



## **An NCAFP Conference with the China Institutes of Contemporary International Relations**

**By Robert Wang  
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### **Introduction**

On February 27, 2016, the NCAFP's Forum on Asia-Pacific Security (FAPS) hosted a delegation from the China Institutes of Contemporary International Relations as part of an ongoing exchange with Chinese scholars. The one-day conference focused on four topics—U.S.-China economic relations, cross-Taiwan Strait relations, North Korea, and U.S. and China's relations with Russia. (The participant list is included in the appendix.)

Given North Korea's stated goal of completing its nuclear development by the end of 2017, participants generally agreed that this will be one of the most urgent and critical issues confronting the region this year. Although it is yet unclear how President Trump and the new U.S. administration will deal with this impending crisis, close coordination between the United States and China will be needed to cope with changing security environment. At the same time, participants expected the two countries to face new challenges in managing bilateral trade and investment frictions and continued cross-Strait tensions as well as shaping our relationships with an increasingly assertive Russia.

The following is a summary of the discussion.

### **U.S.-China Economic Relations and How to Improve Them**

The moderator started by noting the general slowdown in global trade flows as well as rising trends in financial nationalism and populist anti-globalization sentiments around the world. The American presenter acknowledged that President Trump's "America First" policy theme has generated serious concerns abroad but pointed out that this outlook also reflects not only American but European and world-wide concerns about the impact of China's trade and investment practices and the lack of progress in moving toward further economic reforms and opening. While noting that Trump's trade team and economic policies have not yet been fully formed, he said it is certainly not in the interest of either China or the United States to "blow up" the bilateral economic relationship in a trade war. The United States benefits from manufactured goods imports from China and exports to the growing China market while China's

exports to the United States has created tens of millions of jobs and contributed to an increasingly large proportion of China's GDP growth. This would be a particularly bad time for China's exports to slow as its broader economy faces overcapacity among other issues.

Nonetheless, the presenter predicted an imminent "trade policy shock" as the Trump administration is expected to increase trade remedy and enforcement actions, possibly including the imposition of new border adjustment taxes that will affect Chinese imports. Although the Chinese currency (RMB) is currently overvalued, the U.S. Treasury may still decide to designate China as a currency manipulator in light of its longstanding currency control policies. U.S. policy on incoming foreign direct investments (FDI) may also begin to change and take into account issues of reciprocity and economic security, especially as Chinese companies seek to acquire brand name and high-tech American companies while continuing to restrict foreign acquisition of Chinese companies in a wide range of industries. He noted that Chinese outbound investments to Europe are facing similar hurdles. Meanwhile, anticipation of future RMB devaluation is generating increased demand to move capital abroad. The accelerated progress made toward a U.S.-China bilateral investment treaty (BIT) last year is now likely to be halted for the next few years. To address these many issues, China needs to revive and accelerate the reform policies announced at the 3rd Plenum of the 18th Party Congress while the United States needs to focus on a more positive trade agenda toward China. He identified infrastructure investment, whether in the United States or in third countries, as an area of possible cooperation.

The Chinese presenter underscored the current uncertainties in our bilateral economic relations. President Trump's trade and investment policies vis-à-vis China are still unclear. One possibility is that more aggressive U.S. trade actions will lead to a vicious cycle of retaliatory measures that will be costly for both sides. He expressed the hope that this does not materialize. The more optimistic scenario is one of "grand bargaining" between the two countries that eventually helps to resolve and reduce trade frictions and leads to a more stable relationship. In this regard, it would be useful if the leaders of the two countries could meet sometime in the first half of the year. Given the recent slowdown and troubling issues affecting the Chinese economy, however, he expected Chinese leaders to be more cautious about moving ahead with reforms and predicted that further reform measures will be delayed until after the 19th Congress at the end of this year.

Meanwhile, the two countries could focus on addressing a number of priority issues, including China's currency policy and the business environment for foreign firms in China. Perhaps the United States, China and Japan can coordinate on currency policies as the three largest economies in the world. He agreed that the two countries could cooperate on infrastructure investment and proposed that the United States attend a summit of the "One Belt, One Road" (OBOR) initiative in May. He recommended resuming BIT negotiations as soon as possible. To address the trade imbalance, the United States should also lift longstanding restrictions on U.S. high technology exports to China and begin to export natural gas as well. We also need to maintain existing channels of economic cooperation such as the Strategic and Economic Dialogue (S&ED) because this facilitates inter-agency coordination.

A Chinese participant commented that the Chinese economy has already gone through significant restructuring. He pointed out that China's outbound investment exceeded inbound foreign investment for the first time in 2014. Also, the expansion of domestic demand contributed more to GDP growth than external trade in 2016. With the slowdown in world trade, China has turned its focus to the domestic market. He expected that the current anti-globalization trend will be a temporary phenomenon. Nonetheless, should Trump's "America First" theme result in "hire America and buy America" policies, China will take its investments elsewhere and take this as an opportunity "to lead globalization." Other American participants pointed to a marked decline in U.S. business community sentiments about the environment in China and argued for removing joint venture requirements and liberalization of the RMB, among other reforms, to achieve greater reciprocity in our bilateral relations. Citing the impact of the U.S.-Japan "Plaza Accord" currency agreement on Japan's long-term growth since the 1990's, one Chinese participant concluded that China will not make the same mistake.

### **Cross-Taiwan Strait Relations**

The American presenter pointed out that, despite much media attention over the Tsai-Trump phone call and Trump's subsequent tweet raising questions about the "One China Policy" prior to his inauguration, cross-Strait relations actually look "pretty good" and the situation is back to where it has been since Tsai took office last May. Tsai Ing-wen has kept her promise to maintain the status quo and govern within the Republic of China (ROC) constitutional framework despite Beijing imposing economic, diplomatic and military pressures to get her to accept the "92 Consensus." He described the Tsai-Trump phone call as an effort to reassure the people in Taiwan of continued U.S. support for the status quo and not to change it. The call was welcomed by almost everyone in Taiwan, including many in the opposition KMT party. Trump then affirmed his commitment to the longstanding U.S. "One China Policy" in a telephone call to Xi Jinping after his inauguration. In his Senate confirmation hearing, Secretary of State Rex Tillerson also reiterated U.S. commitment to its longstanding "One China Policy" as well as the Taiwan Relations Act (TRA) and President Reagan's "Six Assurances" that essentially serve to maintain the status quo.

Given strong public opinion in Taiwan, the presenter argued China should not expect Tsai to change her position on this issue even if further pressures were applied. Neither is it likely that the United States will alter its policy of supporting the status quo and peaceful resolution, held since 1979. He suggested that Beijing might want to consider resuming official communications with Taiwan authorities and take measures to enhance its "soft power" to win the "heart and minds" of the people of Taiwan. He argued that Beijing's continued pressure only works to generate greater popular opposition in Taiwan to the idea of political reunification as well as weakening support for the opposition KMT party. Noting the news that former State Councilor Dai Bingguo has just been appointed to be chairman of the National Society for Taiwan Studies, the presenter expressed the hope that this choice signals a desire on the part of Beijing to consider more creative and positive cross-Strait policies.

The Chinese presenter responded that Beijing's cross-Strait policy is in fact directed at influencing the people and voters in Taiwan. He noted that Tsai Ing-wen's approval rating has already dropped significantly from around 70 to 34 percent and her disapproval rating has gone up from 9 to 41 percent since she took office last May. During this period, Tsai had taken numerous steps to de-Sinicize Taiwan and move gradually toward independence as evidenced in various actions taken on textbook revisions and against the legacy of Chiang Kai-Shek and KMT party assets. Tsai is also seeking to reduce Taiwan's dependence on the Mainland by initiating a "New Southbound Policy" and collaborating with anti-China forces in Japan. Tsai is thus to be blamed for the "ice age" in cross-Strait relations because she continues to refuse to accept the "92 Consensus." At the same time, he noted that the (16 percent) drop in Chinese tourism to Taiwan compared to 2015 has been less than expected while Taiwan tourism and investments on the mainland have actually increased.

Turning to the U.S. role in cross-Strait relations, the presenter indicated that Taiwan anxieties have risen since the telephone call from Trump to Xi in early February. He argued that the United States should do more to persuade Tsai to improve relations with Beijing, speculating that Trump may eventually decide neither to fully implement current arms sales agreements nor to post U.S. marines at the office of the American Institute in Taiwan (AIT). During the presenter's recent visit to Taiwan, some of the KMT party people told him that Beijing should not reward the DPP administration for its refusal to accept the "92 Consensus" and other actions affecting cross-Strait relations.

A Chinese participant asserted further that Tsai's refusal to accept the "92 Consensus" means that she does not recognize the political foundation of cross-Strait relations. So Tsai has in fact changed the status quo by not accepting the "92 Consensus" even if her actions have not been as harsh as those taken by Chen Shui-Bian in his years in office. Beijing will not allow Tsai to change the status quo. Nonetheless, he noted that Chinese pressures have been primarily political, rather than economic. Another Chinese participant pointed out that there is a fundamental difference between U.S. and Chinese goals. While U.S. policy is to support the goal of "peaceful resolution," China's goal is "peaceful reunification." A status quo that evolves into de facto independence is not acceptable to China. Recognizing this difference, China cannot rely on the United States and must take this issue into its own hands. Also acknowledging that Beijing has been unable to win the "hearts and minds" of the people in Taiwan even during the Ma Ying-jeou period, he said that China has no choice but to stand firm on its position.

An American participant reiterated that Tsai has made clear that her phone call with Trump did not represent an effort to change the status quo either by Taiwan or the United States. Further Chinese pressures will only alienate the people in Taiwan, especially among the youth who are more supportive of Tsai's cross-Strait position. The American presenter indicated that Beijing's firm position against formal Taiwan independence is understood and accepted by most but it is important to be more precise about what this means. Putting more pressure on Tsai to accept the "92 Consensus" (especially while not recognizing the existence of the ROC) seems only to increase opposition to reunification and support for independence. A Chinese participant acknowledged that there are different interpretations of the "92 Consensus" but argued that both are based on the "One China principle."

## **North Korea**

The American presenter warned that 2017 will be “the pivotal year” on the Korean peninsula as North Korea has announced that it will complete its nuclear development by the end of the year. This means that North Korea will have completed its program to develop an inter-continental ballistic missiles (ICBM) nuclear capability that will eventually pose a direct threat to the United States. Meanwhile, it has already successfully tested a nuclear capable medium-range solid fuel missile that can reach targets within the Western Pacific. This could give North Korea a credible second-strike capability within the region. North Korea’s ultimate goal is to be accepted by and to engage with the world as a nuclear weapons state, to negotiate a peace treaty with the United States, to end the U.S.-Korea alliance and U.S. force presence in Korea, and to unify the peninsula on North Korean terms. There is “no turning back” at this point for North Korea as it has continued nuclear tests and missile launches, rejecting all outside efforts to negotiate a freeze of its nuclear and ballistic missile programs.

In the face of this impending crisis, the presenter said that the options for solution “go from bad to worse.” The U.S. could just leave it to China to handle the problem, as Trump has sometimes suggested, but that’s not likely to resolve the issue. The U.S. could offer to negotiate a permanent peace treaty in exchange for North Korea’s denuclearization, but this is not likely to be accepted by North Korea given its goal to be recognized as a nuclear state. The U.S. could eventually accept North Korea as a nuclear state but this would not eliminate the potential threat and would generate pressure on other countries in the region to do the same (“nukes for all”). A last resort option would be to take military action to prevent North Korea from completing its nuclear program but doing so would basically start a war on the peninsula. In the final analysis, the U.S. may need to take steps to threaten the very existence of the regime itself by imposing even stronger economic sanctions, seizing all of its assets abroad and conducting cyber warfare against North Korea (“regime change”). This strategy will require agreement and close coordination between China and the United States, among others in the international community.

The Chinese presenter agreed that this will be a pivotal year. North Korea acquiring a nuclear weapons capability touches both U.S. and Chinese “red lines.” It is clear that President Obama’s policy of “strategic patience” has failed but it is still unclear what Trump’s policies will be, so the situation on the Korean peninsula remains very uncertain. China has recently halted coal shipments to North Korea. But sanctions by themselves, he argued, are not effective because they generate a vicious cycle and make the North Koreans even more resistant. U.S. construction of a Terminal High Altitude Area Defense (THAAD) system in South Korea would destabilize the strategic balance and start an arms race between China and the United States in the region. Finally, if Trump, with his small group of hardline advisors, were to launch a military attack on North Korea, the results would be disastrous. Given the uncertainty of Trump’s policies at this time, our two countries could try something new in dealing with North Korea which wants a dialogue with the United States and sees the military exercises on the peninsula as posing a serious threat. The United States should start by resuming a direct and “secret” dialogue with North Korea either at the Track 1.5 or 2 level since there is “nothing to lose.”

A Chinese participant argued the key is to integrate North Korea into international society. Another wondered if, as suggested by former U.S. Defense Secretary Perry and a Chinese scholar Yan Xuetong, we all have to eventually accept North Korea as a nuclear weapons state. In any case, China cannot resolve this issue by itself. One American participant responded that the “worst nightmare” for the North Korean regime is to have the country and its people integrated into the international society. Having engaged in numerous track dialogues for years, the American presenter said that direct talks with North Korea were “useless” and nothing can be accomplished through them. At this point, U.S. officials are prone to look seriously at the option of an attack on North Korea nuclear facilities as a last resort. Meanwhile, China and the United States should consider working together to effect regime change in North Korea and to agree on an arrangement afterwards.

### **Relations with Russia (and How to Improve Them)**

The moderator began by pointing out that our two countries’ relationships with Russia are important even if different in nature. For the United States, this relationship has become the most contentious since the end of the Cold War. The question now is what role can or should Russia play in the Asia-Pacific, and how do we deal with its recent actions in Eastern Europe, Middle East and elsewhere.

The American presenter described Russia’s post-Soviet financial and economic resurgence under Putin as resulting from a rise in oil prices and economic reforms that lifted living standards in the country. Nonetheless, Russia’s economic growth and power still lags significantly behind that of China’s. In fact, while generally enjoying a cooperative relationship with China, Russia has actually lost influence to China in its own neighborhood of Eurasia and Central Asia. Russia’s position in Europe has also significantly eroded in recent years. Yet, while considered the “weak leg of the triangle” (U.S.-China-Russia), Russia has exercised disproportionate influence because of its willingness to use force and to bear the cost of doing so. Also, while actively participating in the post-WWII Bretton Woods economic and financial system, Russia aims to weaken and destroy the European transatlantic military alliance with the United States that it sees as a threat. The presenter concluded, nonetheless, that it is important to continue our engagement with Russia to build a constructive relationship. Whether this is possible or not between Trump and Putin remains to be seen.

According to the Chinese presenter, the U.S.-Russian relationship is primarily a political and security one while the one between China and the United States has been primarily economic with political and security considerations only recently becoming more important. Russia has encountered many problems in its efforts to undertake reforms in the post-Soviet era, which included experiments with the democratic process. When Putin came into power, he resented U.S. criticisms and efforts to intervene in Russia’s political process. U.S. support for NATO expansion has also antagonized Russia because it feels that it is being “squeezed” by the United States, particularly with the construction of anti-missile systems on its periphery. This has shaped Putin’s general antagonism toward the United States. Although China opposed Russia’s actions in the Ukraine, it understands Russia’s determination not to allow the Ukraine

to join the European Union (EU) or NATO. More generally, Russia is reluctant to let former Soviet Union countries join the EU. The only tools Russia can deploy are military and diplomatic ones to resist this movement.

Despite the furor over alleged Russian interference in the recent U.S. election, the Chinese presenter recommended that the two countries increase dialogue and work on important issues such as strategic arms control and non-proliferation, non-militarization of the internet and space technology. China is not concerned about this cooperation and in fact encourages it. All three countries need to work together on these global issues. China sees its own cooperation with Russia as essential to its own peaceful development as well as key to pursuing regional and global stability. Such cooperation is not targeted at any other country, such as the United States, and trilateral talks would be desirable. An American participant agreed that there are many areas of possible cooperation with Russia, including the fight against global terrorism. But returning to the subject of Ukraine, the participant underscored that the issue involved here was one of sovereignty and territorial integrity which should also be a very important principle for China given its own issues. In response, the Chinese presenter pointed out that China's abstention on two UN votes opposing Russian action in Crimea reflected China's position on this matter.

### **Conclusion**

There was general agreement that China and the United States need to manage our relationship cautiously, especially amid the uncertainties of political developments in both countries. It was noted that in these unconventional times, we may also need unconventional thinking and creative policies. The most urgent priority at this time may be close coordination between China and the United States in handling the looming crisis related to North Korea. We should also strive to avoid a trade war that will undermine both of our economies, manage cross-Taiwan Strait relations and encourage Russia to play a positive role in global affairs.

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**MONDAY, FEBRUARY 27, 2017**

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