

U.S.-CHINA RELATIONS: MANAGEABLE DIFFERENCES OR MAJOR CRISIS?



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The National Committee on American Foreign Policy (NCAFP) was founded in 1974 by Professor Hans J. Morgenthau and others. It is a nonprofit policy organization dedicated to the resolution of conflicts that threaten U.S. interests. Toward that end, the NCAFP identifies, articulates, and helps advance American foreign policy interests from a nonpartisan perspective within the framework of political realism.

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- Addressing non-traditional security challenges such as terrorism, cyber security and climate change;
- Curbing the proliferation of nuclear and other unconventional weapons; and
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Believing that an informed public is vital to a democratic society, the National Committee offers educational programs and issues a variety of publications that address security challenges facing the United States.



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Introduction

By Donald S. Zagoria

U.S.-China relations have reached their lowest point in many decades. The two sides are on the brink of an economic Cold War, there are growing differences over a variety of strategic issues from the South China Sea to the Taiwan Strait, and there has been an erosion of support for U.S.-China relations in key constituencies within the U.S., especially the business community.

The Trump administration has identified China as a “revisionist” power in its National Security Strategy, which says that China seeks to replace the U.S. in the Indo-Pacific and to reorder the region in its favor. China, for its part, sees the Trump administration’s Indo-Pacific strategy as targeting China and it sees the U.S. as launching a trade war to realize its objective of keeping China down.

Both sides are questioning the value of engagement. Both sides are reducing or restricting channels of communication at a time when it is more important than ever to prevent miscalculation. It is imperative for both sides to find ways to manage their differences and to avoid a major crisis in the relationship.

The NCAFP has assembled ten analysts, five Chinese and five Americans, to examine the current tensions in U.S.-China relations and to offer suggestions for how to manage those tensions.

Jia Qingguo argues that it is not possible to stop the current trend of deterioration in the U.S.-China relationship but that it is possible to slow it down and reduce the damage. He offers several suggestions: keep talking, try to compartmentalize disputes and cooperate on issues of shared or overlapping interests.

Chu Shulong and Zhou Lanjun analyze U.S.-China differences over a variety of global and regional issues and argue that the relationship needs to be carefully managed. They urge Chinese leaders to increase the pace of reform and opening in order to increase the common ground with the outside world.

William Overholt explores what he calls the larger context of myths and overreactions that make the U.S.-China relationship difficult to manage. He worries that the Trump administration has abandoned the pragmatic approach to China followed by all previous presidents and he urges the U.S. to concentrate on the real threats to U.S. economic interests, most notably intellectual property theft, forced transfer of technology and access to the Chinese services economy.

John Holden considers how the U.S.-China trade relationship has become the focal point of bilateral contention. He holds out hope that enlightened self-interest on both sides will dictate compromise.

Michael McDevitt assesses U.S.-China differences over China’s maritime disputes with its East Asian neighbors. He concludes that although there is no solution on the horizon, the disputes can be carefully managed and that both Washington and Beijing seem to recognize this.

Yang Xiyu examines the North Korean nuclear issue in U.S.-China relations and argues that the nuclear issue has to be resolved in a comprehensive manner. On the one hand, North Korea must completely abandon all nuclear weapons and related programs. But North Korea's legitimate security concerns need to be addressed.

Victor Cha also addresses the North Korean nuclear issue. He outlines a comprehensive strategy for dealing with North Korea based on strengthening our alliances in Asia.

Li Peng covers the Taiwan Strait issue in U.S.-China relations. Li believes it will be difficult to break the current impasse between Beijing and Taipei, but he sees an opportunity to avoid further deterioration of the relationship and the emergence of a new crisis.

David Brown offers a comprehensive assessment of the current impasse in Beijing-Taipei relations, and he concludes with policy recommendations for all three sides—the U.S., Beijing and Taipei.

Shao Yuqun evaluates China's new Belt and Road Initiative, and she urges the two sides to defuse mutual distrust through dialogue and cooperation in multilateral institutions.

In sum, the authors in this volume recognize that the space for cooperation is increasingly limited. But they also believe that there are many paths to successfully managing challenges and to avoiding a major crisis in the relationship that would be disastrous for both sides.

An Uphill Battle: China's Efforts to Manage Uncertainties in U.S.-China Relations

By Jia Qingguo

China-U.S. relations entered a period of great uncertainty and instability the moment Donald Trump was elected. Since then, China has made much effort to reduce the uncertainty and stabilize the relationship. So far, however, the result has been very limited. Instead of a new type of great power relationship of “no confrontation, mutual respect and cooperative and mutual benefits” which the Chinese government hopes to cultivate between the two countries, it is dealing with a relationship caught between economic clashes, political alienation and military posturing.

What has happened? Why has the relationship ended up like this? What should be done to arrest this trend of development? These are the questions this paper will explore.

Much Effort but Little Result

When the news of Donald Trump's victory arrived, many Chinese felt hopeful despite Trump's repeated threats to pressure China on trade and currency. The economies of the two countries are mutually dependent and thus the relationship is beneficial. Therefore, it was hard to imagine Trump would put his seemingly outrageous threats into practice. After all, it is common for opposition party candidates to say negative things about China during election campaigns and later become pragmatic after assuming office. In his congratulatory note to Trump, President Xi expressed his desire to work with him to develop a mutually respectful and beneficial relationship.

China welcomed Trump in part because it was disappointed with the state of the relationship towards the end of the Obama administration, when relations between the two countries were in disarray. Despite the well-celebrated success in cooperation to bring about the Paris Agreement on climate change, the two countries suffered from quite a few problems: military frictions over China's assertions of sovereignty over some islands and features in the South China Sea, indirect conflict over the U.S. deployment of the THAAD system in South Korea, differences in approach on denuclearization of North Korea, disputes over human rights, frictions over cyber security, and unfriendly interactions over TPP, AIIB, and the Belt and Road Initiative.

To quite a few Chinese, Trump offered some hope for arresting this deteriorating trend of the relationship. After all, they thought, Trump is a businessman. Unlike his predecessor who was considered excessively concerned with human rights and principles, Trump was believed to be a pragmatic person who is willing to cut deals. They found that Trump was fixated on the trade deficit and promoting American economic development, and they believed that this would be an issue on which China could offer help and, in doing so, put the relationship back onto the right track.

However, it did not take long before Donald Trump shocked China as well as the world by taking a phone call from Tsai Ing-wen, leader of the Taiwan authorities. What is more, through his Twitter account, Trump tweeted that China should not take the U.S. One-China policy for granted, that it is something for which China has to bargain. In the eyes of the Chinese, this constituted nothing less than a blatant challenge to China's territorial sovereignty: the U.S. respect of the One-China policy constitutes the very foundation of China's diplomatic relations with the U.S.

In part because the phone call occurred before Trump formally assumed office and in part because the Obama administration assured China that the U.S. policy on Taiwan had not changed despite Trump's remarks, the Chinese government did not react to Trump's "provocation" as strongly as had been expected. Instead, it quietly reached out to Trump's close contacts, particularly his son-in-law Jared Kushner, to persuade Trump to come back to the One-China policy. And it appeared that China's efforts paid off. Trump took a phone call from President Xi who congratulated him on his success in the election. In return, Trump reciprocated by saying that he had no intention of changing the long-standing U.S. One-China policy.

Encouraged by this positive turn, the Chinese government sought an early summit between Xi and Trump. It managed to secure one in April 2017 at Trump's Mar-a-Lago resort in Florida. The Xi-Trump summit went quite well. The meeting between the two leaders was cordial and friendly. They talked for long hours and, among other things, they agreed on initiating four dialogue mechanisms between the two countries to discuss security, economics, cyber security, and societal exchanges. They also agreed to engage in a one-hundred-day negotiation on trade and economic issues. Xi told Trump that he attached great importance to developing a good relationship with the U.S. He said that there were a thousand reasons for the two countries to make their relationship work. Xi even underplayed the fact that Trump ordered the launch of missiles against Syrian forces who allegedly used poisonous gas against civilians during the summit, something China normally would have condemned for bypassing the UN Security Council. Xi told Trump that he "understood" the U.S. action because of the death of children.

For a time, relations appeared to be back to normal. President Xi and President Trump met and talked over the phone frequently. Senior officials from the two countries engaged in serious trade negotiations. The four dialogue mechanisms were in place. The two countries increased cooperation on sanctions against North Korea for its efforts to develop nuclear weapons and missiles. The Pentagon invited the Chinese navy to participate in the Pacific Rim naval exercises. Chinese business tycoons like Jack Ma promised Trump that they had plans to increase investment in the U.S. and create millions of jobs for Americans.

However, problems and frictions between the two countries continued. Trump accused China of not doing enough on the North Korea nuclear issue. His administration expressed dissatisfaction on China's actions to assert sovereignty of the disputed islands and features in the South China Sea. It also began to conduct investigations on Chinese trade practices on August 15, 2017. And, on top of all this, it approved US\$1.4 billion package of arms sales to Taiwan on August 22, 2017.

Despite all of this, however, the Chinese government continued with its efforts to stabilize relations with the U.S. To accommodate Trump's trade demands, it made quite a few concessions in the hundred-day trade talks, including lifting the ban on imports of American beef. It also increased cooperation with the U.S. at the UN Security Council on imposing much harsher sanctions against North Korea in response to its missile tests. In November 2017, it staged a so-called "state visit plus" for President Trump, including emptying Beijing's Forbidden City to welcome him, an unprecedented gesture to a foreign leader. During the Trump visit, China announced that it would purchase up to US\$250 billion worth of goods from the U.S. to balance

trade between the two countries. To express his appreciation, President Trump said nice things about his host. Once again, it appeared that the worst was over. What lay ahead would be business as usual, if not smooth sailing, between the two countries.

However, it soon turned out that business would not be as usual. As the year 2017 was coming to an end, the Trump administration issued a new National Security Strategy. Among other things, the strategy named China as a “strategic competitor,” probably for the first time in a formal official document since the two countries established diplomatic relations.

Since then, the relationship between the two countries has turned from bad to worse. To begin with, the Trump administration continued its opposition to China’s actions in the South China Sea. In his remarks at Washington’s Center for Strategic and International Studies, the then-Secretary of State Rex Tillerson asserted that China’s actions had undermined the “international rules-based order.”¹ The U.S. Navy also became more “aggressive” in the South China Sea. By this time, it had conducted four “freedom of navigation” patrols near the Chinese-controlled islands and reefs in the South China Sea, matching the total number of patrols during the entire second term of the Obama administration. The U.S. also urged other countries such as Britain, France, Japan and Australia to conduct similar patrols.

Second, senior U.S. officials began to denigrate China’s Belt and Road Initiative. They argued that China’s efforts to push for the Belt and Road Initiative have created few jobs for the recipient countries, substantially increased their debts, and thereby compromised their sovereignty. They suggested that the initiative was nothing but a thinly disguised effort to expand China’s interests and influence at the expense of the interests of the recipient countries.²

Third, some U.S. congressmen began to smear China’s efforts to develop people-to-people ties in the U.S., such as the Confucius Institutes. Senator Marco Rubio said that he was “deeply concerned by the proliferation of Confucius Institutes and Confucius Classrooms in the United States.”³ He claimed that the Confucius Institutes were pushed by the Chinese government to “infiltrate” American classrooms. Therefore, they should be stopped. Accordingly, he spearheaded a campaign to pressure American universities to terminate Confucius Institute agreements.

Fourth, following a seven-month investigation, the U.S. Trade Representative accused China of stealing U.S. intellectual property. He alleged that China’s theft of American intellectual property cost the U.S. somewhere between US\$250 billion and US\$600 billion. James Andrew Lewis, CSIS Senior Vice President, claimed that China has used licit and illicit means to acquire U.S. business secrets. On the basis of the previous analysis, the U.S. Trade Representative recommended taking serious measures to address this problem.

Fifth, to counter the alleged Chinese efforts at regional domination, the Trump administration came up with a “Free and Open Indo-Pacific” strategy. In explaining the strategy, Deputy Assistant Secretary of State for East Asian and Pacific Affairs, Alex N. Wong, said, “by free we mean, first of all, the international plane. We want the nations of the Indo-Pacific to be free from coercion, that they can pursue in a sovereign manner the paths they choose in the region. Secondly, we mean at the national level, we want the societies of the various Indo-Pacific countries to become progressively more free—free in terms of good governance, in terms of fundamental rights, in terms of transparency and anti-corruption.”⁴ By “open,” it means “open sea lines of communication and open airways,” “more open logistics—infrastructure,” “more open investment,” and “more open trade.”⁵ Clearly, the strategy was designed as an alternative to China’s Belt and Road Initiative.

Finally, the U.S. Congress also began to push for legislation to demand the Trump administration change the U.S.'s long-standing One-China policy. The Congress has tabled more than a dozen proposed bills to this effect. Among these, the Taiwan Travel Act is the most prominent. The final version of the bill was unanimously passed in both chambers and signed by the President into law. The bill called for developing all-level official exchanges between the U.S. and Taiwan, a gross violation of China's territorial integrity.

It was against this background that Trump announced that he was disappointed with the trade talks with China and therefore decided to impose 25 percent tariffs on US\$50 billion worth of Chinese exports to the U.S. Later, he followed up with threats to impose tariffs on almost all of the Chinese exports to the U.S.

After one and a half years since Trump came into office, the much-acclaimed most important bilateral relationship in the world is in deep trouble.

Unipolarity and Negative Interactions

How should we explain this development? Some blame Trump, saying that his unconventional approach to trade and his unusual style of pursuing his goals has led to this situation. Some others blame China, alleging that its "mercantilist" approach to trade and its "expansionist" aspirations in world affairs has caused this development. Still, others argue that the nature of the relationship, that is, between a rising power and an existing one, has made the relationship move toward confrontation.

None of these explanations, however, is satisfactory. First, Trump may be unconventional both in policy substance and style. But his focus has been largely on trade and to some extent North Korea, not on China. Moreover, on trade, he has lashed out not just at China, but also at many other countries including some of the U.S. allies. Therefore, this explanation cannot explain the deterioration of the relationship as a whole.

Second, China may have higher tariffs on imports and is more assertive in defending its territorial and maritime claims in the South China Sea. However, as a country in transition between a developing country and a developed one, China's tariffs are not higher than countries at a similar stage of development, and China's claims in the South China Sea have not exceeded what it has always claimed since the 1940s. Also, China is not the only country that has been assertive on disputed islands and features in the South China Sea. Therefore, tariffs and assertiveness in the South China Sea may not be sufficient to explain the deterioration of the relations between the two countries.

Finally, the argument that a rising power and an existing power is destined for confrontation and war is a problematic proposition that is only partially supported by historical experience. As the author and Rosecrance found earlier, there are good reasons to believe that nothing with regard to relations between the rising power and the existing power is inevitable.⁶

Closer analysis suggests the following combination of factors may offer a more satisfactory explanation to this turn of events: (1) the unipolar nature of the existing international system; (2) American reaction to China's pro-activeness in defending its territorial and maritime interests; (3) American perception of China's domestic development; and (4) the American business community's view of the business environment in China.

To begin, the unipolar nature of the existing international system makes China-U.S. negative interactions more likely. Unlike in a bipolar system or a multipolar system, the “pole” state in a unipolar system does not have other “pole” states to worry about. Therefore, it tends to focus on the rising state from an early stage and exaggerate whatever the rising state does from a negative perspective. With no other “pole” state to hide behind, the rising state feels vulnerable and finds it necessary to take defensive measures. When it does, it fuels the suspicions of the “pole” state. Accordingly, negative interactions follow. It is against this background that American security institutions began to see China as a potential security challenge from the mid-1990s and President George W. Bush talked about China as a strategic competitor when he came into office in 2001. In both cases, the U.S. did so despite the fact that there was a huge gap between China and the U.S. in military capabilities. China’s reaction in boosting its defense was in turn viewed by the U.S. security establishment as evidence of the looming security challenge.

Second, China’s pro-activeness in asserting claims of sovereignty in the South China Sea, developing a blue-water navy and building of military bases overseas in recent years have strengthened the view of American strategists that China presents a serious and imminent threat to the U.S. They believe that the goal of the Chinese government is to drive the U.S. out of Asia and challenge the international order. This way of thinking prompted the Trump administration to define China as a strategic competitor and lean toward a policy of containment.

Third, China’s domestic political development in recent years has undermined the American liberal consensus for engagement with China. For a long time after China’s adoption of reforms and openness in 1979, American liberals believed that China’s market-oriented economic development would make China a more liberal, if not a democratic, country. If this is the logical end of China’s development, then the rise of a stable, prosperous, and peaceful China is not only acceptable but also beneficial to the U.S., as former President Obama said in 2015. In recent years, however, this consensus has broken down as many American liberals concluded that their previous expectation was wrong. To them, China is becoming a different country with different values and ambitions. Because of this, they now believe that the rise of a China presents a challenge and even a threat to the American way of life. Therefore, they no longer support the policy of engagement as strongly as they once did.

Finally, the American business community’s view of China’s business environment has deteriorated to the extent that it no longer gives unreserved endorsement to the engagement policy. The American business community used to be the most active and strongest supporter of the policy of engagement in the U.S. In the year after Bill Clinton came into office, he introduced a policy that linked the extension of most favored nation status for China to China’s human rights behavior. Out of interests and convictions, the American business community rallied to put pressure on Clinton to change his linkage policy. In part because of this pressure, Clinton eventually dropped the policy. This time, however, the American business community has been rather silent on the Trump administration’s pressures on China despite the negative implications on their interests. This is because they have become very frustrated with the business environment in China. Over the years, they have been complaining that the Chinese government’s intervention in the marketplace has put U.S. companies in China at a competitive disadvantage to Chinese companies.

What Is Likely to Happen?

In the short run, there is not much reason to be optimistic. First, the unipolar nature of the international system is unlikely to change any time soon. The negative interactions are likely to continue into the foreseeable future. Second, given domestic political considerations, the Chinese government is unlikely to give up its claims on territorial rights and maritime interests in the South China Sea and Taiwan, although it may moderate its actions to some extent. If the U.S. becomes more confrontational, however, China may step up its efforts to enhance its military capabilities there. The hardline strategists of the U.S. are likely to make good use of this situation to advance their policy of confrontation with and containment of China. Third, for political reasons, the trend of centralization of power and increasing opposition to alleged western efforts to liberalize China is likely to continue in China. Under these circumstances, American liberals are unlikely to reembrace the engagement policy. Finally, the American business community is likely to remain disappointed with continued government intervention in the marketplace. Many Chinese have viewed this as a key to China's economic success, and there is no sign that the Chinese government is going to change it in a fundamental way. In fact, as China's domestic economic situation deteriorates as it is now, one is likely to see more government intervention in the marketplace rather than less, something that the American business community does not wish to see.

In the long run, however, chances are the two countries will find ways to manage their relationship. After all, the stakes are high and the shared interests are many. Because of their respective interests, neither country can afford to get into an all-out confrontation. The U.S. will not do it because it would consume so much of its resources, and it needs China's help to maintain the existing international order and cope with various kinds of global challenges. China will not do it because it would jeopardize their efforts to modernize the country and realize the "Chinese Dream" that President Xi advocates.

What Should Be Done?

While there is little chance of stopping the current deteriorating trend of the relationship, let alone reversing it, it is possible to slow it down and reduce the damage to the relationship. China hopes that given time, domestic political dynamics may in one way or the other offer new opportunities to get the relationship back onto the right track.

First, the two countries should keep talking between themselves to make sure that they do not misunderstand each other and to avoid rash decisions as a result of miscalculation. While Trump's approach is to create uncertainties so as to get a better deal, both countries share an interest in avoiding ill-calculated moves that would jeopardize their fundamental interests.

Second, the two countries should try to compartmentalize disputes and avoid politicizing them. They share an interest in taking a pragmatic approach to issues rather than letting ideology, populism or nationalism define the problems between the two countries.

Finally, the two countries can cooperate on issues of shared or overlapping interests. They should try to build up goodwill on the basis of successful cooperation on specific issues. As stakeholders of the existing international order, the two countries share many interests such as peace, stability, and a free and open international trade order. Both countries need to confront global challenges and improve regional and global governance. Specifically, both need to make sure that North Korea denuclearizes and the Taiwan Strait is peaceful.

The China-U.S. relationship is both important and complex. Careful management of it is in the best interests of both countries and the world. Making it constructive and mutually beneficial should be a common aspiration of the two countries. It is the hope of most people from both countries and the world to see this happen.



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⁴ U.S. Department of State. "Briefing on the Indo-Pacific Strategy." 2 April 2018. Web. 201 September 2018. <<https://www.state.gov/r/pa/prs/ps/2018/04/280134.htm>>

⁵ Ibid.

⁶ Jia, Qingguo and Richard Rosecrance. "Delicately Poised: Are China and the US Heading for Conflict?" *Global Asia*, Volume 4. Issue 4 (Winter), 2009. Web. 21 September 2018. <https://www.globalasia.org/v4no4/feature/delicately-poised-are-china-and-the-us-heading-for-conflict_jia-qingguorichard-rosecrance>

The Growing U.S.-China Competition under the Trump Administration

By Chu Shulong & Zhou Lanjun

There is a common view that there is always strong competition between major powers, especially between an existing power and a rising power. This competition is the so-called “Thucydides Trap.”

The Trump administration and many Americans, as well as people in Japan, South Korea, Australia and other countries of the world, believe there is a strategic competition and rivalry between the U.S. and China, and that the competition is increasingly becoming harsher and more confrontational.

The Trump administration is not the first American government to believe in a competitive nature of the relationship between the U.S. and China. During his presidential campaign in 2000 and first months as president, George W. Bush and his administration defined bilateral relations between the U.S. and China as a “strategic competition.”

However, China never used the term and refuses to accept that China’s relationship with the U.S. is a competitive one, because China insists it does not have the intention to compete with the United States now and in the foreseeable future.

Then the question remains, is there a competition between the U.S. and China? In what areas have there been competition and what areas have there not? How should the two countries manage competition until at least 2020, during a provocative time under Donald Trump?

The American View and Position

There seems to be a consensus among American politicians, policy makers, academics and the news media that there is clear competition from China aimed at the United States and that this state of affairs will continue. This argument includes the following points:

- China’s goal of development is to supplant America’s power and role in the world, and thus to become the most powerful and leading nation in the world; to reach the long-term goal of the “Chinese Renaissance” and “China Dream” as laid out by Chinese President Xi Jinping in recent years in the so-called “two centennial” goals of China; and to restore the historical role of China. In other words, China is a country with a long-term goal and plan, that plan is to replace the U.S. as the leading global superpower in the 21st century.

- There is no hope nor possibility that China will engage in “political reform” and become a democratic, free, rule of law country, as well as a real market economy during its modernization process. Instead, China is strengthening its authoritarian model inside China, and tries to expand the “China Model” in Asia, Africa, Latin America and other countries in the developing world, as an alternative to the “Western Model” for development.
- China is not just modernizing its economy but is also working to upgrade its technology, including purchasing high-tech firms in western countries, and forcing foreign companies investing in China to transfer their technologies to China.
- China has also rapidly engaged in military modernization, with an increasing number of major weapon systems, including aircraft carriers, fighters, bombers, submarines, missiles, and nuclear warheads. The Chinese goal is to reach the U.S.’ military level and deny American capacity in the Western Pacific. China is developing its blue-water navy and power projection capacity in the world. In addition, China is building an overseas military base in Djibouti, and there will be more Chinese military bases to follow in the Indian Ocean, South Pacific, Asia and other places in the world.
- China’s long-term strategic goal is to replace the U.S. in the Asia-Pacific region and in the world. China’s first strategic goal is to drive America out of Asia and the Western Pacific, and China is weakening American and Western roles in Asia, Africa, Latin America, South Pacific, and Eastern Europe. China’s “Belt and Road Initiative” aims to build China’s sphere of influence, a geostrategic goal of China.
- China does not accept the existing international system, including the rules and norms of this system, such as those governing maritime issues, trade, investment, and human rights. China, along with Russia, is trying to “revise” the international system and build their own system instead, using institutions such as the Asian Infrastructure Investment Bank (AIIB) and the Shanghai Cooperation Organization.
- China has been very aggressive in recent years in pursuing its interests in Taiwan, the South China Sea and the East China Sea, using military force and economic coercion to advance Chinese interests and to punish countries who do not follow China’s will, including Vietnam, the Philippines, and Republic of Korea.

Chinese Thinking and Intention

While Americans are certain that China is competing with the U.S. in all major critical areas, the Chinese, including its leadership, government and academia, have a totally different understanding and definition about the nature of China-U.S. relations as it is today and in the future. The Chinese understanding and definition are based on Chinese intentions, and the facts that China sees.

China Is Catching Up, Not Competing, with the U.S.

China's intention is to catch up with the U.S., not to compete with the U.S., and the Chinese believe there are fundamental differences between "catching up" and "competing."

Even in the 1950s, China started to have this goal of catching up with advanced countries. Under Mao Zedong, there was the saying, "Gan Ying Chao Mei," meaning to catch up with the U.K. and surpass the United States, the two most developed countries at that time. The saying was popular for a while but was not continued after 1960s because the Chinese found there was no way for China to do this.

The long-term goal of China's "Reform and Opening," launched by Mr. Deng Xiaoping in 1978, was to modernize China and to reach the goal of modernization by the middle of the 21st century when the People's Republic (PRC) celebrates its one-hundredth anniversary. The goal and standard of modernization is to become a "medium-developed" country in terms of per capita GDP.

Later generations of Chinese leadership—Jiang Zemin, Hu Jintao, and currently Xi Jinping—have all followed this goal of modernization set by Deng Xiaoping forty years ago. In recent years, Xi Jinping has used different words to state that goal, such as "National Renaissance," "China's Dream," and the "Two Centenaries." But the content and the goal are still the same as Deng Xiaoping's: to modernize China and "Make China Great Again."

What is the real goal and standard of modernization? Modernization is a relative term. The standard refers to the most modern nation at a given time. For the Chinese and other people in the world since the end of World War II, the most modern nation is the U.S., and to modernize China and reach the goal of modernization is to become the United States. This has been very clear to the Chinese people, including the leadership. So Chinese modernization is to catch up with the U.S., and the goal is to become as powerful as that of the U.S. since the end of the WWII.

The question is whether China can—or in which areas China cannot—catch up with the United States.

China's Economic and Technological Modernization

Certainly the Chinese understand well that it is very hard to become the U.S. in all the major areas. Therefore Chinese modernization, and thus catching up with the U.S., have been focused on economic and technological areas. The Chinese are very happy now to say they are the second largest economy in the world, next only to the United States. And the Chinese goal is to catch up with and even overpass the U.S. to become the largest economy in the world in the coming decades. This has been a clear dream and goal of the Chinese, including China's leaders and ordinary people.

In recent years it has become clear to the Chinese leadership and people that in order to catch up with the U.S. and become a modern nation, having the largest economy alone is not enough. Modernization must also be about quality, and science and technology can contribute to that balance. Therefore, China has a strong will and goal to catch up with the U.S. and other developed nations in the areas of science and technology. China has invested greatly and made tremendous efforts to upgrade China's science and technology sectors, including supporting its universities by becoming the second largest spender in research and development, overpassing the European Union, and implementing "Made in China 2025" and other major plans and actions.

China Is Not Competing in Politics or Ideology

China has not and does not want to compete with the U.S. on political systems and ideology in the world, because the Chinese leadership and government understand well that in the arena of political systems, ideologies, and values, China is on the defensive side; it is not and cannot be on the offensive, now and in the future.

The Chinese leadership insists on its political ideology, Marxism, and the socialist system of the country, and the central part of this system is the authority of the Communist Party. This is their belief, ideology, and interest. The regime has worked very hard to maintain the system and ideology in China in forty years of reform and opening. There have been a lot of challenges, and even crises during these forty years such as Tiananmen in 1989; however, the regime so far has basically maintained control.

The Chinese leadership and government understand it is their responsibility to maintain the system and ideology in China. They say they are confident to do so, but in fact they are very insecure. They worry that changes in China will lead to a situation where most of the people would not trust what the regime says. They worry about the potential of a “color revolution” like those that took place in Middle East, Central Asia, Thailand, and other places, which would end the Communist Party’s rule in China.

Outside of China, the Chinese leadership understands well that they are a minority in the world. China does not represent the mainstream political system, ideology, and values in the world, today and in the future. They know that there are only five countries in the entire world—China, DPRK, Vietnam, Laos, and Cuba—that are considered “socialist countries.” They represent less than 2.5 percent of the total countries in the world.

Therefore, there is no way or possibility to expand the Chinese system and ideology around the world. China’s leadership understands that the best goal is to maintain the system at home for as long as possible. As a result, China has not engaged in any form of ideological and political expansion, like the Soviet Union did in the Cold War era. And China did not play a role in all the political changes in the Middle East, Ukraine, Central Asia, Myanmar, Thailand, and elsewhere in the world. Therefore, there is no political or ideological “competition” from China with the United States and the West.

Military Modernization

So far China does not have the goal to catch up with the size of the American military, because China’s foreign policy is still “non-alliance” and “non-interference in other countries’ internal affairs.” The “non-alliance” foreign policy principle means China does not and will not have the responsibility to protect any other country except China’s own; therefore, China does not and will not need a large military capacity beyond its own national defense.

At the same time, China has a clear goal of military modernization to catch up with the U.S. in terms of the scientific and technological level of American military forces, because the Chinese understand well that military capacity lies heavily on the quality, not the quantity. A non-modernized large military is useless in contemporary national defense.

China has engaged in steady efforts in the process of military modernization over the last two decades. Military spending has increased steadily to include the building of dozens of “modern” missiles, aircrafts, ships, submarine, and other “modern” military weapons.

But so far the Chinese leadership has not had the goal to compete and reach the size of the American military. China does not have the goal to become a military superpower, even if it has the goal to become an economic, technological, and cultural superpower in the world in the coming decades.

China’s GDP size in recent years is about 65 percent of that of the United States, and China’s annual military spending is about 25 percent of that of the U.S. Even if one considers additional spending not reflected in published figures, the total military spending would be no more than one-third of that of the United States. In the 1970’s and 1980’s, the Soviet GDP was also about 65 percent of that of the U.S., but the Soviet Union spent an almost equal amount of money on its military compared to the United States.

So it is clear that the number of China’s strategic weapons has not increased very much during the forty years of rapid economic development for the country. China’s nuclear warheads are still fewer than 300, and the number of ICBMs is still very limited, even if the quality has been steadily improving.

China still does not have a clear goal of how big its conventional forces should be, including aircraft carriers and other naval and air weapons. This is still an undecided issue.

National Sovereignty and Territorial Integrity

China has been tough on issues related to “national sovereignty and territorial integrity” but has not engaged in any regional or global expansion. While China is trying to catch up with American capacity, it has not set the goal of replacing the U.S. role in Asia and in the world.

Americans see that China has been tough on the issues of Taiwan and the South and East China Seas, in recent years, and interpret those actions as China being provocative and aggressive in seeking a dominant power status in Asia and the world. But the Chinese believe they are only being defensive in protecting their sovereignty and territorial interests, as every other nation does.

China considers Taiwan, the South China Sea territory, Diaoyu Islands, and Hong Kong as national issues of China. These are not regional nor global issues, and what China does over those issues should have little to do with China’s foreign relations. And as a nation that lost too many lives and territories, and suffered so much in the century of humiliation since the 1840 China-British War, China must be tough in protecting its sovereignty and territorial interests. This national issue should not be considered as part of this “competition” with the United States, according to Chinese thinking and point of view.

Americans have developed a popular position in recent years that what China does in the South China Sea is as aggressive and provocative as Russia’s actions in Crimea.¹ To the Chinese, this view and position is totally wrong and not true, because Russia had recognized Crimea was a part of Ukraine territory since 1991, and Russia did not control Crimea until recently. At the same time, China never recognized the South China Sea as others’ territory, and China does not take actions on territory that is controlled by others, even if China insists it belongs to the Chinese. What China did was to engage in construction on China’s own territory that China has controlled for decades.

Therefore, American criticism of China in the South China Sea is groundless and ignores the truth, and China will not accept these wrong statements and positions. In this area there is a Sino-U.S. competition over their respective positions on Chinese sovereignty and territorial issues, including Taiwan, South China Sea, Tibet, and Hong Kong.

On regional and global issues, China usually does not have strong interests and does not get involved very much, and there is certainly no competition with the U.S. on those regional and global issues. On North Korean nuclear issues, China has been cooperating with the U.S., ROK, and other countries; and China does not get involved in Iran, Syria, Ukraine and other hot issues around the world.

China's passive attitude toward and position on regional and global issues clearly indicates that China does not have the intention to get involved in any geopolitical or geostrategic "competition" with the U.S. in Asia and around the world. This is clearly different from what the Soviet Union did during the Cold War and what Russia did in Ukraine and Syria in recent years and today. This distinction should be clear to Americans.

What Is China's Strategic Thinking?

However, in recent years China has become more confused in its strategic thinking and global goal. Soon after taking power in late 2012, Chinese President Xi Jinping started to talk about China taking "center stage in the world."² He repeated this at many important occasions such as at the 19th Chinese Communist Party Congress of China in October 2017, and the Central Conference on Work Relating to Foreign Affairs in June 2018. He also said that China should "proactively participate in and show the way in reform of the global governance system" at the G20 meeting in Hangzhou, China, in September 2016, and repeated it at the foreign affairs conference in June 2018.³

These grand statements have caused confusion and even misunderstandings with foreigners as well as with many Chinese in China. Do those statements mean that China is defining itself the center of the world? Or does China want to become a center of the world as its long-term goal? Does China seek the leadership role in the world? Finally, does China have the interest, tradition and culture, and capacity to become the "center" and the "leader" of the world?

Actions of the "Competition"

Americans and some Chinese have not only been talking about Sino-U.S. competition in Asia and the world, but they have in fact been engaging in some competition and confrontation in recent years.

Trade, Economic, and Technological Competition and Confrontation

The Trump administration launched a trade war with China in early 2018. The first round of tariffs was USD 3 billion on steel and aluminum, and the second round was USD 50 billion on Chinese exports to the U.S., and President Trump has threatened to have an additional USD 200 billion—or even USD 500 billion—levied on Chinese exports to the U.S., which is equivalent to China's total exports to the U.S. in 2017. China has retaliated with its own tariffs on American exports to China.

The U.S. has not only launched a trade war with China but also a competition in the science and technology arena. In the beginning, the trade war was carefully executed by the U.S. and began with technology-related products. The Trump administration claimed China was violating intellectual property rights (IPR) of U.S. products and put sanctions on China based on this claim. Many IPR products involve science and technology.

The Trump administration plans to go further in restricting Chinese companies investing in American technological industries, including restrictions on Chinese scientists visiting the U.S., and Chinese students studying science and technology in the United States.

Confrontation in South China Sea

There has been a confrontation between the U.S. and China in the South China Sea for years, and the confrontation could become more harsh and dangerous during the Trump administration.

The U.S. side criticizes China's island-building in the South China Sea for being provocative, aggressive, and a threat to the "freedom of navigation" of the U.S. and other countries, and has taken actions to challenge the Chinese by conducting "freedom of navigation operations" (FONOPs) to demonstrate the American position. In the past year and half during the Trump administration, both the quantity and quality of U.S. FONOPs have increased and strengthened. American ships and aircrafts, including B-52 strategic bombers, have gone into the 12-nautical mile territorial waters that China claims. President Trump and the U.S. Department of Defense have stated that the U.S. military is going to do more in the South China Sea to challenge the Chinese position.

Trends and Management

Possible U.S.-China Competition and Confrontation on Taiwan

If the U.S.-China competition and confrontation on trade, technology, and the South China Sea continue for a long time and becomes more serious, the competition and confrontation are much more likely to expand into other areas such as Taiwan, the East China Sea, Korean Peninsula, and Iran.

So far the Trump administration has been cautious toward Taiwan. After having a telephone conversation with Taiwan's leader Ms. Tsai Ing-wen after Trump was elected in November 2016, President Trump and his administration had done little to change U.S. relations with Taiwan, even though Congress passed the Taiwan Travel Act, demanding that the administration do more on military relations and official travel to Taiwan.

The situation with Taiwan can become worse. As a U.S. trade war with China becomes longer and more serious, an emotional President Trump might use the Taiwan issue to demonstrate his anger and willingness to confront China. And for the Chinese leadership, Taiwan is the most fundamental issue to their "national sovereignty and territorial integrity" and "national interest." China would take all the necessary actions to defend its vital interest. Taiwan has been the most fundamental and confrontational issue in bilateral relations in the seventy years since the end of the Second World War. And it can be a hot area of Sino-U.S. competition and confrontation again during the Trump administration.

Confrontation over South China Sea May Cause a Crisis

Competition and confrontation in South China Sea could become more dangerous in the near future. While the U.S. military becomes more provocative and aggressive in “freedom of navigation operations,” China cannot retreat from the Sea, and it will do more to defend its territory. The two militaries might clash, similar to what happened during the Cold War era between the U.S. and the Soviet Union.

U.S.-China Competition May Expand to Regional Issues

Greater U.S.-China competition and confrontation would affect the two countries’ positions and actions on regional and global levels, especially on the Korean Peninsula.

Over the past two decades, China has basically cooperated with the U.S. over the North Korean nuclear issue because doing so is an American demand and China wants to have better relations with the United States. And there are still some Chinese who regard North Korea’s nuclear weapons and missiles a serious threat to China. However, with U.S.-China relations taking a downturn, there is no more willingness from China to cooperate and compromise with the U.S. on Korean Peninsula issues. China is not likely to play a negative role there, but China may no longer play a positive role since it would prefer to play a neutral role over Korean nuclear issues in the future years of Trump administration.

China is also not in agreement with U.S. on other regional and global issues, such as on Iran, Syria, the Middle East, and at the United Nations.

How to Manage U.S.-China “Competition”?

With USD 253 billion tariffs on China’s exports to the U.S., and later a possible USD 500 billion, the Chinese economy will suffer greatly over the second half of this year and for next few years. The Chinese economy is likely to stop its relatively high level growth rate of over 6 percent, and drop down to 4 or 5 percent because of the cost of the trade war. However, it is not quite likely that President Xi Jinping and China will give up and yield to American pressure, because the Chinese believe that the U.S. launched the war, and China cannot surrender to the provocative, aggressive, and unreasonable actions taken by the U.S. against China.

The trade and technological wars are very much likely to expand to the greater competition and confrontation between the U.S. and China over Taiwan, the South China Sea, the Korean Peninsula and other regional and global issues. What both countries should do is not to retreat but to carefully manage their competition and confrontation. The U.S. and China are on the road to a new Cold War, but even during the Cold War era, the U.S. and the Soviet Union tried hard to manage and control their competition and confrontation. They did not allow the competition and confrontation to become a free fall because of interests, ideology, and even anger and emotions. The U.S. and China need to do a better job in the post-Cold War era, even under the extremist President Trump and his administration in the coming years.

President Trump and his administration are not likely to soften their hardline position and actions on China in the next few years, unless he or the Republican party suffer too much in future months or years. Therefore, the Chinese side needs to prepare for harsher competition and confrontation with the U.S. over trade, investment, currency, finance, science and technology, students and people-to-people exchanges, Taiwan, the South and East China seas, and Korea. How to avoid real war and conflict between the U.S. and China during the Trump administration is a historic difficulty and challenge to President Xi Jinping and China for the next two and half years.

China also needs to take necessary reforms and opening measures, to make substantial processes in democratization, rule of law, and development of a market economy, in order to increase the common ground with the outside world. Otherwise China's differences, disputes, "competition" and confrontation with the outside world, especially with the U.S. and the West, will be increasingly difficult to manage.



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¹ In his testimony during his confirmation hearing before the Senate Committee on Foreign Relations on January 11, 2016, Mr. Rex Tillerson stated: "The island building in the South China Sea itself in many respects, in my view, building islands and then putting military assets in those islands is akin to Russia's taking of Crimea." See: *Nomination of Rex Tillerson to be Secretary of State*, Hearing before the Committee on Foreign Relations, United States Senate. (Testimony by Rex Tillerson). 11 January 2017. Web. 21 September 2018.

<<https://www.congress.gov/115/chrg/shrg24573/CHRG-115shrg24573.htm>>

Other American officials, former officials and experts repeated same or similar at a number of meetings that the authors attended in recent years.

² "Xi Jinping: 'Time for China to take centre stage'." *BBC News*. 18 October 2017. Web. 21 September 2018.

<<https://www.bbc.com/news/world-asia-china-41647872>>

³ "Xi says China must lead way in reform of global governance." *Reuters*. 23 June 2018. Web. 21 September 2018.

<<https://www.reuters.com/article/us-china-diplomacy/xi-says-china-must-lead-way-in-reform-of-global-governance-idUSKBN1JJOGT>>

Myths and Misconceptions in U.S.-China Relations

*By William H. Overholt**

The relationship between the U.S. and China is under more stress today than it has been for any extended period since Chinese reform and Sino-American diplomatic recognition began in 1979. I say “extended period” because there have been moments of more severe crisis, such as when China was launching missiles in the vicinity of Taiwan in 1996 and President Clinton responded by sending aircraft carriers to the area. But the current period is distinctive in the degree to which there is bipartisan U.S. questioning of the rationality of the longstanding policy of engaging China, and there is similar questioning in China about the constructive intent and rationality of American policies toward China.

China’s severe human rights repression and its militarization of the South China Sea have inevitably stimulated Western anger, and its intellectual property abuses and restricted access to the service sector have mobilized foreign opposition, while President Trump’s trade war and apparent determination to disrupt China’s economic rise have similarly mobilized antagonism in China (and among virtually all American allies). Nothing can negate those inevitable reactions, but aside from these factors there is nonetheless a larger context of myths and overreactions that make the relationship gratuitously difficult to manage.

Myth: The Inevitability of Conflict between Rising and Established Powers

One strain in the “realist” political science literature argues that between incumbent and rising powers military conflict is inevitable (Mearsheimer) or highly likely (Allison), based on a presumed continuity of the pressures on such powers dating back to the Peloponnesian Wars. The pressures of the Thucydides Trap are implicitly alleged to be similar today to what they were for thousands of years before World War II.

In reality, the incentives for ambitious geopolitical powers have undergone a drastic change since World War II. For millennia, the way to become a big power was to grab some of your neighbor’s territory, tax his peasants, and sell off his golden temples, then repeat. In other words, if you wanted to become a big power, the key to success was territorial expansion by military means. That’s not the way it works anymore. Since World War II, the world has learned how to grow economies much faster and military expansion has become far more costly. This changes the structure of the geopolitical game.

Japan became a big power without much of a military. South Korea, once weak economically, politically and militarily compared with North Korea, cut back its military budget, focused on economic development, and is now more than forty times larger economically than North Korea. Likewise, in Indonesia, General Suharto abandoned his predecessor’s claims to most of Southeast

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Asia, focused on economic development, and became the unquestioned leader of ASEAN. China also became an acknowledged big power before it started building up its military. A focus on superior economic growth is the contemporary route to geopolitical stature.

In the modern world, economics, which is not a zero-sum game, is the key to geopolitical success. In a world of primarily economic competition both sides can win, whereas in a world of primarily military competition a gain for one side is a loss for the other. It is important to scan any article or book about Sino-American issues to see whether it reflects an outmoded zero-sum mentality; as U.S. national strategy has given higher and higher priority to the military, and largely abandoned its successful Cold War economic strategy, the zero-sum mentality has become more and more prominent.

Nonetheless, Graham Allison, in *Destined for War*, provides a valuable warning that rising powers and established powers can get into serious conflicts, even war.¹ Thinking in the old way can become a self-fulfilling prophecy, and some U.S. and Chinese policies run the risk of reinforcing self-fulfilling prophecies. Some of the U.S. military learned the lesson from the Cold War that the key to peace was absolute U.S. dominance, particularly in the seas. That was an accurate lesson for the Cold War era, but it is untenable in the more complicated world of today. Similarly, the U.S. Congress has attempted to preserve U.S. dominance of the World Bank and IMF by refusing to expand their capital and reform voting rights in proportion to the rise of other economies.

Such efforts to preserve obsolete structures are self-defeating; that they have been self-defeating is so obvious that it is amazing that we still need to point it out. The Bretton Woods institutions could have been adapted to the modern world; now, because of Congressional resistance to change, they will be overshadowed by much better capitalized Chinese counterparts. Such efforts to maintain our major institutions in obsolete forms also create gratuitous conflict of the kind Allison warns us about.

Myth: China Is Attempting to Destroy the Post-War Western Order

This is a partial myth. China is emphatically asserting its right to a global leadership role and it is establishing new institutions. But it is not trying to destroy the old institutions and indeed it is often more supportive of them than the Trump administration.

Older people can remember when China was really trying to destroy the Western system. Mao Zedong praised chaos and attempted to destroy all the major Western institutions. In the reform period China has joined those institutions, such as the World Bank, the IMF, the ADB and the WTO, and has generously contributed to them. It continues to support the fulcrum of the U.S.-led world trade order, namely the WTO dispute settlement mechanism. No country has ever accepted more onerous conditions for joining the WTO. The restructuring of Chinese industry required by those conditions was painful to the point of being heroic. In many cases, China accepted a sudden domestic restructuring of its industry that would be considered intolerable anywhere in the West. In the case of cars, for example, it accepted a degree of foreign dominance of the industry that our allies like Japan and South Korea would never even consider tolerating. There remain some areas where China has not completely met the WTO conditions, and Washington commentary focuses almost exclusively on those few concerns, but the basic story is one of drastic adjustment to the Western system. It demonstrates that negotiations can lead to highly workable relationships between quite different systems.

Of course, China has indeed sought adjustments of the established institutions and it has made the best use of the rules for its own growth. The requested adjustments mainly reflect the changed balance of the world economy, the so-called “rise of the rest,” and do not alter the purposes or critical procedures of the institutions. Beijing’s skillful use of the rules to obtain advantages for China’s more planned economy follow Japanese and South Korean precedents. U.S. allies planned their industrial rise and helped their companies achieve the desired goals. Skillful use of the rules is exactly what the U.S. does when it employs strained definitions of anti-dumping rules and national security exceptions to favor its own companies. Through all the stresses of the Sino-Western relationship, Chinese acceptance of the WTO dispute settlement system has been the key to the maintenance of the Bretton Woods order.

China has also begun creating important new institutions. One could indulge in unproductive contention about whether its founding of, for instance, the Asian Infrastructure Investment Bank (AIIB) was primarily a response to the refusal of the U.S. Congress to adequately increase the capital and reform the governance balance of the Bretton Woods institutions or, alternatively, whether it constitutes an attempt to create institutions with Chinese leadership. The core point about the AIIB is that it was carefully designed as a supplement to the World Bank and ADB with goals, procedures, and standards that are largely consistent with the older institutions. The CEO of the new bank, Jin Liqun, was even chosen in part because he is a veteran and admirer of both the World Bank and the Asian Development Bank. The Obama administration’s efforts to characterize the AIIB as a fundamental challenge to high standards was not credible to most of the world, including almost all U.S. allies, so the effort to oppose the AIIB was defeated. Washington isolated itself.

Washington is at risk of making the same error on a gigantic scale with China’s Belt and Road Initiative (BRI). The BRI is best understood as a constructive theft of the Bretton Woods intellectual property; its vision is hardly a transformational innovation. Like the World Bank/ADB-IMF-WTO system, BRI seeks to create development banks that will finance infrastructure, together with institutions that will promote common standards and resolve crises. Nothing could be less revolutionary than that. In fact, BRI is a more ambitious version of ideas that were developed by both the George W. Bush and the Obama administrations for Central Asia. To be sure, if the BRI vision is successful it will enhance China’s stature. That is only fair. At the same time, if BRI were to promote successful development in Central Asia, the Middle East and North Africa, it would be enormously beneficial to the U.S. As the examples of Indonesia, Bangladesh and Ethiopia show, wherever development occurs the threat of failed state terrorism drastically declines. Over a couple decades, successful development of these regions could save the U.S. trillions of dollars of military expenditures.

China has resuscitated the U.S. postwar *vision* but in practice has serious problems promoting mutual development in these regions. China’s militarization of the South China Sea, its hard line toward India, and its use of economic warfare against Japan (rare earths), South Korea (Lotte, Hyundai, market access for Korean video games), the Philippines (bananas and other exports), as well as curtailing tourism to several countries for political purposes, makes many countries fearful of becoming dependent on Chinese-led institutions. Chinese policy in certain areas has become neo-colonial; there are parts of Myanmar where Chinese control is so great that even Myanmar’s ministers are forbidden to enter. Chinese state enterprises can be as ruthless as were European enterprises colonizing Africa. For instance, Sri Lanka’s Hambantota Port was a politically corrupt project with no chance of commercial success, and the Chinese company has exploited Hambantota’s inevitable economic failure to seize control for 99 years.

The BRI is a historic and inspiring vision. It is a vision copied from, and largely complementary to, the Bretton Woods vision, not an attempt to overthrow the Bretton Woods system. The U.S. will fail if it simply opposes that vision without a constructive economic policy of its own. TPP was a useful but utterly inadequate step. If Washington is going to have an effective strategy in Eurasia and North Africa, it is going to have to spend some money. It will get that money back, with huge dividends in saved military expenditures, but it has to start with an investment. Equally, China's BRI will fail if it is implemented in a neo-colonial or narrowly self-interested manner or if China's geopolitical assertiveness alienates the countries whose support is most needed for BRI's success. The constructive outcome would be for China to curtail its excesses and for the U.S. to mount a parallel effort or to negotiate a joint development program.

Recent years have seen a mutual retreat away from such a parallel, and mutually advantageous, convergence. Under Xi Jinping, China has engaged in systematic efforts to give its firms decisive non-market advantages at home and abroad. Under Trump, the U.S. has been moving to disengage from China in a misguided belief that U.S. firms are so weak and disadvantaged that they will be better off if the U.S. government forcibly limits their exposure to China. (This is the position of U.S. Trade Representative Robert Lighthizer.) As indicated by official statements of the U.S. Chamber of Commerce and the Business Roundtable, leading U.S. firms mostly reject that logic. The danger is evident in what is happening to the automobile industry. U.S. companies, especially General Motors, have been exceptionally successful in China in comparison with their Japanese counterparts, because they have proved better able to exploit China's greater openness to foreign car manufacturers. Rather than acknowledging China's superior openness, the Trump administration has focused on higher Chinese tariffs and imposed severe penalties. This gives an advantage to foreign companies, and Toyota, Nissan and Honda are making massive investments to seize advantages away from GM; they will probably succeed.

U.S. companies have legitimate complaints about Chinese policies. Theft of U.S. intellectual property, forced transfer of intellectual property, discriminatory treatment in areas like Chinese competition policy, and lack of access to the services sectors are important. The key is that, as with even more serious differences in the past, they are negotiable. Some are largely a matter of level of development; all the most successful developing economies, including the U.S. and Japan, rose in substantial part through theft of intellectual property. The U.S. needs to fight against it, because it is hugely consequential for many U.S. companies, but it also needs to do so in the understanding that, like environmental neglect, this is a developmental issue that tends to get resolved as successful countries acquire their own intellectual property and come to support a system that will protect it. China has been evolving fast in this respect. Fair access to the services sector is likewise a legitimate target for tough bargaining with China. When four Chinese banks are among the world's largest, this is not an infant industry for which high levels of protection can be justified. At the same time, the decibel level of U.S. characterizations of China needs to reflect the fact that China's banking system is almost twice as open to foreigners as Japan's. The ultimate refutation of the argument that China's system is radically incompatible with America's is straightforward: we have come to terms with, and greatly profited from, Japan's economy, which is far less open to U.S. trade, investment and finance than China's.

Myth: U.S. Has Wholly Welcomed China into the System

The wisest U.S. strategists have consistently said, if we treat China as an enemy then it will certainly become an enemy. There are many nuances, complexities and dilemmas in implementing such wisdom, but that view has driven U.S. policy since Richard Nixon. Therefore, they conclude, we should welcome it into the system but “hedge our bet” in case China goes rogue. Prior to President Trump, the U.S. did welcome China into the trading and investment system, albeit with rigorous conditions, for instance on WTO membership, that did not apply to other countries.

China has responded by becoming even more open to U.S. trade and investment than major allies. Foreign companies have bought many significant Chinese companies; this almost never happens in Japan. Drive in Beijing and Shanghai and you are immersed in a tide of Buicks and Volkswagens, which could never happen in Tokyo or Seoul. A recent statement by Deputy USTR Ambassador Dennis Shea that “China is in fact the most protectionist, mercantilist economy in the world,” displays a contempt for facts.²

In the military sphere, rather than welcoming or accepting China’s rise, the U.S. has treated China as an enemy. No amount of nuanced diplomatic language, sometimes including outright denials, can obscure this reality. The U.S. military plans against China as the primary enemy. Its budget reflects a priority to be prepared for a conventional war with China and a nuclear contingency. It backs Japanese determination to confine the Chinese military within “the first island chain” (Japan-Taiwan-Philippines-Indonesia). U.S. naval and air surveillance of China is so intense that it is appropriate only for use against an enemy. Surveillance, narrowly defined, is supplemented by what might be called provocative surveillance; hostile air and sea maneuvers are designed to trigger Chinese defenses so that the U.S. can read the response electronically and know how China would respond in the event of war.

This “system” of provocative surveillance was designed for use against the Soviet Union and was accepted by both sides because the U.S. and Soviet nuclear forces were on hair trigger and therefore both sides needed to know, at all times, exactly what the other was doing. After the collapse of the Soviet Union, this system was transferred for use against China even though there was no nuclear hair trigger and no mutual agreement. This deliberate provocation mobilizes all the Chinese fear and antagonism from a century of Western sea-borne invasions and utterly negates the wisdom that we should not treat China as an enemy. America’s wisest strategists, such as Chas Freeman and the late Zbigniew Brzezinski, have periodically spoken against this provocative practice, but they have been ignored. Chinese leaders therefore do not feel that they have been welcomed into the system. On the contrary, the Chinese reaction to this treatment is the mirror image of U.S. anger over Chinese behavior in the East China and South China Seas—but greatly magnified. The salience of this issue is rarely noted in Western media, so the interaction between Chinese fears and Chinese maritime behavior goes unremarked. The U.S. Navy justification is that what it is doing is legal; even professional China watchers usually cannot recall seeing a justification that it is wise.

U.S. partial welcoming of China into the Western economic system has been an enormously positive step, enabling the ascent of hundreds of millions of Chinese out of poverty, enhancing the welfare of Americans and the profits of U.S. companies, stimulating all the economies of Asia, enhancing growth in Africa and Latin America, saving Bangladesh from catastrophe, and much else. It has been a wise decision, comparable to facilitating the reconstruction of Japan and Western Europe after World War II. It has been beneficial not just in economics but also in national security. But it must not be mistaken for a broad acceptance of China into the international system.

Myth: The Standard of Success for U.S. Policy toward China Has Been or Should Be China's Transformation into a Western-Style Democracy

The primary justification for the U.S. opening to China has been that it would be conducive to peace, first in containing Soviet aggression and then in having a constructive relationship with an increasingly important power. This is the most appropriate standard for judging the relationship.

Secondly, the opening to China has been enormously beneficial to both economies and to the world economy. Moreover, because of Chinese economic demand, the economies of the poorest and most economically unstable countries, especially in Africa and Latin America, have grown and become more stable. It is an economic miracle that Bangladesh has become a viable economy and that Ethiopia has for a time been the world's fastest growing economy. These and many other successes result from Sino-American collaboration. There is an enormous U.S. national security dividend from such development, because otherwise radical movements, especially Islamic jihadism, would have spread much farther and faster.

Numerous commentators, including this one, have argued that the complexity of a modern economy creates social pluralism, which in turn would create pressures for social and political liberalization. Some have gone too far in arguing that such liberalization is inevitable. So far, China has moved very far indeed from democracy. However, the idea that pressures of social pluralism exist and have become very strong has certainly been proven valid.³ Of course, it is wrong to say that democracy, or even extensive liberalization, is inevitable. But it is true that China will pay a tremendous price in economic growth and political tension if, unlike South Korea and Taiwan at similar levels of development, it does not find a way to accommodate social pluralism.

The repressive Xi Jinping administration is a fearful effort to control those pressures, which were building up to a degree that frightened an old guard leadership generation and convinced it that the country had to be radically centralized or face gradual disintegration. It decided to accommodate the pressures of economic complexity by moving to "market allocations of resources," with a vast array of often painful policy reforms entailed by that overall decision. But the leadership also decided to fight the pressures of social and political liberalization. Because the pressures are so strong, the Xi administration is caught in a cycle of increasing—and increasingly counterproductive—repression. Moreover, the politics of reaction includes many measures that contradict the economic reforms, like strengthening Party committees in every enterprise.⁴ This could ultimately imperil China's economic vitality.

It has become common among Washington elites to believe that the current repressive Chinese administration has finally defeated the forces of social pluralism. In this telling, Xi Jinping has created a new, permanent system where he is president for life, political repression will continue and increase without triggering serious problems, and the economy will continue to grow vigorously. But anyone familiar with the discontents of China's entrepreneurial class—with the

contradictions between the requirements of rapid growth and reform as well as the desires of almost every upper and middle class Chinese family to get their money and their children out of China—knows that this type of “end of Chinese history” theory, however popular it is in *Foreign Affairs* and *The National Interest* and in Pentagon budgeting, will be proved wrong faster than Fukuyama’s Western version of the end of history. China may get worse, or it may get better, but it cannot stay the same. And most Chinese, including in the leadership, understand that.

If the U.S. wants to facilitate a more liberal China, it will mute the ideological war. What the Congressional China commissions and *Radio Free Asia* and the National Endowment for Democracy have accomplished is to make opposition to “bourgeois liberalization” an issue that can summon great reserves of Chinese nationalistic fervor to avoid the defeat of their nation by a Western ideological enemy. Pressure and attacks do not help. Extolling the virtues of democracy and freedom, without hostile propaganda and post-1989 sanctions, can help. Condemning bad human rights abuses sets a valuable standard without making a foreign country feel that we are imposing our system on them. Setting a shining example of beneficial social and economic management helps. Sober analysis of the undeniable realities of social complexity helps.

One of the favorite U.S. myths about modern Asia is that the great transitions from authoritarianism to democracy in South Korea and Taiwan, which began as socialist economies and Leninist polities, resulted from U.S. pressure. This theory of valuable pressure is then explicitly or implicitly transferred to China. In reality, when they were most dependent on the U.S. in the 1960s and early 1970s, Taiwan and South Korea were at their most authoritarian. As someone who was involved with the South Korean transition and had a front row seat at the Taiwan transition, I can testify that the motivation for change was domestic social pressures. It did help that the U.S., a democracy, was a supportive ally. In China, the abstract idea of democracy garners universal support, but there is intense debate over what that means for China. It hurts terribly that the U.S., the leading example of Western-style democracy, has postured itself so that any substantial Chinese move in the direction of U.S. style democracy would be perceived by a large proportion of nationalistic Chinese as defeat by an enemy.

Advocates of some version of the end of Chinese history theory see an implacable, institutionalized personal dictatorship that can control Chinese society and provide rapid economic growth for the indefinite future. The reality is a leadership generation frightened by social changes so powerful that all the resources of the state have to be mobilized for repression. The leaders sit on the lid of the boiling kettle and they are very worried about being blown off. Chinese elites are pervaded by minority voices that insist on the need for rule of law and for a robust way to connect the Party and government to popular sentiment. Supporters of the Xi administration typically argue that the current situation demands tough measures on the way to a more mature economy and polity. Vanishingly few Chinese see the current economy and polity as the ultimate Chinese system. Washington has more true believers in the end of Chinese history theory than Beijing does.

U.S. democracy promotion has become ideologically blinded. The U.S. message is that India is a better society than China, because India holds elections. If you give Chinese people a choice of keeping their education, their health, their housing, their women’s rights, and their longevity, and additionally having U.S. freedoms and U.S.-style elections, most would choose that option. But that is not the choice the Chinese people see. China and India started from about the same place economically and socially. You would have to spend a very long time in China to find someone who would give up their dignified lives for the degradation that the majority of Indians suffer in return for holding elections. The number of Chinese families that own homes is about twice the number of Indian families that have access to a toilet. The difference between Chinese society and Indian society is not about a little bit of money, not the difference between a Buick and a Chevrolet.

It is knowing that your wife will survive childbirth, that your child will survive infancy, that your family will not suffer from malnutrition, that you will not die from tuberculosis or diarrhea, that your women will have education and modern social rights. If the U.S. message to China is that it is evil until it becomes like India, then U.S. policy will fail, not just with China but also with many other countries. India's social failures cannot be separated from its governance system. If the U.S. criterion for success of its policy toward China is that China should have become like India, then U.S. policy was doomed from the beginning.

If the U.S. backs off from its ideological pressures, there is a chance it will be happily surprised by the direction of the next generation of Chinese leaders, backed by the Chinese people.

Myth: Chinese Industrial Policy Poses a Unique and Overwhelming Challenge to the U.S. Economy

It has become popular in Washington to view the Chinese system as so uniquely successful that it threatens the U.S. economy. China's Made in China 2025 program in particular is viewed in important quarters as life-threatening. In reality it is neither particularly unique nor overwhelmingly formidable.

China's industrial policies emulate what South Korea and Japan did in earlier decades, and they will increasingly have many of the same problems. China's state-owned enterprises, which carry most of the leaders' hopes of industrial dominance, are currently unable to earn their cost of capital. The consolidation of formerly separate companies into national champions often forces successful companies to absorb less competitive firms. As Chinese policy antagonizes foreign investors, new foreign direct investment will be less than it would have been, limiting what has been a powerful driver of growth and technological advancement. Some of the favoritism and subsidies will work, and the U.S. will need to take appropriate countermeasures against any major domestic damage, but as in Japan China's successes will be expensive and there will be expensive failures. As an example, the billions upon billions China is pouring into subsidies for the semiconductor industry are not yielding proportionate success in competition with the U.S.

China's programs are by no means identical to either Japan or South Korea. As Barry Naughton has pointed out, Chinese companies are more open to outsourcing than their Japanese counterparts and that should enhance their relative efficiency. On the other hand, they are burdened by a bigger bureaucracy and by political interference (Party secretaries inside the company and outside, who can affect corporate policies and, for state enterprises, appoint the corporate leaders). Ultimately the structural issues are the same: restricted competition reducing innovation, bureaucrats missing potential breakthrough developments, gigantic conglomerates affecting national policy and distorting the market, subsidized finance creating waste and financial risk.

Fears in the U.S. of a seeming juggernaut of Chinese industrial policy reprise the paranoia of the 1980s about Japan taking over the world. Those who do not remember history are apparently condemned to repeat it—at higher decibel levels and with less nuanced policy responses.

China will be a formidable competitor in both economics and geopolitics. But the characteristics that Washington seems to fear most are the characteristics likely to limit the Chinese challenge. It is ironic that U.S. politicians who promote more and more extreme versions of the market economy at home, as the key to domestic efficiency and growth, tend to express the greatest fears of being overwhelmed by the presumed superiority of a highly managed foreign economy.

Moreover, the panic about dealing with a different system is ironic in light of the proven ability of the U.S. to negotiate satisfactory arrangements with more centrally managed economies, including both its principal Asian allies and China.

If the U.S. manages its market economy in a way that helps its workers cope with technological change, it can maintain leadership in technology and standards of living. If the U.S. supports policies and institutions that the world sees as constructive, the U.S. will continue to be acknowledged as the leader by much of the world. If the U.S. loses leadership, it will be because it retreated from open economic engagement and competition; because it allowed its national strategy to degenerate into just a military strategy; because it destroyed the WTO dispute settlement mechanism that has been the fulcrum of international development in a disputatious world; because it rejected the international consensus on environmental amelioration and climate change; and above all because it failed to take care of its workers, finding it more convenient to blame China for their problems than to undertake the politically arduous task of helping workers cope with technological and organizational change.

China today is one of the great successes of human history. In the BRI, it projects an inspiring international vision with which the U.S. no longer chooses to compete. If it fails to become a global leader, it will be because it clung too long to economic and political management structures that cannot cope with the complexity of a modern economy; because it gradually cut itself off from foreign competition and investment; because it came to be seen by its neighbors as oppressive; because its domestic political repression became repugnant to much of the world; and because its people became so fearful of arbitrary and conflicting leadership that they engaged in massive efforts to move their wealth and their children abroad. These risks are very real for China today.

What Is to Be Done?

Historically, the U.S. has dealt with the Asian miracle economies, which share common developmental characteristics, with pragmatic toughness. It has engaged in continuous negotiation to create workable relationships between quite different economic structures. When unfair subsidies, managed currencies, intellectual property theft or targeted industrial policies threatened important U.S. interests, it defined U.S. goals clearly, took sufficiently tough actions to defend American interests, and negotiated mutually profitable deals. This pragmatic, focused, and evolutionary approach produced mutual prosperity and a kind of noisy, conflictual amity.

This technocratic approach was typically supported by the political center, while being opposed by the left and right of the political spectrum on grounds of human rights abuses and lack of democracy for the left and unfair currency, subsidy, trading or investment rules, or a desire to support Taiwan, for the right. To enhance support from the right, Reagan campaigned on a platform of restoring diplomatic relations with Taiwan, and to enhance support from the left Bill Clinton campaigned on a platform of ending China's principal trading privileges, but in office all previous presidents reverted to the pragmatic, technocratic approach that has brought the world unprecedented prosperity and big power peace. With the center having disappeared in the Congress, and with a president from one of the extremes, U.S. support for pragmatic negotiation has declined, and support for treating China as an apocalyptic economic and national security challenge has increased.

This is all about domestic politics, not about objective analysis of China and the scale of our differences with China. Treating it as a system so alien that we cannot negotiate with it, as such an overwhelming threat that we just have to try to keep it down, is not just factually wrong. It endangers peace and prosperity.

The Trump administration has provided an ideal template of how not to negotiate. It created a maximum sense of confrontation. It focused on nonsensical demands that China reduce the trade deficit. (The U.S. trade deficit is domestically determined, the difference between what we save and what we spend, and it is drastically increased by the huge government deficits created by Trump tax policy. China's overall trade surplus is modest.) When Chinese officials asked what Trump's policy goals were, the administration had no coherent answer, so the Chinese had no idea how to negotiate.

President George W. Bush provides a useful illustration of how to deal successfully with China. At the beginning of his first administration, a U.S. spy plane and a Chinese fighter jet collided. The Chinese pilot died and the U.S. plane went down on China's Hainan Island. The situation was delicate for both sides. President Bush started with peremptory demands that China immediately return the pilots and the plane. The Chinese did not respond positively to that kind of foreign command. But then President Bush discovered that, if he negotiated calmly, the Chinese would respond professionally and would keep their word. The two sides successfully resolved a potentially explosive problem. The Bush administration went on to handle both national security and economic issues in that manner. Treasury Secretary Hank Paulson followed a model of tough but constructive negotiations and the Bush administration went on to deal successfully with a whole range of difficult economic and security issues.

Both the Obama administration and the Trump administration have lacked the top-level China expertise—like Hank Paulson's—that previous U.S. administrations took for granted. The U.S. should always have Cabinet-level China expertise. Before negotiating with the Chinese, it should resolve its internal differences about goals, then consult with allies, then present China with a very specific list of demands. No policy can be successful without a coherent policy process.

U.S. economic policy needs to focus on the real issues, most notably intellectual property theft, forced transfer of technology, and access to the Chinese services economy. These are negotiable issues. In fact, the Chinese government was planning major liberalizations and improvements in these areas in the face of determined domestic opposition, but the diffuse Trump confrontation elicited a nationalist popular backlash in China and made it more difficult for Xi to do what he had been planning to do anyway. Negotiation, of course, does not mean being soft. The U.S. can and should sanction Chinese companies that steal intellectual property, limit Chinese takeovers of U.S. companies with sensitive technology, retaliate against Chinese companies that force transfer of technology in return for access, and insist on measured reciprocity in the services sector.

On national security issues, the U.S. should implement the position that it upholds rhetorically: we stand for the rule of law and for peacefully negotiated solutions. That means *inter alia* holding Japan to the same standards we apply to China. In the South China Sea, the U.S. should be much more evenhanded in the way it describes the conflicts. It should push China hard to conclude a Code of Conduct that all parties support in principle but China has been slow to finish. If the Philippines request it, the U.S. should draw a red line prohibiting the militarization of Scarborough Shoal. The U.S. formally claimed the Shoal for the Philippines in the 1930s, so China cannot assert that it made the first claim. China promised at one point to withdraw from the Shoal, then reneged on its promise. This is an appropriate place to take a stand.

More broadly, the deal in the South China Sea must be that China has to negotiate in good faith with some of the other claimants and must not further militarize the islands/rocks. If China wants to be seen as a good neighbor negotiating in good faith, it must start resolving some of the maritime disputes. The right place to start is its dispute with South Korea, a relatively minor problem that has not become emotional on either side.

The U.S. will continue to defend its allies and to reassure them. At the same time the U.S. needs to stop treating every enhancement of China's capabilities as a threat. It needs to treat China fairly in disputes with Japan—no more hypocrisy about promoting the rule of law in the region but not applying it to Japan. It needs to acknowledge China as a fellow power in space and negotiate rules of engagement in good faith.

These are not the most important issues, however. The important issue is that China has a national strategy—BRI—combining economic, military and diplomatic means, while the U.S., which once had the most successful national strategy in world history, now just has a failing military strategy. The U.S. needs to revive the economic and diplomatic components of its strategy. It must have a competitor or complement to the BRI, or it is not even a serious player in the geopolitical great game. When China goes to Africa with a grand economic strategy and the U.S. goes to Africa with scattered groups of Special Forces officers, however brilliant those officers are, China wins.

For its part, China has the right vision but needs to make it coherent internally and also consistent with its other policies. The BRI will not work if much of it means unleashing ruthless state enterprises to do corrupt deals for unworkable projects in Sri Lanka or colonizing parts of Myanmar. It will not work if other aspects of Chinese policy antagonize most of the littoral neighbors, as it has. It might be hampered by Islamic countries' reactions to ruthless suppression of Muslim practices in Xinjiang. China has some very fundamental choices to make.

On the economic issues, China needs to make rapid progress in the areas of legitimate U.S. and EU complaints. Stopping IP theft, ceasing forced technology transfer, refraining from excessive subsidies, and opening the services sectors are not only concessions to Western powers. They are required by China's own reform and opening policies. For 15 years China has moved too slowly, for its own good and for relations with other major countries, in reform and opening; it must now make up for lost time. While doing that, it should ignore silly Trump administration demands about the trade balance, retaliate against an unjustified trade war, and insist that Washington negotiate coherently about specific issues. China should consolidate its new role as a leader on environment and climate change issues, and it should build on its intention to promote multilateral trade and investment agreements.

The U.S. problem is not so much that it is being pushed out by China; rather it has abdicated much of the role it had established with its grand post-World War II strategy. China's strength is its grand vision; its weakness is a consistent failure in the new century to make the choices required by that strategy.



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¹ Allison, Graham. *Destined for War: Can America and China Escape Thucydides's Trap?* New York, NY: Houghton Mifflin Harcourt Publishing Company, 2017. Print.

² U.S. Mission Geneva. *Ambassador Shea: China's Trade-Disruptive Economic Model and Implications for the WTO*. 26 July 2018. Web. 2 October 2018. <<https://geneva.usmission.gov/2018/07/27/55299/>>

³ My recent book, *China's Crisis of Success*, provides the details: Overholt, William H. *China's Crisis of Success*. Cambridge, MA: Cambridge University Press, 2018. Print.

⁴ For a systemic analysis of these measures, see *China's Crisis of Success*.

U.S.-China Economic Relations: Ballast in Stormy Seas, or Unsecured Cargo?

By John L. Holden

Historians will have plenty of fodder for debate when they consider how trade, once widely seen as the “ballast” providing stability in U.S.-China relations, became the focal point of bilateral conflict in 2017-2018. They will re-examine the American considerations that resulted in annual renewal of Most Favored Nation (MFN) status for China in the 1990’s, and eventually led to the Sino-American accord in 2000 allowing the People’s Republic of China (PRC) to join the World Trade Organization (WTO) the following year. The special provisions in that accord that aimed to take into account the *sui generis*, non-market aspects of the Chinese economy will be scrutinized amid questions of whether they were adequate, and whether they were faithfully implemented by China.

Scholars will review debates over whether the U.S. Treasury should have, under the Omnibus Trade and Competitiveness Act of 1988, declared China a “currency manipulator,” and will note that every American administration since 1994 refrained from doing so, including that of President Donald J. Trump, who had promised otherwise while on the campaign trail.¹

They will observe that the United States had long sought remedies for Chinese intellectual property (IP) theft² and that the imposition of tariffs on Chinese goods by the U.S. government in March of 2018³ was explained as retaliation/remedy for such theft, quantified by the United States Trade Representative in a 2017 report⁴ as between USD 225 and USD 600 billion annually.

March 22, 2018 will be cited by historians as the date of the opening salvo of a trade war, when the United States announced that it would impose tariffs on USD 60 billion of goods from the PRC.

Before proceeding to discuss the prospects for the U.S.-China economic relationship viewed from the inconvenient perspective of the present, it will be useful to examine its parameters and history.

Trade in Goods and Services

China’s economic development paralleled its growth as a trading nation. In 1979, as the country was beginning the difficult process of recovery from the decades of economic disaster headlined by the “Great Leap Forward” and the “Great Proletarian Cultural Revolution,” its economy measured only USD 203 billion⁵ in GDP terms, a mere 7.3 percent of that of the United States, and only 18.6 percent of that of Japan’s.⁶ Fast forward to 2017, and its GDP had mushroomed to USD 12.042 trillion, ranking a close second to that of the U.S. In “purchasing power parity” (PPP) terms, China easily ranked number one, at USD 23.241 trillion. Of course, these numbers don’t begin to paint a complete picture of the three economies. China, for example, with four times the population of the United States, has a much lower per capita GDP.

Although its continental size dwarfs its neighbors, China's "Reform and Opening" program, begun after Deng Xiaoping consolidated power in 1978, largely followed the East Asian export-oriented model.⁷ One of its first tasks was to generate hard currency to import the capital goods needed to upgrade the country's manufacturing base. The author recalls visiting, in the early 1980s, Chinese factories whose technologies were thirty or forty years out of date, and remembers transactions he conducted with state trading companies when China's foreign exchange reserves were so small that end users had to scrimp for allocations of even a few thousand dollars. To facilitate exports, China devalued its currency from 1.5 to the dollar in 1979 to 8.7 in 1994.⁸

China's economic strategy worked. Arthur R. Kroeber notes in his excellent *China's Economy: What Everyone Needs to Know*:

"In the late 1970s China accounted for little of the world's industrial production and less than 1 percent of its trade. By the end of 2014 it was the world's leading manufacturing nation, and its biggest exporter, accounting for 12 percent of global exports and 18 percent of manufactured exports."⁹

Foreign-owned firms played a big role in China's export boom. Attracted by the country's low cost of labor, investment incentives, and potentially massive domestic market, multinational companies (MNCs) began to invest in China in the 1980s. But it wasn't until Deng Xiaoping urged provincial leaders in January 1992 to "be bolder in carrying out reform and opening . . . Speed up development,"¹⁰ that investment began to pour into China.

Beijing's decision to adjust its commercial system sufficiently to fit the requirements of the World Trade Organization put its trading regime on more solid footing, and enabled China's continued integration into global supply chains.¹¹ Probably more important, was the "external pressure" sought by economic reformers such as Premier Zhu Rongji that could be used to compel vested interests to change. At the same time, China's economic growth provided opportunities for exporters of goods and services in the U.S. and other countries. Since China's WTO accession in 2001, U.S. exports of goods and services to China have risen at 13.51 percent per year, while those of China to the U.S. have grown by 10.49 percent p.a.

Nonetheless, despite enormous changes made to the sclerotic system Deng Xiaoping took over in 1978, China's Leninist party-state still retains a firm grasp on the "means of production," with a banking system that is nearly completely state-owned and State-Owned Enterprises (SOE's) comprising as much as half of non-agricultural GDP.¹² The pace of reform has slowed remarkably since 2012. American hopes that China would allow private enterprises and market forces to dominate arguably peaked early that year when China's State Council and the World Bank jointly issued a blueprint for reform called "China 2030: Building a Modern, Harmonious, and Creative Society."¹³ In November of the following year the Third Plenum of the Communist Party's 18th Congress issued a "decision" that strengthened the role of market forces in resource allocation but called for maintenance of a "leading role" for SOEs.¹⁴

A Word About Politics

Now that we are well into the second five-year term of Communist Party leader Xi Jinping, it is worth examining some of the political constraints on China's economic decision making. To do this we must return to 2012. On February 6 of that year, Chongqing Party Secretary Bo Xilai's former police chief Wang Lijun fled to the U.S. Consulate in Chengdu, where he gave damning information about Bo. Subsequently, Bo Xilai became the first of many former high-flyers to be jailed for corruption under Xi Jinping and his powerful anti-corruption czar Wang Qishan.

What we can glean from what little is revealed about these high profile cases is that leading political and military officials 1) are able to operate in personal networks that are essentially outside the normal Party and State apparatus, and 2) vast sums of money are involved. As China's first leader since 1978 who is neither Deng Xiaoping nor someone Deng selected to be one of his successors, Xi Jinping attained the pinnacle of political power only to find that networks tied to his predecessors, General Secretaries Jiang Zemin (1989-2002) and Hu Jintao (2002-2012), constituted vested interests capable of defying him. Xi's most urgent task, therefore, was to dismantle those networks by taking down, in his words, "both tigers and flies."

At the same time, Xi is attempting to assert control by reinvigorating the one institution that cuts across all civilian and military authority, the Chinese Communist Party (CCP), and by insisting that the CCP is represented in every organization in the country, including foreign-invested enterprises. And finally, he has reduced the possibility of a challenge from a potential successor by eliminating the presidential term limit.¹

Having now succeeded in eliminating the possibility of challenges from any existing domestic political force, Xi Jinping is now faced with a paramount dilemma, which would be called a "principal contradiction" in China. That is, to ensure continued growth China must turn to a new economic model that relies less on state-sponsored investment in traditional manufacturing and infrastructure, and more on consumption and innovation, both of which do not thrive under state bureaucratic management. The problem is that less Party-State involvement in the economy means less power for Mr. Xi, and may entail the rise of political forces that he cannot control. The solution for Xi is simply to deny the contradiction and insist that there is one single institution that can manage everything. "Government, the military, society and schools, north, south, east and west—the Party leads them all," he said in his opening speech to the 19th Party Congress in October 2017.²

It is impossible to know whether Xi considered other options, but it is easy to see why he would have found his solution in China's oldest (established in 1921) and most powerful (it claims authority above that of China's constitution; the military reports to it, not the state) institution, the CCP.

¹Buckley, Chris. "How Xi Jinping Made His Power Grab: With Stealth, Speed and Guile." *The New York Times*, 7 March 2018. Web. 24 September 2018. <<https://www.nytimes.com/2018/03/07/world/asia/china-xi-jinping-party-term-limit.html>>

²Hyman, Gerald F. "Xi Jinping's Great Step Backward." *The National Interest*. 10 May 2018. Web. 24 September 2018. <<https://nationalinterest.org/feature/xi-jinpings-great-step-backward-25778>>

Since then, however, it appears that Xi Jinping has become unwilling to introduce the reforms that would lead China in the directions promised in the “China 2030” report, apparently because he fears a collapse of central authority and reversion to China’s perennial curse—“chaos.” Instead, he claims that China’s system, embodied in his newly enshrined mantra “Socialism with Chinese Characteristics for the New Era,” is capable of leading China towards its “China Dream.”¹⁵

For most Americans, of course, this all sounds as if China has taken a wrong turn, and is no longer the land of economic opportunity that it once promised to be. Strengthened Communist Party rule and more efficiently run SOEs are not going to help American businesses compete. If Beijing decides it wants to subsidize enterprises in a particular sector, which U.S. companies will have the financial stamina to stay in the game?

For some industries, the story looks even worse. In 2015, China announced a program called “Made in China 2025” that “calls for achieving ‘self-sufficiency’ through technology substitution while becoming a ‘manufacturing superpower’ that dominates the global market in critical high-tech industries.”¹⁶ Given its stated goal of achieving 70 percent domestic content of core components and materials by 2025—a clear violation of WTO principles—it is not surprising that the U.S. Trade Representative cites Made in China 2025 throughout the report of its investigation into China pursuant to Section 301 of the Trade Act of 1974,¹⁷ which forms the justification for the imposition of tariffs on Chinese goods.

To achieve the goals of Made in China 2025 Beijing understood that it must acquire technology abroad, and has accelerated investments overseas in high technology companies in both the United States¹⁸ and other countries, most notably Germany.¹⁹ Washington has responded with new legislation to expand the jurisdiction of the Committee on Foreign Investment in the United States (CFIUS). Signed into law by President Donald J. Trump on August 13, 2018, the John McCain National Defense Authorization Act (NDAA) for Fiscal Year 2019 includes the Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA)²⁰ that Trump said would “better protect(s)” the crown jewels of American technology and intellectual property from transfers and acquisitions that threaten our national security—and future economic prosperity.”²¹

While reducing America’s trade deficit vis-à-vis China has been front and center for candidate and then President Trump, a cursory review of the above-mentioned USTR report, the National Security Council’s December 2017 National Security Strategy (NSS) document, and the Department of Defense’s National Defense Strategy reveals that the current administration’s approach to commercial relations with China has a much broader context. The introduction to the NSS states:

“China and Russia challenge American power, influence, and interests, attempting to erode American security and prosperity. They are determined to make economies less free and less fair, to grow their militaries, and to control information and data to repress their societies and expand their influence.”²²

The document goes on, with China clearly in mind, to say:

“Today, American prosperity and security are challenged by an economic competition playing out in a broader strategic context. The United States helped expand the liberal economic trading system to countries that did not share our values, in the hopes that these states would liberalize their economic and political practices and provide commensurate benefits to the United States. Experience shows that these countries distorted and undermined key economic institutions without undertaking significant reform of their economies or politics. They espouse free trade rhetoric and exploit its benefits, but only adhere selectively to the rules and agreements.”²³

It would not be surprising if China’s leadership does not understand what “commensurate benefits to the United States” that it is expected to “provide.” Would a vigorous attempt to meet the American president’s demand that China reduce its trade surplus “immediately” by USD 100 billion have been sufficient to avoid his threatened imposition of new tariffs on USD 60 billion of Chinese goods?

As David Dollar observed on August 16, 2018, “(t)he Chinese side is confused about what the U.S. wants. It feels that near-agreements were reached twice before only to have the U.S. pull back. What China is ready to offer is clear:

- It will agree to some big headline numbers for purchases of agricultural products and energy, which is more of a publicity stunt than a policy change;
- It is already committed to opening some important markets in China, such as automobiles and financial services; and
- It would agree to some general language about improving intellectual property rights protection and avoiding forced technology transfer.”²⁴

A week later, the best that could be said about the just-concluded U.S.-China trade talks was that the two sides “exchanged views on how to achieve fairness, balance, and reciprocity in the economic relationship, including by addressing structural issues in China,” according to a White House spokeswoman.²⁵

China’s frustration with U.S. negotiating tactics was revealed a week later in closed-door conversations with think tanks in New York and Washington, D.C. China’s Ambassador to the United States Cui Tiankai was quoted to have said, “[Some people] believe that they could point a finger at others and escape the heavy responsibility of addressing the increasing economic and social divides at home. They believe that they could make themselves great by making everyone else their enemies.”²⁶

After a Track 1.5 meeting at the Asia Society, former Assistant Secretary of State for East Asian and Pacific Affairs Daniel Russel revealed the size of the gap between the two counties when he tweeted, “The Chinese would be wise to ensure that their unhappiness with the Trump administration’s bare-knuckles approach does not prevent them from fixing the behavior and policies that have eroded American support for the relationship.”²⁷

Is It “the Economy, Stupid?”

That the rise of a continental nation with four times the population of the world’s status quo superpower should be regarded as a threat to the latter is not surprising, and is the subject of much speculation, the most notable of which is found in Martin Jacques’s *When China Rules the World: The End of the Western World and the Birth of a New Global Order*,²⁸ and Graham Allison’s *Destined for War: Can America and China Escape Thucydides’s Trap?*²⁹ Clearly, the economic skirmishes over tariffs, intellectual property protection, investor privileges and protectionism can only be understood in the context of growing competition between the United States (and its allies) and China across a wide, interconnected spectrum of issues—military, economic, ideological, religious, intellectual, and geo-strategic. Are the Enlightenment values enshrined in American democracy doomed to be eclipsed by the inheritors of another (Marxist-Leninist) branch of Western thinking deeply grafted onto a modernizing Asian empire? Will China replace the United States as the champion of universality, of what Xi Jinping calls the “community of common destiny?”³⁰ Or, one must ask, have those American values been so weakened that the United States will abandon its globalist ambitions and end up gradually ceding the floor to China?

These are the background questions that one imagines flicker spectrally in the rooms where Sino-American trade and investment negotiations take place, seeding doubts in the minds of the negotiators. How can purely commercial matters be resolved when it is unclear whether or not both parties have already concluded that the other side is determined to damage or destroy it? Surely, given the magnitude and impact of U.S.-China commercial ties, it is foolhardy to expect them to be healthy if the United States has decided that China is a strategic rival and must be weakened? By the same token, if China has determined that a weak United States suits its strategic goals, then it will not be motivated to seek a solution. Have commercial relations morphed irrevocably into a zero-sum game, or is it still possible for the “art of the compromise” to save the day?

Of course, the problem goes well beyond the economic relationship. The United States and China engage across many important fronts, each of which is defined by elements of cooperation and competition that are framed by broad strategic imperatives. It seems that previous strategies are largely defunct and that the two countries are muddling forward without a clear sense of the type of relationship they want.³¹ In the absence of a strategic framework, the White House appears to have adopted a tactical approach that aims to create difficulties for China wherever it can.³² In addition to the above-mentioned FIRRMA and the tariff skirmishes, the Trump administration’s “Free and Open Indo-Pacific” strategy “reflects a muscular commitment to enduring U.S. interests in a stable Asia-Pacific and to pushing back against Beijing’s revisionism.”³³ In addition, Congress unanimously passed legislation, signed without comment by the president, that encourages higher-level administration interactions with Taiwan. To counter China’s Belt and Road Initiative, Congress is close to passing legislation that would combine several agencies into a “U.S. International Development Finance Corporation.”³⁴ And the United States Congress has begun to call for the Administration to pressure China over its program of re-education for Uyghurs in Xinjiang.³⁵

How will all of this get sorted out? Will both countries embark on a path that involves deep strategic analysis, imaginative policy-making, subtle public relations, and brilliant statesmanship? It is unclear whether China has engaged in such work. According to former Director for China, Taiwan, and Mongolia at the U.S. National Security Council Ryan Hass, Beijing has only recently begun to understand the seriousness of the rifts with Washington. Hass quotes Xi Jinping: “there are a thousand reasons to make the China-U.S. relationship work, and no reason to break it.”³⁶

It is virtually certain that the U.S. has not. In a wide-ranging essay, Peter Mattis argues that, “although the Trump administration has reopened an important conversation that had been closed for decades, it ultimately may not be the one to build a new policy consensus on China... Washington and Beijing will not return to the old status quo. This moment in time marks a transition from seven administrations’ policy of engagement to a nascent, emerging position. Because the United States is not yet ready to resolve first-order questions about its policy aims, any strategy is transitory.”³⁷

By all accounts, Trump and Xi have a warm relationship, one that both parties have been careful to cultivate. Ryan Hass notes that Donald Trump has heaped lavish praise on his Chinese counterpart, and has hinted that no significant progress will be made in the absence of a summit between the two countries’ leaders.³⁸

Is it possible that Donald Trump and Xi Jinping could, at a future summit, reach a grand bargain that would provide the strategic direction the two countries need to redevelop and maintain a mutually beneficial condominium? Perhaps, having contemplated the dire implications of a meltdown in bilateral relations, and having envisioned a future in which cooperation became its default setting, they will do so. Or, if Peter Mattis is right that the U.S. is “not yet ready to resolve first-order questions about its policy aims,” perhaps the next American president will take up the challenge. There is no way to know whether his/her Chinese counterpart will have the wherewithal to be a partner in such a world-historical enterprise.

Looking Ahead

We are left, it seems to this writer, in the unenviable position of contemplating the future of U.S.-China economic relations with neither consensus about its past nor a clear understanding of its present.³⁹ How are policy planners around the world adjusting to the strategic uncertainty in U.S.-China relations? Will Washington, Brussels, and Tokyo agree on the parameters of a new approach to influencing Beijing’s behavior? What decisions are being made in corporate board rooms about global supply chains and new capital investments?⁴⁰

To make matters worse, the profound economic and political implications of new technologies, particularly artificial intelligence and social media, must be factored into the management of Sino-American relations.

With these considerations in mind, it is difficult to be optimistic about the future of U.S.-China economic relations. Once seen as ballast—a stabilizing factor—in the relationship, they now appear more like unsecured cargo shifting in stormy seas and threatening to sink the ship.

If, however, we lower our expectations and figure that the relationship will “never be too good, nor will it be too bad,” (“中美关系好不到哪里去，也坏不到哪里去”) as former Chinese Premier Zhu Rongji was fond of saying, then it might be easier to see a future in which the two countries have the wisdom to avoid military conflict and the enlightened self-interest to take advantage of the promises of cooperation.



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Whither Sino-U.S. Relations: Maritime Disputes in the East China and South China Seas?

By Michael McDevitt

Introduction

China has maritime disputes with all of its East Asian maritime neighbors, including delimitation of overlapping Exclusive Economic Zones (EEZ) and related fishing rights claims in the Yellow Sea with both Koreas, overlapping EEZ claims with Japan in the East China Sea along with the much more serious dispute with Tokyo over the sovereignty of the Senkaku/Diaoyu Islands. The United States is involved because the Mutual Defense Treaty with Japan includes the Senkaku Islands as part of the territory of Japan.

In the South China Sea, China has longstanding sovereignty disputes over various islands, rocks, and shoals with Vietnam, the Philippines, Malaysia and Brunei. It also has maritime delimitation issues with these nations, plus Indonesia, because its unlawful claims associated with the so-called “Nine-Dash Line” and attendant historic rights overlap with the EEZ entitlements of these five states. Since longstanding U.S. policy has been to take no position on whose sovereignty claim is correct, it is fair to ask why Washington has been so publicly involved in a dispute with China in the South China Sea. This will be explored.

Beijing also claims sovereignty over the island of Taiwan, in which Beijing’s claim, if peacefully achieved, would still have a profound influence on the geostrategic balance of power in Northeast Asia. Obviously, unification attempted by force could result in a great power war. While the likelihood of armed conflict between China and Taiwan remains low, such a conflict would have the most serious and detrimental implications for regional peace and stability.

An issue of more serious consequence is the Senkaku/Diaoyu Islands dispute because U.S. security guarantees to Japan could involve the United States in direct confrontation with China. This chapter will begin with an assessment of the East China Sea’s Senkaku/Diaoyu dispute, and then do the same for the South China Sea.

Part I: The Senkaku/Diaoyu Islands Dispute

The five small uninhabited islets and three rocks that comprise the Senkaku/Diaoyu Islands are under the administrative control of Japan. Tokyo also claims sovereignty over the island chain—a claim that both Beijing and Taipei reject, and on which the U.S. “takes no position.” The Japanese claim is based on a cabinet decision taken by the Imperial Japanese government in 1895 to annex the islands and make them part of Okinawa prefecture. Tokyo authorities argued the islets were *terra nullius* (a land without an owner).¹

Both China and Taiwan argue that Japan's annexation, based upon "discovery," is invalid; they were discovered, named and used by the Chinese centuries before Japan's annexation in 1895.² They had long been considered as appertaining to Taiwan. Tokyo counters that China did not protest the Japanese annexation—over many decades the authorities of respectively Imperial China, the Republic of China, and the People's Republic of China never disputed Japan's ownership until 1970 when Japan and Taiwan started talks on jointly exploring the potentially lucrative energy resources around the Senkaku/Diaoyu Islands, and the United States indicated it intended to include the islands as part of the return of Okinawa to Japan.³

Okinawa prefecture, including the Senkakus/Diaoyu, remained under U.S. military administration long after the U.S. returned control of the main islands to Japan. It was not until May 15, 1972 that Washington and Tokyo reached agreement on the reversion of Okinawa prefecture to Japan.⁴ When the agreement went to the U.S. Senate for advice and consent, the Republic of China (ROC), also known as Taiwan and at the time a formal U.S. ally, complained about including the Senkakus/Diaoyu in the reversion. In response, the Senate included a minute that said, "The Committee reaffirms that the provisions of the agreement do not effect claims of sovereignty with respect to the Senkaku or Tiao Yu Tai [sic] islands by any state."⁵ This statement forms the basis of the current U.S. policy of taking no position on sovereignty. Thus, the State Department said the United States was merely returning the administrative rights which it received from Japan back to Japan.

The Current Situation

In September 2012, the Japanese government purchased the islands from a private owner to ensure that they could not be used by Japanese nationalists to provoke future confrontations with China. Rather than avoiding a dispute, this action triggered the current standoff. For its part, Beijing did not accept the Japanese rationale; it was adamant that Japan was effectively "nationalizing" the islands. Tokyo's plan of action violated the understanding Deng Xiaoping reached with Japan's Foreign Minister to put the issue aside,⁶ and came after a stern warning was reportedly issued by Chinese President Hu Jintao to Japan's Prime Minister Noda that "it is illegal and invalid for Japan to buy the islands via any means. China firmly opposes it."⁷

Beijing immediately began to challenge Tokyo's long-held position that its sovereignty claim "was indisputable." On the same day that Tokyo declared it would make the purchase, China issued an updated claim to its territorial baselines including for the first time the Senkaku/Diaoyu Islands—lines which are illegally drawn according to UN Convention on the Law of the Sea (UNCLOS) rules.⁸ Three days later, following the requirements of UNCLOS, Beijing filed a claim with the United Nations on an extended continental shelf that reaches across approximately 70 percent of the East China Sea all the way to the Okinawa Trough. The purpose of these actions was to demonstrate its effective administration of the Senkaku/Diaoyu Islands and, therefore, strengthen China's sovereignty claim.⁹

Beijing also deployed six China Coast Guard ships to waters near the disputed islets on the same day as the Japanese announcement with the stated purpose of defending China's maritime rights and interests, and both Japan and China entered the 12-nautical mile territorial waters of the islands. These deployments set a pattern that continues today.¹⁰ China is using routine maritime presence by official government ships to challenge what it deems an illegal sovereignty claim and to illustrate Chinese jurisdiction over the islands' waters.

The Japanese did not stand idly by while China has attempted to create this “new normal.” The Japanese Coast Guard immediately directed the Chinese to withdraw. Since that time a ritualized pattern has developed: China Coast Guard incursions occur several times a month to demonstrate the Chinese claim, followed by Japanese responses that warn Chinese vessels away. This has largely been a Coast Guard effort by both countries, although China has infrequently sent PLA Navy (PLAN) warships to enter islands territorial waters.

The most unusual example of this practice took place in January 2018, when a submerged PLAN nuclear attack submarine (SSN) was detected by a Japanese Navy maritime patrol aircraft and then tracked for two days by two Japanese destroyers, who were in turn trailed by a PLAN frigate, while the submarine made its way toward the Senkaku/Diaoyu Islands. Its track took it barely within the contiguous zone, a 12 nautical miles wide band around the territorial sea, of one of the Senkaku/Diaoyu Islands. The Chinese SSN then cleared the area and most unusually for an SSN, surfaced, hoisted its flag and sailed away to China.¹¹

Quite apart from the tactical implications and professional embarrassment of being detected, trailed, and the apparent anxiety that resulted in the decision to surface, the probe by Chinese Navy units followed shortly by more China Coast Guard entries into Senkaku/Diaoyu territorial waters suggest that Beijing is upping the pressure on Tokyo. Its near-term objective remains trying to force Tokyo to acknowledge its claim as not “indisputable” by demonstrating in as many ways as possible that it is most certainly being disputed.

Should the worst happen, the unlikely event that China executes a “bolt out of the blue” raid and seizes the Senkaku/Diaoyu, Japan would be expected to lead the defense of its territory before the United States became directly involved. Tokyo is clear on this point. During a February 2013 visit to Washington, Japan’s Prime Minister Abe, indicated that Japan would defend the Senkaku/Diaoyu Islands, stating “On the Senkakus, our intention is not to ask the U.S. to say or do this or that. We intend to protect our own territory now and in the future.”¹²

To this end, Japan’s Ground Self-Defense Force (JGSDF) has been training with the U.S. Marine Corps for the past few years to establish an amphibious assault force that could take back small islands like the Senkaku/Diaoyu from an invading force. These plans came to fruition in April 2018 when Japan officially activated its 2,100 person strong Amphibious Rapid Deployment Brigade (ARDB) in Sasebo, Japan.¹³

President Trump has publicly repeated pledges made by then-Secretary of State Clinton and President Obama that the islands were covered under Article 5 of the U.S.-Japan Security Treaty to reassure Japan and to deter Chinese aggression. The Japanese were especially interested in receiving that guarantee from President Trump given his campaign rhetoric questioning U.S. treaty obligations. On February 10, 2017, Prime Minister Abe and President Trump signed a joint statement that included a reaffirmation of the Treaty commitment.¹⁴ This was repeated following the April 2018 Trump-Abe summit:

“The two leaders also reaffirmed that Article V of the U.S.-Japan Treaty of Mutual Cooperation and Security covers the Senkaku Islands in the East China Sea and that they oppose any unilateral action that seeks to change the status quo.”¹⁵

Policy Recommendations

Neither Tokyo nor Beijing want a fight over the Senkaku/Diaoyu Islands, and as a result the situation has remained stable. A major contribution to this stability has been repeated high-level U.S. statements over the past 10 years that despite not recognizing Japanese sovereignty, Article 5 of the Mutual Defense Treaty does cover the Senkaku/Diaoyu Islands. This reassurance should continue since it helps to deter any rash acts by China, despite the awkward fact that Washington is signaling it is willing to engage in combat against China to help Japan defend territory that the United States does not recognize as being Japan's. The Trump administration should closely examine the pluses and minuses of going ahead and recognizing Japanese sovereignty. Tokyo would be delighted; Beijing would be outraged.

It is important that the U.S. military, especially the U.S. Marine Corps, continue to work closely with Japan's new amphibious brigade on tactics, techniques and procedures to perfect the capability to react quickly and effectively to a Chinese attack on the Senkaku/Diaoyu. Since the Japanese Self-Defense Force (JSDF) has less than ideal joint military operational procedures, the major U.S. headquarters stationed in Japan need to focus on helping Japan refine effective contingency plans for a Senkaku/Diaoyu scenario because its amphibious brigade will require air and naval support.

The sighting of a PLA Navy SSN in January 2018 in the Senkaku/Diaoyu disputed area is a reminder that China, Japan and the United States all operate submarines in the East China Sea. Surface warships from all three countries also operate in the area. When tensions are high, the chances for incidents arising from sonar tracking or periscope sightings of submarines is high. To avoid inadvertent incidents, all three countries should progress from the Code for Unplanned Encounters at Sea (CUES) agreements to some "unidentified submarine contact" procedures for the East China Sea. The navies of all three countries have procedures for surface/sub-surface communication between their own surface vessels and submarines that could be used for this purpose. A related recommendation is to extend appropriate CUES procedures to coast guards, especially now that the China Coast Guard has been shifted to China's People's Armed Police (PAP) that now reports ultimately to Chinese Central Military Commission (CMC).

Part II: The South China Sea in Sino-U.S. Relations

Eight years have passed since then-Secretary of State Hillary Clinton publicly and directly involved the United States in South China Sea disputes. Her comments at the ASEAN Regional Forum in Hanoi in 2010, which apparently surprised and infuriated the Chinese representative, marked the beginning of direct diplomatic involvement of Washington into the complex web of South China Sea issues in a way that was probably unforeseen at the time.¹⁶

While the objective of Secretary Clinton's statement was to indicate that peace and stability in the South China Sea was a U.S. interest, in hindsight, by choosing to be so publicly involved, Washington found itself trying to shape Chinese activity in the South China Sea with absolutely no practical leverage short of the use of force or imposition of trade or economic penalties (though the current U.S.-China trade war is focused on the deficit rather than the situation in the South China Sea).

During the Obama administration, Washington frequently indicated unhappiness with Chinese activities in the South China Sea, especially regarding island building. Its policy approach consisted of all the normal engagement and diplomatic tools available, short of direct coercion. This specifically included: official exhortations, permanent military presence that expanded or contracted over time, periodic freedom of navigation operations to protest excessive Chinese maritime claims, improved security-oriented relations with China's South China Sea neighbors, and diplomatic notes protesting Chinese bad behavior. The Obama administration stopped short, however, of employing direct economic penalties, and elected not to use force to halt island-building activity. It avoided direct penalties against China because it correctly believed that the United States had more important issues with Beijing, such as North Korea, Iran and climate change. It did not want the South China Sea to become the central issue in Sino-U.S. relations.¹⁷

China understood this logic. The South China Sea was and remains much more important to Beijing than it is to Washington. Beijing has and continues to have the upper hand. This sentiment was recently made clear to the Trump administration when Secretary of Defense James Mattis met with Chairman President Xi Jinping in Beijing in June 2018. According to press reports, when Mattis raised the topic of the South China Sea, Xi's response was, "Our stance is steadfast and clear-cut when it comes to China's sovereignty and territorial integrity, any inch of territory passed down from our ancestors cannot be lost..."¹⁸ Given this context, it is hardly surprising that over the years, Beijing ignored U.S. exhortations regarding its bullying behavior toward other claimants,¹⁹ particularly its coercive reaction to any attempt by Vietnam or the Philippines to fish or explore for oil and gas within their EEZ's if those activities were also inside China's Nine-Dash Line.²⁰ As previously mentioned, the Nine-Dash Line overlaps the EEZ's of these states and represents an attempt by China to appropriate, steal in less polite words, over half the EEZ resources which, according to UNCLOS, legally belong to Vietnam and the Philippines. China argues that it has "historic rights" to the resources, a claim that is superior to UNCLOS.

Diplomatic interventions from the U.S. argued that China was essentially upsetting what had been a relatively stable balance of power in the southern half of the South China Sea. China's responses to criticism can be generally characterized as telling everyone, including Washington, to mind their own business—the Spratly Islands are sovereign Chinese territory and they can do what they like, indicating the improved facilities would permit China to "better safeguard national territorial sovereignty [i.e., the Spratly Islands] and maritime rights and interests."²¹

The Trump Administration...Island Building and Militarization Are the Culprits

The most comprehensive Trump administration statement on the South China Sea was made by Secretary of Defense Mattis at the June 2018 Shangri-La Dialogue. In his keynote speech, he indicated that China's behavior calls into question China's assertions that it seeks peace and stability and raises questions about China's broader regional goals. Mattis outlined China's installation of military assets and capabilities as an attempt by Beijing to intimidate and coerce others in direct contradiction of President Xi's 2015 Rose Garden statement.²²

Secretary Mattis was clearly suggesting that China's implicit coercive approach in the South China Sea foreshadows how it would behave toward its neighbors in the future if they were not willing to align with Washington in pushing back. He went on to directly link Chinese militarization of the South China Sea to the administration's decision to withdraw its invitation to the PLA Navy to participate in the 2018 bi-annual U.S. Navy sponsored Rim of the Pacific (RIMPAC) naval exercise.²³

He admitted this was of small consequence, but in a clear comment indicated that he believed “there are much larger consequences in the future.”²⁴ He was silent on what those consequences might be. Subsequently, Assistant Secretary of Defense for Asia and the Pacific, Randall Shriver, amplified the consequence comment by pledging to “shine a light” on Chinese activities so that everyone in the region was aware of what China was doing. However, public shaming by highlighting bad behavior seems to have had no impact on Beijing’s behavior.

One thing that does get Beijing’s attention, are U.S. Navy Freedom of Navigation operations (FONOPs) in the South China Sea. These are well-choreographed warship transits through areas where Beijing’s claims or regulations are not in compliance with the Law of the Sea. They are intended to be an operational expression of the legal point that the United States does not recognize the specific excessive claim. On Secretary Mattis’ flight to the Shagari-La Dialogue, during a meeting with embarked correspondents, Chinese complaints about FONOPs came up. Mattis provided an unequivocal response indicating that “a steady drumbeat” of FONOPs would continue.²⁵

There is no question that the pace of FONOPs has picked up when compared to during the Obama administration, but FONOPs are unilateral protests, conducted worldwide in the hope that states will see the light and adjust maritime claims to make them Law of the Sea compliant. They irritate Beijing, but so far have not caused it to modify the offending claims. Given the publicity they normally receive they can be seen as one facet of “shining a light.” So far, the Trump administration seems to be struggling with the same problem the Obama administration faced. Short of actual use of force it is hard to execute a policy that will change the status quo or role back China’s position in the South China Sea, particularly since at this point it seems that the Trump administration also shares the view that the South China Sea is not the most important Sino-U.S. issue.

Chinese Actions: Past and Present

So, what has China done? Bullying neighbors has already been mentioned; Bill Hayton’s book on the South China Sea covers that well.²⁶ However, changing a twenty-five year long period of a more or less stable balance of power in the Spratlys really riveted the attention of the U.S. security bureaucracy. In late 2013, China quietly began dredging operations aimed at enlarging the four rocks and three low-tide elevations (a land feature submerged at high tide) it had occupied for twenty-five years.²⁷ By the early months of 2016, China had changed its seven modestly improved holdings into *de facto* islands. Turning tiny outcroppings into artificial island military bases decisively altered the strategic situation in the Spratly Island chain. The new islands and the facilities on them militarily overshadow the garrisons and defensive capabilities of the features occupied by Taiwan, Vietnam, the Philippines or Malaysia. (It is important to keep in mind that between them, these Spratly claimants occupy forty-two other Spratly features; China is not alone in the Spratlys.)

China created well-designed military bases that will accommodate larger garrisons, more military equipment including defensive and offensive missile systems, fuel and ordnance storage along with, in three cases, very large new harbors that can easily accommodate the largest PLA navy warships. All of the new bases have expanded helicopter-landing facilities and most significantly, on Fiery Cross Reef, Subi Reef and Mischief Reef, 10,000 foot runways capable of fighter jet operations.²⁸ As then Director of National Intelligence James Clapper predicted:

“Based on the pace and scope of construction at these outposts, China will be able to deploy a range of offensive and defensive military capabilities and support increased PLAN and CCG [Chinese Coast Guard] presence beginning in 2016...*Once these facilities are completed by the end of 2016 or early 2017, China will have significant capacity to quickly project substantial offensive military power to the region.*” (emphasis added)²⁹

Turning its seven small and long-occupied toeholds in the Spratly Islands into major military facilities is just the latest step in China’s patient long-term campaign to physically control claimed land features and associated self-defined maritime entitlements. Beijing wants the Spratlys because they firmly believe they are unrecovered Chinese territory. It began its campaign seven decades ago in the 1950s when Beijing occupied abandoned Nationalist Chinese islands in the eastern Paracels. Since then China has inexorably collected islands, rocks and other features in the South China Sea through the combined use of force, coercion and occupation of unoccupied features. Besides the obvious desire to have sole possession of fish and hydrocarbon resources that come from having sovereignty, there is also a sensible strategic rationale at work.

The defense of China is directly related to control of the land features in the South China Sea. Chinese bases in the Paracels and Spratlys provide strategic depth against any enemy planning to attack China via the South China Sea. Hainan is especially important to the People’s Liberation Army (PLA) since Beijing has decided to homeport its growing ballistic missile submarine force at the southern end of that island.

China is also hugely dependent on the maritime trade routes that traverse the length of the South China Sea. The sea lane that passes to the west of the Spratlys is China’s primary sea route to the Indian Ocean and on to Europe. It connects China with Persian Gulf oil, African and Australian minerals, and carries finished goods to Europe. It is synonymous with the much-touted 21st Century Maritime Silk Road. The PLA is worried about the vulnerability of its sea lanes of communication (SLOC), especially this one. It has what I call “SLOC anxiety.”³⁰ Controlling islands which are adjacent to its South China Sea SLOCs is the best way to make certain no one else does. Now with three large airfields, it will be able to conduct routine airborne surveillance of its entire South China Sea lane of communication, along with much of maritime Southeast Asia.

Implications

For the first time, Beijing has the ability to bring land-based airpower in significant quantities to the southern half of the South China Sea. Each of the three new airfields and support structures are capable of supporting a regiment of fighter jets (twenty-four aircraft) plus support airplanes. This suggests that the PLA could have as many as seventy-two fighters available in the Spratlys on a full time basis. Spratly bases plus those in the Paracels plus the many extant facilities on Hainan itself mean the PLA has created a defensive network that when fully militarized and hardened suggests that the PLA could, in times of conflict, defend its sea lane and command the air and sea approaches to China that come via the South China Sea.³¹

In peacetime the Spratly bases provide Beijing with the capability to: (1) monitor air traffic through the southern half of the South China Sea and over much of maritime Southeast Asia; (2) enforce fishing regulations dictated by Beijing; (3) otherwise harass the fishermen of all the other littoral states; and (4) intimidate other Spratly occupiers, wanting others to conclude their military position is hopeless and leave.

Like all remote island bases, however, Paracel and Spratly outposts are also vulnerable to attack in case of a major war, particularly in an era of precision weapons. In fact, the entire South China Sea is ringed by airbases in the hands of the Vietnamese, Filipinos, Malaysians and Indonesians. Unlike aircraft carriers, China's bases do not move, and the precise latitude and longitude of each installation on the islands is known. As a result, forces armed with land-attack cruise missiles and aircraft with standoff weapons, using airfields in the littoral counties, could attack the bases.

China and International Law

Beijing is a serial violator of international law through China's behavior in the South China Sea. Space does not permit a complete analysis, but as a point of departure consider China's absolute refusal to accept any of the findings in the Hague Arbitral Award of July 2016, which—among other important verdicts—drove a legal stake into the heart of Beijing's Nine-Dash Line and associated historic rights claim. The ruling also bluntly emphasized the illegality of appropriating Mischief Reef, a low-tide elevation on the Philippine continental shelf (therefore belonging to the Philippines), and unilaterally turning it into a large artificial island base.

However, more worrisome were Beijing's new assertions *after* they dismissed the award as a "scrap of paper," as China circulated three papers regarding its claims in the South China Sea. In the papers, China expressly claimed for the first time "historic rights in the South China Sea." China also claimed internal waters and other maritime entitlements "based on" all the islands in the South China Sea (*Nanhai Zhudao*).

The U.S. responded with a demarche issued six months later in December 2016, surprisingly without fanfare, in unambiguous language that calls out the illegal nature of certain aspects of China's claims. It says in part:

These statements appear to assert expressly, for the first time, a Chinese maritime claim in the South China Sea that would include "historic rights." The United States objects to such a claim as *unlawful*, insofar as it would be inconsistent with international law as reflected in the Law of the Sea Convention...China cannot claim straight or archipelagic baselines in the Paracel Islands, Pratas Island, Macclesfield Bank, Scarborough Reef, or the Spratly Islands. Similarly, China's claims related to what it calls "Nanhai Zhudao" (the South China Sea Islands) would be *unlawful* to the extent they are intended to include any maritime claim based on grouping multiple islands together as a single unit for purposes of establishing internal waters, territorial sea, contiguous zone, exclusive economic zone and continental shelf or any other maritime claim.

Moreover, Macclesfield Bank is an entirely submerged feature; it and other features in the South China Sea that are not "islands" under international law as reflected in Article 121(1) of the Law of the Sea Convention are not subject to appropriation and do not generate any entitlement to a territorial sea, contiguous zone, exclusive economic zone or continental shelf under the international law of the sea.³² (emphasis added.)

The reason this diplomatic note is so important is that it firmly puts the United States on record regarding Chinese unlawful activity in the South China Sea. This is significant because since 2016 authoritative Chinese interlocutors in any number Track II and semi-official venues have indicated Beijing intends to surround the entire Spratly chain with straight baselines and then claim an EEZ from those baselines. In this case, Chinese claims would essentially encompass the entire southern half of the South China Sea. But should China proceed with this unlawful land and water grab, it would also create a new problem for Beijing: it would “trap” the garrisons on the forty-two features occupied by other Spratly claimants inside what China would claim as Chinese “internal waters.” Forcing them out without starting a war could be difficult.

Policy Recommendations

So, eight years on, where are we today? What has U.S. policy aimed at moderating China’s South China Sea behavior accomplished, and what is the way forward?

First, no vital U.S. interest has been compromised. Freedom of navigation has not been physically interrupted. Shipping continues, while the United States ignores (daily, if you believe the Chinese complaints) Beijing’s requirement of prior approval for military operations in China’s exclusive economic zone.

Second, the Trump administration has embraced the single most important policy statement from the Obama administration on maritime Asia—that the U.S. Navy and Air Force intends to sail, fly and operate where international law permits. Fortunately, this very important signal of national intent continues, carrying the implied codicil that ‘if you don’t like it you will have to try and stop me.’ Washington should encourage other friends and allies to adopt this position. Unlike FONOPs, which are a legal statements, sailing or flying where international law permits is an expression of policy.

Third, despite President Rodrigo Duterte’s periodic blustering, he has not walked away from the U.S. Mutual Defense Treaty (MDT) with the Philippines. It remains in force, and Washington should work to ensure that it continues to do so. It is probably a factor in Chinese decisions to avoid shedding Filipino blood in the Spratlys or around the Scarborough Shoal. While Washington has rightly been very coy about MDT coverage over Manila’s Spratly claims, which are legally suspect, the treaty does explicitly address attacks that could harm or kill Filipino military members. Thus the MDT does have a deterrent role.

Fourth, the U.S. should give up any attempts to appear even-handed when it comes to militarization of the South China Sea. That means it should quietly encourage, not discourage, the Vietnamese to harden and improve their defenses on their estimated twenty-seven Spratly holdings and show no interest in decamping. The idea is for Hanoi to add enough military capability to make Beijing think twice before trying to force them out. In short, between the Philippine MDT and Vietnamese persistence a more or less credible deterrent is in place to thwart an attempt to push either the Vietnamese or the Filipinos off their Spratly holdings.

Fifth—to enhance Assistant Secretary of Defense Shriver’s spotlight—the State Department legal team should assemble a short White Paper the details each of China’s many violations of international law in both the South China Sea and East China Sea. In short, the U.S. should go on record publicly with a fact-based analysis of China’s approach to international law, which seems to be “it is whatever we say it is.”

Sixth, the United States has long maintained that a Code of Conduct stipulating a rules-based framework for managing and regulating the behavior of relevant countries in the South China Sea is necessary. The good news for U.S. policy is that after years of waiting, progress has been made. On August 2, 2018 ASEAN announced that a single working “first draft” had been agreed upon by the ten ASEAN members and China along with modalities for future negotiations. For Washington, the bad news is that some of the Chinese inputs to the draft would negatively impact U.S. interests. Carl Thayer, a recognized Southeast Asia expert, has noted for example that one Chinese proposal in the draft would require that all parties be notified in advance and express no objection before any of the parties holds an exercise with a country outside the region. A long diplomatic slog remains before a code of conduct emerges, if ever, but this example from the draft indicates Washington needs to keep a close eye on progress.³³

In sum, while Beijing’s objective to gain control of all the Spratlys has not been forsworn, it has likely been delayed. Despite having permanently shifted the Spratly military balance in its own favor, China still faces the problem of how to get the other claimants off their Spratly holdings without starting a war.

Concluding Thought

There is no solution on the horizon for either of the two Sino-U.S. maritime issues discussed in this chapter. These long-standing disputes that have the potential to involve China and the United States in conflict need to be carefully managed. Fortunately, Beijing and Washington seem to recognize this reality. As China’s power relative to the United States military posture in East Asia grows—and it will—questions regarding the credibility of America’s deterrence against Beijing’s attempts to settle its unresolved territorial issues by the use of force will also grow. This places a premium on solid public reassurance to U.S. allies. The implications of these reassurances also have to be carefully explained to the American public.



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⁵ At the time, the U.S. Government recognized the Republic of China (ROC) government on Taiwan as the legitimate government of China, and the Chiang Kai-shek regime had many friends on Capitol Hill.

⁶ During the Sino-Japanese normalization negotiations, Deng Xiaoping told Japan's Foreign Minister on August 10, 1978: "There is the problem of what you call the Senkaku Islands and what we call the Diaoyu Islands, and there is also the problem of the continental shelf. In Japan, there are some people who use these issues to obstruct the signing of the Treaty. In our country, there are also people who want to obstruct [the Treaty] ...But it is better not to dwell on it. In the spirit of the Peace and Friendship Treaty, it does not matter to put the issue to the side for some years." See: Drifte, Reinhard. "Japanese-Chinese Territorial disputes in the East China Sea - between military confrontation and economic cooperation." *London School of Economics and Political Science Research Online*, August 2008. Web. 26 September 2018. <[http://eprints.lse.ac.uk/20881/1/Japanese-Chinese_territorial_disputes_in_the_East_China_Sea_\(LSERO\).pdf](http://eprints.lse.ac.uk/20881/1/Japanese-Chinese_territorial_disputes_in_the_East_China_Sea_(LSERO).pdf)>

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Summit Diplomacy: Opening of a New Era or a New Cycle on the Korean Peninsula?

By Yang Xiyu

Introduction

A series of bilateral summits including the China-DPRK, the North-South, and DPRK-U.S. summits in the first half of this year has brought precious historic opportunities both for materializing denuclearization and establishing a permanent peace regime on the Korean Peninsula. However, there remain huge uncertainties despite this positive trend. It is not the first time for the two Koreas, as well as for the DPRK and the U.S., to have positively engaged with each other. In the past two decades, the two Koreas have made several substantive breakthroughs in the inter-Korean relationship, and negotiations between North Korea and the U.S. have also made important progress ranging from the nuclear issue to U.S.-DPRK relations.

In 2000, the DPRK and the United States issued, through high-level exchanges based on intensive talks and negotiations, a historic “U.S.-DPRK Joint Communiqué,” in which both sides officially commit “to build a new relationship free from past enmity,” and “to achieving peace and security on a nuclear weapons free Korean Peninsula,”¹ which were quite similar commitments Chairman Kim and President Trump made during their Singapore meeting.

The North and the South have successfully held two summits in 2000 and 2007 respectively, when the two sides jointly declared to solve inter-Korean issues in accordance with the spirit of reconciliation, cooperation and unification.²

Nevertheless, such positive results obtained from these high-level—even the highest level—exchanges did not lead to the denuclearization of the Korean Peninsula and lasting peace and stability. On the contrary, the North Korean nuclear issue has become worse and worse, with tensions and even crises periodically repeating. These past experiences on the Peninsula raise a critical question: can the positive interactions among the related parties, that has resumed the denuclearization process and permanent peace build-up, open a new era of lasting peace on nuclear weapon free Peninsula? Or will this just kick off a new cycle of strategic confrontation?

The Background and Policy Drivers of the Sudden Positive Changes on the Peninsula

The history of the cycles of crises and rapprochements in the past two decades shows that both the North and the South share fundamental common interests for peace or preventing war, although the security contradictions between the North and the ROK-U.S. alliance has been at a dangerous level. On the question of war or peace, the two Koreas—which can be considered the masters of the Peninsula—seem to always have a highly consistent sense of responsibility for maintaining peace on the Peninsula and preventing their homeland from being destroyed by any kind of war.

As early as mid-2017, when the military tensions on the Korean Peninsula were escalating, South Korean President Moon made the proposal to have the North and the South join hands for the Winter Olympic Games hosted by the South in Pyeongchang.³ This decision was made in response to the rising probability of a unilateral U.S. military strike on the Peninsula without prior coordination with South Korea.⁴ The South's positive efforts under the critical situation received positive responses from the North. In his New Year's address, North Korea's supreme leader Kim Jong Un not only replied to President Moon's proposal about the Winter Olympics positively, but he also stressed the urgency of improving inter-Korean relations by taking quick and bold actions together to ease military tensions and create a peaceful environment on the Peninsula.⁵

As a result of the North and the South keeping the same pursuit of peace and sharing common concerns about the risks of war that could destroy their homeland, the interactions between the two became the driving force to turn a previously dangerous situation into rapprochement.

In addition to their shared interests of preventing war between the North and the South, the different policy considerations from the North, the South, and the United States have interactively driven the current situation from high-level tensions to rapid relaxation.

For North Korea, Kim Jong Un has reaffirmed “North Korea's unswerving stance to denuclearization” through his three meetings with Chinese President Xi Jinping, as well as in the summits with President Moon and President Trump. The positive and surprising return to denuclearization after five years of intensive inputs on nuclear and missile developments are mainly driven by three considerations.

Firstly, there is a national strategic shift from the “dual-track policy” of parallel nuclear and economic development to “focusing on economy policy,” as announced by the resolution of the 3rd Plenary Session of the 7th Central Committee of Korean Workers' Party (KWP) in April 2018, in which the Party called for taking all forces and making whole efforts on socialist economic constructions.⁶

To focus on economic development, there is an urgent need to create a peaceful and stable external environment; to restore and improve relations with the major countries as soon as possible, especially with China, South Korea and the United States; and to reduce and remove all external sanctions against the DPRK. Thus, recommitting to denuclearization is the key and effective leverage to unlocking relations with all related countries, and to normalize economic ties with outside world.

Secondly, restarting the process of inter-Korean rapprochement from the top level is conducive not only to the rapid easing-up of tensions on the Peninsula for a peaceful external environment, but also to the restoration of economic cooperation with the South as soon as possible. As a result, the restored inter-Korean economic exchanges will lead to relaxation, and even a gradual collapse of external sanctions regime.

Thirdly, it will be more favorable for a Pyongyang that has commanded nuclear and ICBM capabilities to resume DPRK-U.S. talks and negotiations on the new basis of “equilibrium of power with the U.S.”⁷ Such a new basis can guarantee that Pyongyang gains an equal footing with the U.S. in negotiations both on the nuclear and missile issue and the peace and security regime on the Peninsula.

For South Korea, President Moon regarded the series of summits between the two Koreas, China and the U.S. as great opportunities for three policy goals: 1) relaxing tensions on the Peninsula, which will lead to resuming the course of inter-Korean peace, reconciliation, and cooperation; 2) making the North-U.S. summit and the following DPRK-U.S. engagements the main vehicle to denuclearize North Korea; and 3) terminating the Korean War through a four-party joint declaration by the two Koreas, the U.S. and China.

For the United States, the Trump administration does not oppose engagement, but has set denuclearization as a precondition for any talks with North Korea. President Trump quickly accepted Chairman Kim’s proposal at the summit simply because on the one hand, the proposal contained the DPRK’s commitment to denuclearization which is what President Trump wanted, and on the other hand, there remained strong opposition and restrictions from both home and abroad regarding the military option, such as the plan of a so-called “bloody nose” strike. For a stable process of U.S.-DPRK denuclearization talks, the U.S. government has stopped talking “maximum pressure,” but clearly set sanctions in place “until final, fully verified denuclearization.”⁸

Although the North, the South, and the U.S. have quite different calculations and considerations, the inter-Korean summits and DPRK-U.S. summit are of great significance for a peaceful solution to denuclearization, as well as to peace and stability on the Peninsula.

The Past Achievements and “Cycle” of Crises in North-South and DPRK-U.S. Relationships

Prior to the latest positive interactions, there had been several rounds of fruitful engagements between the North and South, as well as the DPRK and the U.S. But all of these achievements did not prevent crises from breaking out.

As early as in 1972, the process of dialogue and reconciliation was started between the North and the South, and fundamental progress was made, both on inter-Korean reconciliation and denuclearization. From the first high-level political talks in 1992, the DPRK and the United States also made a series of great achievements on the nuclear issue and improving the DPRK-U.S. relationship.

Achievements Made by North-South Engagements Since 1972

The North and the South began to engage with each other in July of 1972, and the “July 4th Joint Communiqué” opened the door for inter-Korean dialogues, meetings and negotiations on a wide range of issues based on a consensus of reconciliation, cooperation, and peaceful reunification. In particular, the two summits in 2000 and 2007 pushed the North-South relationship to a historical climax. By jointly signing a series of important documents—such as the North-South Joint Communiqué of July 1972, the South-North Basic Agreement of December 1991, the Joint Declaration on the Denuclearization of the Korean Peninsula of January 1992, the North-South Joint Declaration of June 2000, and the Joint Declaration on the Promotion of South-North Relations and Peace and Prosperity of October 2007—the two Koreas have made substantive progress on the fundamental issues of improving inter-Korean relations and denuclearization on the Peninsula.

Firstly, basic consensuses and important agreements have been made on North-South relations and for promoting peaceful reunification, including the following:⁹

- Setting up three principles for reunification: independence, peace, and national solidarity beyond different ideologies and social regimes. Based on these three principles, the North and the South have defined the reunification model in accordance with the South’s concept of a confederation and the North’s formula for a loose form of federation, and thus have agreed to push forward reunification in a mutually accepted direction;
- Setting the guidelines for inter-Korean relations, namely: non-aggression, no use of force, peaceful settlement of disputes, termination of military hostilities, jointly maintaining peace on the Peninsula, and non-interference in the internal affairs of each other;
- Establishing a permanent peace regime on the Peninsula to replace the Armistice signed in 1953. For that purpose, the North and the South agreed to jointly propel three- or four-party talks to declare a formal end to the state of war on the Korean Peninsula;
- Solving humanitarian issues, including family reunions and other issues, to bring about regularized exchange visits among separated family members and relatives;
- Developing and strengthening exchanges and cooperation in fields such as trade, investment, culture, education, science and technology, media press and publication, radio and television, postal and legislation; and finally,
- Carrying out and deepening cooperation to rehabilitate and improve North-South traffic, to invest in natural resources, to develop special economic zones, and to create “peace and cooperation special zones” in the disputed West Sea to prevent the occurrence of accidental military conflicts.

Secondly, the North and the South have reached a milestone document on denuclearization of the Peninsula and agreements on related key issues:¹⁰

- The North and the South signed the Joint Declaration on Denuclearization of the Korean Peninsula in January of 1992, in which the two sides commit not to test, manufacture, produce, receive, possess, store, deploy or use nuclear weapons; and not to possess nuclear reprocessing and uranium enrichment facilities—the North and the South are to use nuclear energy solely for peaceful purposes.

- The second North-South summit in 2007 issued the Joint Declaration, in which the two sides agreed to jointly implement the “September 9th Joint Statement,” and the “February 13th Agreement” of the Six-Party Talks.

The Progresses and Achievements From DPRK-U.S. Bilateral Engagements Since 1992

The U.S. and the DPRK have held numerous talks and negotiations on various issues, starting from the first U.S.-DPRK high-level political talks in 1992, and they later signed the “U.S.-DPRK Joint Statement” in June of 1993, the “Agreed Framework” in October of 1994, the “U.S.-DPRK Joint Communique” in October of 2000, and the “Leap Day Agreement” in February of 2012. In addition, from 1994 to 2002, the United States and the DPRK launched intensive dialogues and negotiations on 21 issues, such as on nuclear, missiles, terrorism, opening liaison offices in each other’s capitals, energy development projects on the Korean Peninsula, and bilateral economic ties; and they reached agreements on 17 of the 21 issues.¹¹

Through those talks and negotiations, the two sides have made progress and achievements on issues relating to denuclearization and normalizing U.S.-DPRK bilateral relations:

Firstly, the U.S. and DPRK reached an agreement and consensus on the DPRK’s “nuclear freeze” as a step toward denuclearization, as well as on suspending ballistic missile development:¹²

- The U.S. and DPRK are officially committed to durable peace on a nuclear weapons free Peninsula. The United States would officially provide a “negative security assurance” to the DPRK, and the DPRK would not withdraw from the Non Proliferation Treaty (NPT) and will continue to take practical steps to implement the Joint Declaration of Denuclearization on the Korean Peninsula.
- The United States and the relevant multilateral organization would provide two light water reactors (LWRs) with a total capacity of 2000 megawatts to the DPRK, and North Korea would freeze all nuclear activities, before the two LWRs are delivered to North Korea. During this “nuclear freeze,” the U.S. and the multilateral organization would provide North Korea 500,000 tons of heavy fuel oil annually. North Korea would dismantle all the nuclear facilities at Nyongbyon. The U.S. and the DPRK concluded a cooperation treaty on peaceful uses of nuclear energy.
- The U.S. and North Korea would hold talks on North Korea’s ballistic missile issue, and the North would not carry out any form of long-range ballistic missile launches, as long as the bilateral talks are in progress.

Secondly, the U.S. and DPRK agreed on principles for improving bilateral relations:¹³

- The two sides would adopt practical measures to fundamentally improve bilateral relations, including the establishment of permanent peace arrangements to replace the Armistice and to terminate U.S.-DPRK mutual hostilities
- The two sides agreed to move towards comprehensive normalization of political and economic relations. The United States would take measures to reduce restrictions on trade and investment against the DPRK. The two sides would open liaison offices in each other’s capitals and upgrade diplomatic ties to the ambassadorial level as early as possible.

- The two sides jointly committed to resolving differences through equal-footing and unbiased talks, and work towards a new relationship based on the principles of respect for each other's sovereignty and non-interference in each other's internal affairs.

The Root of the Crisis Cycle and Exit to a New Era

There is no doubt that the extensive results achieved through inter-Korean and U.S.-DPRK engagements were very important and valuable, but they did not free the Peninsula from turmoil and conflicts, with an outbreak of crises in a three to four year cycle.

The first nuclear crisis broke out in 1994, and a ballistic missile test triggered another crisis in 1998. Exchanges of senior official visits between Pyongyang and Washington and the U.S.-DPRK Joint Communique did not prevent a new nuclear crisis which erupted again in 2002. The Six-Party Talks and the Joint Statement also failed to stop a nuclear test crisis in 2006. When the Six-Party Talks failed, crises on the Peninsula were accelerated, and the crisis in 2010 reached a dangerous point because of Choen'an warship incident and Yeonping Island shelling. North Korea's withdrawal from the Armistice and the tensions between the North and U.S.-ROK alliance in 2013 pulled the Peninsula into war crisis; and four years later in 2017, the high probability of military conflicts between the DPRK and the U.S. put the Peninsula at high risk again.

Such "crisis cycle" puts forward a significant question: why does the Peninsula fall in crises from time to time no matter how hard the related parties worked and what the substantive achievements were made?

Fundamentally, this "crisis cycle" stems from two abnormal states: first, the Korean Peninsula remains under a state of war, although the Armistice has been signed for more than six decades; second, the Korean Peninsula remains under state of the Cold War, even though the Cold War has been over for more than two decades. The past "crisis cycle" tells us that no matter what substantive achievements the latest summits among related parties can make, it will inevitably be as difficult as ever to save the Peninsula from falling into another round of crises, *if* the state of war and the state of the Cold War are not terminated.

Under the states of war and the Cold War, the essential security feature on the Korean Peninsula is divided and completely antagonistic between the North and the South. Under such confrontational, divided security, every effort from one side to strengthen its security will surely mean security threats to the other. Over the past 20 years, North Korea's nuclear arsenals have developed rapidly from small to large; so while the North feels more secure by "the nuclear deterrence," the South simultaneously feels more insecure. On the other hand, while the South feels more secure with American "extended nuclear deterrence," and more advanced military build-ups of the U.S.-ROK alliance, the North feels more insecure at the same time.

A harsh reality is that the North and the South have, throughout the past decades, competed on military capabilities by increasingly investing huge resources, and even paid heavy prices, but the real results for both sides are opposite to what they want. In other words, both the North and the South are more insecure than before, and even the U.S. which commands the most powerful military forces in the world has begun to be exposed to the North Korean nuclear threat. The security reality on the Peninsula is that both the DPRK and the U.S.-ROK alliance have been deep in a "security dilemma" in which the greater the number of military inputs, the greater the feeling of insecurity.

To get rid of this “security dilemma” on the Peninsula, the states of war and the Cold War must be terminated, so that the different security concerns between the North and the South can be turned into a common security shared by both sides. Just as Chinese President Xi Jinping pointed out that it is impossible to make one country feel safe while the other feels insecure, it is equally impossible to strive for one party’s absolute security by sacrificing the other’s security.¹⁴ The reality on the Peninsula requires all of the related parties to change their mindsets about the means for national security. As far as the North Korean nuclear issue is concerned, the “nuclear deterrence” of the North can be completely and verifiably abandoned only when both the North and the U.S.-ROK alliance peacefully co-exist in a shared security arrangement, i.e. a permanent peace regime on the Peninsula.

The series of summits on the Peninsula have really provided great opportunities for bringing about denuclearization, as well as for materializing a permanent peace regime. However, neither denuclearization, nor a permanent peace regime can be achieved without turning the divided security structure into common security one. If all the parties concerned fail to set common security as a joint goal, then the positive trends and results made by those summits will be derailed sooner or later, and the Peninsula will go through another cycle of crises instead of a new era for a shared and bright future.

Conclusion

The complex problems on the Korean Peninsula are composed of two fundamental issues: denuclearization and a permanent peace regime. Common security is the key for unlocking the pair of closely linked issues. In this regard, the North Korea nuclear issue has to be solved in a comprehensive and balanced manner. On one hand, North Korea must completely abandon all nuclear weapons and related programs; and on the other hand, North Korea’s legitimate security concerns must be solved.

The current fast and even dramatically changing situation on the Peninsula has essentially shown that the security pattern of the Peninsula is entering a historical and structural transition. The main driving factor in the transition is how to solve the North Korea nuclear question: denuclearization or nuclearization, a peaceful or a military solution? And the outcome of the transition will be determined by what kind of peace regime is established. That regime should not only replace the Armistice signed in 1953, but also terminate the state of war and the state of the Cold War for the common security on the Peninsula.

Fundamentally, the North and the South are masters of the Peninsula and the major parties for realizing denuclearization and establishing a permanent peace regime. Because of the long existent states of war and the Cold War, the security relationship between the two sides has fallen into the “zero sum game” structure under which increased security by one party certainly means decreased security for the other. Both the North and the South have been suffering from more fragile security than before simply because both sides have continued increasing their own military strengths. The way out of the dilemma lies in ending the current negative security competition in the divided Korean nation for the purpose of building a national architecture of common security on the Peninsula. That is the basis for sustainable peace and prosperity of the Peninsula.

The future of the Peninsula depends on two fundamental factors: denuclearization, and durable peace. U.S.-DPRK engagement on the nuclear issue is currently a decisive variable deciding the whole course's direction toward a new era, or a new cycle. "Complete, verifiable, irreversible" denuclearization of the whole Peninsula is essential and indispensable for the bright future of Korean Peninsula, but it is not only a partial factor. The other essential and indispensable one is correspondingly a "complete, verifiable, irreversible" peace for the whole Peninsula. "CVID" and "CVIP" are just two sides of a coin. Only when both of these factors are taken into account, are dealt with in a balanced manner, and are brought about in one comprehensive course, could a new era for the Peninsula emerge.



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Diplomacy or Coercion?

By Victor D. Cha

Introduction: The Lack of a Common Core

This chapter addresses a core puzzle in U.S.-China relations—can the United States fashion a common strategy with China over the North Korean threat when core interests between Washington and Beijing do not align?

This is not to say there is no overlap of interests between the two. Clearly, the two countries have an interest in avoiding perennial crises on the Peninsula. Both have an interest in seeing a degree of opening and reform from the closed regime. Both have an interest in maintaining some form of diplomacy to address the problem.

But the overlap ends there. On denuclearization, the United States wants to see a permanent and complete abandonment of the North's nuclear and missile programs, while China does not view these programs as an existential threat. While Beijing would prefer a nuclear-free Korean Peninsula, they attach greater threat to the nuclear testing site so close to China's border than to the weapons program overall. On nuclear deterrence, a staple of any U.S. response to the North Korean WMD threat, China does not share American interests in deploying additional missile defense assets in the region, as evidenced by Beijing's neuralgic response to the emplacement of one THAAD battery in South Korea in March 2017.¹ While the United States supports peaceful unification of the Korean Peninsula, China sees less benefit to such an outcome, particularly if Seoul remains a U.S. treaty ally.

There is the added dilemma of “buck-passing” between Washington and Beijing, or the tendency of both powers to pass responsibility for addressing North Korean threats between each other, with rarely a sense of mutual responsibility. That is, when North Korea is threatening the world with ballistic missile tests and nuclear weapons detonations, the diplomatic pressures fall on China because most of the world, including the United States, generally view China as having the most material leverage over the North and therefore expect Beijing to restrain its small rambunctious neighbor. However, when North Korea is at the negotiating table, Beijing prefers to shift the diplomatic pressure to the United States to make a deal regardless of North Korean unreasonableness.² In addition, the return to diplomacy often also means China weakens any economic pressure on the regime, thereby putting the United States in a thankless position—Washington negotiates under the pressure of making a deal, while its counterpart, benefiting from backchannel aid from China, feels no material pressure to denuclearize. Indeed, there are some experts who believe that Beijing benefits from the U.S. preoccupation with the North Korean problem because it 1) saps U.S. diplomatic energy from other parts of Asia; and 2) puts China in the position of the demandeur as Washington needs Chinese cooperation on sanctions and pressure.

Thus, the notion of a grand bargain between the United States and China, as Kissingerian as this may sound in theory, is in practice hard to achieve.³ The two powers might agree that North Korea is a threat to stability, that the country might be better off with a different leadership, or that a nuclear-free Korean Peninsula is good for regional prosperity. But the lack of common interests makes it very hard to implement a common strategy to achieve such objectives.

What Is U.S. Strategy?

As difficult as it may be to construct a common strategy for the U.S. and China on North Korea, a prerequisite for any such discussion is a clear explication of U.S. strategy on Korea. The Singapore Summit in June 2018 was a spectacular media event, but a summit is not a strategy and the Trump administration, by virtue of its lurching between talk of war in 2017 and talk of peace in 2018, largely manifests tactical calculations.

This chapter lays out a strategy for the United States regardless of whether summit diplomacy succeeds or fails. This strategy includes China, and whether Beijing likes the strategy or not, at least it can provide the basis of a substantive discussion about how to forge one that addresses U.S. and Chinese disparate interests.

Before the United States can deal with China over North Korea, it must have a clear statement of our strategic interests, ends, and means. This is missing in Donald Trump's policy today. We have summits starting in Singapore in June 2018, with the promise of more such leader-level meetings, but we don't seem to have a strategy. Summits without a strategy are dangerous because if the summitry fails, then there is no consensus on next steps, fallback positions, and roads ahead. In such cases, the only thing that follows a summit is a cliff and a path to potential war if diplomacy has been exhausted at the leader level.

Most importantly, the need for a strategy is critical because our policy towards North Korea needs to be consistent with our broader policy and strategy in Asia. For example, at the Singapore Summit, President Trump unilaterally offered a suspension of U.S.-ROK military exercises to the North in return for unspecified denuclearization promises. This was a tactical concession that is not informed by broader strategy in Asia—that is, suspending routine and biannual military exercises weakens the overall U.S.-ROK defense alliance capabilities through a lack of training. A weakened alliance undercuts peaceful deterrence on the Peninsula (in addition, the North Koreans have not suspended exercises), which in turn weakens trilateral U.S.-Japan-ROK alliance coordination. This enhances China's overall position in Asia. The upshot is that enumerating a strategy helps to set guardrails on the negotiations to ensure that the U.S. is not making short-term tactical moves that hurt its overall position in the long run.

Any discussion of strategy must begin with a net assessment of the threats posed to national security. North Korea's efforts to develop nuclear missiles capable of reaching the United States poses unprecedented threats that demand an urgent response. There is serious concern, validated by the past behavior of the regime, that Kim Jong Un would try to proliferate these weapons to state and non-state actors. Some worry that, down the road, he could use them to try to intimidate the United States into offering concessions or even withdrawing its troops from the Korean Peninsula, thereby leaving South Korea vulnerable to an invasion by the North. More broadly, North Korea's acquisition of these weapons, if left unchecked, could inspire other countries in the region and around the world to pursue their own nuclear weapons programs, thereby undermining the global nonproliferation regime.

In order to prevent these threats from materializing, the United States must develop a North Korea strategy which transcends the cycles of provocation and negotiation that have failed to produce lasting results in recent decades. It also must keep denuclearization at the top of its strategic priorities for North Korea. Accepting North Korea as a nuclear power and building a new relationship from that basis is not a viable option. Such a strategy would legitimize North Korea's pursuit of nuclear weapons and send a dangerous signal to countries elsewhere in the world that are considering starting their own programs that the United States will not stand in their way.

Most importantly, U.S. policy on North Korea must complement our broader objectives in the region. While the North Korea problem is immediate, the longer-term strategic competitor in Asia is China, aided by Russia. Thus, any strategy to address the North Korean threat must strengthen, not weaken, our military and diplomatic hand in dealing with a rising China and a dangerous Russia.

At the other end of the spectrum of strategic options, senior officials in the Trump administration reportedly have considered the use of a limited military strike to prevent North Korea's development of a long-range nuclear missile capacity.⁴ The rationale is that a strike on North Korea's nuclear and missile facilities, perhaps after its next test, will give the mercurial Kim a "bloody nose," one that is large enough to convince him to begin the process of denuclearization but not so large that it starts a wider war on the Peninsula (the military option is discussed in detail below).

A Strategy of Strength

The immediacy of the North Korean threat operates in the context of broader challenges to U.S. interests in the region from a rising China and a dangerous Russia. Thus, any U.S. strategy to counter North Korea must enhance, not detract from, our broader goals in the region. A new U.S. strategy for North Korea must be conducted in close coordination with our key allies, South Korea and Japan. It must strengthen, not weaken the force posture and military strength of our alliance and partner networks in the broader region. And it must increase the costs to China and Russia for free-riding, subsidizing the regime, or undertaking other deviant behavior in the region. A strategy that detracts from any of these goals in dealing with North Korea does not serve longer-term U.S. interests in the Indo-Pacific.

A comprehensive strategy involves enhanced and sustained U.S., regional, and global pressure on the North Korean regime to denuclearize North Korea. It delivers the same potential benefits of the limited strike option along with other advantages, absent the self-destructive costs. A comprehensive coercive strategy for denuclearization involves six components.

First, the Trump administration must continue to strengthen the global coalition of UN member states it has mustered in its thus far highly successful sanctions campaign. Unlike the origins of the smart sanctions campaign ten years ago, the Trump effort now has the backing of ten UN Security Council resolutions and virtually unlimited executive authorities to sanction any entity in violation of sanctions. Moreover, compliance has increased because the U.S. is more willing to share intelligence information with third parties about stopping sanctioned activities in their countries than past administrations.

Second, the United States must buttress this sanctions campaign with a clear declaratory nonproliferation statement that signals unambiguously to North Korea, recipients, and facilitators of proliferation that the U.S will hold them all accountable, through the use of force as needed, if they are found complicit or negligent with North Korean proliferation activity.

Third, the U.S. must significantly up-gun its alliances with Japan and South Korea with integrated trilateral missile defense, intelligence-sharing, anti-submarine warfare, and strike capabilities to deter North Korean threats. As Michael Green and Matthew Kroenig argued, a consolidation of the defense and deterrence capabilities on the Peninsula would include: adding U.S. THAAD batteries and Aegis ships in the region; deploying strategic assets like B-1s and B-2s to new regional locations; pursuing new “left of launch” cyber operations to impede North Korea’s missile program development; encouraging South Korea to purchase shorter-range missile defense systems, like Israel’s Iron Dome, to defend against North Korean artillery; and remaining open to additional conventional strike capabilities for South Korea and Japan (of a dual-key nature with the United States to ensure allied coordination).⁵

At the top political level, this effort would be blessed by a trilateral security statement that an attack on one of the allies constitutes an attack on all of the allies. This collective defense statement is important because North Korea’s strategy is to decouple South Korean security from that of Japan and the United States. Indeed, the purpose of North Korean missile demonstrations along Japanese shores and with distances that can range the continental United States in 2017 was to reduce South Korean confidence in extended deterrence commitments, as well as to raise doubts in Japanese and American minds of their willingness to trade Tokyo or Los Angeles for Seoul in a war. In order to convey a clear deterrent signal to Pyongyang, a collective defense statement should also commit all allies to the use of force in response to a North Korean attack.

These political-military measures to consolidate the alliances should be complemented by a diplomatic and economic strategy that values our alliances rather than treats them in transactional terms. Though the United States might suffer some merchandise trade shortfalls with some allies, there are still economic benefits as well as other non-security benefits that accrue from deep, resilient, and trustful alliance partnerships which should not be sacrificed to achieve a bottom-line number in one narrow aspect of the trade relationship.

Fourth, to confront the proliferation threat, the U.S. must build a maritime coalition around the North that involves the full range of intelligence-sharing and law enforcement cooperation. Rings of support should be created involving South Korean and Japanese port authorities, coast guards, navies and broader U.S. assets to prevent anything of concern from leaving the country. Most of this enforcement activity will likely take place in ports, but the allies should be prepared to carry out interceptions at sea as needed. Should China and Russia be willing, this trilateral effort can be supplemented to build a five-party counter proliferation security regime in Northeast Asia, which would amount to becoming the first functioning multilateral security institution in the region. If they do not cooperate, Beijing and Moscow should be prepared to face diplomatic and economic consequences of being known to the world as allowing North Korean proliferation across their border.

Lastly, the United States must continue to prepare both negotiation and military paths going forward for North Korea. This is critical to upholding deterrence and to displaying a credible exit door for the adversary.

Force will be necessary to deal with North Korea if it attacks first or attempts to stop allied interception of North Korean proliferation activities, but not through a preventive strike that could start a nuclear war. The U.S. should continue a high tempo of exercises in the region, preposition munitions stocks, and rotate strategic assets regularly to the Peninsula. This strategy rests on the assumption that North Korea, even with long-range nuclear missiles, can be deterred. In other words, the elements listed here are likely to prevent North Korea from using its nuclear weapons to proliferate, to threaten the United States, or to take offensive actions in the region.

Diplomacy can make Trump's sanctions campaign successful only if it is credible enough to allow the North to see the benefits as outweighing the costs of departing from its current self-destructive path. Given the history of failed negotiations in which I have participated, I remain skeptical that negotiations will bear fruit in the near future, and I don't believe that sanctions should be sacrificed for meaningless talks; however, a first step might be for the five countries to invite Pyongyang to reiterate the denuclearization pledges it made in the last agreement in 2005 and 2007. These documents should remain important to the U.S. because they are the only places where North Korea has ever committed in writing to "abandon[ing] all nuclear weapons and existing nuclear programs."⁶ It should be noted that these agreements, though over a decade old, are also of value to the North (and China) because they contain the only negative security assurance in writing by the United States that seeks to address North Korean concerns about "hostile" U.S. policy as the justification for their nuclear program.⁷

North Korea will undeniably have their own list of "wants" in a negotiation, but for the United States, any future negotiation agenda must include zero tolerance for the deployment of any long-range ballistic missiles and transporter erector launchers (TELs) by the North. The missile programs of North Korea have not been a target of negotiations for over 25 years, the negative consequence of which are obvious.

The U.S. agenda must also include deliverables on human rights, which could be framed as credible actions taken by the North to signal a genuine interest in reform, as well as the establishment of liaison offices as a first step to normalized political relations. The latter is important not just for symbolic purposes to demonstrate U.S. recognition of North Korea and to evidence a non-hostile policy (North Korean negotiators remind Americans frequently as evidence of our hostile policy that North Korea is only one of three countries—Iran and Bhutan are the other two—in the world with which the U.S. does not have diplomatic relations). Liaison offices also create a regular political channel that could supplement ongoing denuclearization talks. In this sense, as former U.S. Secretary of Defense William Perry has argued, liaison offices would provide an anchor to the fragile relationship by allowing for non-denuclearization items to be discussed bilaterally.⁸

Investing China in the Diplomacy

China is part of the solution and part of the problem on North Korea. It is the solution in that only Beijing can impose economic costs on the regime for pursuing its rogue nuclear program. But it is the problem in that China renounces abandonment of its communist little brother. The United States has been asking China to be part of the solution for over a decade and Trump continues to do the same with Xi Jinping. The U.S. has no choice but to continue on this path given Beijing's material influence on Pyongyang. However, this same strategy must put the United States in a better position if it fails.

First, the United States must make clear that we will not enter a negotiation as long as 85 to 90 percent of North Korea's trade is with China. By definition, this is a losing proposition. We can use the panoply of UN and U.S. sanctions to cut off WMD financing for the regime and seek other routes of reducing hard currency flows (e.g., going after North Korea's slave labor exports), but none of this matters if China continues to backchannel funds to the regime.

If China will not cut off North Korea's economic lifeline, then we must do the alternative—which is to get China to step up and pay directly for denuclearization of North Korea. China has long free-rode off of the nuclear negotiation in that we (U.S. and allies) have paid for the freeze and nuclear inspections, while China conducts its own business on the side with North Korea providing money and importing minerals, coal, etc. Thus, Beijing has no direct stake in the denuclearization project (aside from hosting the multilateral talks). If China insists on providing money to keep the regime afloat, then it must be tied directly to a freeze, inspections and ultimately to denuclearization, and *not* to China's bilateral economic interests. This will compel Beijing to have a direct stake in denuclearization. Moreover, China will not get what it paid for if the North breaks the agreement. The U.S. wants China to treat North Korean compliance with nuclear agreements with the same seriousness and draconian mindset that it treats Taiwan or Tibet. The best way to do this is to have them pay the costs of denuclearization.

Next, the United States must frame choices for China that demonstrate it is being a responsible player in the international counter proliferation financing regime. China should be compelled to clamp down on domestic entities acting as financial conduits for North Korean businesses. A proximate issue should be clarifying and strengthening China's domestic law—if a Chinese citizen or company violates UN sanctions by doing business with North Korea, it is not clear today whether they are also violating Chinese law in ways that can be prosecuted.

Holding China accountable can also be done by a Department of the Treasury announcement of an investigation of all Chinese banking activities that wittingly or unwittingly assist WMD proliferation financing in the North. The Chinese government, bank presidents, and regulators must be reminded to know their customers' customer. And if some of those are sanctioned entities from North Korea, then banks can face the monetary fines and reputational consequences of being singled out in violation of UN and U.S. sanctions, or they can freeze those assets.

As Anthony Ruggiero has argued, China should also be called on to punish known individual criminal cases of collusion with North Korea.⁹ Just as we have done with human rights, we should “name and shame” by identifying Chinese nationals who have been accused of violating U.S. and UN sanctions in business dealings with North Korea. For example, the Department of Justice announced on September 26, 2016 four Chinese nationals who are wanted for conspiring to evade U.S. economic sanctions and facilitating prohibited U.S. dollar transactions for a sanctioned entity in the North.¹⁰ If China is serious about addressing the threat, then it must extradite cases like these.

Pundits will argue that we must engage China in a strategic and cooperative discussion about getting rid of Kim Jong Un. But it is far from clear that China is ready for such a dialogue. I have already been to too many of these “Track 1.5” bilateral and trilateral (involving South Korea) meetings of former U.S. and Chinese officials where the Chinese advertise beforehand a willingness to have strategic conversations about North Korea, but then at the table they simply repeat Chinese Ministry of Foreign Affairs' talking points calling for the United States to be flexible in negotiations with North Korea.

Perhaps there are more substantive conversations taking place at the official level, somewhere buried deep in the military and intelligence communities. But I doubt it. Rather than hoping for the day to come when China will make “a strategic choice” to work with us on denuclearization, we must accept that our interests on the Korean Peninsula do not overlap. However, that fact does not preclude a clear-eyed policy designed to invest China more directly in denuclearization.

The Strategic Illogic of Limited Military Strike Options

Among the spectrum of options, the Trump administration has considered the use of a limited military strike to prevent North Korea’s development of a long-range nuclear missile capacity.

Though the Trump administration has walked back its language about a military strike in 2018, even denying that it was ever under consideration,¹¹ the trail of statements left by the president, who talked about raining “fire and fury” on the North, by his (then) National Security Advisor Lt. Gen. H.R. McMaster, who has said publicly “[the potential for war] is increasing every day,” and by John Bolton, who outlined a legal case for striking North Korea shortly before he replaced McMaster, lead one to believe the option remains under serious consideration.¹² The rationale is that a military strike on North Korea’s nuclear and missile facilities, will “bloody the nose” of the North Korean leader enough to convince him to begin the process of denuclearization but not so much as to start a wider war on the Peninsula.¹³ Indeed, in thirty years of experience on this problem in Washington, D.C., never before have I witnessed more discussion about military options, possible North Korean reactions, and non-combatant evacuation operations than during this administration.¹⁴ The limited strike option may be appealing as a tactic to some, but it is fatally flawed in the context of an overall strategy. It would be ineffective in halting the North’s WMD programs. It would likely escalate into an all-out conventional and possibly nuclear war. And it would work to the detriment of our overall U.S. strategy in Asia.

The limited strike option rests on the assumption that North Korea cannot be deterred once it acquires these weapons because it is “not like the USSR during the Cold War”—in other words, it is less predictable, more economically desperate, has a smaller nuclear arsenal, and has already proliferated and used weapons of mass destruction on a family member in the VX nerve agent attack that killed Kim’s half-brother, Kim Jong Nam, in February 2017.¹⁵ Once Kim Jong Un attains these weapons, as the argument goes, the United States will not be able to prevent WMD proliferation, nuclear blackmail, or destabilizing demonstration effects around the world.¹⁶

The window to prevent these threats from materializing is therefore extremely small; North Korea is believed to be only a few tests away from demonstrating this capability. According to this rationale, the United States needs to act quickly and decisively to prevent the irreversible alteration of post-World War II regional and global orders that the U.S. worked hard to shape and that have generated unprecedented peace and prosperity for several decades.

The limited military strike strategy, while not without potential advantages, involves unfounded and heroic assumptions as well as unacceptable costs. On the positive side of the cost-benefit ledger, this strategy takes the United States out of the ineffective crisis management mode it has been in for the past several years, which essentially involved ignoring the problem until a North Korean test or another form of provocation forced the U.S. to muster a response from a set of feeble options. A limited strike would constitute immediate, decisive action never before attempted. It also would demonstrate the capability and willingness of the United States to employ “all options” to stop North Korea’s nuclear program. This message would resonate beyond the region, possibly preventing the emergence of similar threats elsewhere in the world.

Yet, the rationale for pursuing this option rests on flawed logic likely to have devastating and irreversible consequences. If we believe that Kim Jong Un would be undeterred with these weapons, then how can we also believe that a military strike will deter him from responding in kind? And if Kim does respond militarily, then how can the United States control the escalation ladder, which is premised on a military strategy that assumes the adversary's clear and rational understanding of signals and deterrence?

Some have argued the risks are worth taking because it's better that people die "over there" than "here."¹⁷ On any given day, there are 230,000 Americans living in South Korea and another 90,000 or so living in Japan. These lives would be at risk, and it would be impossible to evacuate these people. The largest American evacuation in history was 60,000 in Saigon in 1975; evacuating Americans from South Korea would be infinitely more difficult. Even if the Department of State tripled the number of consular officers in Korea, it would take 100 days to evacuate these citizens. Moreover, the normal evacuation points south and east of the Peninsula would no longer be feasible in a war scenario because they would be under threat of North Korean missiles. This leaves China as the only viable evacuation option, but the waterways would be clogged with one million Chinese seeking to evacuate from the Peninsula.¹⁸

Given that an evacuation of these citizens would be virtually impossible under a rain of North Korean artillery and missiles potentially laced with bio-chemical weapons, they would most likely have to hunker down in place until the war is over. While our population in Japan might be protected by U.S. missile defenses, the American population in South Korea has no similar active defenses (aside from counter-fire artillery) against thousands of artillery shells within a 30-second range of the border. The only active defense we have then is for citizens not to be where the artillery shells land—not a comforting solution. To be clear: the president would be putting at risk an American population the size of a medium-sized U.S. city—Pittsburgh, Cleveland, Tampa, St. Louis, or Cincinnati, just to name a few, and not to mention potentially millions of Koreans and Japanese—all based on the unproven assumption that an undeterred and unpredictable dictator will be rationally cowed into submission by a demonstration of U.S. kinetic power.

Others may argue that U.S. casualties and even a wider war on the Peninsula are worth risking if this strategy enables us to prevent the threats listed above and thereby preserve post-World War II regional and international orders over the long term. But a military strike would only delay temporarily and not stop North Korea's missile and nuclear programs because a limited strike, by definition, would not hit all of their facilities. The locations of all of North Korea's installations are not known and, even if they were all located, many are hidden deep underground and in the side of mountains, beyond the reach of even large "bunker buster" weapons. Furthermore, a limited strike would not stem the proliferation threat but is likely to exacerbate it, turning what might be a money-making endeavor into a revengeful effort designed specifically to equip actors who are arrayed against us.

This assessment is not mine alone, but appears to be shared across the expert community by former members of the intelligence community, National Security Council, Department of State, and Department of Defense who served in both Democrat and Republican administrations, including notables like former Secretary of Defense Chuck Hagel and former Trump advisor Steve Bannon.¹⁹ The former stated that he believed a unilateral first strike, despite its potential benefits, was too large a gamble for the United States to take.²⁰ The latter stated famously, "There's no military solution [to North Korea's nuclear threats], forget it... Until somebody solves the part of the equation that shows me that ten million people in Seoul don't die in the first 30 minutes from conventional weapons, I don't know what you're talking about, there's no military solution here, they got us."²¹

This strategy also risks fracturing the rather impressive coalition of actors the Trump administration has brought together for its “maximum pressure” campaign of sanctions against the North Korean regime. These sanctions have reportedly tripled North Korean gas prices and increased rice prices.²² They have cut over USD 2.7 billion in exports from North Korea that has created hard currency and material shortages in the country, including decreasing the supply of paper such that the state-run newspaper has decreased distribution. A unilateral military attack would undercut what has been to-date a successful campaign to deplete North Korean currency reserves used to build its nuclear programs.

Finally, a strike could risk equities in the alliance system, thereby weakening our position in the region and emboldening China. South Korea and Japan insist they must be consulted before the United States considers a military option, and the progressive government in Seoul, as well as conservative opposition party members have reiterated that Seoul considers any military option unacceptable. “Going it alone” is always an option for the United States, but this would involve accepting a deep fracturing if not an end to the very alliances the Trump administration has declared it seeks to protect and strengthen in the face of a rising China.²³

Conclusion: Don’t Sacrifice Alliance Assets

Going forward, President Trump has chosen to invest in summit diplomacy as the way to solve this problem. Despite a flimsy joint declaration out of the June 2018 Singapore Summit that specifies virtually nothing about the goal, scope, and modalities of denuclearization, North Korea has suspended nuclear and missile testing, returned three American hostages, and dismantled a missile test launch site.²⁴

Diplomacy should continue if for no other reason than negotiations are better than a devastating war, and negotiators must continue to push for more concrete commitments to denuclearization than what has been presented by the North Koreans thus far. However, with each piecemeal action taken by the North, the administration will feel compelled to offer likewise concessions in return. There is nothing wrong with this in principle. Indeed, this is the meat of diplomacy.

Nevertheless, the final and most important aspect of any strategy going forward vis-à-vis North Korea and China is adherence to the principle of not sacrificing our alliance equities as part of the negotiation. If North Korea abandons fully and finally its weapons program, other concessions may be available to the U.S. to employ, including the lifting of sanctions, energy assistance, economic assistance, security assurances, and a peace treaty. But the U.S. should never weaken its alliances as a price to pay for denuclearization. This not only undervalues the role of the alliance in accreting U.S. power, but would also undercut longer-term U.S. strategy as an Asia-Pacific power in the face of a rising China.

In closing, I mention this as a concern because Donald Trump demonstrates a history of negative views on the U.S. military presence in Asia and in South Korea specifically. Dating back to an interview in *Playboy* in 1990 through to the 2016 U.S. presidential campaign, Trump has drawn a direct causal link between U.S. trade deficits with allies like South Korea, and the expense borne by the United States to maintain defense commitments to these countries. He has stated that “Our allies are making billions screwing us” and with reference to South Korea, he has said, “They’re making a fortune. Let’s call it hundreds of billions of dollars of profit on us. We have 25,000 soldiers over there protecting them. They don’t pay us. Why don’t they pay us?”²⁵ When asked by a *New York Times* reporter whether he would pull the troops out of Korea, Trump in March 2016 responded:

“Yes, I would. I would not do so happily, but I would be willing to do it. Not happily. David actually asked me that question before, this morning before we sort of finalized out. The answer is not happily but the answer is yes. We cannot afford to be losing vast amounts of billions of dollars on all of this. We just can’t do it anymore.”²⁶

The appendices list all of the statements by President Trump on troop commitments to Korea, many of which are factually inaccurate, but nevertheless must be taken seriously because they represent the reality for the president. Advisers around him, as well as South Korean and Japanese leaders, must guard against these worst instincts to trade alliance assets for a bad deal on denuclearization. In the end, this would make the United States and its allies less, not more secure.

In the land of lousy options, no strategy is perfect. But some are demonstrably better than others. The comprehensive coercive strategy outlined here allows for a marked and sustainable increase in pressure on North Korea to denuclearize which employs resources beyond the United States. It would strengthen our alliances in Asia vis-à-vis threats not just from North Korea, but also peer competition from China, and would increase the costs to Beijing for subsidizing the regime. And it would not pre-emptively risk hundreds of thousands of American lives with a unilateral military attack.



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Appendix I: Donald Trump's statements on troop commitments related to South Korea

1. March 1, 1990, interview with *Playboy* magazine:

"We Americans are laughed at around the world for losing a hundred and fifty billion dollars year after year, for defending wealthy nations for nothing, nations that would be wiped off the face of the earth in about fifteen minutes if it weren't for us. Our "allies" are making billions screwing us."

Source:

Plaskin, Glenn. "The 1990 Playboy Interview With Donald Trump." *Playboy*, 1 March 1990. Web. 28 September 2018. <<https://www.playboy.com/read/playboy-interview-donald-trump-1990>>

2. March 23, 2011, interview on ABC's *The View*:

"If you look at North Korea, South Korea, we're protecting South Korea," Trump said. "They're making a fortune. Let's call it hundreds of billions of dollars of profit on us. We have 25,000 soldiers over there protecting them. They don't pay us. Why don't they pay us?"

Source:

Jacobson, Louis. "Donald Trump says South Korea doesn't pay United States for troop presence." *POLITIFACT*. 1 April 2011. Web. 28 September 2018. <<https://www.politifact.com/truth-o-meter/statements/2011/apr/01/donald-trump/donald-trump-says-south-korea-doesnt-pay-us-troop-/>>

3. April 5, 2013, interview with Fox News' Greta Van Susteren:

"But the big culprits are other countries and what they are doing to us...You look as an example, South Korea. We are spending tremendous. We spend billions and billions of dollars to protect them from North Korea. They are not giving us anything. What are we doing? You know they are a competitor of ours. Hey they are wonderful people. We have had partners from South Korea. But why are we doing this all free? We are not in that position as a country. They should be paying us for this. We send all those aircraft carriers over. All those ships, the planes, the bombers. And we get nothing out of it. Except in all fairness, they take most of our business. They have made some unbelievable deals with our government. You know they are just taking our business. So why aren't they paying for this kind of protection?"

Source:

"Trump on the slowing economy, unemployment rate." *Fox News*. 5 April 2013. Web. 28 September 2018. <http://video.foxnews.com/v/2280557079001/?playlist_id=930909814001#sp=show-clips>

4. January 7, 2016, interview with CNN's Wolf Blitzer:

"And we have 28,000 soldiers in the middle of it. And we get paid nothing, we get paid peanuts... Well, I would want South Korea to pay us a lot of money. We're doing a lot of— what are we doing? I just ordered 4,000 television sets. They come from South Korea. South Korea is a money machine. They pay us peanuts. We're defending them, and I have many friends from South Korea, they buy my apartments, I do business with them. But South Korea should pay us and pay us very substantially for protecting them."

Source:

Hains, Tim. "Donald Trump on North Korea: 'Without China They Wouldn't Be Able to Eat,' 'we have great power over China.'" *Real Clear Politics*, 7 January 2016. Web. 28 September 2018.

<https://www.realclearpolitics.com/video/2016/01/07/donald_trump_on_north_kore_a_china_has_total_control_of_them_south_korea_should_pay_us.html>

5. January 10, 2016, interview with NBC's Chuck Todd:

"We have 28,000 soldiers on the line in South Korea between the madman and them," Trump said, referring to Kim. "We get practically nothing compared to the cost of this."

Source:

"Is Donald Trump the P.T. Barnum of 2016?" *NBC: Meet the Press*. 10 January 2016. Web. 28 September 2018. <<https://www.nbcnews.com/meet-the-press/video/is-donald-trump-the-p-t-barnum-of-2016-chuck-asked-him-599134787947?v=raila&>>

6. March 26, 2016, interview with *The New York Times*' Maggie Haberman and David E. Sanger:

HABERMAN: Would you be willing to withdraw U.S. forces from places like Japan and South Korea if they don't increase their contribution significantly?

TRUMP: Yes, I would. I would not do so happily, but I would be willing to do it. Not happily. David actually asked me that question before, this morning before we sort of finalized out. The answer is not happily but the answer is yes. We cannot afford to be losing vast amounts of billions of dollars on all of this. We just can't do it anymore. Now there was a time when we could have done it. When we started doing it. But we can't do it anymore. And I have a feeling that they'd up the ante very much. I think they would, and if they wouldn't I would really have to say yes.

...Later in the interview describing "America First"

TRUMP: From China to Japan to South Korea to the Middle East, many states in the Middle East, for instance, protecting Saudi Arabia and not being properly reimbursed for every penny that we spend, when they're sitting with trillions of dollars, I mean they were making a billion dollars a day before the oil went down, now they're still making a fortune, you know, their oil is very high and very easy to get it, very inexpensive, but they're still making a lot of money, but they were making a billion dollars a day and we were paying leases for bases? We're paying leases, we're paying rent? O.K.? To have bases over there? The whole thing is preposterous. So we had, so America first, yes, we will not be ripped off anymore. We're going to be friendly with everybody, but we're not

going to be taken advantage of by anybody. We won't be isolationists — I don't want to go there because I don't believe in that. I think we'll be very worldview, but we're not going to be ripped off anymore by all of these countries. I mean think of it. We have \$21 trillion, essentially, very shortly, we'll be up to \$21 trillion in debt. O.K.? A lot of that is just all of these horrible, horrible decisions.

Source:

Haberman, Maggie and David E. Sanger. "Transcript: Donald Trump Expounds on His Foreign Policy Views." *The New York Times*. 26 March 2016. Web. 28 September 2018. <<https://www.nytimes.com/2016/03/27/us/politics/donald-trump-transcript.html>>

7. May 4, 2016, interview with CNN's Wolf Blitzer:

TRUMP: ... *I have great relationships with South Korea. I have buildings in South Korea. I have great relationships with Japan and in Japan.*

"But our government—and a lot of people don't even know this. You know, when I make speeches, I say we protect Germany, we protect Japan, we protect South Korea. You know, many, many people—sophisticated people in the audience—they didn't even know that.

They have to help us. We don't get reimbursed for what this massive amount of work and—and energy and weaponry, what it—what it's costing. We can't continue to do it. This isn't 40 years ago. This isn't when we were much different as a country. They have to take care of us.

Now, I think they will. If they don't, you have to be prepared to walk. You always have to be prepared to walk from a deal, including the Iran deal, which is a disaster. They should have walked.

BLITZER: *But—but you're ready to let Japan and South Korea become nuclear powers?*

TRUMP: *I am prepared to—if they're not going to take care of us properly, we cannot afford to be the military and the police for the world. We are, right now, the police for the entire world. We are policing the entire world.*

You know, when people look at our military and they say, "Oh, wow, that's fantastic," they have many, many times—you know, we spend many times what any other country spends on the military. But it's not really for us. We're defending other countries.

So all I'm saying is this: they have to pay.

And you know what? I'm prepared to walk, and if they have to defend themselves against North Korea, where you have a maniac over there, in my opinion, if they don't—if they don't take care of us properly, if they don't respect us enough to take care of us properly, then you know what's going to have to happen, Wolf?

[17:45:10] *It's very simple. They're going to have to defend themselves.*

BLITZER: *Because the other day, the U.S. military commander in South Korea, General Vincent Brooks, he testified up on Capitol Hill. He said South Korea pays for 50 percent of the personnel costs for U.S. troops—*

TRUMP: *How much—how much percent?*

BLITZER: *Fifty percent.*

TRUMP: *Fifty. Why not 100 percent?*

BLITZER: *But he also says that it's—it would be more expensive to keep U.S. troops here in the U.S. than to keep them on bases in South Korea.*

TRUMP: *OK, well, I mean maybe you don't need them, OK? Maybe you don't need them. Look, we're policing all of these countries. They're not paying us. We're policing Saudi Arabia. We are protecting Saudi Arabia. Saudi Arabia—I have many friends in Saudi Arabia.*

Saudi Arabia would not be there, Wolf. It wouldn't be there, maybe for a month, if we took our military out. The only reason they're sort of protected and they're totally protected is because we're protecting them. Saudi Arabia was making a billion dollars a day when the oil price was high. Now they're still making a fortune. Why aren't they paying us—

BLITZER: *So basically what I hear you saying is, if the U.S. is going to keep troops in Japan—and there's thousands of them, tens of thousands in Korea, 28,000 in—*

TRUMP: *We've got to be reimbursed.*

BLITZER: *Korea or Germany, for that matter.*

TRUMP: *Yes.*

BLITZER: *You want the host countries to pick up all the expense.*

TRUMP: *Of course they should pick up all the expense. Why are we paying for this? I mean we are paying to protect them. And I think it's wonderful. I think it's good. I'd rather do it rather than have them armed. I would rather do it. And, you know, it was covered, actually, accurately in "The New York Times," very accurately. And they covered—they covered it because they talked the cost.*

A lot of people like to say, oh, Trump wants Japan to arm. I don't want them to arm. I want them to reimburse us for at least the costs. Now you could say it's worth more than that. But at least reimburse us for the cost.

When you say we pay 50 percent, well, if we say we pay 50 percent, that means we pay less, OK. But we're losing a tremendous amount of money. And we have a military that's not in good shape anymore. You know that. Everybody knows that. And we have to do something about it.

Source:

“Kasich Drops Out of Presidential Race; Trump on Being Presumptive Nominee.” [Transcript]. *CNN’s The Situation Room*, May 4, 2016. Web. 28 September 2018. <<http://transcripts.cnn.com/TRANSCRIPTS/1605/04/sitroom.01.html>>

8. September 26, 2016, first 2016 U.S. presidential debate, Hofstra University:

TRUMP: *It’s not an accurate one at all. It’s not an accurate one. So I just want to give a lot of things—and just to respond. I agree with her on one thing. The single greatest problem the world has is nuclear armament, nuclear weapons, not global warming, like you think and your—your president thinks.*

Nuclear is the single greatest threat. Just to go down the list, we defend Japan, we defend Germany, we defend South Korea, we defend Saudi Arabia, we defend countries. They do not pay us. But they should be paying us, because we are providing tremendous service and we’re losing a fortune. That’s why we’re losing—we’re losing—we lose on everything. I say, who makes these—we lose on everything. All I said, that it’s very possible that if they don’t pay a fair share, because this isn’t 40 years ago where we could do what we’re doing. We can’t defend Japan, a behemoth, selling us cars by the million...

HOLT: *We need to move on.*

TRUMP: *Well, wait, but it’s very important. All I said was, they may have to defend themselves or they have to help us out. We’re a country that owes \$20 trillion. They have to help us out.*

Source:

Blake, Aaron. “The First Trump-Clinton Presidential debate transcript, annotated.” *The Washington Post*. 26 September 2016. Web. 28 September 2018. <https://www.washingtonpost.com/news/the-fix/wp/2016/09/26/the-first-trump-clinton-presidential-debate-transcript-annotated/?noredirect=on&utm_term=.ed4ef1f51103>

9. April 27, 2017, interview with *Reuters*:

On THAAD payment:

“I informed South Korea it would be appropriate if they paid. It’s a billion-dollar system,” Trump said. “It’s phenomenal, shoots missiles right out of the sky.”

Source:

Adler, Stephen J., Jeff Mason and Steve Holland. “Exclusive: Trump vows to fix or scrap South Korea trade deal, wants missile system payment.” *Reuters*. 27 April 2017. Web. 28 September 2018. <<https://in.reuters.com/article/usa-trump-southkorea-idINKBN17UOB2>>

10. June 30, 2017, press conference with South Korean president Moon Jae-in at The White House:

“Our goal is peace, stability and prosperity for the region. But the United States will defend itself, always will defend itself, always, and we will always defend our allies. As part of that commitment, we are working together to ensure fair burden sharing and support of the United States military presence in South Korea.”

“Burden sharing is a very important factor. A factor that's becoming more and more prevalent certainly in this administration. We're also working to create a fair and reciprocal economic relationship. From the when the U.S.-Korea trade deal was signed in 2011, to 2016, you know who signed it, you know who wanted it.”

Source:

“President Trump and South Korean President Joint Statement,” C-SPAN, 30 June 2017. Web. 28 September 2018. <<https://www.c-span.org/video/?430753-1/president-trump-patience-north-korea>>

11. February 13, 2018, remarks at The White House:

“Look, we have rebuilt China. We have rebuilt a lot of—with the money they've taken out of the United States. We're like the piggybank that had people running it that didn't know what the hell they were doing. And we have rebuilt countries, like, massively. You look at some of these countries—look at South Korea, look at Japan, look at so many countries. And then we defend them, on top of everything else.

So we defend Saudi Arabia. They pay us a fraction of what it costs. We defend Japan. We defend South Korea. They pay us a fraction of what it costs. And we're talking to all of those countries about that because it's not fair that we defend them, and they pay us a fraction of the cost of that defense. Separate argument, but a real problem.”

Source:

The White House. *Remarks by President Trump, Vice President Pence, Members of Congress, and Members of the Cabinet in Meeting on Trade.* 13 February 2018. Web. 28 September 2018. <<https://www.whitehouse.gov/briefings-statements/remarks-president-trump-vice-president-pence-members-congress-members-cabinet-meeting-trade/>>

12. May 4, 2018, press gaggle at Joint Base Andrews, Maryland:

“At some point in the future, I would like to save the money. We have 32,000 troops there...But troops are not on the table...we haven't been asked to”

Source:

“Trump: No U.S. troop withdrawal from South Korea.” *USA Today.* 4 May 2018. Web. 28 September 2018. <<https://www.usatoday.com/videos/news/world/2018/05/04/trump-no-u.s.-troop-withdrawal-south-korea/34549735/>>

Appendix II: Donald Trump's tweets on troop commitments related to South Korea

1. "How much is South Korea paying the U.S. for protection against North Korea???? NOTHING!"
March 9, 2013
<https://twitter.com/realDonaldTrump/status/310338394922295296>
2. "What do we get from our economic competitor South Korea for the tremendous cost of protecting them from North Korea? - NOTHING!"
March 30, 2013
<https://twitter.com/realdonaldtrump/status/317965135283093504>
3. "I ask again, how much is very wealthy South Korea paying the United States for protecting it against North Korea?"
April 2, 2013
<https://twitter.com/realdonaldtrump/status/319189584573497344>
4. "When is South Korea going to start paying us for the massive amounts of money we are spending to protect them from the North?"
April 6, 2013
<https://twitter.com/realdonaldtrump/status/320672843702607872>
5. "I can't believe we are not asking South Korea for anything. They make a fortune on us while we spend a fortune defending them-how stupid!"
April 12, 2013
<https://twitter.com/realdonaldtrump/status/322672900744286208>
6. "South Korea must in some form pay for our help-the U.S. must stop being stupid!"
April 13, 2013
<https://twitter.com/realdonaldtrump/status/323216293031460865>
7. "South Korea is absolutely killing us on trade deals. Their surplus vs U.S. is massive - and we pay for their protection. WHO NEGOTIATES?"
April 24, 2014
<https://twitter.com/realdonaldtrump/status/459289089393840128>

¹ U.S. Department of Defense. Pacific Command News Release. “Pacom Deploys Defensive Anti-Missile System to Korean Peninsula.” 7 March 2017. Web. 28 September 2018. <<https://dod.defense.gov/News/Article/Article/1104428/pacom-deploys-defensive-anti-missile-system-to-korean-peninsula/>>

² Cha, Victor. “Victor Cha: Giving North Korea a ‘bloody nose’ carries a huge risk to Americans.” *The Washington Post*. 30 January 2018. Web. 28 September 2018. <https://www.washingtonpost.com/opinions/victor-cha-giving-north-korea-a-bloody-nose-carries-a-huge-risk-to-americans/2018/01/30/43981c94-05f7-11e8-8777-2a059f168dd2_story.html?noredirect=on&utm_term=.db03d607d260>

³ Scholars who have argued for a grand bargain include:

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<<https://www.foreignaffairs.com/articles/china/2016-11-01/china-option>>;

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⁴ Smith-Riley, Ben. “Exclusive: US making plans for ‘bloody nose’ military attack on North Korea.” *The Telegraph*. 20 December 2017. Web. 28 September 2018. <<https://www.telegraph.co.uk/news/2017/12/20/exclusive-us-making-plans-bloody-nose-military-attack-north/>>;

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⁵ Green, Michael J., and Matthew Kroenig. “A New Strategy for Deterrence and Rollback with North Korea.” *War on the Rocks*. 19 October 2017. Web. 28 September 2018. <<https://warontherocks.com/2017/10/a-new-strategy-for-deterrence-and-rollback-with-north-korea/>>

⁶ See: U.S. Department of State. *Joint Statement of the Fourth Round of Six-Party Talks*. 19 September 2005. Web. 28 September 2018. <<https://www.state.gov/p/eap/regional/c15455.htm>>; and

U.S. Department of State. *Statement by President Bush on Six-Party Talks*. 13 February 2007. Web. 28 September 2018. <<https://2001-2009.state.gov/r/pa/prs/ps/2007/february/80479.htm>>

⁷ The line in the September 19, 2005 Six-Party Talks Joint Statement is: “The United States affirmed that it has no nuclear weapons on the Korean Peninsula and has no intention to attack or invade the D.P.R.K. with nuclear or conventional weapons.”

⁸ 임규훈. “윌리엄 페리 “北, 쉽게 핵 포기하지 않을 것...합의서에 검증 명문화해야.” *Chosun Ilbo*, 16 May 2018. Web. 28 September 2018. <http://news.chosun.com/site/data/html_dir/2018/05/16/2018051601246.html>

⁹ Ruggiero, Anthony. “China’s ‘ban’ on North Korea coal isn’t the tough stance it seems.” *The Hill*. 28 February 2017. Web. 28 September 2018. <<https://thehill.com/blogs/pundits-blog/foreign-policy/321552-dont-be-fooled-chinas-ban-on-north-korean-coal-isnt-the>>

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¹³ Smith-Riley, op. cit.;

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¹⁴ Pak, Jung H.; Sue Mi Terry and Bruce Klingner. “Bloody nose policy on North Korea would backfire: Ex-CIA analysts.” *USA Today*. 9 February 2018. Web. 28 September 2018. <<https://www.usatoday.com/story/opinion/2018/02/09/korea-olympics-close-war-first-strike-disaster-jung-pak-sue-terry-bruce-klingsner-column/319072002/>>

¹⁵ Paddock, C. Richard and Hun-Sang Choe. “Kim Jong-nam Was Killed by VX Nerve Agent, Malaysians Say.” *The New York Times*. 23 February 2017. Web. 28 September 2018. <<https://www.nytimes.com/2017/02/23/world/asia/kim-jong-nam-vx-nerve-agent-.html>>

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²⁰ Mehta, Aaron. “Interview: Former Pentagon Chief Chuck Hagel on Trump, Syria and North Korea.” *Defense News*. 2 February 2018. Web. 28 September 2018. <<https://www.defensenews.com/interviews/2018/02/02/interview-former-pentagon-chief-chuck-hagel-on-trump-syria-and-korea/>>

²¹ Jenkins, Aric. “Steve Bannon: ‘There’s No Military Solution’ to North Korea.” *Time*. 17 August 2017. Web. 28 September 2018. <<http://time.com/4904066/steve-bannon-north-korea-military-solution/>>

²² Dong-Chi, Lee. “(Lead) Gas prices in N. Korea treble amid tougher sanctions: ministry.” *Yonhap News*. 26 September 2017. Web. 28 September 2018. <<http://english.yonhapnews.co.kr/northkorea/2017/09/26/0401000000AEN201709260006151315.html>>;

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²⁴ On suspension of nuclear and missile testing, see: Fifield, Anna. “North Korea says it will suspend nuclear and missile tests, shut down test site.” *The Washington Post*. 20 April 2018. Web. 28 September 2018. <https://www.washingtonpost.com/world/north-korean-leader-suspends-nuclear-and-missile-tests-shuts-down-test-site/2018/04/20/71ff2eea-44e7-11e8-baaf-8b3c5a3da888_story.html?utm_term=.17c6b1b3f5af>;

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²⁵ Plaskin, Glenn. "The 1990 Playboy Interview With Donald Trump." *Playboy*. 1 March 1990. Web. 28 September 2018. <<https://www.playboy.com/read/playboy-interview-donald-trump-1990>>

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The Taiwan Issue During the Trump Administration: Challenges and Opportunities for China and the United States

By Li Peng

The Chinese government has always believed that the Taiwan issue is the most important and sensitive core issue in China-U.S. relations. It is not only related to China's sovereignty and territorial integrity, but it also involves the national sentiments of the 1.3 billion Chinese people. Because of the substantial progress made in cross-Taiwan Strait relations during the 2008-2016 Ma Ying-jeou period in Taiwan, the Taiwan issue had not interfered in China-U.S. relations as a major negative factor in some time.

Since Tsai Ing-wen came to power in 2016, the situation in the Taiwan Strait has become complicated and severe. The political relationship between the two sides of the Strait is deadlocked. The security situation in the Taiwan Strait is on track to become tense. The cross-Strait foreign-related struggle has become fiercer, and civil exchanges have also been affected.

What is more serious is that with Trump's coming to power and the intensification of a China-U.S. trade war, the sensitivity of the Taiwan issue in China-U.S. relations has risen sharply. In the meantime, there is a growing concern on the Chinese side that the U.S. will attempt to use an upgraded U.S.-Taiwan relationship to obstruct China's peaceful reunification and play the Taiwan card to contain China's development. It can be said that after the Trump administration labeled China as a "strategic competitor," the challenges facing China and the United States on the Taiwan issue far outweigh the opportunities, and its potential dangers are far greater than those of other issues.

The Cross-Strait Political Deadlock Is Difficult to Break

Since Tsai Ing-wen came to power, cross-Strait political communication has fallen into an unprecedented stalemate. Institutional talks between the Association of Relations Across the Taiwan Strait (ARATS) and the Straits Exchange Foundation (SEF) which were resumed or established during the Ma Ying-jeou period, as well as the communication mechanism and hotline between the Taiwan Affairs Office (TAO) and the Mainland Affairs Council (MAC), have both been suspended despite these channels having previously led to the historic meeting between the leaders of the two sides in Singapore. Currently, there is no formal, effective and institutionalized communication channel between the two sides.

The Chinese Mainland believes that the two sides have fallen into a political deadlock because the Tsai Ing-wen authorities refuse to accept the “1992 Consensus” and have adopted a vague and evasive stance on the fundamental question of whether the two sides of the Strait are one country or two. The Tsai Ing-wen authorities claim to be willing to engage in dialogue with the Mainland provided it is done with dignity, reciprocity, and no presupposition of preconditions, yet in the eyes of the Mainland, the term “no presupposition” is an attempt to deny the fundamental nature that the two sides are one country and both sides of the Strait belong to one China. The Mainland cannot admit dialogues and negotiations with “no presupposition.”

Although the U.S. government has repeatedly expressed its encouragement for constructive dialogue on the basis of dignity and respect between the two sides, such dialogue is difficult to restart in the foreseeable future due to the lack of a political foundation. One of the important reasons for the political stalemate in which the two sides are unable to engage in dialogue is the lack of the most basic and minimum mutual trust between the CCP and the DPP. Although Tsai Ing-wen mentioned “the constitution of the Republic of China” and “regulations on people’s relations between the two sides” in her inaugural speech, and repeatedly claimed that “the goodwill remains unchanged,” the Chinese Mainland holds a highly skeptical attitude towards such claims.

In the past, the DPP has repeatedly interpreted the “the constitution of the Republic of China” as supporting “Taiwan independence” and the DPP still refuses to modify or freeze the “Taiwan independence” party platform. These facts have made the Mainland come to the conclusion that the DPP has no intention of changing the Taiwan independence separatist stance. For the Mainland, whether the Tsai Ing-wen authorities intend to change the Taiwan independence stance and deal with the Taiwan independence party platform is the first step toward the establishment of mutual trust between the two parties and therefore the first step in resolving the political deadlock between the two sides.

An Increased Security Dilemma in the Taiwan Strait

If the lack of mutual trust and the lack of communication channels lead to political stalemate between the two sides of the Strait, then the intensified activities of the Taiwan independence separatist forces on the Taiwan island and the indulgent attitude adopted by the Tsai Ing-wen authorities, and also especially the open support the United States extends towards Taiwan, all let the Mainland believe that it must be prepared for the worst.

From cross-Strait relations during the periods of Lee Teng-hui and Chen Shui-bian, it can be seen that the Mainland is absolutely intolerant of Taiwan independence. Xi Jinping reiterated the “six anys” statement in the report of the 19th National Congress of the Communist Party of China (we will never allow anyone, any organization, any political party, at any time, in any form, to split any piece of Chinese territory from China). At the 2018 National People’s Congress, Xi Jinping once again delivered a harshly worded speech, stating that “every inch of the territory of our great motherland can never and must not be separated from China!”

The inauguration of Tsai Ing-wen has encouraged the “Taiwan independence” separatist forces on the island. The deterioration of China-U.S. relations has made them even more excited. They think this is a great opportunity to advance the Taiwan independence process. Not only have they carried out various radical “Taiwan independence” mobilization actions on the island, they have also exerted pressure on the Legislative Yuan, controlled by the DPP, hoping that they can accelerate the pace of Taiwan independence as much as possible.

Although the Tsai Ing-wen authorities did not dare to carry out the activities of the radical “Taiwan independence” movement or declare *de jure* Taiwan independence, they continue to carry out incremental activities in the fields of society and culture, including revising textbooks, tolerating William Lai’s “Taiwan independence” speech and suppressing people who support unification, just to name a few.

In order to curb the “Taiwan independence” separatist activities and express dissatisfaction with the Tsai Ing-wen authorities, the Chinese Mainland responded with increased military deterrence against Taiwan authorities. It not only sent military aircrafts to fly around Taiwan and cruise around the Taiwan island but also carried out a live ammunition military exercise. The spokesperson of the military and the Taiwan Affairs Office of the State Council also made it clear that these military actions point to Taiwan’s “independence” splitting activities.

In response to the military deterrence, the Tsai Ing-wen authorities have strengthened their military preparations on the island and strengthened military ties with the United States. The Taiwan authorities have been promoting “national defense independence” by increasing the military budget, carrying out programs for domestically manufactured aircraft and domestically manufactured submarines and demonstrating “the determination of self-defense” to the United States. Meanwhile, the United States passed the 2018 and 2019 National Defense Authorization Acts and the Taiwan Travel Act, increased its military support for Taiwan, implemented its “security commitments” to Taiwan, and sent warships across the Taiwan Strait. The Mainland has expressed strong dissatisfaction with the escalation of U.S.-Taiwan military relations. It believes that this is a false signal to the “Taiwan independence” forces and the Tsai Ing-wen authorities, which will lead to further tensions in the security situation of the Taiwan Strait.

Fierce Taiwan-Related Diplomatic Battles

During the Ma Ying-jeou administration, the Chinese Mainland and Taiwan achieved a benign interaction in the foreign-related field. The Taiwan side maintained its relationship with its “diplomatic allies” and participated in the World Health Assembly (WHA) and the International Civil Aviation Organization (ICAO) Assembly as observers. The cross-Strait think tanks also held dialogues on foreign-related issues.

To the Mainland, Tsai Ing-wen’s refusal to accept the “1992 Consensus” after taking office invalidates the basis for Taiwan’s participation in international activities, and the benign interaction between the two sides in foreign-related fields has turned into a fierce battle. In addition to the inability of the Taiwan authorities to participate in the WHA and the ICAO Assembly, the Mainland has established diplomatic relations with São Tomé and Príncipe, Panama, the Dominican Republic, Burkina Faso and El Salvador over the past two years. The number of Taiwan’s “diplomatic allies” has been reduced to 17.

After Tsai Ing-wen came to power, she has been seeking a so-called “diplomatic breakthrough” by taking advantage of the difficulties in China-U.S. relations to strengthen the “substantial relationship” with the United States, and resisting pressure from the Mainland by taking a pro-America position. Whether it is the phone call with Trump after his election, or the U.S. Congress passing a series of bills to support Taiwan, or Trump announcing arms sales to Taiwan, signing the “Taiwan Travel Act” etc., all actions demonstrate Tsai Ing-wen’s intention to use the United States to gain status. For the Mainland, Tsai Ing-wen’s decision to move closer to the United States and cooperate with the U.S. strategy of containing China will both undermine China-U.S. relations and bring new risks to cross-Strait relations.

Since there are no foreseeable opportunities to resolve the political stalemate between the two sides of the Strait, the China-U.S. trade war will not find a fundamental solution in the short term, and the sensitivity of Taiwan issue in China-U.S. relations is becoming increasingly prominent. Given the uncertainty of President Trump's political character, any attempt to use Taiwan as a chip in its trade war with China or to contain China's rise may lead to a sharpening of the contradictions between China and the United States on the Taiwan issue. The upgrade of U.S.-Taiwan political and military relations and the enthusiastic attempts of the "Taiwan independence" separatist forces on the island all contribute to the Tsai Ing-wen authorities' increasing impatience about the political, military and diplomatic pressure exerted by the Mainland. The possibility of a new round of crises or incidents similar to Lee Teng-hui's visit to the United States in 1995, "state-to-state theory" in 1999, and "one country on one side" in 2002, cannot be ruled out.

The Light of Opportunity amidst the Challenges

Although cross-Strait relations and the situation across the Taiwan Strait are currently facing enormous challenges with uncertainties and risks, if the parties can exhibit rationality and restraint, there is still an opportunity to avoid the deterioration of the situation and the emergence of crises.

First, China, Taiwan and the United States all hope to achieve peace and stability in the Taiwan Strait and do not want to see the emergence of a new Taiwan Strait crisis. In the past two years, the Mainland's political, military, and diplomatic pressure on the Tsai Ing-wen authorities have fundamentally been intended to contain the "Taiwan independence" forces, and carried out in hope that the Tsai Ing-wen authorities can constrain the "Taiwan independence" separatist activities on the island. The reason why the Tsai Ing-wen authorities publicly expressed ideas such as "maintaining the status quo" and "unchanging goodwill" is that they also realize that the emergence of a new crisis in the Taiwan Strait is not in the interests of Taiwan. The U.S. government does not want to see a crisis in the Taiwan Strait in which the United States is involved. The need to maintain peace and stability in the Taiwan Strait will enable everyone to "bicker instead of split."

Second, although the strategic competition between China and the United States may last for a long time, the strategic cooperation between China and the United States is equally important which will limit the possibility of a strategic showdown between China and the United States on Taiwan issue. The trade dispute between China and the United States will eventually find a solution. The economic cooperation formed between China and the United States in the past few decades will not be completely destroyed by the trade war. Compared with the trade dispute between China and the United States, the Taiwan issue is more sensitive because it concerns strategy and security. It is difficult for China to find room to compromise on this issue. It is difficult for the United States to break the "One-China" policy bottom line to give unlimited support to Taiwan.

Third, the cross-Strait civil, economic and cultural exchanges are still vibrant. The Mainland has introduced a series of policies to attract Taiwan compatriots to the Mainland to study, start business, work and live, which will bring new vitality to cross-Strait relations. Although cross-Strait political relations are deadlocked, and the Taiwan authorities have imposed certain restrictions on cross-Strait exchanges, the two sides have not closed the door on non-governmental exchanges and the development of cross-Strait civil relations is still good. The history of cross-Strait relations over the past three decades shows that the development of economic relations and the enthusiasm of civil relations are conducive to easing tensions between the two sides of the Strait and reducing hostility and confrontation between the people on both sides of the Strait.

Conclusions and Recommendations

In the face of difficulties in China-U.S. relations and the stalemate in cross-Strait political relations, Mainland China, Taiwan and the United States all must remain aware of the complexity and seriousness of the current situation, and should pay attention to potential risks and challenges as much as possible and take effective measures to prevent crises and achieve peace and stability in the Taiwan Strait.

Suggestions for the Chinese Mainland:

- Continue to maintain strategic confidence and determination, and stay firmly confident about realizing peaceful reunification. The 19th Party Congress has established the task of “promoting the peaceful development of cross-strait relations and advancing the process of peaceful reunification of the motherland” and should continue to move toward the goal of solving problems in a peaceful manner with the utmost sincerity.
- Engage with DPP members in an appropriate manner. In the absence of a change in the “Taiwan independence” separatist stance and the handling of the “Taiwan independence” party platform, the CCP will not engage in party-to-party contact with the DPP, but it may consider contacting some of the more pragmatic and milder DPP members and appropriately allowing cooperation with the non-governmental think tanks in the Green camp.
- Guide public opinion to think rationally about the Taiwan issue. The Taiwan issue and national unification involve the national sentiments of the Chinese people. Taiwan-related incidents are likely to lead to radical opposition and irrational voices. These opinions are not conducive to the emotional integration and the spiritual match of compatriots on both sides of the Strait, making it necessary to guide public opinion and avoid pressure on rational decision-making.

Suggestions for Taiwan authorities:

- Deal with the “Taiwan independence” stance and the “Taiwan independence” party platform. This is one of the core issues affecting the establishment of cross-Strait mutual trust and dialogue. Only by facing this issue can we have the opportunity to solve the problem.

- Restrain the “radical Taiwan independence” forces on the Taiwan island and stop “gradual Taiwan independence” activities aiming at “desinification.” The words and actions by the radical Taiwan independence forces are the biggest hidden dangers of peace and stability in the Taiwan Strait, which may lead to a Taiwan Strait crisis. Although incremental Taiwan independence activities will not immediately trigger a Taiwan Strait crisis, its potential danger is not insignificant. No matter the format, “Taiwan independence” must be effectively restrained; it can no longer be allowed and indulged.
- Maintain self-restraint in developing relations with the United States. A complete shift towards the United States will not bring real security to Taiwan. On the contrary, it may lead to a security dilemma caused by increased doubts in the Mainland. Only by bettering cross-Strait relations can security and stability be achieved.

Suggestions for the United States:

- Do not use the Taiwan issue as a bargaining chip in the China-U.S. trade war. The Taiwan issue and the trade issue are two completely different issues. Neither the Mainland nor Taiwan wants the Taiwan issue to become a bargaining chip between China and the United States. Such a mentality will only harm Taiwan’s interests and compromise peace and stability in the Taiwan Strait.
- Maintain a high degree of restraint in military cooperation between the United States and Taiwan. Cooperation in the field of military security between the two sides is quite sensitive and will have a strong stinging effect on the Chinese government and people. Poor handling may lead to a real reversal of China-U.S. relations and endanger peace and stability in the Taiwan Strait.
- Play a constructive role in promoting the change of the “Taiwan independence” proposition and the freezing of the “Taiwan independence” party platform in the DPP. The U.S. policy is “not supporting Taiwan independence.” While encouraging cross-Strait dialogue, the United States can do more to encourage the DPP authorities to change their “Taiwan independence” stance.



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A Fraught Cross-Strait Relationship

By David G. Brown

An Impasse over Principles

Since President Tsai Ing-wen's election in January 2016, irreconcilable fundamental positions have produced an unfortunate breakdown in dialogue between Beijing and Taipei. The path to this breakdown began during the campaign. Tsai Ing-wen stopped saying that she rejected One China and the 1992 Consensus and chose her words carefully. It was clear that at the time there was a discreet back channel between Tsai and Beijing, in which Beijing asked her to address the 1992 Consensus and accept that a political basis was necessary for talks. Tsai went partway by accepting the historical fact that talks had taken place in 1992 and saying that those talks could be part of a political basis. But her political basis was also rooted in Taiwan's democratic way of life, code for the right of Taiwan's people to determine their political future.

After the election, Beijing pressed Tsai to go further in her inaugural address. Tsai did this by further acknowledging the history of the 1992 talks and agreeing to continue existing agreements and understandings as a basis for the future. She went on to commit to conducting cross-Strait relations on the basis of the ROC Constitution and the statute governing cross-Strait relations. As the ROC Constitution is based on the concept of One China, Beijing could have chosen to interpret her commitment as indirect acceptance of One China. Most unfortunately, Beijing decided instead to criticize Tsai quite patronizingly by saying that her statement was an "incomplete" answer to their "test paper."

In the ensuing six months, Beijing pressed Tsai to complete the answer, urging her repeatedly to accept the 1992 Consensus. However, in September, Beijing decided to block the International Civil Aviation Organization (ICAO) from issuing an invitation for Taiwan to attend its triennial assembly. This angered Tsai who said she would not bow to such pressure. Beijing then warned Tsai to address the issue in her annual Double Ten Day address. What Tsai did in that address was to repeat the positions in her inaugural address, adding firmly, "Our pledges will not change, and our goodwill will not change. But we will not bow to pressure, and we will of course not revert to the old path of confrontation."¹

It seems that Beijing concluded from this statement that Tsai would not accept the 1992 Consensus, at least in the short term. Since October 2016, the two sides have been stuck in an unproductive impasse over fundamental positions. Various scholars and foreign friends, including in off-the-record conferences organized by the National Committee on American Foreign Policy and others, have explored many approaches to bridging the impasse. Several proposals for the DPP to freeze or suspend the independence clause in its party charter in exchange for some reciprocal step by Beijing were explored. In 2017, President Tsai called several times for the two sides to develop a new model for relations. This was brushed aside by Beijing. None of these efforts have eased the fundamental impasse. At the 2018 DPP Congress, one delegate proposed removing the independence clause from the party charter.² In an environment of relentless PRC pressure, this proposal was easily and unanimously rejected. The environment isn't ripe for breaking through this impasse. Nevertheless, Washington should continue to encourage the two sides to restore dialogue and to urge Beijing to be more creative and flexible.

Both sides seem willing to tolerate this impasse on principles. As long as Tsai does not explicitly reject One China, General Secretary Xi Jinping seems willing to tolerate the impasse while seeking to further isolate Taiwan. For Tsai, the desire to preserve peace and stability by avoiding provocative actions in cross-Strait relations remains a key element in her political program and in her relations with the United States.

Nevertheless, a degree of low-level contact continues, much of it away from public view. Taiwan's Straits Exchange Foundation (SEF) sends messages to its counterpart, the Association for Relations Across the Taiwan Strait (ARATS), which at times arranges for responses. When tragedy has struck Chinese tourists in Taiwan, officials from local branches of China's Taiwan Affairs Office (TAO) have visited Taiwan. Beijing has on occasion permitted some Taiwan health workers to visit the Mainland as provided under agreements. Prisoners have been exchanged under the 1991 Red Cross Agreement. However, Beijing has placed strict limits on such low-level contacts. Given the impasse on principles, Beijing should loosen these limitations and look for ways to expand mutually beneficial contacts under the existing agreements and to demonstrate good will.

Independence: Beijing's Short-Term Concern

Since October 2016, Beijing's priority has been to deter Taiwan independence. Beijing fundamentally distrusts President Tsai for her pro-independence motivations. The appointment of Lai Ching-te as premier only deepened their distrust. In his first appearance before the Legislative Yuan (LY), Lai repeated that he is a "politician who supports Taiwanese independence."³ Despite this, he voices support for Tsai's cross-Strait policy.

Beijing has also repeatedly criticized the DPP for what it terms "desinification"—meaning diminishing Taiwan's bonds with the Mainland. Desinification also challenges Xi Jinping's concept of the people of Taiwan and the Mainland belonging to "one cross-Strait family." One of the DPP's first moves in power was to block implementation of KMT-proposed high school curriculum amendments that Beijing had welcomed. As part of its transitional justice review of the authoritarian period, the DPP is considering an alteration of the Chiang Kai-shek memorial in Taipei. In 2018, the high school curriculum review commission decided to make modern Chinese history a part of a broader East Asian history curriculum. The TAO denounced this as "further concrete proof in the education field of the promotion of 'desinification,' 'Taiwan independence' separatist acts."⁴

On November 11, Xi staged a major ceremony in the Great Hall of the People to celebrate the 150th anniversary of Sun Yat-sen's birth. The theme was that the Communist Party (CCP) had assumed Sun's role as the promoter of a strong and unified China. But Xi drove home the Party's opposition to independence saying, "We will absolutely not permit any person, any organization, any political party at any time using any form to split apart any single part of China!"⁵ This became known as his "six anys" statement. It was subsequently written into the 19th Party Congress work report.

Beijing's Hard and Soft Approaches

For the past two years, Beijing has been pursuing a dual policy of putting pressure on President Tsai while also encouraging Taiwanese to further integrate with the Mainland. The pressure campaign has involved unilateral actions to embarrass President Tsai, military exercises around Taiwan, limiting Taiwan's international participation, stealing Taiwan's diplomatic allies and putting pressure on international companies. The softer policies involve measures to make it easier for Taiwan citizens to study, find employment, open businesses and live on the Mainland.

The pressure campaign has intensified over time. In 2016 and 2017, Beijing established relations with one of Taiwan's diplomatic allies each year. In 2018, Beijing has established relations with the Dominican Republic, Burkino Faso and El Salvador, reducing Taiwan remaining allies to just 17. Beijing has also pressured countries with unofficial relations with Taiwan not to allow Taipei to use the terms Republic of China (ROC) or Taiwan in their unofficial office names. Beijing has blocked the WHA and ICAO from issuing invitations for Taipei to participate in their assembly meetings, as Taipei had done under the administration of President Ma Ying-jeou. At a meeting of the East Asia Olympic Committee (EAOC) convened by Beijing in July this year, the EAOC decided to revoke its 2014 decision designating Taichung as host for the 2019 East Asian Youth Games. The TAO said this step was justified because the DPP administration had allowed a proposal to have a referendum advocating that Taipei participate in the 2020 Olympics under the name Taiwan to proceed through the required signature collection phase. Actions to block Taiwan's participation in international sports and cultural events are particularly unhelpful, as they evoke strong negative responses in Taiwan and undermine Beijing's efforts to cultivate good will.

In 2018, Beijing has significantly increased pressure on foreign businesses to comply with Beijing's views about Taiwan. In April, the Civil Aviation Administration (CAA) sent letters to some 40 foreign airlines with instructions on how they refer to Taiwan. It would no longer be sufficient to avoid listing Taiwan as a country, and firms must use language that Taiwan is part of China. The TAO explained that companies doing business in China must respect China's sovereignty and territorial integrity. Conscious of the China market, most airlines complied. Also, in 2018, Beijing unilaterally initiated a new flight route through the Taiwan Strait with feeder routes from cities on the Mainland coast. Taipei saw this as a security issue and demanded consultations. Beijing said consultations were impossible because Tsai had not accepted the 1992 Consensus. Editorials and commentaries in pro-PRC papers in Taiwan also said that the launch of the new air route, like Beijing actions against Taiwan's international space, illustrated Washington's inability to help Taiwan.

On February 28, the TAO announced 31 incentive measures to make it easier for the people of Taiwan to study, find employment, open businesses and live on the Mainland. Some of the measures were to benefit Taiwan investors, offering Taiwan firms the prospect of national treatment under the Belt and Road Initiative and the Made in China 2025 project. Beijing had been talking about such measures for over a year. The February announcement launched a major long-term campaign to develop and implement these incentives. Statistical information on their impact is not yet available.

The 31 measures also reflect Beijing's desire to further integrate Taiwan economically and socially with the Mainland. For example, Beijing has announced that Taiwan residents, along with those from Hong Kong and Macau, can obtain new residence permits. The new cards would facilitate many daily activities in China. However, unlike earlier cards issued to Taiwanese, the new cards are similar to those issued to PRC citizens, with the PRC name and emblem as well as the holder's photo, fingerprints and 18-digit ID number.

Beijing's incentives play into a complex economic and social environment in Taiwan. For some years, slow economic growth has lead Taiwanese to look abroad for opportunity. Surveys indicate that China's dynamic economy has made the Mainland the number one destination for overseas job seekers. An estimated 1.5 million Taiwanese have jobs on the Mainland, where salaries and advancement opportunities are typically better than on Taiwan. Beijing's incentives were developed through dialogue with Taiwan-invested enterprises and organizations on Taiwan, including the KMT, and are designed to be responsive to their concerns. The Tsai administration has expressed concern that Beijing's 31 measures will exacerbate the brain drain from Taiwan. Anecdotal evidence indicates that some of those who work on the Mainland pursue long-term careers there. More of the recent cross-Strait marriages are between socially equal spouses who work and raise families on the Mainland.

Not surprisingly, public opinion surveys conducted by the Election Study Center show that large majorities in Taiwan view Beijing as unfriendly toward the Tsai administration.⁶ However, the same surveys show Taiwanese as roughly equally split between those who see Beijing as unfriendly and those who see it as friendly toward the people of Taiwan. Long-running survey data repeatedly indicate that a majority of Taiwanese prefer the status quo of *de facto* self-government to either independence or unification. However, when asked what the future is likely to hold, the prospects for independence and unification are viewed as roughly equally as likely. There is a pragmatic tendency among many on Taiwan to see economic options when it comes to the Mainland.

Domestic Pressures on Tsai

There is little evidence that Beijing's actions have created domestic pressure on Tsai to accept the 1992 Consensus. A variety of polls indicate that a majority in Taiwan holds Beijing responsible for actions such as the loss of diplomatic allies or the EAOC decision to cancel Taichung's hosting of the East Asia Youth Games. Only a minority holds the Tsai administration responsible for such setbacks.

Beijing's actions have angered Tsai's deep-Green supporters and pro-independence elements and thus energized their efforts in pressing Tsai to be more confrontational toward the Mainland. For example, when the Sports Law was up for renewal, an effort was made to include a provision that Taiwan participate in the Olympics under the name Taiwan. Tsai intervened to block this. When the Referendum Law was being amended, Tsai made clear that the existing ban against referenda on sovereignty issues should be maintained. Beijing does not give Tsai credit for such restraint; rather it focuses on condemning the DPP for pursuing independence.

When these efforts were blocked, pro-independence supporters pursued other avenues. In 2018, pro-independence supporters under the name Team Taiwan 2020 launched a referendum proposal that Taiwan should participate in the 2020 Olympics under the name Taiwan. The decision to cancel Taichung's hosting the youth games energized these efforts that helped gain the needed number of signatures. Separately, former presidents Lee Teng-hui and Chen Shui-bian, among others, created the Formosa Alliance to promote a revision of the Referendum Law to pave the way for a referendum on independence in tandem with the 2020 presidential election. In a rare media interview this September, Chen Shui-bian criticized Tsai's cross-Strait policy as an ineffective response to Beijing's pressure and suggested holding a referendum to show that Taiwan does not want reunification.⁷ Beijing should recognize that its recent pressures have been counterproductive because they energize pro-independence forces in Taiwan.

President Tsai's Current Approach

Tsai's response to Beijing's pressure is to improve relations with major powers, particularly the U.S. and Japan. Taipei is also strengthening regional ties through its New Southbound Policy (NSP). Tsai has continued her attention to Taiwan's defense and supported a modest increase in 2019 defense spending. Premier Lai is taking the lead in efforts to strengthen the economy, with particular attention to cooperation with U.S. high tech firms and preparations for possible negotiations to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).

In the face of setbacks, Tsai has called for unity at home saying that protecting the "Republic of China (Taiwan)" is the common position of all on Taiwan. Tsai and the Mainland Affairs Council (MAC) Chairman Chen Ming-tong have repeatedly contrasted Taiwan's democracy with Beijing's authoritarianism. Tsai did this in a tough statement on June 4 this year that also contrasted Beijing's unwillingness to confront the Tiananmen tragedy with Taiwan's current transitional justice process examining Taiwan's authoritarian period.⁸ In a subsequent interview with *AFP*, Tsai called for democracies to unite in resisting China.⁹ And, the MAC has been more active in criticizing Beijing's policies toward Hong Kong and in expressing support for democratic and localist politicians in Hong Kong. In addition, Taipei has repeatedly called for the release of democracy activist Lee Ming-che. Tsai and the DPP represent those on Taiwan who are determined to defend Taiwan's democratic way of life in the face of Beijing's growing economic, diplomatic and military power.

Implications of the 2018 Local Elections

On November 24, 2018, Taiwan will elect mayors for its six large municipalities and candidates for thousands of other municipal, county, and township posts in island-wide local elections. Such elections are about local issues and candidates, but they will have multiple uncertain implications for national politics and future cross-Strait policy. The overwhelming DPP victory in the 2014 local elections paved the way for the party's return to power in 2016. No such transformational change is expected this year in the run-up to presidential and legislative elections in January 2020.

Under President Tsai, the DPP has nominated strong candidates and is pursuing a coherent unified campaign. An outcome in which the party's mayoral candidates win in four major cities and most counties would consolidate Tsai's position. Nevertheless, given the magnitude of the DPP's 2014 victory, some slippage is to be expected. Significant DPP losses or slippage in traditional Green areas would likely trigger a challenge to Tsai's leadership and further complicate cross-Strait relations. On the other hand, the KMT has been in disarray since its defeat in 2016.

Although it has some strong younger candidates, the KMT is weakened by uninspiring leadership and internal differences, and the Blue camp remains divided. The KMT's results may indicate something about whether it can continue as a strong opposition party and constructive future counterpart for the CCP. Independent Taipei Mayor Ko Wen-je is leading in polls for re-election in Taipei. A decisive win could whet Ko's interest in challenging Tsai in the 2020 election. The new pro-reform, pro-independence New Power Party (NPP) is running 34 city and county council candidates. A good showing would be a step toward consolidating the NPP's position as the third largest party, though far behind the DPP and KMT.

Strong U.S.-Taiwan Relations

Since President Tsai's election, Washington and Taipei have worked hard to strengthen unofficial relations. President Tsai has promised and provided a surprise-free relationship. In June 2017, Washington approved a USD 1.4 billion arms package. In April 2018, Washington authorized marketing licenses permitting U.S. companies to assist Taiwan with its indigenous submarine program. At the same time, Washington has pressed Taipei to increase its defense efforts to a level appropriate for the growing PLA threat, and to use its limited funds efficiently for systems that will enhance deterrence. Trump administration officials have hoped to regularize decisions on arms sales so that announcements can be made more routinely rather than accumulating into large packages that inevitably strain U.S.-China relations. Unfortunately, this has not yet been accomplished, though the approval in late September of a small sale of aircraft spare parts to Taiwan may be a first step in that direction.

Washington envisages a place for Taiwan within its evolving Indo-Pacific strategy. Assistant Secretary of Defense for Asian and Pacific Affairs Randy Schriver has described Taiwan as a partner that can contribute to promoting a free and open Indo-Pacific.¹⁰ The Tsai administration is eager to respond and has emphasized how its democratic values and New Southbound Policy are consistent with the free and open Indo-Pacific concept.

During the past two years, numerous mid-level U.S. officials have visited Taiwan to deepen specific cooperative programs and reaffirm political ties. Ministers in Tsai's cabinet have visited Washington and met with their U.S. counterparts. In June this year, the American Institute in Taiwan (AIT) dedicated its new USD 250 million office complex in Taipei and portrayed this as a symbol of America's enduring support for Taiwan. Washington has facilitated transits for President Tsai through the U.S. on her foreign travels, despite Beijing's protests. On her transits through Houston and Los Angeles in August this year, Tsai was granted exceptional courtesies. These were arranged in response to the PRC pressures. Washington should continue to look for ways to show increased support for Taiwan in its bilateral ties and by further organizing wide support for Taiwan's international participation.

Congress has also played a role in improving relations with Taiwan. As Beijing's pressure on Taiwan has increased, the frequency of congressional delegations to Taipei has increased. In 2017, the Congress passed the Taiwan Travel Act (TTA), a non-binding measure that called for visits between higher-level officials from the U.S. and Taiwan. Congress has also included non-binding provisions advocating enhanced cooperation with Taiwan in the National Defense Authorization Acts (NDAA) for 2018 and 2019.

In his rare involvements in relations with Taiwan, President Trump has been an unpredictable factor. In December 2016 as president-elect, he surprised all by accepting a congratulatory call from Tsai and then questioned the U.S.'s One-China policy. However, after meeting President Xi at his Mar-a-Lago resort, Trump has on occasion limited ties with Taiwan. When the Trump administration was considering sending a cabinet official to the AIT office dedication, it was reportedly the president who nixed that idea. To correct for such unpredictability, it is important that administration officials continue to reiterate clearly long-standing U.S. policy on cross-Strait relations and conduct its policy toward Taiwan within that framework.

President Trump's early decision to withdraw the U.S. from the Trans-Pacific Partnership (TPP) was a serious political and economic setback for Taiwan. Taipei had been preparing to apply for TPP membership as a way to revive its economy's competitiveness and reduce its dependence on the China market. As an alternative, Taipei would be open to the type of bilateral deal President Trump prefers. However, trade demands, which are difficult for Taiwan to accommodate, and Washington's preoccupation with higher priority trade negotiations have thus far blocked that approach. Taiwan is now caught in the escalating U.S.-China trade frictions in which tariff actions will have uncertain impacts on various Taiwan industries.

Political constraints have made it difficult for Taipei to respond to U.S. demands on individual issues such as pork, beef and rice through the existing Trade and Investment Framework Agreement (TIFA). Taipei needs a broader negotiating framework in which it can gain benefits to balance needed concessions to U.S. demands. A stronger economy is essential for Taiwan's future. In the absence of TPP, the most important step the U.S. government could take to assist Taiwan economically would be to negotiate an FTA-like economic cooperation agreement.

New PLA Exercises

Since November 2016, PLA forces have become more active around Taiwan, transiting the Bashi and Miyako Straits to access the western Pacific. That November, PLA aircraft circumnavigated Taiwan for the first time. Beijing subsequently propagandized such flights as "island encircling exercises."¹¹ In December 2016, the aircraft carrier Liaoning sailed around Taiwan on its maiden foray into the Pacific. The TAO said these exercises were specifically designed as a warning to separatists.¹² They were also designed with Japan and the U.S. in mind. These exercises have unfortunately become a destabilizing feature of the environment around Taiwan.

These exercises have a military purpose because they help develop the PLA's experience in operating beyond the first island chain. They began as simple flights but are becoming increasingly complex and will likely become more threatening over time. The exercises also have political purposes, including undermining the Taiwan public's confidence in Taiwan's armed forces and their confidence in America's ability to come to Taiwan's defense. These messages were at times highlighted by propaganda footage. Pictures of PLA aircraft with images that looked like Taiwan mountains in the background were published. China Central Television (CCTV) has carried footage of amphibious landing exercises. Pro-Beijing papers in Taiwan have carried editorials and opinion pieces arguing that the exercises show that it is unrealistic for Taiwan to rely on support from the U.S. or Japan in a future crisis.

Beyond conducting routine surveillance of these exercises, the Tsai administration has taken several steps. The Ministry of National Defense (MND) is deploying air defense batteries and EP-3 surveillance aircraft to the east coast. President Tsai has frequently visited military units and events to bolster morale. In April this year, she boarded a Kidd-class destroyer to observe a military readiness exercise off the east coast. MND has also taken steps to counter propaganda by challenging alarmist or fake news stories. The administration has proposed a modest 5.6 percent increase in 2019 defense budget. However, most importantly, more political leadership is needed to build public support for a more robust and urgent defense effort focused on steps that will practically strengthen deterrence.

Initially, Washington withheld comments on these PLA exercises. The view was that the exercises were in international water and air space, similar to U.S. surveillance operations off China's coast. However more recently, the State Department has expressed concern about the exercises as a form of coercion aimed at changing the status quo in the Strait. In July, the U.S. made a more concrete response by sailing two Aegis destroyers through the Taiwan Strait. That action was welcomed in Taiwan as a symbol of continuing U.S. support for Taiwan.

Despite Beijing's enunciation of a peaceful approach to reunification, the PLA exercises show that military intimidation has become a more important element in Beijing's policy. These increasing exercises represent a serious challenge for Washington. The Taiwan Relations Act (TRA) requires the U.S. to maintain the capability to come to Taiwan's defense. These exercises are an element in the PLA's Anti-Access/Area Denial policy challenge. The Department of Defense's (DOD) *2018 National Defense Strategy* recognizes this challenge when it mentions the re-emergence of strategic competition, the PLA's modernization and the need to counter coercion. This is an indication that DOD is focused on maintaining the capability called for in the TRA.

As mentioned, the PLA exercises also have a political dimension—to undermine the Taiwan public's confidence in U.S. support over the long-term, contributing to an environment in which Taiwan will have no choice but to accept Beijing's unification terms. Taiwan National Security Survey (TNSS) data shows that the Taiwan public's confidence in U.S. support has been declining.¹³ In 2017, for the first time in this survey, a majority did not believe that the U.S. would come to Taiwan's aid if Taiwan were attacked. Therefore, the U.S. response to these exercises should also have a political component by demonstrating U.S. support in ways that will bolster confidence in the U.S. both on Taiwan and elsewhere in Asia.

As PLA exercises around Taiwan become more sophisticated and perhaps intrude provocatively across the midline in the Strait or into Taiwan's Air Defense Identification Zone (ADIZ), the U.S. military response should increase and be more visible, signaling political resolve both to Taiwan and Beijing. In the short-term, U.S. Naval and Air Forces should spend more time near Taiwan. They should not only transit the western Pacific but conduct exercises near Taiwan when they do. As PLA coercion increases, the U.S. should consider conducting coordinated or joint exercises near Taiwan with Taiwan forces. These could begin with search and rescue but evolve if the degree of PLA coercion increases.

An increasing U.S. military response should be matched by more active diplomacy to convey resolve and explore ways to de-escalate tensions. To be clear-eyed, a cycle of more dangerous PLA exercises and closer U.S.-Taiwan military cooperation involves serious risks. However, not meeting the terms of the TRA also involves the risk of declining U.S. influence throughout Asia. Hopefully, Beijing will reduce exercises around Taiwan and follow practices that will minimize the risk of confrontations with Taiwan defense forces. Ideally, Beijing should cease "island encircling exercises" obviating the need for Washington to consider countermeasures.

Recommendations

For Beijing:

- Avoid actions that raise tensions in the Taiwan Strait and undermine stability in East Asia. Reduce exercises near Taiwan and avoid practices that risk triggering clashes with Taiwan's defense forces.
- Adopt a more flexible approach toward contacts with Taiwan that would expand possibilities for low-key contacts to address practical problems affecting people's lives and demonstrate good will.
- Stop stealing Taipei's diplomatic allies and scale down efforts to isolate Taiwan internationally—measures that are stimulating pro-independence civic actions that threaten Beijing's long-term unification goals. Demonstrate goodwill by not blocking Taiwan's participation in unofficial athletic and cultural events.
- Release Taiwanese democracy activist Lee Ming-che from prison.

For Taipei:

- Continue to adhere to President Tsai's framework for cross-Strait relations and her commitment to avoid confrontational actions.
- Carefully manage so-called "desinification" issues, particularly referenda that relate to sovereignty, which are feeding Beijing's distrust of the DPP. Focus transitional justice actions on promoting reconciliation and unity within Taiwan.
- Exercise political leadership to convince Taiwan society to take the growing PLA threat more seriously and gain support for substantially increased defense efforts to enhance Taiwan deterrence.

For Washington:

- Although the circumstances are not ripe for a breakthrough, continue to press both sides to resume dialogue and urge Beijing to be more creative and flexible.
- In response to PRC pressures on Taiwan, continue to find further ways to demonstrate support for Taiwan in a manner that is consistent with U.S. One-China policy.
- Further enhance efforts with like-minded countries to support Taiwan's international participation.
- Consider ways to reinforce U.S. military support for Taiwan, including by regularizing arms sales and increasing activity by U.S. naval and air forces in the western Pacific near Taiwan. As PLA naval and air exercises become more threatening, consider gradually undertaking coordinated or joint exercises with Taiwan forces.
- Develop a new bilateral mechanism for negotiating an FTA-like economic agreement that would provide Taipei a political basis for meeting U.S. trade demands.



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⁴ Taiwan Affairs Office of the State Council PRC. 国台办：强改课纲将中国史纳入东亚史是“台独”行径又一实证。15 August 2018. Web. 24 September 2018. <http://www.gwytb.gov.cn/wyly/201808/t20180815_12047573.htm>

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⁹ Office of the President, Republic of China (Taiwan). *President Tsai interviewed by AFP*. 25 June 2018. Web. 24 September 2018. <<https://english.president.gov.tw/NEWS/5436>>

¹⁰ Morgan, Scott. "Taiwan is a partner of US Indo-Pacific strategy: senior US official." *Taiwan News*, 20 July 2018. Web. 24 September 2018. <<https://www.taiwannews.com.tw/en/news/3487039>>

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¹³ The Taiwan National Security Surveys (2002 – 2017) by the Election Study Center of the National Chengchi University, Taipei Taiwan under the auspice of the Program in Asian Security Studies (PASS) at Duke University. For more detailed information about each of the surveys, please visit the PASS website <http://sites.duke.edu/pass/taiwan-national-security-survey/>

BRI and China-U.S. Relations: Perceptions, Prospects and Challenges

By Shao Yuqun

The Belt and Road Initiative (BRI) was proposed by Chinese President Xi Jinping in 2013. The initiative is named after the historic Silk Road and aims at promoting international economic cooperation. It attracted some attention from the United States when the Asian Infrastructure Investment Bank (AIIB) was established at the end of 2015, but overall it was not one of the hot topics for China-U.S. bilateral relations until recently.

BRI Has Become an Issue for China-U.S. Relations

Since the Trump administration came into power at the beginning of 2017, the situation started to change. The BRI has become one of the “third factor” issues for China-U.S. relations. One obvious reason is that in the past several years under the framework of BRI, quite a few projects have been established in China’s neighboring countries and thus China’s visibility and regional influence has risen rapidly. This situation certainly has implications for the U.S. presence in the Indo-Pacific region. The other two factors are the growing competitive relations between China and the U.S., as well as the U.S. withdrawal from the Trans-Pacific Partnership (TPP) and the consequential concern in Washington that the U.S. lacks a regional strategy.

After several years’ debate about whether the policy towards China adopted by previous U.S. administrations has been successful, the U.S. strategic and policy communities reached a bipartisan consensus at the beginning of the Trump administration that the so-called “engagement policy” towards China has failed, or at least, was not that successful. That has led to the redefinition of China as a “revisionist power” and “competitor” in the *National Security Strategy* (NSS) of the United States published at the end of 2017. Though the 2017 NSS still mentions “the United States will seek areas of cooperation from a position of strength,” and it emphasizes “cooperation with competitors,” it no longer notes—as did the 2015 NSS by the Obama administration—that “the United States welcomes the rise of a stable, peaceful and prosperous China.”

On the policy level, the two prominent issues in bilateral relations between China and the U.S., trade and the Korean Peninsula nuclear issue, have both seen greater competition instead of cooperation since the publishing of the 2017 NSS. On the trade front, after several rounds of negotiation, the Trump administration began to collect 25 percent tariffs on USD 50 billion of Chinese goods on July 6, 2018 and China imposed retaliatory tariffs of the same size. With the trade disputes ongoing, and while the *People’s Daily* editorial declares “China will not surrender to U.S. threatening tactic,” there is no serious sign that the Trump administration will change its protectionist trade policy. On the Korean Peninsula nuclear issue, China and the U.S. had effective cooperation under the framework of the United Nations with regard to sanctions on North Korea, but after the Trump-Kim summit on June 12 in Singapore, President Trump tweeted “China, on the other hand, maybe exerting negative pressure on a deal because of our posture on Chinese trade—Hope not!” In August, Secretary of State Michael Pompeo warned Russia, China and other

nations against any violation of international sanctions on North Korea.¹ The Chinese side, at the same time, has emphasized that it has always implemented all DPRK-related resolutions adopted by the UN Security Council in a serious and strict manner. Sanctions themselves are not the end, and the Security Council's actions should support and conform to the diplomatic dialogue and the endeavor for the denuclearization of the Peninsula at this point, and promote the political settlement of the Peninsula issue. North Korea and the United States should continue to meet each other halfway and earnestly implement the consensus reached by the two leaders by moving forward with the follow-up negotiations. When the United States and North Korea start to deal with the real issue of "denuclearization," no matter by which side's definition, they touch upon not only the technical side of the issue, for instance, how the international community can conduct the verification, but also the political and the geostrategic sides. This has brought the major power competition onto the center stage. Except for these two issues, the momentum for the two countries' cooperation on global issues, such as climate change, has declined due to lack of interest from the Trump administration. Thus, the general trend of the overall bilateral relation between China and the U.S. is that competition has overshadowed cooperation.

President Trump announced the U.S. withdrawal from TPP at the very beginning of his administration. The major reasons behind that decision are related to domestic politics, but the decision has made the strategic and policy communities in Washington very nervous. Though the Trump administration proposed the "Indo-Pacific initiative" later, due to a preference for bilateral trade negotiations by the Trump administration, most American observers believe that the U.S. has lost a very important platform to assert its regional strategy. In the context of a growing competitive relationship between China and the U.S., the lack of a regional strategy makes Washington more alert to the BRI. As American researchers find, it is not only that the initiative has already had an impact on the evolving narratives in Asia regarding the respective roles of China and the United States, but there is also a fundamental competitive tension around the question of whether China or the United States will ultimately determine the rules for trade and investment in the region.

One Initiative, Different Perceptions

What is the Belt and Road Initiative? The Chinese government claims that it is a timely platform for international cooperation, provides a shared plan to pull the world out of the economic mire and is essentially about economic cooperation. The core concept of the initiative is to promote common development by advancing connectivity in infrastructure and other fields. Apparently, the U.S. has a different perception.

The different perceptions of the two countries can be summarized into the following three categories. First of all, China sees the BRI as a response to the new situation of the world economy that it has encountered. From its perspective, though it has an impact on geopolitics, the BRI is essentially about economic development. The outbreak of the 2008 international financial crisis led the world economy into a stagnated period, when trade and investment remained depressed. As a trade-oriented economy, China looked to the West when the amount of imports from the East fell. When China looks at developing countries to its west, many are regional energy-exporting countries and markets of billions of people with huge potential. China also finds that while these countries are eager to develop their economies, the infrastructure gap that they are facing is large, which offers China an opportunity to play a role since China possesses the strength of infrastructure-building capacity. Besides these factors, the western provinces and autonomous regions of China, such as Yunnan, Guangxi and Ningxia, have been seeking ways to get more involved in the opening up process of China to upgrade their local economies and people's living

standard. Their voices for more economic and trade relations with the neighboring countries have become part of the impetus to launch the BRI.

From the perspective of the United States, the scenario has been quite different. Most of the observers in the U.S. agree that the regions which the BRI covers are short on infrastructure and are in urgent need for economic and trade development. It believes, however, that China's BRI has greater strategic goals to achieve. There are three main reasons behind this belief. Firstly, the strategic distrust brought by western international relations theories, such as the Thucydides trap, is not going to be dispelled. The U.S. side continuously worries about the Chinese endeavor to exclude the U.S. from the Asia-Pacific region. Though President Xi Jinping has repeatedly claimed that the Pacific Ocean is vast enough to accommodate China and the United States, as well as other countries, the trust deficit is still very big. Secondly, Americans have found that while official policy documents very rarely discuss the security implications or potential geostrategic rationales of the BRI, Chinese strategists routinely prioritize using infrastructure investments to achieve China's national security interests over the publicly stated objective of mutually beneficial economic development. Thirdly, the six characteristics of the China-funded Indo-Pacific port projects summarized by American researchers—which are strategic location, dual-use model, Communist Party presence, financial control, limited transparency and unequal benefits and unprofitability—have made them confident about their conclusion that the BRI is definitely not a purely economic project.

The second category is that while the Chinese insist the BRI is based on the five principles of peaceful coexistence and China will not interfere into others' domestic politics, Americans argue that with the export of the Chinese government-led economic development model, regional countries are likely to fall into the "debt trap." China has been taking advantage of this tactic to force the developing countries to surrender their sovereignty to China, so as to gain strategic and economic interests. From the Chinese perspective, the so-called "debt trap diplomacy" is a refurbished version of the "neocolonialism" referenced in China-Africa relations decades ago. In fact, China has adopted three principles when it tries to start a new project on the BRI route in order to ensure the safety of profit, investment and loans. The first principle is that it should be win-win and focused on long-term interests as preconditions, and it should combine the comprehensive ability of the targeted market to determine the feasibility of a project. The second is that China signs a bilateral investment treaty (BIT) with the targeted country in order to avoid economic loss of a project to some extent. Last, but not least, China tries to work with international financial institutions and seek common investment opportunities, which can not only alleviate its own shortage of funds, but also minimize its investment risk. The Chinese believe that the major infrastructure projects, such as the Gwadar port project, the Kyaukpyu project, and the Hambantota port project can help the targeted countries develop their economies and integrate them into the region. Though these projects have encountered certain difficulties due to the domestic politics, overall China can manage the challenges together with the respective governments in power. The Sri Lanka Hambantota port project is an example of this. It has been a part of Sri Lanka's development plan for quite some time, and China was invited by the Sri Lanka government to conduct the project after it was rejected by several developed economies, which had both the expertise and capital to take on such a project. That's why when asked about a *New York Times* story of China getting Sri Lanka to "cough up" the Hambantota port by using "a debt trap," the Chinese foreign ministry spokesman angrily responded that if people who made up the lies of the so-called debt trap cannot provide concrete help to developing countries, they can at least maintain a healthy mindset toward other countries' sincere cooperation.

The third category is that while Chinese see the BRI as an important pathway to improved global development patterns and global governance which promotes the healthy development of economic globalization, Americans are more alert to the expansion of Chinese geostrategic impact in the regions covered by the BRI. China is a relative new comer in the global governance field, but has been an increasingly more proactive actor in the recent years. The landmark event was that China, together with the United States, had successfully pushed the signing of the Paris Climate Accord, the world's most comprehensive climate agreement, in April 2016. China still perceives itself as a developing country and has found that, given unbalanced global economic development, the developing countries should have a much bigger say in global governance. As a leading player, China should offer new thinking and new approaches to the developing country community. The AIIB, both a supplement to the current multilateral development financial institutions and a bank to try new concepts of development, has been warmly received by the international development community as a lean, green and clean organization.

Meanwhile, though welcoming the positive role of the AIIB, in general Americans do not buy the Chinese argument that the BRI is a solution for China to participate in global economic cooperation and improve global governance. There are two main reasons behind this conclusion. First, Americans do not believe that the Chinese model of economic development is a real solution for the rest of the world. When the United States says that China should play a bigger role in global governance, it means that China should play its role within the framework set by the U.S. and not build an alternative framework for development. Second, Americans worry about China's growing capability of setting rules and standards in the regions that the BRI covers. More importantly, the United States has been alert to China's expanding military influence both within and beyond the Indo-Pacific region. From some Americans' perspective, the BRI has a big agenda on a geostrategic level, and on that level it is a true zero-sum game between the U.S. and China.

The BRI and Sino-U.S. Relations: Prospects and Challenges

Five years after the BRI was proposed, both the Chinese government and the U.S. government have adjusted their policies regarding BRI. On the Chinese side, a symposium marking the 5th anniversary of the BRI was held in Beijing on August 27, 2018. President Xi Jinping said at the symposium that the next priority of jointly advancing the initiative is to realize high-quality development and to realize common development. It can be seen as a response to some concerns of the countries participating in the BRI and criticism from the U.S. and some other western countries. Regarding high-quality development, Xi asked that BRI projects deliver real benefits to local people, and continue expanding the market while maintaining the balance of trade. He also encouraged non-governmental funds to invest in infrastructure and resource development projects and said that high attention must be paid to forestalling risks overseas. Almost one month before the symposium, U.S. Secretary of State Michael Pompeo made a speech at the Indo-Pacific Business Forum.² Though his remarks were about the economic dimension of the U.S. Indo-Pacific strategy and did not mention BRI directly, the audience clearly heard that the U.S. government wanted to offer an alternative vision to the BRI for the Indo-Pacific regional countries. Secretary Pompeo mentioned three priorities for U.S. future engagement with the region: digital connectivity and cybersecurity partnerships, enhanced development and growth through energy and infrastructure. Infrastructure is the overlapping area between the economic dimension of the Indo-Pacific strategy and the BRI, and the U.S. aims to elevate its economic and trade relations with the regional countries by focusing more on the digital economy and cyber security.

Regarding the future interaction between the BRI and China-U.S. relations, there are three possibilities. Firstly, the Indo-Pacific region will be the place where the two countries have the sharpest competition. Though the BRI's scope has extended to Africa, Latin America and the Caribbean, and the South Pacific region, the Indo-Pacific region remains the most competitive area for China and the United States for the following reasons:

- 1) The region is economically vibrant and has huge potential for future development. Both countries have enormous economic interests here and have kept very close trade relations with the regional countries.
- 2) The region, together with the Middle East and Eurasia, is one of the three priorities for the U.S. grand strategy. The U.S., as a global hegemon, cannot afford losing its primacy in the region, and will try every means to counter, or at least hedge, the impact brought by the BRI. For China, this area is a very important part of its periphery and geographically the most convenient place for China to exert its economic influence.
- 3) On the security and political level, the two countries have to deal with quite a few challenges, such as the South China Sea, the Taiwan question, and the Korean Peninsula nuclear issue. Their interaction on these issues will certainly have implications for development issues.

Secondly, dialogue, coordination and cooperation in multilateral institutions is the best way for China and the U.S. to defuse mutual distrust regarding the BRI and its implications for China-U.S. bilateral relations. Both countries have promised to invest in regional infrastructure, and the regional developing countries are the real beneficiaries. They welcome the investments and projects under both the BRI framework and the Indo-Pacific strategy; however, they certainly worry about rising competition between the two major players and they do not want to have to pick sides—a request that requires China and the U.S. to be cautious of their regional behavior and policies. Due to a massive strategic trust deficit, it is impossible for the two countries to accept the arguments by the other side on the goals of the BRI. And because of different economic development experiences and approaches, it is very hard for China and the U.S. to jointly launch any infrastructure project in a third country along the route of the BRI or in one of the Indo-Pacific regional countries.

So the best forum for dialogue, coordination and, to some extent, cooperation, is multilateral institutions. AIIB could be one of them. Mr. Jin Liqun, President of this multilateral development bank, has already reached out to the Trump administration and policy circle in Washington. The two characteristics of AIIB, which are universal recruitment and universal procurement, and its principle as earning credibility by performance, could be regarded as a kind of guarantee for this new established bank. Jin expressed clearly his support for U.S. membership in AIIB, and AIIB has already had quite a lot of cooperation with the World Bank and the Asian Development Bank. If the U.S. could be an AIIB member in the future, that would be an impetus for both the development of AIIB and China-U.S. relations.

The other platform could be the Paris Club, which is an informal group of official creditors whose role is to find coordinated sustainable solutions to the payment difficulties experienced by debtor countries. As a newly emerging creditor country, China is still lacking experience in effective control of external debt risks. In the context of promoting BRI-related projects around the world, China's sovereign loans to countries on BRI routes will continue to increase. This likelihood requires China to participate in consultative mechanisms on debt reconstructing as early as possible, in order to effectively control the external debt risks and maintain global financial stability. The dialogue mechanism between China and the Paris Club was established after the Hangzhou G20 summit, and both China and the U.S. should work more efficiently on this mechanism and explore the possibility of China's participation in the Paris Club.

Thirdly, the key factor of competition is whether China and the U.S. can improve their respective approach and offer what the regional countries really want. For China, while its agenda meets with the needs of countries on the BRI's route—for instance, it fits well with Indonesia's top-priority development program to improve connectivity within the country and between the country and the global value chains—China still should focus on how to communicate its intentions and its vision for the BRI programs and reconcile its global strategy with the interest of the project's host country, while it tries to flex its economic muscles as a regional and global power. For the United States, if it hopes to counter the BRI's impact in the Indo-Pacific region by its own infrastructure investment, then it is likely to face certain challenges. One is its traditional approach, which is to set standards for the recipient countries which are normally hard for the latter to meet. The other is that while American strength lies in its private sector and business community, infrastructure building projects are not normally attractive to the private sector due to their slow return and high risk. So, it would be impossible for the Trump administration to count on private investment to support its regional infrastructure projects. The amount of the Trump administration's proposed investments in infrastructure so far lags far behind the BRI and will not be able to make a difference.

In general, given the continuous promotion of BRI projects in many parts of the world, especially in the Indo-Pacific region, and the different development concepts and strategic goals of the two countries, the BRI will continue to be a prominent issue for China-U.S. bilateral relations. On one side, the competition between the BRI and the American economic vision for the Indo-Pacific is not only about some infrastructure projects, it is also about the future of the regional economic and security order. That is why both sides will take it as a priority for their regional policies. On the other side, China and the U.S. have much space to work together in the development field. It is not optimistic, however, for observers to expect smooth and effective coordination and cooperation between the two major players. The key issue here is how the two major powers can cooperate together with a third country when the relations between them are in a comprehensive competitive mode. The current China-U.S. relationship has already been 'hijacked' by the trade issue, and the Trump administration has linked the Korean Peninsula nuclear issue with the bilateral trade issue. In the context of a worsening atmosphere, this approach makes it even more difficult for China and U.S. to coordinate on any other major strategic issue, such as relations between the BRI and the U.S. regional strategy.



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