the peninsula.

Pyongyang must of course be blamed for its violation of UN resolutions and is responsible for rising tension and instability across the region. But it is widely recognised that North Korea's nuclear issue is both the cause and result of the security situation



- North Korea blasted an intermediate range ballistic missile Hwasong-12 that passed over Hokkaido, the second largest island of Japan on Aug. 29, 2017. This was the fifth time North Korea has fired a ballistic missile over the Japanese archipelago. The missile travelled 2,700 kilometers and reached a maximum height of 550 kilometers. Just days earlier, Kim Jong-un's regime fired three projectiles into the Sea of Japan

Beijing's message towards Washington should also be very clear and stern: China will intervene, including militarily, if the U.S. and its allies attempt any preemptive military action against North Korea for regime change.

on the Korean Peninsula. The root cause of North Korea's decision to develop nuclear weapons is the deeply entrenched hostility Washington and Seoul have towards Pyongyang.

Today the Korean Peninsula is the only sub-region of the Asia Pacific that is still framed by Cold War structures, and the 38th parallel remains home to the world's largest and most dangerous military standoff. From Pyongyang's perspective, developing nuclear weapons provides an element of deterrence against a regime-change attack from the United States and other outside threats by raising the cost of conflict.

Pyongyang will never shy away from pressing for more concessions by leveraging its nuclear weapons program, even at the expense of China's national security interests and overall regional stability. It should also recognise that its persistence in developing nuclear weapons has made improving its economy (its

byungjin policy) impossible.

To a large extent, the spiralling tensions over the North Korean nuclear issue should also be attributed to Washington and Seoul continuously flip-flopping in their policies towards Pyongyang, which has damaged their credibility. The deficit of strategic collaboration and the lack of synchronised efforts among the key stakeholders, including China and the United States, have given Pyongyang more opportunities to drive wedges between these states.

These wedges have enabled North Korea to evade international pressure and reduced the efficacy and credibility of both the carrots and sticks used on it. What's more, the deeply entrenched strategic suspicion among key players — particularly between Beijing and Washington — has rendered the supposed united front against North Korea's nuclear program even more fragile and vulnerable.

For more than a decade, Beijing has tried very hard to influence the security trajectory of the Korean Peninsula, convening the Six Party Talks, encouraging efforts for reconciliation between Washington and Pyongyang, and urging maximum restraint on all parties to avert escalating tensions.

But there is still room and a need for improvement in Beijing's policy, particularly on how to send a stronger and clearer message of opposition to Pyongyang's nuclear weapons program, and other related programs in violation of UN resolutions. Beijing's decision to turn the screws on North Korea by contracting its economic and trade ties with Pyongyang this year is the right step forward to ensure Pyongyang pays a higher price for its irresponsible behaviour.

Having said that, it is Pyongyang and Washington that hold the key to the final solution of the North Korean nuclear crisis. Beijing will definitely reject the rebuke from Washington and others that China has done little to help solve the crisis.

It is likely that Beijing will more forcefully pursue dual-track approaches, simultaneously seeking to roll back North Korean nuclearisation and encouraging constructive dialogue between Pyongyang and Washington.

On the one hand, Beijing is determined to send a stronger message to Pyongyang that its nuclear weapons development will face tougher and more resolute opposition from the international community, including from China. Beijing needs to reconsider its quasi-alliance commitment towards Pyongyang unless the latter stops its nuclear weapons program and any other unilateral provocative actions jeopardising China's vital security interests. Only by freezing and finally ending its nuclear and related missile programs in line with UN resolutions will Pyongyang be able to get economic, diplomatic, and security returns from the international

community. While Beijing will spare no effort to maximise diplomatic opportunities for the management of the Korean nuclear crisis, it has also been stepping up preparations for the worst-case scenario.

On the other hand, encouraging reconciliation between Washington and Pyongyang, as well as between Seoul and Pyongyang, is no less important. The challenge is how to integrate this pressure and dialogue in a more synchronised approach so that dialogue with Pyongyang is as clear, strong, and credible as possible. As a first step to reduce tension, both Pyongyang and Washington need to seriously consider the 'double suspension' proposal — Pyongyang suspending its nuclear and long-range missile tests in exchange for the suspension of joint military exercises or other shows of force game targeting Pyongyang by Washington and its allies. Meanwhile, Beijing's message towards Washington should also be very clear and stern: China will intervene, including militarily, if the US and its allies attempt any preemptive military action against North Korea for regime change.

In order to inject new momentum to reverse the downward security trajectory on the Korean Peninsula and defuse the North Korean nuclear crisis, enhanced collaboration and concerted efforts are desperately needed between and among key players, including China, Russia and the United States. Innovative ideas should be encouraged, such as the proposal of a joint security assurance from Beijing, Moscow, and Washington towards Pyongyang in return for it freezing and final ending production of nuclear weapons.

Neither unilateral pressure nor fragmented and disintegrated incentives will work. Given the seriousness and the increasing urgency of the crisis surrounding the Korean Peninsula, all concerned parties should step up their risk-reduction efforts before it is too late. ©

21 Kilotons

1945
Bomb dropped on Nagasaki

15 Kilotons

1945
Bomb dropped on Hiroshima

>10 Kilotons

September 2016

around **10 Kilotons**

January 2016

8-10 Kilotons

February 2013

2.2-4 Kilotons

May 2009

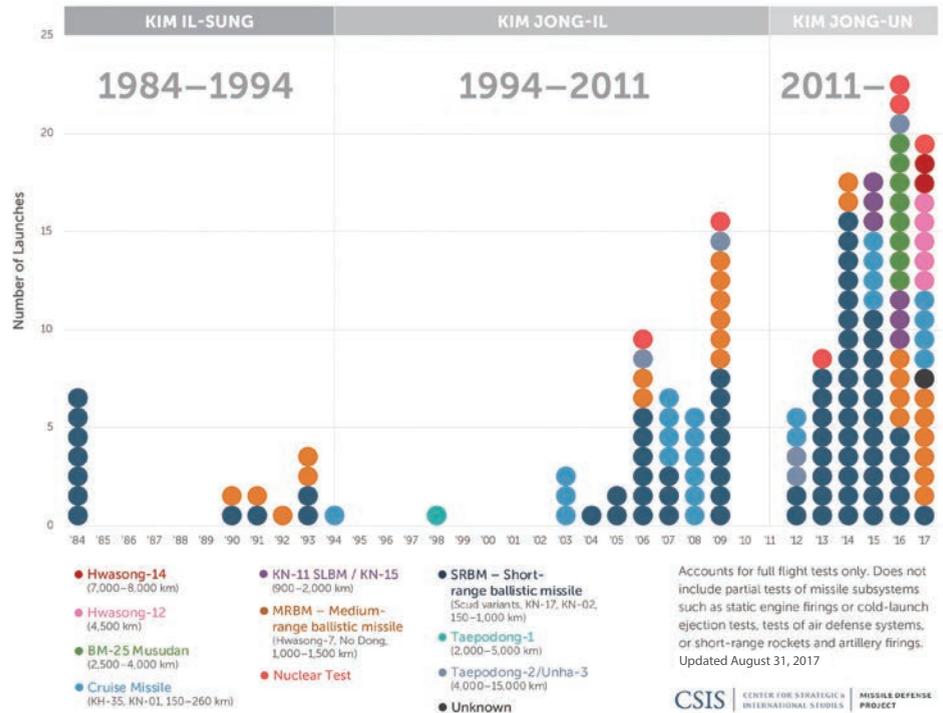
<1 Kiloton

October 2006

North Korea's Nuclear Tests

North Korea's nuclear tests are getting more powerful.

NORTH KOREAN MISSILE LAUNCHES



CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES | MISSILE DEFENSE PROJECT

North Korea missile launches in 2017

- February 12 ● KN-15 / Pukguksong-2
- March 6 ● Hwasong-7 / Extended-range Scud missile (4 missiles fired)
- March 22 ● Unclear*
- April 4 ● KN-17
- April 16 ● KN-17
- April 29 ● Unclear*
- May 14 ● Hwasong-12
- May 21 ● KN-15 / Pukguksong-2
- May 29 ● KN-17**
- June 8 ● 4 surface-to-ship cruise missiles
- July 4 ● KN-14
- July 28 ● KN-14
- August 26 ● 2 Scud missiles
- August 29 ● Hwasong-12

Missile type

KN-15 / Pukguksong-2
Medium-range ballistic missile
Solid-fueled

Hwasong-7 / ER Scud***
Short-range ballistic missile or medium-range ballistic missile
Solid-fueled

KN-17***
Short-range ballistic missile or medium-range ballistic missile
Solid-fueled

Hwasong-12
Intermediate-range ballistic missile
Liquid-fueled

KN-14 / Hwasong-14
Intercontinental ballistic missile
Liquid-fueled



*Experts divided on what type of missile was fired
**North Korea claims a new type of missile was fired, but experts doubt that

***Experts divided on how to classify the missile

Timeline: North Korea Nuclear Events VS UN Sanctions

Here is a history of United Nations sanctions on North Korea and the nuclear tests which provoked them.

North Korea Nuclear Events

UN Sanctions

2006

July

UN condemns North Korea's launch of ballistic missiles and restricts all sales of "missile or missile-related" items and technology to the country.

October

Following North Korea's first nuclear test, **the UN imposes sanctions on the country**, including the sale of items which may assist with their nuclear program and military items, such as aircraft, helicopters and tanks.

October
North Korea's **first nuclear test detected**, less than 1 kiloton according to US intelligence - the equivalent of under 1,000 tons of TNT.

2007

2009

May

A second nuclear missile weapon test is detected, this time as an underground explosion. The USGS registers it as a 4.7 magnitude seismic disturbance.

June

Security Council expresses their "gravest concern" after North Korea's nuclear test in May, **expanding sanctions to most arms imports**.

2010

2013

January

More sanctions are imposed by the UN, in response to a North Korean satellite launch. North Korean officials and organizations related to the space program see their assets frozen.

February
First nuclear test under new North Korean leader Kim Jong Un occurs, with the explosion of a 6-7 kiloton bomb, according to North Korea.

March

In response to February nuclear test, UN once again condemns and puts more sanctions on North Korea, **extending the asset freeze to more individuals and organizations**. Luxury goods such as yachts and racing cars also put under sanctions

2014

2016

January

North Korea claims to their **fourth nuclear bomb test**, although independent observers remain unconvinced as the explosion took place deep underground, making it hard to measure.

March

Another nuclear bomb test prompts more United Nations sanctions. **allowing states to search cargo heading into North Korea for any contraband.**

September
The largest nuclear test yet takes place, a blast equivalent to 10 kilotons, ten times stronger than their first test a decade ago.

November

Toughest UN sanctions imposed after September nuclear bomb test, **cutting North Korean exports of coal by \$800 million.**

2017

January & February

North Korea carried out nuclear tests and a rocket launch.

March

The tougher sanctions include **inspections on cargo going in and out of North Korea, and a blacklist of North Korean trade representatives and individuals, along with 12 entities.**

July
North Korea tested **two ICBMs**, of which one had a trajectory of **2,300 miles into space** and then **down into the sea near Hokkaido, Japan.**

June

UN imposes a **travel ban and asset freeze on four entities and 14 officials, including the head of North Korea's overseas spying operations.**

August

North Korea blasted an **ICBM Hwasong-12 that passed over Hokkaido**, the second largest island of Japan.

August

UN issues a **ban on coal and other exports worth over \$1 billion — a huge bite in its total exports, valued at \$3 billion last year.**

(Updated August 31, 2017)

North Korea Could Determine the Future of U.S.-China Relations - Again

If the Kim regime were to collapse, the United States and China would have common ground for cooperation. Without more technical and forthcoming exchanges, however, the shock of sudden change in the North could result in mutual mistrust and antagonism, reflecting the underlying divergence in American and Chinese long-term geopolitical objectives for the region as a whole.

Kim Il Sung's invasion of South Korea in June 1950 did more than any other event to render the United States and China enemies in the first half of the Cold War. As his grandson, Kim Jong-un, races to develop ICBMs capable of striking the United States with nuclear weapons, the North is once again the variable that could

determine the future course of U.S.-China relations in the 21st Century. Genuine strategic cooperation to end the North Korean nuclear threat could transform bilateral relations between Beijing and Washington, while mismanagement and mistrust as Pyongyang escalates could harden divisions and return us to the hostility of an earlier era.



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- *The UN Security Council unanimously approved tough new sanctions on Aug. 5 to punish North Korea for its escalating nuclear and missile programs, including a ban on coal and other exports worth over \$1 billion — a huge bite in its total exports, valued at \$3 billion last year. Four export sectors are targeted in the resolution — coal, iron and iron ore, lead and lead ore, and seafood.*

The current debate over U.S.-China cooperation on the North Korea nuclear crisis is largely tactical — whether Washington can find some way to accommodate Beijing’s proposal for a diplomatic gesture towards Pyongyang — namely a freeze in North Korean testing in exchange for a freeze in U.S.-ROK military exercises. Serious discussion of aligning American and Chinese strategic efforts has to begin with a recognition that this “freeze-for-freeze” idea is a non-starter. Any self-imposed constraints on the readiness of the United States, South Korea, and Japan to deter a clear and present danger from the North in exchange for an ephemeral testing halt would only weaken deterrence and the credibility of American alliances. After all, we would be weakening U.S. preparedness to defend allies based on an increasing threat to the American homeland with absolutely no decrease in the threat to Korea and Japan. We also know that Pyongyang enjoys a 100% perfect record for cheating on all previous freezes and diplomatic agreements regarding nuclear weapons. This is not to say that diplomacy with the North should completely end, simply that we can no longer expect the North to be open to a diplomatic negotiation to end its nuclear weapons and missile programs even with the incrementally higher levels of pressure we have placed on the regime through the UN Security Council.

What then would genuine strategic cooperation between the United States and China look like? To some extent the answer lies in the Security Council, where Beijing has agreed once again to increase sanctions on the North with UNSCR 2371, this time apparently removing the loophole for coal exports to China. However, the effectiveness (as opposed to the symbolism) of UN sanctions depends on enforcement. Here China’s record has improved over the past 15 years, but only marginally and hardly keeping pace with the North’s violation

of previous sanctions and increased bellicosity and testing of weapons. Genuine strategic cooperation between the United States and China would involve a far more aggressive Chinese campaign to enforce existing UN sanctions and to interdict North Korean money transfers and shipments of missile and nuclear-related technologies from and through China. What would that look like? Imagine the impact on American views of China if the Ministry of State Security proactively invited the CIA in to examine containers seized with uranium enrichment centrifuges or missile components headed for the North. Instead, cooperation on enforcement of UN sanctions is largely grudging and reactive. Not only would more aggressive Chinese enforcement of the letter and spirit of UNSC sanctions harm the North’s programs, it would strengthen the defensive net necessary to intercept any transfer of nuclear-related technology or materials out of the North (something the North Koreans warned our delegation they would do in Beijing in 2003 and subsequently were caught doing with the el Kibar reactor in Syria four years later).

Beijing could also demonstrate common cause with other leading powers by agreeing to reconfigure the larger framework for diplomacy around the Korean Peninsula. When the Bush administration proposed the Six Party Talks in early 2003, the aim was to leverage the influence of the other major powers in Northeast Asia to press Pyongyang to reverse its nuclear programs. Our model was the Contact Group of major powers in Europe that met to coordinate pressure and speak with one voice to Serbia’s intransigent Slobodan Milosevic during the Clinton administration. It worked. In 2003, however, we wanted China to host the talks (so there was no walking away from the problem), and then made the mistake of letting Beijing assert that all six powers had equal legitimacy and status. As a result, the North had a veto over when we would meet

■ Imported iron ore is offloaded at a dock in Rizhao in eastern China's Shandong Province. China announced on Aug. 14 that it would cut off imports of North Korean coal, iron ore and other goods under UN sanctions imposed over Pyongyang's nuclear and missile programs.



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Fear of a North Korean blowback and empowering Japan and Korea are at the core of Beijing's intransigence.

and Beijing refused to have a meeting of the other five parties without Pyongyang. There was only one such meeting — called as an audible by Ambassador Fu Ying when the North failed to show up at a session in 2003 — to negotiate the joint statement for the first round of talks. I represented the United States and was struck at how effective a discussion we had. China has refused to convene or join a meeting of the five parties without North Korea ever since. Even Russian diplomats acknowledge the necessity of five party talks at this point, and Beijing would do well to reconsider its insistence on not isolating the North in regional diplomacy. Fear of a North Korean blowback and empowering Japan and Korea (which are not in the UNSC) are at the core of Beijing's intransigence, but these drivers only spotlight China's lack of real cooperation on the North Korean problem.

Numerous commentators have argued that the greatest demonstration of strategic cooperation with the United States would be for China to help topple the Kim regime (Secretary of Defense Don Rumsfeld used to drop this “out-of-the-box” proposal in memos the NSC staff called “snow flakes” and it appears the Obama and Trump cabinets have also grasped at this apparent magic bullet at various points as well). The readers of China-US Focus need no reminder of why this is a non-starter for Beijing: the danger of war, chaos in China's Northeast, and the emergence of a democratic unified Korea aligned (most likely) with the United States. Beijing may be capable of toppling the regime, which relies on China for about 90% of food, exports and fuel, but it does not have the intent or the willpower. North Korea's nuclear program is designed to ensure that this stays the case as much as it is designed to deter

the United States from attack or to glorify the Kim regime.

While there is no path more certain to end the North's nuclear program and the suffering of its people than the end of the Kim regime, there is a reason that no U.S. administration has actively attempted to topple the leaders in Pyongyang. How would we handle loose nukes? Refugees? The potential of general war on the peninsula that could leave millions dead? Yet planning for exactly this contingency has become more important as the external belligerence of the North is matched by evidence of heightened tensions within the regime. Kim's violent execution of his own family members and close to one hundred top generals is hardly evidence of a secure long-term political situation. I have been involved in a variety of government and scholarly talks with Chinese experts on how we would cooperate in the event of sudden instability or collapse in the North. The non-government discussions are more fruitful, as one might expect given Chinese sensitivities, but in 15 years of such dialogues I have seen growing evidence that in the event of instability or collapse, the United States and China would have common ground for cooperation. Without more technical and forthcoming exchanges, however, the shock of sudden change in the North could result in mutual mistrust and antagonism, reflecting the underlying divergence in American and Chinese long-term geopolitical objectives for the region as a whole.

This is another reminder of why the future of North Korea is so pivotal to the future of order in Northeast Asia and why the current nuclear crisis is forcing so many hard realities on Beijing. The Korean War was frozen with an armistice, but the longer-term legacy was China's isolation and the establishment of a U.S.-led alliance system in East Asia. Chinese and world leaders chose to end the former almost five decades ago, and Chinese strategic thinking is underpinned

by the assumption that the latter — the American alliance system — will also wither with time. The North Korean nuclear threat is ruining that assumption, as the United States, Japan, the Republic of Korea, and Australia put in place the elements of what could become a lasting collective security arrangement in the region centered on missile defense, nuclear deterrence and joint military capabilities. The driver is the North Korean threat, but everyone knows that uncertainty about Chinese intentions is a factor as well. In fact, American and allied leaders have found that their increasing defense cooperation as North Korea escalates is not only necessary for self-defense, but also to shake Beijing out of its complacent assumption that all will be well if we just lower the rhetoric of all parties around the Korean Peninsula.

For now, this episodic tactical cooperation and strategic mistrust will characterize U.S.-China interactions on North Korea. As the North Korean threat becomes increasingly acute, however, the balance could tip in either direction. Thinking clearly about what we want and can expect from Beijing and then aligning our own alliances, pressure and diplomacy to achieve that is the best way to ensure that we move towards more genuine strategic cooperation on what is ultimately a mutually shared threat. ☉



Seek Common Security, not Absolute Security

To follow a common security approach that recognizes the interrelations and interdependencies between countries, Washington must step back and reassess the moral and practical implications of its foreign-policy commandment “Do as I say, Not as I do” when it comes to nuclear weapons.

Any effective security paradigm must address the legitimate security concerns and interests of all its members. Common security takes on special significance and urgency in the context of the divided Korean peninsula, given its position as a sensitive flashpoint and strategic pivot of Northeast Asia. In this environment, as elsewhere, we have to start from the premise

that there has never been and never can be absolute security. No lesser realist than Henry Kissinger highlighted the basic flaw in any quest for it: “The desire of one power for absolute security means the absolute insecurity for all the others.”

Even more revealingly, in a keynote address at the UN’s European headquarters in Geneva



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in January, President Xi Jinping called for a world without nuclear weapons: “Nuclear weapons, the Sword of Damocles that hangs over mankind, should be completely prohibited and thoroughly destroyed over time to make the world free of nuclear weapons.” He also urged countries to “build a world of common security for all through joint efforts,” and recognized that “[n]o country in the world can enjoy absolute security.” In contrast, President Donald Trump tweeted that “the United States must greatly strengthen and expand its nuclear capability until such time as the world comes to its senses regarding nukes.”

Because U.S. perceptions have been influenced by the Manichean spirit of 9/11 – states are either for us or against us (Ambassador Haley’s mantra in the Security Council) – there’s the danger of escalating security crises, perhaps even pushing Pyongyang further and irreversibly down the nuclear

road. The quest for absolute security is a sure recipe for nuclear proliferation.

The common security approach breaks from the vicious cycle of security dilemmas and the dynamics of self-fulfilling prophecies. To follow a common security approach that recognizes the interrelations and interdependencies between countries, Washington must step back and reassess the moral and practical implications of its foreign-policy commandment “Do as I say, Not as I do” when it comes to nuclear weapons.

In the last two years, and especially since mid-April, there have been several hopeful but underappreciated signs of movement toward common security. First, the Workers’ Party of Korea, the founding and ruling party of the DPRK, held its 7th Congress on May 6, 2016 after a 36-year hiatus. While it was unsurprising that Kim Jong Un was reconfirmed as the leader of the party and the

“The desire of one power for absolute security means the absolute insecurity for all the others.”

— Henry Kissinger

ruler of the country, the congress took a major step back from the first strike doctrine by announcing that “we will not use nuclear weapons first unless aggressive hostile forces violate our independence with nuclear weapons.” Not only did this announcement add an authoritative interpretation of the North’s domestic law on nuclear forces but, more significantly, it reversed the nuclear first-strike posture with the unexpected “no first use” doctrine. This move was followed by a more concrete proposal for denuclearization of the Korean peninsula in July. Notably, the statement was issued by a spokesperson for the DPRK government invoking, for the first time since 2013, “the will left by Kim Il Sung and Kim Jong Il” to denuclearize the peninsula.

Second, after ten years of conservative rule, South Korea now has a progressive president in Moon Jae-in, who is seemingly determined to revive the Sunshine policy of the Kim Dae-jung and Roh Moo-Hyun administrations.

Third, China’s repeated appeals to return to “the right track of seeking a settlement through dialogue and negotiations” represent the most hopeful sign given China’s economic and geopolitical leverage on North Korea. China voiced opposition to North Korea’s fifth nuclear test (September 9, 2016) while calling for an early resumption of the Six-Party

Talks in order to solve the Korean Peninsula nuclear issue through political means.

Fourth, as the U.S.-DPRK nuclear confrontation was heating up, female peace activists from more than forty countries, including North and South Korea, urged President Trump to defuse military tensions and start negotiating for peace to prevent war from erupting on the Korean Peninsula. “We are united by our belief that diplomacy is the only way to resolve the nuclear crisis and threat of war now facing the Korean Peninsula,” they wrote in a letter to President Trump in April, which was also signed by North Korea’s Socialist Women’s Union. This was significant, according to Christine Ahn, international coordinator for Women Cross DMZ, a group of female peace activists that helped organize the letter campaign, “because like other organizations in the North, it would not act independently of the wishes of the central government in Pyongyang.”

Fifth, worried about what they described as President Trump’s erratic behavior, in May 64 Democratic legislators urged him to talk directly to the North Koreans – and warned that he would need congressional approval for any preemptive military strike. “Few decisions are more needing of debate than a move to launch attacks, or declare war, on a nuclear-armed

The common security approach breaks from the vicious cycle of security dilemmas and the dynamics of self-fulfilling prophecies.

To revive the Six-Party Talks, Beijing has to do more than issue perfunctory diplomatic appeals.

state such as North Korea,” read a letter signed by the lawmakers, led by Representative John Conyers Jr. of Michigan, the last Democrat in Congress to have served in the Korean War.

To revive the Six-Party Talks, Beijing has to do more than issue perfunctory diplomatic appeals. First of all, it must resume its proactive mediation / shuttle diplomacy to acquire Pyongyang’s consent. Pyongyang has learned from the fates of Saddam Hussein and Muammar Gaddafi after they discontinued their WMD programs, and the oft-repeated mantra “denuclearization first, negotiation later” is a deal-killer, not a dealmaker. And pacifying North Korea’s insecurity by formally ending the Korean War with a peace treaty, establishing diplomatic relations, allowing membership in key multilateral economic institutions, and providing humanitarian food aid would cost little but would go a long way in building mutual trust and confidence in the negotiation process.

The abolition of nuclear weapons requires that we understand why North Korea chose to go nuclear in

the first place. After some twenty-three years of on-again, off-again U.S.-DPRK confrontation and negotiation, it now seems clear that Pyongyang will not give up its nuclear and missile programs without sufficient evidence of the end of U.S. enmity and its punitive sanctions strategy. Only by taking steps to revive the notion of common security, largely by a legally binding peace or non-aggression treaty, can U.S.-DPRK relations and Northeast Asian international relations come to rest on a more stable, safe, and sane footing. ©

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A Significant 'Small Step'

Although the signing of the framework of the Code of Conduct is only a small step forward, it's actually of great significance for China-ASEAN relations



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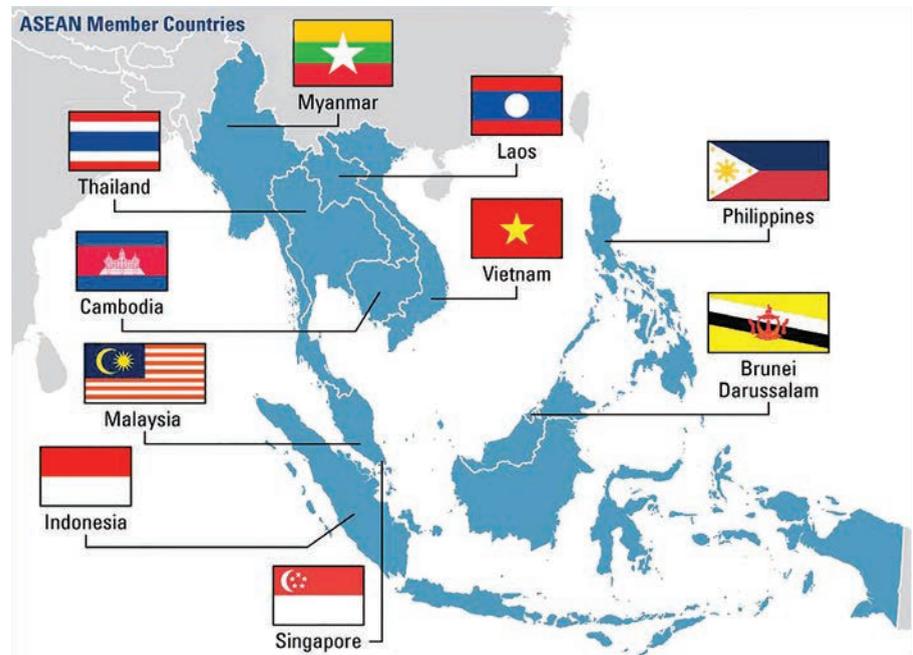
On the 5th of August, Chinese and ASEAN foreign ministers endorsed the framework of a Code of Conduct (COC) on the South China Sea (SCS) at the 50th ASEAN Foreign Ministers' Meeting. This is an important development in managing disputes, alleviating tensions, and preventing SCS issues from jeopardizing China-ASEAN relations. This agreement shows consensus and unity between China and ASEAN members on significant issues.

Although the signing of the framework of the COC is only a

small step forward in the COC negotiation, it's actually of great significance for China-ASEAN relations.

Fifteen years have passed since China and ASEAN signed and issued a Declaration on Conduct (DOC) on the SCS in 2002. Since then, two issues have prevented consensus on a COC between China and ASEAN, and between ASEAN countries. The first is what role the COC should play concerning sovereignty in the SCS and in maritime disputes. The second is what controversial issues China and ASEAN should

The COC should facilitate the settlement of sovereignty and maritime disputes in the SCS rather than directly interfering with or impeding their negotiation.





■ Philippine President Rodrigo Duterte (7th from L) and foreign ministers of the ASEAN countries attend the 50th anniversary ceremony of the ASEAN in Manila on Aug. 8, 2017. The Philippines played host to the meetings on Aug. 2-8.

avoid during the negotiations for the COC. It's important not to confuse the negotiation of the COC with negotiations aimed at solving the sovereignty disputes. The COC should facilitate the settlement of sovereignty and maritime disputes in the SCS rather than directly interfering with or impeding their negotiation.

Also, if the COC is to become a binding document, then from the very beginning negotiations should not be used as a tool by countries outside the region to intervene in the SCS. Any negotiations should be the result of self-determined, conscious, and voluntary dialogue between China and ASEAN in order to promote regional stability and cooperation. Furthermore, it is essential that the spirit of cooperation between China and ASEAN be maintained during negotiations on the COC. The desire to reduce interference by powers outside the region can help keep the

SCS peaceful.

The situation in the SCS has changed significantly since 2002. China and ASEAN claimant countries have all undertaken drastic efforts to bolster their maritime claims. The progress of China's construction on islands and island-building changes the strategic situation in the region, and provides major support for safeguarding China's rights and maintaining regional stability in the SCS.

With intervention and support from outside powers, ASEAN claimant states have exacerbated territorial disputes. Bringing SCS disputes to an international tribunal for the first time, the Philippines sabotaged the consensus reached in the DOC by China and ASEAN that the relevant disputes in the SCS should be settled through negotiations and consultations via diplomatic channels. The Jurisdiction Award issued by

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The framework of the COC is brief and concise, but it has a clear intent.

- *Philippine Foreign Affairs Secretary Alan Peter Cayetano and Chinese Foreign Minister Wang Yi (Center) links arms with other foreign ministers at the 18th ASEAN Plus Three Foreign Ministers Meeting on Aug. 7.*



- *Philippine Foreign Affairs Secretary Alan Peter Cayetano (R) shakes hands with China's Foreign Minister Wang Yi in Taguig, who said he supported the idea of joint energy ventures with the Philippines in the disputed South China Sea on July 25, just one day after President Duterte said a partner had been found to develop oil fields and exploitation would restart this year.*



The strategic partnership between China and ASEAN will continue to progress. Later this year China and ASEAN are expected to initiate formal negotiation to conclude a binding COC. China and ASEAN have yet to formalize the framework. They should do so, and show the world that countries with conflicting claims can manage and control disputes and tensions over the SCS with restraint, pragmatic cooperation, and the establishment of regional mechanisms. As Foreign Minister Wang Yi said, “History will prove who is the real master of the SCS.” ☉

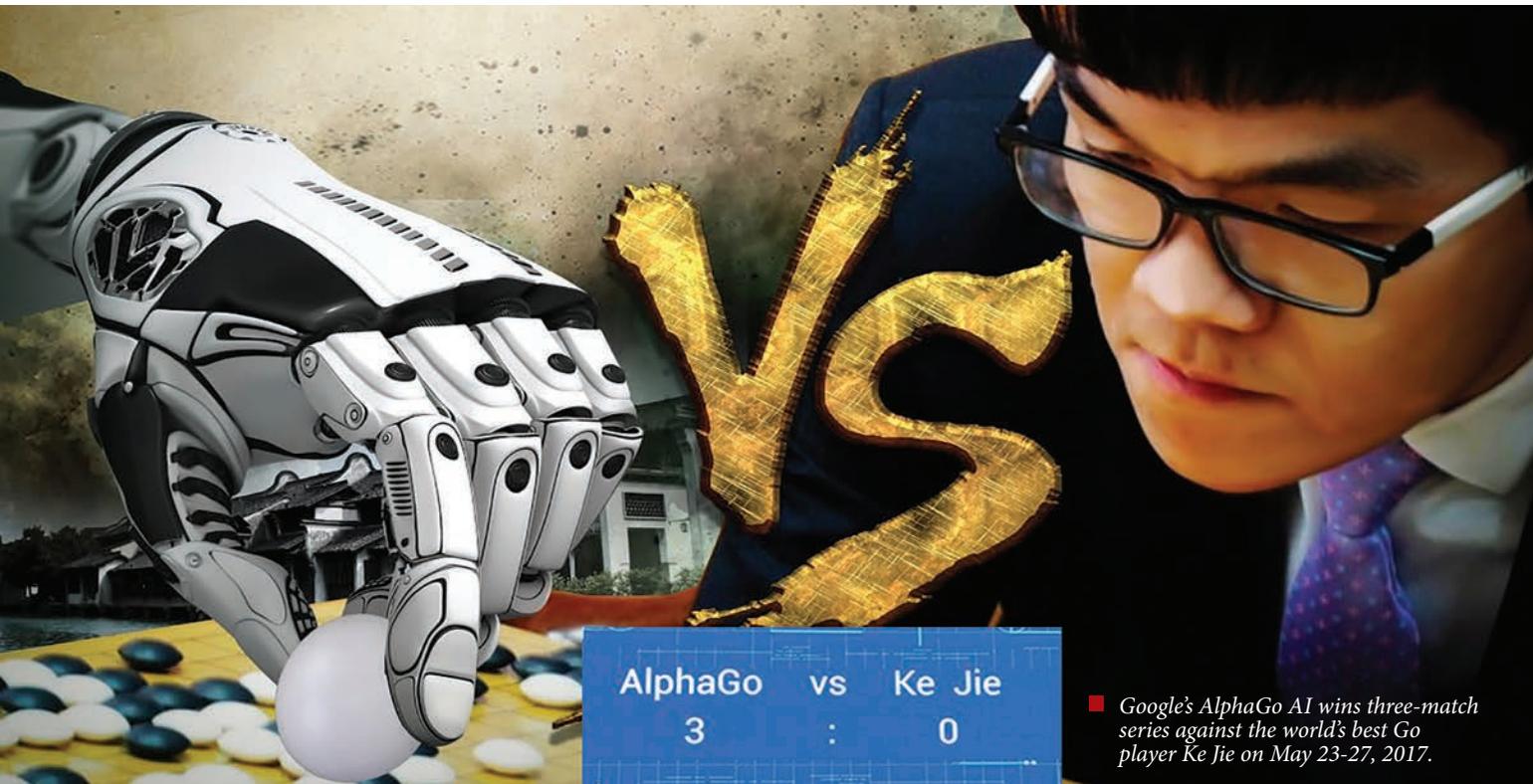
the arbitral tribunal violated the rules set by international law that third party settlement will apply only when bilateral diplomatic means have been exhausted.

The framework of the COC summarizes and reflects the current situation in SCS disputes since the DOC was issued 15 years ago. It shows the world China and ASEAN’s strong will and pragmatic attitude on dispute management and the alleviation of tensions, on setting norms for states’ activities, and deepening strategic cooperation. The framework of the COC is brief and concise, but it has a clear intent. It focuses not only on China-ASEAN activities in the SCS, but also on future SCS crisis management and principles for joint activities.

“History will prove who is the real master of the SCS.”

Artificial Intelligence New Frontier for Cooperation

The advent of the AI age will bring unprecedented opportunities and challenges. The world's two most powerful countries, also the world's two biggest players in AI, need to come together to manage this new technology.



■ Google's AlphaGo AI wins three-match series against the world's best Go player Ke Jie on May 23-27, 2017.



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On 20 July 2017, the State Council of China published the Development Plan for the New Generation of Artificial Intelligence (AI), which clearly sets the direction and key objectives of AI development in China. The government believes that AI is important for China to become a powerful nation in technology and innovation, as well as in cyberspace. In recent years, governments, businesses,

and research institutions of all countries have increased their investment in AI, viewing it as the next leading sector.

The reason behind the fascination with AI is that it has incomparable potential to change things. First, it may greatly increase productivity. With a combination of cloud computing, big data, and the Internet of Things, AI will bring



■ On April 24, 2017, Jia Jia (L), the new-generation interactive robot, which looks like a real Chinese young woman in traditional outfit, talks through internet with Kevin Kelly, founding executive editor of *Wired* magazine in Hefei, China's Anhui Province. Jia Jia can speak, show micro-expressions, move its lips, and move its body.

about a new productivity revolution based on information. It will help free humans from inefficient and low-skilled physical and mental work, which will change the traditional relations of production. Some countries might unlock a new round of rapid economic growth by unleashing enormous tech dividends. Secondly, AI might reshape the existing social architecture. For example, the extensive use of self-driving cars will require changes in infrastructure, law, and ethical ideas, as well as in the mindset of city designers and administrators. Finally, AI might promote military reforms. Military robots will drastically reduce the cost of war and widen the power gap between the developed and developing countries. It will redefine what war looks like in the future.

On the other hand, AI also involves numerous risks. The first risk is from fraudulent data. With the help of AI, huge amounts of fake pictures, documents, audios and videos can be forged within a short period. This fraudulent data, which will be hard to detect, might have disastrous consequences after being spread on the internet. The second risk brings up fundamental questions of legality and morality.

The international community has yet to adopt any AI-related regulations so far. AI is not absolutely neutral or objective - the relevant parameters are set by humans, reflecting the designers' ideas. There is still a big debate on whether autonomous weapons will be able to make independent judgments. These weapons are inconsistent with the existing international legal regime governing wars, including the Geneva Convention.

The third risk involves employment and poverty. The productivity rise as a result of AI might lead to persistent unemployment, increase extreme poverty, and cause social unrest. The rich might be adept at reaping the benefits of new technologies such as AI, robots, and big data, further widening the wealth gap. The fourth risk is an arms race. With military robots developing by leaps and bounds and drone sales leading the global arms market, the advent of AI might trigger an arms race, particularly among small and medium sized countries.

Globally, United States and China are the two biggest players in AI. The two countries have excelled in the basic research, technology and application of AI, covering areas like education, medicine, and finance. US tech giants like IBM, Google, Microsoft, and Facebook are global leaders in technology, while Chinese businesses are quite capable in fields like image and voice recognition and self-driving cars. Both countries have large numbers of AI start-ups. On the AI 100 List 2017, a list of the 100 most promising AI companies published by CB Insights, a data analysis firm, 59 are from the United States and 27 from China.

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Globally, United States and China are the two biggest players in AI.

Given their respective status, cooperation between China and the United States in AI is crucial. That said, competition between the two is also inevitable. At present, cooperation far outweighs competition. US companies generally focus on basic technologies, while their Chinese counterparts are more committed to application. Thus, a “US-designed and Chinese-made” cooperation model has been formed. At the same time, the two countries also have misgivings of and misunderstandings with each other. First of all, the United States is concerned about losing its absolute advantage. Some US commentators have expressed concern that as their country reduces its research funding and China increases its own support, the United States will have difficulty keeping its edge. Second, the militaries of the two countries are competing fiercely. The New York Times reported that China is quickly applying AI to military purposes. Third, the United States worries about brain and technology drain. Chinese tech firms like Baidu and Tencent are increasing investment in US AI companies, luring high-caliber talents and setting up AI labs in the United States. The worries have grown into strategic misgivings. Some US experts suggest applying greater scrutiny over Chinese investments in the United States, and preventing Chinese businesses from acquiring or investing in certain US companies. Some even suggest efforts should be made

to stop Chinese scholars from publishing articles in American academic journals so as to make Chinese technologies and patents less visible. On the other side, China is worried that the United States might extend its Internet hegemony to AI, and might be more cautious about American businesses collecting social data in China.

If such misunderstandings and misgivings continue to grow, AI is likely to become another point of contention in China-US relations, instead of an opportunity. This will not serve either country, and may set a bad example for other countries. The two countries should take measures to combat this.

Based on the experiences and lessons from China-US cyber security, we suggest that the two countries jointly promote cooperation between their AI sectors. It is important to foster the habit of cooperation early at the technological development stage, and to work to remove misgivings and manage differences. The two countries may come to an agreement to open their markets, and reduce the political factors hindering investment. The private sector plays a major role in AI research. Yet the role of the government is to provide necessary support to cash-strapped basic and long-term research that catches little private interest. The government should also learn from the new technologies of other countries.

Both governments need to manage the threat of AI militarization. China and the United States should realize that the weaponization of AI will bring the risk of an arms race and weapons proliferation. They need to reduce the probability of these weapons finding their way into the hands of terrorist groups or rogue states. The two countries need to set up restrictions, regulations, and international cooperation mechanisms on AI weaponization, and lead international communication and cooperation in this field.

Lastly, the two governments need to promote the development of international rules on AI. The two countries need to work together to reduce the harmful

impact this technology may have on society and prevent the emergence of a “digital divide” caused by AI. They need to help less-developed countries and poor people adapt to and use this technology. ©

U.S. companies generally focus on basic technologies, while their Chinese counterparts are more committed to application.



■ Delighted youngsters watch the performance of a robot at the World Robot Conference 2017 in Beijing.

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

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

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