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The purpose of the series is to examine the issues China is facing and to consider the range of possible choices for Chinese leaders responding to the challenges and opportunities they confront. The topics and perspectives presented at the seminars are diverse and wide-ranging. The series is designed to promote informal exchanges among senior specialists and discussion with an engaged and committed audience. The series is organized for the Harvard community but is open to the public.

The summaries presented here are from sessions held from September 2016 to May 2017. They were written by Jin Chen, the rapporteur, an Associate in Research at the Fairbank Center.
CRITICAL ISSUES CONFRONTING CHINA

Fall 2016 - Spring 2017 Speakers
Co-sponsored by the Fairbank Center for Chinese Studies and the Harvard University Asia Center

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Professor Peter Dutton, Strategic Studies, U.S. Naval War College; Director, China Maritime Studies Institute

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Ambassador Chas W. Freeman, Jr., Senior Fellow, Watson Institute for International Studies, Brown University; former Assistant Secretary of Defense for International Security Affairs; former U. S. Ambassador to Saudi Arabia; former Principal Deputy Assistant Secretary of State for African Affairs; former Deputy Chief of Mission and Chargé d’affaires in the American embassies in Bangkok and Beijing; former Director for Chinese Affairs at the U. S. Department of State

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Chen Zhao, Recently retired as Co-Head of Macro Research, Brandywine Global Investment Management; former Partner, Managing Editor and Chief Global Strategist at BCA Research Group

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THE BEAUTIFUL COUNTRY AND THE MIDDLE KINGDOM
John Pomfret, Author of The Beautiful Country and the Middle Kingdom: American and China, 1776 to the Present and Chinese Lessons; former Washington Post correspondent

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CHINA: END OF THE REFORM ERA
Professor Carl Minzner, Fordham University School of Law

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CHINA’S ECONOMIC STATECRAFT IN ASIA
Dr. James Reilly, Associate Professor, Department of Government and International Relations, University of Sydney

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Michael Forsythe, The New York Times

Wednesday, May 3, 2017
FIFTY YEARS WITH CHINA: A CANADIAN PERSPECTIVE
Professor Bernard Frolic, Professor Emeritus, Department of Political Science, York University
On July 12, 2016, the United Nations Convention on the Law of the Sea (UNCLOS) Annex VII Arbitral Tribunal delivered its final award on the Philippines’ case against China over the South China Sea. What is the basic content of this verdict? How should we evaluate this long legal document? What does it mean for the geopolitical future of the Asia-Pacific? Peter Dutton, Professor and Director of the China Maritime Studies Institute at the U.S. Naval War College, deciphered this legal ruling for the general public.

This complex maritime dispute centers around three issues: (1) the ownership of some physical features in the Spratly Islands, (2) the division of the water space and the resources underneath, and (3) different interests between coastal states and user states. For example, the U.S., being a user state of the water space, has an interest in ensuring freedom of navigation (3), but not in the ownership of the features (1) or rights to resources (2). The Philippines’ geography-based case against China, brought to court in January 2013, falls into the second category and is under the jurisdiction of the UNCLOS of 1982, which both China and the Philippines have ratified.

To deal with this dispute, relevant countries can choose from a range of options, from third-party arbitration or adjudication to diplomatic negotiations to power-based coercion to the deployment of military force. China prefers bilateral negotiations with the Philippines, while maintaining a coercive posture in the South China Sea. The Philippines, unable to negotiate with China in a multilateral setting it preferred and lacking military power to counter China, had to resort to legal institutions to resolve the dispute through the compulsory dispute resolution procedure both states had ratified.

The final award from the arbitration tribunal concluded that there was no legal basis for China’s claim to historical rights over the disputed water space enclosed by the Chinese nine-dash line in the South China Sea, which was promulgated by the Republic of China in the 1940s. It legitimizes the Philippines’ traditional fishing rights in the territorial sea surrounding Scarborough Shoal. It further decided that certain Chinese practices violate safety and environmental regulations and that China’s artificial islands on the Philippines’ continental shelf are illegal.

Another central issue facing the tribunal was that of “entitlements” – or the jurisdictional zones projected from sovereign territory into ocean space. The tribunal determined that all of the Spratly features fall below the threshold (of independent human habitation and economic life) to be considered “islands,” and are therefore not entitled to have a 200-mile exclusive economic zone (EEZ) or continental shelf. Several features are “rocks,” which rate only a 12-mile territorial sea. Further, because some of the Chinese-occupied small features are underwater at high tide, they are low-tide elevations, which do not themselves generate any entitlements. The ruling rejects China’s claims to sovereignty over features that are not rocks or islands, because such features are not territory for which any sovereign title is possible.

Before the tribunal hearing, China lawfully exempted itself from compulsory dispute resolution on “sea boundary delimitations,” but the tribunal did not delimit any zones nor did it make any determinations of sovereignty. Dutton acknowledged that the tribunal

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has no mechanism to enforce its rulings, but it does have authority to “interpret and apply” the treaty, including to define island, rock and low-tide elevations and to judge geographic-based claims. He said that although this tribunal’s ruling is binding and final, it applies only to this dispute and does not represent the final word on UNCLOS. Still, it is an authoritative opinion of five highly respected international jurists who undertook a careful and systematic review of the case.

Since the award was rendered, bilateral negotiations have resumed. It also has favorable implications for the three other claimants: Vietnam, Malaysia and Brunei. If the award is respected, these countries no longer need to further litigate their case against China. Dutton noted that the high sea donut-hole in the middle of the South China Sea, waters beyond the five claimants’ 200-mile EEZs, represents an opportunity for all six parties (including Taiwan) to cooperate together for joint exploration and management.

Now China has to choose between accommodating this adverse ruling and confronting the UNCLOS system. If China chooses to please its domestic audience by adhering to its original claims, it will have adverse diplomatic consequences. If China chooses to accommodate the ruling, it will be good for its relations with Southeast Asian countries and promote the regional stability it needs for its own economic development. Dutton is hopeful that China will change its attitude and abide by international norms since, as China’s navy sails further away from its shores, it will increasingly value an open, access-oriented approach to maritime affairs.
foreign technology and scarce foreign capital. It forced Chinese manufacturing industries to become competitive in world markets and to upgrade themselves technologically.

China differs from other economically successful East Asian countries in two respects. China’s growth has relied on FDI and state owned enterprises (SOEs) more heavily than others did. More reliance on FDI meant that the Chinese economy was more open to foreign technology transfer than other countries in the same development stage. More reliance on SOEs meant that China did not engage in large-scale privatization of state-owned assets until mid- and late-1990s when smaller SOEs were let go. China’s initial success relied more on market liberalization of prices and encouragement of competition from private enterprises rather than privatization. Reliance on SOEs also meant more effective execution of the government’s economic policies and directives, such as rapid infrastructure construction throughout China. In short, China represents the most successful transition from a planned economy to a market economy, while maintaining its own political system.

Now China’s economy faces at least two constraints. One is the domestic tension between the government’s economic growth agenda and its ultimate objective of maintaining the Chinese Community Party’s (CCP) one-party control. One plausible reason that the CCP has defied many foreigners’ forecast of its demise amid a dynamic economy increasingly driven by the private sector’s growth is the CCP’s long view of its power. From time to time, it gives up some control in order to foster economic growth because it believes that healthy economic growth will in turn enhance its legitimacy and prolong its power. The other constraint has to do with international relations. Japan, South Korea and Taiwan have all been U.S. allies politically and militarily, whereas China is not. With the political trust of the U.S., these East Asian countries had an easier time with integrating their economies into the world economy. In comparison, China had to pay a higher price for market access and technology transfer. Americans are still ambivalent about China’s political system.

Two more economic challenges confronting China are inefficient use of capital by SOEs and a rapidly aging population. As the need for more infrastructure in China declines, the advantage of SOEs in construction diminishes. The average return on assets for SOEs (three percent) is only one third of that of private Chinese enterprises (nine percent), while the SOEs are twice as indebted as private Chinese enterprises on the whole. This implies that a re-allocation of resources from inefficient SOEs toward the private sector is urgently needed. In addition, the ratio of China’s working age population (15-64 year olds) to retirees is projected to decline from 6:1 today to 2:1 in 25 years. How to enhance productivity increases and technological upgrades becomes critical in light of these headwinds.

How will all these factors play out in the coming decade? Kroeber thought that China’s high debt level is unlikely to trigger another Asian financial crisis because its debt is mostly domestically financed. As long as China keeps its high savings rate and the banks have steady inflows of deposits, a high level of debt can be re-financed. He thought that it is also unlikely that China will follow the Singapore model of essentially one-party control with a conservative reform agenda and a steady middle-level growth rate simply because China is too large and diverse. A more likely scenario, according to Kroeber, is that China will resemble Japan in the 1990s, when a long-term deflation set in, but the country still kept getting richer albeit at a much slower rate, and the original system kept going more or less intact.

On the plus side, the income growth in Chinese households has been very positive; there are still many low-hanging fruits in the system to harvest. Kroeber concluded that as long as the Chinese

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government can get its act together or get out of the way of the private sector, there is still much potential for further economic growth. But if the government lets its political control agenda supersede its growth agenda or postpones crucial reforms due to vested interests and lets time slip away, that will be cause for concern.

CHINESE POLITICS IN THE XI JINPING ERA: REASSESSING COLLECTIVE LEADERSHIP

Cheng Li

Director, John L. Thornton China Center; Senior Fellow, Foreign Policy Program, Brookings Institution

October 5, 2016

In his capstone book of more than 500 pages, entitled *Chinese Politics in the Xi Jinping Era: Reassessing Collective Leadership*, Cheng Li, Director of the John L. Thornton China Center and Senior Fellow in the Foreign Policy Program at the Brookings Institution, examined the work relations of more than 500 Chinese political leaders in a political environment opaque to most outsiders. By challenging the conventional view of China as a static, rigid, authoritarian one-party state, the study aimed to clarify misperceptions in the U.S. about Chinese politics. Li’s analysis revealed a constantly changing Chinese Communist Party (CCP), whose institutional developments have enabled it to adapt to new challenges in an increasingly pluralistic and affluent society.

Li rejects two extreme views about Chinese President Xi Jinping. According to Li, Xi is not a strongman who has reversed the collective leadership model—whereby the general secretary of the CCP is considered a “first among equals”—and who strives to keep the U.S. out of the Asia Pacific. Nor is he a weak leader who, amid stalled economic reforms and slowing growth, has alienated Chinese intellectuals through media suppression and offended bureaucrats through an aggressive anti-corruption campaign. Li pointed out that these two extreme views reach the same policy recommendation: to contain China, either before it becomes too powerful or because the regime is headed toward collapse, in which case containment bears little cost. Li argued that the truth lies somewhere in the middle and warned that these simplistic conclusions will lead the U.S. to miss out on myriad opportunities offered by China’s historic rise, ultimately undermining U.S. interests.

In contrast to highly publicized American presidential elections, the lack of transparency in the inner workings of China’s top leadership gives rise to many misperceptions. Li believes that China respects U.S. leaders and pays close attention to their words and actions. In September, at the latest G-20 summit in Hangzhou, President Xi spent six hours with President Obama, whereas he spent an average of only 20 minutes with other state leaders. This was the fifth time the two leaders had met since their informal summit at Sunnylands in California in June 2013.

Since Xi took the helm of Chinese leadership in late 2012, he has installed himself as the head of 12 organizations and central leading groups, covering a wide range of areas. This has fueled the perception that he is China’s strongest leader since Mao Zedong and Deng Xiaoping. While some are concerned that Xi is building a personality cult, Li puts these actions in context. Before Xi took office, numerous factors had contributed to the decline of the party’s legitimacy: rampant corruption, fragmentation of the top leadership,
a military almost out of civilian control, and ineffective execution of government policies outside the Zhongnanhai compound, where the top leaders reside. After Xi emerged as the top leader, with landslide support at the 18th Party Congress in 2012, he was determined to restore confidence in the party. He embarked on a massive anti-corruption campaign, pursued rapid military reform, set ambitious goals for market reform, and engaged a proactive foreign policy, including grand projects like the One Belt, One Road Initiative.

According to Li, the CCP consists of two basic coalitions: the “Jiang Zemin and Xi Jinping” camp, which mostly represents the interests of developed urban areas, with party cadres rising from local governments in Shanghai, Zhejiang and Fujian; and the “Hu Jintao and Li Keqiang” camp, which represents the less-developed rural areas, with party cadres rising from the Communist Youth League (CYL). Li referred to the “princeling faction” as the core group of the Jiang-Xi coalition and called the “tuanpai (团派) faction,” a reference to its CYL underpinnings, as the core group of the Hu-Li camp. Based on this division, Li referred to his model of Chinese political leadership as “one party, two coalitions.” Before the 18th Party Congress in 2012, the top leadership of the Politburo Standing Committee (PSC) was more or less evenly distributed between these two camps. But after 2012, the balance shifted strongly in favor of the Jiang-Xi camp, which holds six PSC seats, with Prime Minister Li Keqiang serving as the only tuanpai delegate.

In his book, Li also closely examined the dynamics of the CCP’s 376-member Central Committee, which is more evenly comprised of cadres from both camps and therefore operates as one of the party’s internal checks and balances. In addition, members of this committee abide by strict age limits. By the 19th Party Congress in 2017, members born before or in 1949 will all retire. Similarly, the top leaders are limited to serving two terms, with the exception of the central bank governor, Zhou Xiaochuan, for whom the CCP emulates the workings of the Federal Reserve. Li described how the composition of the top leadership has changed over the past decades: from predominantly revolutionary party cadres at the outset; then to technocrats, mostly trained in engineering; and now to corporate leaders, successful entrepreneurs, and others trained in the social sciences, especially legal studies (albeit the Chinese version of legal training). This persistent turnover of personnel is evidence that the transition of power has become institutionalized—fueled by constraints like age and term limits.

Li characterized Xi as a man of contradictions, one who has defied all predictions about how he would govern. Examples abound: Xi favors market reform but also says that state-owned enterprises should play a bigger role in the economy. He suppresses intellectuals’ room for free speech but touts the importance of building world-class think tanks. He is sensitive about freedom of religion but leaves room for the Catholic Church and Falun Gong to operate. He opposes so-called “color revolutions,” but has met with Aung San Suu Kyi, a symbol of the “color revolution” in Myanmar. He has tightened control on NGOs in China, but his wife has supported some NGOs in the fields of tobacco control and HIV/AIDS prevention. Under Xi’s leadership, human rights lawyers are facing greater pressure in China, but he has advocated for legal development and the rule of law. On foreign policy, he asserts “Asia belongs to Asia,” but he also says that the Pacific Ocean is big enough to accommodate both China and the U.S.

Xi’s legacy—how he affects the trajectory of Chinese politics—will not be clear until after the 19th Party Congress in 2017, Li said. Xi could pursue a winner-takes-all approach and stack top positions with people from his camp, but he would face ideological, institutional and constitutional difficulties in doing so. He could team...
up with rivals from the tuanpai faction, similar to President Obama appointing Hillary Clinton, his former presidential campaign rival, as secretary of state in his cabinet. He could also sit back and allow members of the PSC to emerge through elections within the Central Committee, which would not only enhance the legitimacy of the top leadership but also would probably result in stronger representation from his own camp, given the current composition of the Central Committee. It’s not certain which path Xi will follow, but Li believes that Xi will act based on what best accommodates his long-term interests.

In conclusion, according to Li, Xi is a leader who is sophisticated and practical enough for Americans to work with in order to pursue mutual gain. It would be a mistake to believe that Xi’s policies and strategies are predetermined and immutable—the kind of thinking that leads policymakers to adopt a containment approach toward China. Such misguided reasoning precludes the compelling possibility of cooperation and increases the chance of hostility, or even war. Invoking one of Winston Churchill’s famous sayings, Li left China watchers to decide for themselves whether to perceive matters as pessimists who “see calamity in every opportunity” or as optimists who “see opportunity in every calamity.”

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When the People’s Republic of China (PRC) was founded in October 1949, Tibet was a de facto independent country. How to persuade the Tibetans to accept becoming part of the PRC was a major issue confronting Chairman Mao Zedong and his top aides. What was his decision and what are the consequences in the ensuing decades? What does the future hold for the status of Tibet vis-à-vis Beijing? Dr. Melvyn C. Goldstein, John Reynolds Harkness Professor of Anthropology at Case Western Reserve University, Co-Director of the Center for Research on Tibet and a member of the National Academy of Sciences, reviewed the modern history of Tibet’s relationship with Beijing and suggested an uncertain future as Beijing tries to win Tibetans’ loyalty through an “internal strategy” that does not include the Dalai Lama and Tibetans in exile.

Goldstein first distinguished “political” Tibet, the kingdom traditionally ruled by the line of Dalai Lamas (basically today’s Tibet Autonomous Region), from “ethnographic” Tibet, the ethnic Tibetan area in today’s Qinghai, Sichuan, Gansu, and Yunnan provinces. His talk delineated the vicissitudes in the relationship between Beijing and political Tibet over more than six decades.

In 1949, Mao set out to incorporate Tibet peacefully, using a carrot and stick approach that combined negotiations with a threat

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of invasion if the Dalai Lama did not cooperate. After the Dalai Lama refused Beijing’s offer, the PLA invaded Tibet in October 1950 and quickly won. This forced the Dalai Lama to negotiate, which led to the signing of the “17-Point Agreement for the Liberation of Tibet” in May 1951. This Agreement was a compromise. It allowed the Dalai Lama to continue to rule Tibet internally with its own officials and laws, and with no changes to the traditional socio-economic system, but Tibet had to accept Chinese sovereignty and allow Chinese troops and officials to enter Tibet peacefully.

Having incorporated Tibet, Mao pursued a “gradualist” policy that sought to gradually win over the Dalai Lama and the elite to accept land and other socialist reforms. The 17-Point Agreement stated that reforms would be implemented when the Dalai Lama, the elite and the masses were ready to accept change, but it didn’t specify how long that would be. This ambiguity led to a major dispute among Chinese officials stationed in Tibet. On one side was General Zhang Guohua, who strongly agreed with Mao’s policy. On the other side was Fan Ming, who disagreed. He believed that the Dalai Lama and the elite would never agree to reforms with an indefinite timetable, so he sought to use the Panchen Lama to push through reforms quickly in his own territory. Fan thought this would prompt the peasants in the Dalai Lama’s territory to demand the same, thereby pressuring the Dalai Lama to agree to reforms. Fan’s plan was stopped by Mao and Deng Xiaoping, who asserted that the gradualist policy was best for China in the long run.

Meanwhile, in 1954, the Dalai Lama visited inland China for a year and was so impressed with China’s development that he asked if he could join the Chinese Community Party (CCP). However, after returning to Tibet in 1955, the Dalai Lama found too much opposition to change, so Mao concluded that the time was still not ripe for reforms.

In 1956, when Fan Ming was in charge of the CCP office in Lhasa, he tried again to start to implement reforms on his own, bringing over 3,000 Han cadres to Tibet and recruiting thousands of Tibetans to become party members. But his hopes were again thwarted by Mao, who felt that they should still wait. Fan was later arrested as Tibet’s “Greatest Rightest” and was sent back to Xi’an, where he spent 16 years in prison and labor camps. After Fan’s removal, Mao’s gradualist policy dominated and the Dalai Lama’s government continued to administer Tibet internally until the Tibetan uprising of 1959, at which time the Dalai Lama and his top officials fled to exile in India.

Yet Fan Ming’s views lingered. After the uprising, many in the party felt deceived by the Dalai Lama and the elite who, they believed, had really been plotting an independent Tibet. In an interview with Goldstein in 1993, Fan Ming asserted that the current conflict over the status of Tibet would not exist if his ideas had been implemented during 1956-57 – there would have been no uprising, the Dalai Lama would not be in exile, and Chinese sovereignty over Tibet would not be an issue on the international stage.

Since Tibet was fully incorporated into the PRC in 1959, there was no contact between the Dalai Lama in exile and Beijing until 1978 when Deng Xiaoping came to power. Deng and his right-hand man, Hu Yaobang, returned to a more moderate policy in Tibet, in a sense, a return to Mao’s conciliatory policy. Internally, religious practices and monasteries were again permitted. Externally, Deng Xiaoping invited one of the Dalai Lama’s brothers, who lived in Hong Kong, to visit Beijing and allowed him to visit Tibet. Beijing’s basic line then was that anything could be negotiated except Tibet’s independence. Things began to look promising. In 1979, the Dalai Lama sent a fact-finding mission to Tibet. But to the shock of Beijing, the mission was greeted warmly by the Tibetans with affection and support for the
Dalai Lama. Beijing was stunned that the Tibetans’ ethnic identity still trumped their class identity.

Not surprisingly, the negotiations with Beijing did not go anywhere. The exiles wanted at least extreme autonomy wherein the Dalai Lama would return to administrate a new Tibet that included political and ethnographic Tibet, which would have its own democratic form of government. Beijing totally rejected this demand. Then the Dalai Lama tried to bring pressure on Beijing by waging an international campaign. He made his first visit in 1987 to the Congressional Human Rights Caucus in Washington, and called for China’s withdrawal of its troops from Tibet. Meanwhile, Tibetan monks in Lhasa started to demonstrate their support for him and his cause. This quickly ended in a major riot in Lhasa in 1987. After three additional serious riots, Beijing declared martial law in 1989. As a consequence, many of the hardliners in China who had warned against Hu Yaobang’s policies felt vindicated. The cultural-religious-linguistic reforms started by Hu Yaobang were again limited. Several attempts at new talks between Beijing and the Dalai Lama were made, but failed. At present, there seems no likelihood of initiating negotiations anytime soon.

While Beijing has not given up on Mao’s basic policy of trying to win over Tibetans to be satisfied citizens of multi-ethnic China, its main focus now is on economic development and rapid improvements in the standard of living of average Tibetans. This is what Goldstein called Beijing’s “internal strategy” to solve the Tibetan question without dealing with the Dalai Lama. Initially, large infrastructure projects were implemented in Tibet. Since the 12th five-year plan (2011-15), Beijing has carried out “People First” programs, spending vast sums to provide better housing, health care, electricity and poverty alleviation projects for rural Tibetans at the village level.

Yet, this effort has not produced greater loyalty among Tibetans. According to Goldstein, Mao’s goal of gradually winning the trust of the Tibetan people is no closer to being realized today than in the 1950s. Tibetans, although materially much better off than they have ever been, still resent Han chauvinism and Han domination of political and economic life in Tibet, as well as a host of strict restrictions on Tibetan religious practices and language use. However, Goldstein envisioned a different trajectory in which Beijing could shift its tactics after the Dalai Lama dies and make a third attempt at a gradualist policy (first was Mao, second was Deng Xiaoping-Hu Yaobang) because it is fair to assume that the risks of giving more culture and religious freedom to Tibetans will be much diminished with no adult Dalai Lama in exile.

CROSS-STRAIT DILEMMAS
Professor Syaru Shirley Lin
Chinese University of Hong Kong
Professor Harry Harding
University of Virginia
October 20, 2016

For decades after 1949, both the governments of Taiwan and the People’s Republic of China (PRC) were committed to the eventual unification of Taiwan with the rest of China. But the conditions for this commitment have fundamentally changed over the past two decades as more and more people in Taiwan consider themselves non-Chinese, and increasingly embrace civic values largely absent in the PRC. Can this identity shift in Taiwan be reversed and the hope of eventual unification restored? Can America’s long-standing policy of

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dual deterrence be maintained? Or does it have to revise its policy in light of these fundamental changes? Professor Harry Harding of the University of Virginia and Professor Syaru Shirley Lin of the Chinese University of Hong Kong explained these intractable dilemmas from the viewpoints of Taiwan, Beijing and Washington.

Before Taiwan’s democratization in the late 1980s, cultural affinity and a common objective of “one China” made eventual unification a feasible goal. A majority of the people living in Taiwan considered themselves exclusively Chinese. The two economies were highly complementary. On this basis, economic relations across the Strait exploded, and the U.S. could state that it would accept the eventual reunification of Taiwan and the PRC as long as the process was peaceful.

However, Taiwan’s economic policy toward the PRC oscillated. First in 1996, President Lee Teng-hui implemented a policy of “no haste, be patient” after the missile crisis across the Taiwan Strait. When Chen Shui-bian became the first president of Taiwan from the Democratic Progressive Party (DPP) in 2001, he wanted to appeal to a bigger constituency base, and revoked Lee’s policy by establishing an active opening effective management policy to expand economic relations with the PRC. Both those episodes occurred when identity was polarized and led to emotional debates over extreme economic policies. Support for protectionism was associated with an expression of a Taiwanese identity and support for liberalization was associated with a Chinese identity.

As Taiwanese identity became consolidated, the debate over cross-Strait policy became less intense, and centered on more moderate policy adjustments. But, identity can become salient again when the threat from the PRC to that identity increased, as in the intense debate over the ratification of the Cross-Strait Service Trade Agreement that culminated in the Sunflower Student Movement in 2014.

However, now the Taiwan situation has changed drastically. China’s economic and political power has grown to become a leading economy, accompanied by rising nationalism domestically, while most people in Taiwan have formed a Taiwanese identity distinct from a Chinese identity. In the early 1990s, more than a quarter of people on Taiwan considered themselves exclusively Chinese but that has dropped to only three percent, while a majority has come to identify themselves as exclusive Taiwanese since 2009. Since 2010, the percentage of Taiwanese who are either exclusively or partially Taiwanese has consistently exceeded 93 percent. The benefits from the economic integration with the PRC have been unevenly distributed. Taiwan’s investment in the PRC is 60 percent of its cumulative outbound investment, while Taiwan’s trade surplus with the mainland reached a ten-year low in 2015. The Taiwanese want their government to put “Taiwan First” in formulating its policies vis-à-vis the mainland, even if economic interdependence across the Strait cannot be reduced easily. Surveys also indicate that certain civic values, such as rule of law, freedom of speech, press and assembly, and a clean environment are important to the Taiwanese. All this makes eventual unification even under the most favorable conditions far less attractive to Taiwanese than it once may have been. Support for immediate unification is now only at 1.5 percent in Taiwan.

This presents Beijing with a difficult dilemma. It can choose to stay the course, hoping that closer economic integration will lead to political spillover, but so far it has not been effective. Beijing could also increase pressure on Taiwan by forcing economic and diplomatic sanctions, including restricting tourism and further squeezing Taiwan’s space in international organizations, and even issuing military threats. So far, this approach has been counterproductive. A final option, which may be the most effective, is to narrow the gap with
Taiwan by taking on serious political reforms and fostering those civic values espoused by Taiwanese. But this option poses great domestic risks for the Chinese Community Party (CCP).

Washington also faces some difficult choices. The assumption in the 1970s that both sides of the Taiwan Strait were committed to eventual unification, and that the U.S. would not challenge that outcome as long as it occurred peacefully, no longer holds, and the prospect of peaceful unification has diminished; the costs and the risks of maintaining Taiwan’s security have risen as China’s military development continues. Washington can choose to strengthen its support of Taiwan’s international space in organizations where national sovereignty is not required, upgrade its unofficial relations with Taiwan, while maintaining Taiwan’s military capability for dual deterrence as before, but Beijing may become increasingly impatient with such a policy. Washington could also accommodate Beijing by explicitly endorsing peaceful unification as the preferred outcome. Or Washington could even terminate its security commitment to Taiwan in exchange for Chinese accommodation on other policy issues as part of a “grand bargain” with Beijing, although the details would be difficult to negotiate and might prove highly controversial in both countries.

The changes in Taiwan parallel broader international trends, including the rise of local identity in Europe and Asia and a growing backlash against the unequal distributive effects of globalization. In addition, Taiwan has fallen into the “high income trap” which affects many other advanced economies, including the United States, Hong Kong, Japan and much of Europe. The trap is characterized by high youth unemployment, inequality, stagnating growth, flat wages for lower-skilled workers, a decline in fertility and a high level of dissatisfaction with the establishment among the young. One major difference is that young Taiwanese blame China for their problems rather than globalization. What is perhaps more important than the economic causes is the value gap between Taiwan and China, which will be much harder to resolve. Taiwan’s China dilemma continues as President Tsai Ing-wen has to decide whether to reaffirm or avoid the 1992 Consensus, and whether to deepen or restrict economic integration with the PRC in order for Taiwan to escape its high income trap.

XI JINPING: THE THREE PROBLEMS AND THE TWO ISSUES
Professor Joseph Fewsmith
Professor of International Relations and Political Science,
Pardee School of Global Studies, Boston University
October 26, 2016

Since Xi Jinping took over the helm of the Chinese top leadership at the end of 2012, he has noticeably consolidated his power by placing himself as the head of many working groups covering a wide range of issues from economic policy to national security, and through a forceful anti-corruption campaign in which many “tigers” have fallen from high positions. What motivated him to adopt these measures? What did he have in mind? What is he trying to achieve? What are the implications of his actions? Professor Joseph Fewsmith of Boston University’s Pardee School of Global Studies addressed these questions in turn.

When Xi took office, he confronted three problems: extra-organizational opposition, increasing party dysfunction, and the nagging question of legitimacy. In Xi’s own words, he accused those “fallen tigers,” including Bo Xilai, Party Secretary of Chongqing; Zhou Yongkang, Secretary-General of the Central Political and
Legal Commission; Xu Caihou, Vice President of the Central Military Commission; and Ling Jihua, Secretary of the General Office, of not only “unscrupulous and reckless” violations of party discipline but also engaging in “political conspiracy” to “split the party.” The phrase, “split the party,” is reminiscent of the charge against Party Secretary General Zhao Ziyang, who was under the same charge in the spring of 1989. There are consequences once officials cross those implicit lines. Serious erosion of the party discipline is compounded by formidable political factions rooted in personality and location. The factions rooted in Shanxi Province are a case in point, with close relationships stretching from local areas all the way to the center, impossible for outsiders to penetrate. For example, Chen Yuanping, a capable young man, rose to the position of CEO of the Taiyuan Iron and Steel Company at the age of 38. He quickly grew the company into a large-scale global company with funds approved by Ling Zhengce, a member of the provincial governing council and an older brother of Ling Jihua. Ling Jihua was then the head of the party’s Central Office in Beijing and had established his own Western Hills Club, a personal clique consisting of people with connections. Ling Jihua’s son, Ling Gu, died in a car accident; the luxury car he was driving was a gift from Chen. As a result of the anti-corruption campaign, about 80 percent of the top Shanxi provincial officials were removed and replaced.

Since the dissolution of the Soviet Union in 1991, the Chinese top leaders have been in a deep soul searching mode, as reflected in some editorials in the People’s Daily under the pen name, Ren Zhongping. They attribute the collapse of the great Soviet state to the wavering of the Russians’ ideal of and conviction to Communism. They concluded that the Chinese must re-affirm and renew their dedication to the party, with little tolerance for any deviation from the party line.

Fewsmith identified two issues in top Chinese politics: leadership succession and political biography. He is not convinced that the Chinese top leadership succession has been institutionalized by the established convention of two-term limit. He is inclined to think that the degree of generational influence has more to do with particular circumstances of succession. When President Jiang Zemin took office in the early 1990s, he became the real Number One Leader (一把手) after Chen Xitong and a few others fell from high offices under corruption charges. He touted the importance of “productive forces,” representing the interests of China’s more prosperous coastal areas. When Jiang retired, he expanded the size of the Standing Committee of the Politburo from five to nine and stacked it with his preferred candidates in key positions. After Hu Jintao succeeded him in the 16th Party Congress in 2002, Hu promulgated the concept of “scientific development” and “harmonious society,” placing the interests of the majority of the people front and center. But due to Jiang’s residual influence, Hu never became the real Number One Leader and didn’t accomplish much in his second term.

In contrast, Xi has clearly established himself as the Number One Leader in China by building his own network and setting up his own agenda. Xi also differs from his predecessors in that he is a party princeling, the son of a prominent revolutionary.
party discipline, he also tries to appeal to the population by attacking corruption and promoting the happiness of the people. Since he hasn’t yet changed any structure or incentives against corruption, Fewsmith doubts the possibility of eradication of corruption at its roots.

This analysis has two implications. One is that power rolls back to the party from the executive branch of the government, headed by the State Council, where expertise on managing the economy resides. Prime Minister Li Keqiang’s position has been weakened. Second, a more centralized party state leaves narrow bands for the civil society in China in terms of the range of public discussion topics and the degree of public participation in civic affairs, as demonstrated by the infamous Document No. 9, which prohibits discussion of seven topics such as civil society and constitutionalism. This is especially sobering against a backdrop of a more diversified and pluralistic society with views ranging from neo-Maoism to liberalism and a more globalized world.

For the 19th Party Congress next year, Xi is likely to further consolidate power. The question is: What will he do with it? Will he simply put a stopper in the bottle of this effervescent civil society or let out some steam and reduce the pressure inside the bottle? Studies have shown that a rule-based bureaucracy is more compatible with long-term economic growth. China has defied this general pattern for more than three decades. Can this continue? Fewsmith hopes to see more room for the civil society and the executive branch of the government to function normally.

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BOOK TALK
THE DICTATOR’S DILEMMA:
THE CHINESE COMMUNIST PARTY’S STRATEGY FOR SURVIVAL
Professor Bruce J. Dickson
Professor of Political Science and International Affairs; Director, Sigur Center for Asian Studies, Elliott School of International Affairs, The George Washington University
November 2, 2016

As China becomes a more market-oriented economy with a growing middle class, the incongruity between the demands of a market economy in a more globalized world and the limits of a Leninist state must be heightened on a priori reasoning. Many outside observers ponder how secure or fragile the Chinese regime is and how the Chinese Communist Party (CCP) tries to hold onto power.

Professor Bruce J. Dickson, Professor of Political Science and International Affairs at The George Washington University, provided contrarian evidence to this a priori reasoning from two surveys of the Chinese masses in 2010 and 2014, two years before and two years after President Xi Jinping took office. Both surveys suggested no imminent danger to the regime, despite some genuine frustration with certain public issues such as air pollution and corruption. Whereas most American analysts of China focus on the politics of the Chinese elites, Dickson brought Chinese public opinions to bear when he analyzed the CCP’s strategy for survival.

The CCP’s strategy for survival has three components, each of which has its own short-term benefits and long-term risks, thereby posing dilemmas for the top leadership. First, repression of...
ideas, individuals and organizations creates an appearance of stability now, but can antagonize many people into opposition down the road if repression expands too far. Second, economic growth may legitimize the party’s control, but more material prosperity also brings with it many changes in people’s values and world views, becoming more pluralistic and diverse. Third, co-optation of promising young college students and entrepreneurs brings talent and fresh blood into the party, but at the same time plants the seeds for potential future reforms within the party, since a significant portion of the new recruits come from a social strata different from the traditional party base.

Contrary to people’s anticipation from China’s general tightening of non-governmental organizations (NGOs) and increasing pressure on human rights lawyers since 2008, the number of NGOs has actually increased. As long as NGOs don’t push for political change and are not involved in sensitive areas like human rights protection, the room for NGOs in education, job training and clean environment has expanded. Many NGOs have fostered close ties with local officials in order to operate but still face suspicion from the state and their fellow citizens.

Whereas foreigners often deem pro-democracy Chinese dissidents as heroes, the surveys showed that political dissidents actually don’t have much public support in China. Although censorship under Xi Jinping’s leadership has intensified, the percentage of Chinese antagonized by censorship per se is actually very small. Only about half of the Chinese population is online and of those, only about 15 percent are affected by censorship. And of this much smaller subsection, about half of them don’t think censorship matters, since most online activities are about social activities like shopping, gaming, and watching videos; most are not discussions on politics.

President Xi’s forceful anti-corruption campaign enjoys public support as it captures “mega-tigers” like Zhou Yongkang, former security czar and a member of the Politburo’s Standing Committee. But the campaign may also damage the image of the party among ordinary Chinese, who are used to corruption at local official levels, but now realize it is also prevalent at the very top of the party, government and military. Xi has to tread a fine line between the need to fight rampant corruption and the need to restore the party’s reputation by calibrating the extent of repression and the anti-corruption campaign.

The surveys also indicated no strong relationship between China’s macro-level economic growth and the legitimacy of the party. The incomes of most urban Chinese have continued to rise despite the recent economic slowdown; most also remain optimistic about their future. This is not a context in which we should expect a revolutionary upheaval to overthrow the regime.

The CCP also uses popular values as a source of regime support. Dickson distinguished two overlapping but not identical types of nationalism. One is patriotism, being proud of China’s greater role in world affairs, which is normal and expected. The other is anti-foreign, particularly anti-Japanese, which is vitriolic. The CCP is also drawing upon more traditional, especially Confucian, values to bolster its legitimacy while downplaying Marxism and Leninism. Deng Xiaoping’s “seeking truth from facts” (实事求是), Jiang Zemin’s “prosperous society” (小康社会) and Hu Jintao’s “harmonious society” (和谐社会) all have strands in traditional Chinese culture. Xi Jinping’s “China dream” (中国梦) is a continuation of the 19th-century Chinese elites’ quest for a rich and strong China.

The CCP has no trouble with recruiting new members. With its members approaching 90 million, the party worries about becoming too big. Fewer than 10 percent of applicants get admitted into the Party. Data show that most young people join the Party in
order to benefit their careers, whereas older party members tend to be more aligned with the party’s traditional values. People outside the Party are more cynical, believing that applicants nowadays are motivated by self-interest rather than idealism.

Dickson concluded that public opinion through surveys was not the only basis for predicting the CCP’s longevity, but needed to be better understood. Predictions of regime change by outside observers are often based more on what they would prefer to happen rather than is likely to happen. And even when regime change does happen, the old authoritarian regime is more often replaced with another form of authoritarianism and not a functional democracy.

LIVING WITH A CHINA MADE GREAT AGAIN

Ambassador Chas W. Freeman, Jr.

Senior Fellow, Watson Institute for International Studies, Brown University; former Assistant Secretary of Defense for International Security Affairs; former U.S. Ambassador to Saudi Arabia; former Principal Deputy Assistant Secretary of State for African Affairs; former Deputy Chief of Mission and Chargé d’affaires in the American embassies in Bangkok and Beijing; former Director for Chinese Affairs, U.S. Department of State

November 9, 2016

For decades, since the end of the 1970s, when China began to unleash market reforms and open to the outside world, China looked up to the U.S. as a tutor for directions of future reforms. The U.S., accustomed to being admired as a role model, was happy to be the tutor. In recent years, however, China is no longer the humble student, and the U.S. is out of its comfort zone with China. China challenges many American axioms of thought that we are used to taking for granted. Ambassador Chas W. Freeman, Jr., Senior Fellow of the Watson Institute for International Studies at Brown University, former Assistant Secretary of Defense for International Security Affairs and former Director for Chinese Affairs at the U.S. Department of State, explained these challenges and called for a re-imagination of this important bilateral relationship in light of new facts.

One of these facts is that liberal democracies have been outperformed by autocracies in recent years. Democracies presume that people know what they want and should get it. The fact is that neither presidential candidate, Donald Trump nor Hillary Clinton, was accommodating to China during their campaigns. The comfortable “tutor-student” relationship has drifted into competition, even distaste and rivalry. Furthermore, empathy and humility deficits in both China and the U.S. have made it difficult to get along.

One of the presumptions that we take for granted is that laissez-faire economies produce better economic growth than industrial policies; but it turns out that countries with industrial policies grow faster, Freeman said. We assume that freedom of speech and press is necessary for scientific advancement and technological innovation, but China proves otherwise; its censorship only applies to politically sensitive areas. We also assume that market economy and material prosperity will lead to political liberalization, but China’s growing middle class seems to prefer social stability and personal security over political liberalization.

On foreign relations, Freeman refuted the prevailing American narrative of America’s role in a changing international

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context. Our assumption of American primacy in the world order does not stand up to close scrutiny. We insist on freedom of navigation in the South China Sea, while two-thirds of the annual trade passing through is to and from China. The U.S. main claim to legitimacy is its establishment of a rule-based international order, but China now seems to respect the UN charter and other international laws more than the U.S. does. The U.S. “security alliances” in the post-Cold War era are no longer based on common fear or aspiration but have become mechanisms for sustaining interoperability for ad hoc cooperation in contingencies. Countries in East Asia and the Pacific are neither “with us nor against us.” They are there really for themselves.

Freeman emphasized that size matters. China’s industrial output is about one and half times that of the U.S. China has begun to write more rules for markets of electronics, medical equipment and other manufactured products. China dominates the world’s trade and commodities markets from metals to grains. China’s exceptionally large market size makes more try-outs on technology frontiers affordable, such as in genomics research and cellphone markets where customer-feedback-focused innovations by manufacturers like Xiaomi are now common. This, combined with a massive and mostly well-educated labor force and a first-rate infrastructure, has resulted in unparalleled productivity growth in China.

Freeman anticipates that China’s One Belt, One Road Initiative, supported by multiple newly-established funds, will make much of Eurasia and the Indo-Pacific Sinocentric. The Trans-Pacific Partnership (TPP), which included the U.S. and its so-called “allies” in the Pacific but excludes China, would not have changed this general prospect, especially now that the TPP deal is dead. New China-initiated banks offer countries a real source of funding, as the Bretton Woods institutions no longer can. Rather than challenging the existing rules, these banks have collaborated with the World Bank and the Asian Development Bank in funding projects. China has also set up its own international bank clearing system, an alternative to the SWIFT system, so that financial transfers across borders do not have to be carried in dollars and cleared in New York under the jurisdiction of the Federal Reserve. This will weaken the effect of any U.S. economic sanctions on other countries.

Freeman went on to describe China’s formidable financial prowess and technological capabilities. China’s foreign direct investment abroad through mergers and acquisitions in the first nine months of this year alone reached $191 billion, excluding $40 billion rejected by the U.S. and some others on national security grounds. Chinese investment abroad is now twice the investment by foreigners into China. Even the Chinese court system, once incompetent in the area of intellectual property rights, is becoming efficient. Some foreign companies are litigating each other in China. Massive flows of Chinese tourists still frequent department stores in London and Paris for luxury goods despite the anti-corruption campaign at home.

China’s investment into R&D is now about 20 percent of the world’s total, second only to the U.S. China turns out 30,000 PhDs in science and engineering each year and is beginning to take the lead in many cutting-edge research areas, including renewable energy, nuclear power, robotics, genomics, quantum computing, big data, and deep sea, as well as space explorations. These advanced researches will inevitably lead to upgrading of its military technology, stimulated by American surveillance and other operations near China.

Freeman concluded that we misconceive China as just a power in East Asia or the Pacific. It is also one in Central Asia, Europe, Africa, as well as in cyber and outer space. He called for the U.S. to re-imagine a different path to deal with China, taking into account the new reality that China has become a world magnet of trade and

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finance, and increasingly of talent as well. While intensifying its ties with Russia, the EU, the Arab world and Africa, China does not try to export its odious political system abroad. It focuses on sustaining its system while strengthening itself into a great world power.

CAN CHINA BACK DOWN?
CRISIS DE-ESCALATION IN THE SHADOW OF POPULAR OPPOSITION

Professor Alastair Iain Johnston
Governor James Albert Noe and Linda Noe Laine
Professor of China in World Affairs, Government Department, Harvard University

November 16, 2016

When Chinese negotiators claim that their hands are tied by domestic public opinion, are they really constrained, or is it merely a negotiation tactic to press their negotiating partner to make concessions? If it is the former, in the absence of free elections, how can the public really constrain their choices? And even if Chinese leaders do believe that the public can tie their hands, they may also want the option of backing down in a foreign confrontation. If so, what can they do to minimize the cost in domestic public opinion? Alastair Iain Johnston, Professor of China in World Affairs in the Harvard Government Department, addressed these questions with data analysis from a survey experiment conducted in China, in collaboration with Professor Kai Quek from the University of Hong Kong.

Johnston underlined, at the outset of his presentation, that this opinion survey was conducted on the assumption that Chinese leaders are constrained by public opinion. Plausible reasons for this constraint in the absence of free elections include fear of offering an excuse for intra-party rivals, fear of a spontaneous breakout of public street demonstrations, and a normative imperative that leaders should act in accordance with the wishes of the people. Johnston admitted that he is not convinced that the Chinese government at the highest level is constrained by public sentiment. Chinese leaders may be more susceptible to elites’ opinions than to public opinions, or to President Xi Jinping’s own preferences, which could be more hawkish than public opinion.

Regardless how China gets into a conflict, if domestic public opinion does constrain the Chinese government, the survey results point out some ways for Chinese leaders to minimize negative backlash if they intend to back down from a foreign confrontation. The survey experiment used as a scenario the dispute between China and Japan over the Diaoyu Islands – Senkaku Islands in Japanese – a particularly sensitive issue in Chinese public opinion. The scenario posited that the Japanese government, which currently exercises administrative control over the islands, decides to build structures on the islands. China’s leaders publicly threaten to use force against Japan, but in the end decides to back down. One group of survey respondents – the control group – was then asked about their level of support for the leaders under this baseline condition. In addition, five other groups of respondents were randomly assigned to different treatments – or reasons for the Chinese leaders to back down and not follow through with force.

The five treatment scenarios were, respectively, China’s backing down after an offer of mediation from the United Nations, the most legitimate international organization in China’s view; China’s backing down in the face of a U.S. threat of military involvement; China’s backing down after invoking China’s identity as a peace-loving Continued from page 19

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people; China’s backing down by invoking the rationale of economic costs of stability and prosperity; China’s backing down militarily but instead imposing punishment on Japan through economic sanctions.

The survey findings showed that all the treatments, except the threat of U.S. intervention, improved support for the Chinese leaders over the baseline level of support. Increases in support were especially large with the threat to impose economic sanctions on Japan. The one treatment where support dropped compared to the baseline condition was backing down in the face of U.S. military threats, although this difference was not statistically significant.

The same sample population was also dissected into nativists and non-nativists, for which the litmus test is whether the respondent supported the government even if he/she thought the government’s decision was wrong, and dovish people and hawkish people, for which the litmus test was whether he/she would enhance social welfare at the cost of reducing military expenditures. Compared to the baseline level of support, nativists were much more likely to reduce support for the leaders if they backed down in the face of U.S. threats. Not surprisingly, doves’ approval ratings for the leaders were higher in all treatments compared to hawks. Hawks were also willing to severely punish leaders for backing down in the face of U.S. threats, whereas doves were not. A key question, then, is how representative of the broader population are non-nativists and doves. It turns out that these groups are not majorities in the sample, but not an insignificant minority either. Johnston was uncertain to what extent this sample resembles the Chinese population. In any case, the result is in line with the previous result before dissection, except that the loss of public opinion from China’s backing down in face of U.S. military threat becomes statistically significant.

The more non-nativists and dovish Chinese are politically mobilized, the less the cost of public opinion if China backs down from its military threat and the more flexibility the Chinese government has with reneging on its threat. Then the question becomes how to mobilize these Chinese while de-mobilizing nativists and hawkish Chinese. Unfortunately, a high-profile U.S. military deterrence posture is a double-edged sword. On the one hand, it will increase the economic costs of Chinese military actions, motivating non-nativists and dovish people, but on the other hand, it will leave the Chinese government less flexibility with backing down from its military threat due to the most significant loss of public opinion among all the five treatment scenarios. In addition, the findings suggest that if public opinion matters for China’s leaders, then high profile U.S. military threats may tie the leaders’ hands, making it harder for them to back down in a crisis over the disputed islands even if they might prefer to do so.

BEIJING FACES ITS PERIPHERY:
UPDATE ON HONG KONG AND TAIWAN

Dr. Richard Bush
Brookings Institution: Senior Fellow, the Michael H. Armacost Chair, the Chen-Fu and Cecilia Yen Koo Chair in Taiwan Studies, Director of the Center for East Asia Policy Studies, and Senior Fellow, Foreign Policy, John L. Thornton China Center; former Chairman and Managing Director, American Institute in Taiwan

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Facing many perennial problems in its periphery, China adopts different approaches to each of them. Whereas China confronts the Tibet and Xinjiang problem through repression and an
influx of Han people into the region and the South and East China Sea disputes by testing the tolerance level of other countries, China’s goal for handling the challenges of Hong Kong and Taiwan is to find a feasible institutional formula that simultaneously satisfies Beijing’s desire of maintaining some degree of control and the local people’s wish for unfettered universal suffrage.

The general formula was invented by the paramount Chinese leader, Deng Xiaoping, in the early 1980s and termed “one country, two systems.” But the details under this formula are complex and have run into various difficulties in both Hong Kong and Taiwan. Richard Bush, Senior Fellow at the Brookings Institution and former Chairman and Managing Director of the American Institute in Taiwan, explained the background of these challenges and gave an update on the latest development in Beijing’s relationships with these two places.

After Deng Xiaoping came to power in 1978, he announced Beijing’s ultimate objective of uniting Hong Kong, Macau and Taiwan with the mainland, although he was pragmatic enough in practice to subject this objective to a more overarching goal of restoring economic growth and the legitimacy of the Communist Party on the mainland. He exhibited some patience and flexibility during the negotiations with the British in the 1980s, while holding an unwavering determination of taking over Hong Kong in 1997. Beijing agreed that the Hong Kong Special Administrative Region (HKSAR) should be an executive-led autonomous region with a separate political system from the mainland, and that “autonomous” meant “home rule” from Hong Kong by a Hong Kong executive. Moreover, Beijing guaranteed the rule of law and protection of civil and political rights. However, the central government preserved control over who the chief executive would be by having him selected by an election committee whose members were pro-Beijing due to their own economic and political interests. It also dictated that at least half of the seats in the Legislative Council would be picked by special interests. Hence, a hybrid model of generating the chief executive came about: preservation of the rule of law and civil and political rights on the one hand, but preserving control over who would occupy many of the most important positions.

Why did China agree to the rule of law and civil and political rights? During the negotiations in the 1980s, the British convinced Beijing that they were essential for maintaining Hong Kong’s prosperity and capitalist market economy. This concession by China became a “poison pill” to be used by Hong Kong’s democrats later to press their political rights and democratic elections. This is why Hong Kong, after 1997, can continue to hold an annual vigil for the victims of the June 4th protest of 1989, and maintain a protest culture.

In early 2014, Beijing was willing to move toward the election of the chief executive by universal suffrage instead of the election committee. But it required that the candidates for that election be picked by a nominating committee that would be dominated by pro-Beijing and pro-establishment interests. The pan-democrats feared that this would allow Beijing to screen out candidates it didn’t like, so it mounted a concerted campaign to reform the election mechanism. Then the “umbrella movement” erupted in the fall with protesters blocking three major thoroughfares in the downtown area. Beijing poorly handled its public relations throughout this fraught period. In the spring of 2015, the Hong Kong government, in a legislative draft that fleshed out the details of Beijing’s approach, proposed a two-stage process that would give a centrist democrat the chance not only to be selected as a candidate but also picked as chief executive in a universal-suffrage election. But by that time the mistrust between the pan-democrats and the pro-Beijing faction was so deep that this proposal to move in the right direction was voted down in the Hong Kong legislature.

More recently, a minor Hong Kong bookseller, holding a British passport, was arrested in Guangdong in the end of 2015, for
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selling books denigrating Chinese leaders. It is not clear whether this arrest was under Beijing’s instruction, but Beijing has indicated that such arrests would not happen again. Nonetheless, disproportionate media attention on this incident has put Beijing in a very negative light. Another incident had to do with some newly elected legislative council members who changed their oath of affirming Hong Kong as an unalienable part of China upon taking office. Such provocation of Beijing’s sovereignty should be judged by the Hong Kong court system, but Beijing instructed Hong Kong what to do. These incidences have undermined people’s confidence in Hong Kong’s rule of law and liberal order.

In Taiwan, the Democratic Progressive Party (DPP) won a stunning victory in both the presidency and the Legislative Yuan in the spring of 2016. This was a clear indication of a changing mainstream view from considering, as of a few years ago, Taiwan’s economic ties with the mainland as beneficial to Taiwan to being concerned that Taiwan not become too dependent economically on the mainland. But Beijing has failed to understand Taiwan’s changing public sentiment, and insisted that the new president, Tsai Ing-wen, must explicitly acknowledge the 1992 Consensus and its core connotation, that Taiwan and the mainland belong to the same China, as a pre-condition for normal cross-Strait relations.

While Tsai cannot make this declaration for fear of political suicide, she cannot ignore Beijing’s demand completely either, for her domestic objectives on Taiwan’s economy depend on a reasonable relationship with the mainland. To straddle, she acknowledged the historic 1992 meeting in somewhat ambiguous ways in both a post-election interview and in her inaugural presidential address. But Beijing has yet to show any flexibility with its pre-condition. It seems that Beijing does not want to accommodate her, and continues hoping to deal with the KMT when it returns to power in the future.

To explain the stalemates in Beijing’s relationships with Hong Kong and Taiwan, Bush conjectured three plausible reasons. First, President Xi Jinping, under domestic pressure, feels compelled to take a hard line position. Second, those Chinese who really understand Hong Kong’s and Taiwan’s situations don’t dare to speak up, and the balance of power in Beijing has shifted to the hardliners, dominated by various security agencies of the central government. Third, Beijing has changed its assessment about the threat from both places. Chinese hardliners feel that the independence forces along its periphery are becoming stronger and that they must fight back. They’re worried about the possibility of transmitting to the mainland these places’ demands for unfettered democracy. Their best strategy is to thwart this tendency early on before it reaches its full potential, thus intensifying distrust and creating a vicious cycle in these relationships.

THE EAST ASIAN PEACE: CAN IT LAST?

The Honorable Börje Ljunggren
Former Asia Center Fellow; former Swedish Ambassador to the People’s Republic of China and Vietnam

December 7, 2016

From the end of World War II in 1945 to 1979, Asia was embroiled in one military conflict after another, from civil wars in China and much of Southeast Asia in the late 1940s, to the Korean War in the early 1950s, to the Vietnam War from the early 1960s to the mid-1970s. About 80 percent of global battle deaths during this period were in East Asia. But since 1979, there has been a remarkable period

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of peace and stability in Asia, and this percentage has fallen from six percent in the 1980s to less than two percent during the period 1990-2015. East Asia has enjoyed a long peace, in spite of the ongoing power shift and a large number of unresolved conflicts. What explains this drastic change? And can peace in Asia last? The Honorable Börje Ljunggren, former Swedish Ambassador to the People’s Republic of China (PRC) and Vietnam, interpreted the historic dynamic behind this positive change, examined the relevant forces in recent years, and anticipated a very uncertain future.

He attributed this prolonged peace in Asia to two factors: an altered security environment in much of the world as a result of Sino-U.S. normalization of diplomatic relations in 1979 and the priority shift of most Asian countries to economic development. An “economic Asia” had emerged. Many events are emblematic of these two larger trends in Asia: from Japanese Prime Minister Yoshida Shigeru’s call after World War II for concentrating all available means toward economic growth to the East Asian economic miracle of the 1990s; from ASEAN’s expansion in the 1980s and 1990s from five member countries to 10 member countries to, first and foremost, Deng Xiaoping’s policy of reform and opening up in 1978 and to China’s accession to the WTO in 2001 as a result of the U.S.’s deliberate shaping of the international environment to integrate China into the world community. Having taken a leap in economic and technological growth, China has become the largest economy in the world in terms of PPP (Purchasing Power Parity), and the largest trading partner of 130 countries. It has become a global economic power, notwithstanding “a lonely power” without military alliances.

Ljunggren was concerned about the current orientation of Asia, showing signs of drifting towards a “security Asia.” The disputes over the South and East China Seas, North Korea’s advances in nuclear development, deteriorating Sino-Japanese relations loaded with historical baggage, the unresolved question of Taiwan and a more assertive China, are all salient issues. Chinese President Xi Jinping has said that the Pacific Ocean is large enough for both China and the U.S., and that China, with its five thousand year history, would rise peacefully and not cause another example of the Thucydides Trap, of which Harvard Professor Graham Allison has warned, if China and the U.S. could work together. Yet good wishes do not necessarily translate into the facts on the ground. The Philippines took China to the UN arbitration tribunal in 2013 when China occupied and built on the Scarborough Shoal, just 120 miles off the Philippine coast. It received a favorable verdict this past July, but China condemned it, and Philippine President Rodrigo Duterte described it as just a piece of paper. China continues to build military installations, and the South China Sea area remains vulnerable without a code of conduct for conflict resolution and weak regional security mechanisms. The defiant young Kim of North Korea, Kim Jong-un, has continued on the path of developing nuclear weapons, with no signs of abating, and the country is about to become a de facto nuclear state. Solutions look remote and Asian countries have begun to hedge their bets, and have increased military expenditure significantly. U.S.-Chinese relations are comprehensive but marked by strategic distrust.

In Ljunggren’s view, the East Asian peace is getting fragile. On top of this fragility, U.S. President Donald Trump, with no prior government experience and an erratic temperament, is worsening the uncertainty in Asia. He has, as Kissinger put it, “no baggage” but a load of ill-informed views. If Hillary Clinton had won the presidential election, we would be fairly confident that she would pursue the U.S. pivot to Asia, strengthen U.S. alliances, adopt tough lines against North Korea, confirm U.S.-Taiwan policy, and attach importance to the UN Convention on the Law of the Sea and human rights. Tensions
would remain but the rules of the game would have been known. Trump’s approach is transactional as illustrated by his attitude towards Taiwan and the One-China policy. You could expect him to confirm key U.S. alliances like the U.S.-Japanese alliance, but will he develop a comprehensive approach to East Asia ensuring trust in a sustained U.S. presence?

If the U.S. retreats further from its conventional global role, in which President Obama is deemed as a transitional figure, we could see the end of the world order of the last seven decades. Globalization is adrift and the third wave of democratization is losing momentum while authoritarianism is in vogue. China will perceive a gap in global leadership and will try to fill it with its own institutions and initiatives, such as the One Belt, One Road Initiative and the ASEAN-based Regional Comprehensive Economic Partnership (RCEP). President Xi Jinping moved promptly in November at the summit of the Asia-Pacific Economic Cooperation forum in Peru to fill the vacuum created by Trump’s abandonment of the U.S.-led Trans-Pacific Partnership (TPP). Xi Jinping’s China is at the same time getting increasingly authoritarian while economic reforms are badly needed.

Will China be a risk-taker in its run up to the centennial anniversary of the Communist Party (CCP) in 2021 or will it become an increasingly “responsible stakeholder” of the international system? Can Sino-U.S. relations be redefined, as President Xi wishes, to a new type of big-power relations that defy the Thucydides Trap characterizing past confrontations between an established power and a rising power? With Trump’s world view, Ljunggren anticipated a very bumpy road ahead.

Three months after Donald Trump’s stunning victory in the 2016 presidential election, many think-tank people in Washington are still in disbelief, while others are grappling with a stream of Trump’s impromptu pronouncements of his gut feelings. Will Trump do away with the status quo in many fronts with no regard to history or conventions at all? Can Trump really deliver his campaign promises, such as “reverse the U.S. trade deficit and bring back jobs?”

Douglas Paal, Vice President for Studies at the Carnegie Endowment for International Peace, captured Washington’s current mood and explained some tensions inside the executive branch. He advised to have a longer-term frame of mind and look into what he called “the deep state” of the political structure, when evaluating Trump’s propositions and navigating an uncertain future.

On the making of the U.S. trade policy, there are at least four centers of power involved, each headed by a presidential appointee: Peter Navarro, the Director of the National Trade Council inside the White House; Wilbur Ross, the nominated Secretary of Commerce; Gary Cohn, the Director of the National Economic Council; and Robert Lighthizer, the U.S. Trade Representative, formally designated by Congress to represent U.S. interests in international trade negotiations and respond to U.S. business needs. They will have to fight out what the U.S. trade policy will ultimately be. When President Reagan had three de-facto chiefs of staff in the 1980s, talking about
different policy objectives and priorities to different media outlets at the same time, James Baker eventually prevailed over the others after about six to eight months. Only time will reveal who has the final word on the U.S. trade policy.

During his presidential campaign, Trump talked about imposing a 45 percent tariff on Chinese imports into the U.S. Although Section 301 of the U.S. Trade Act of 1974 authorizes the President to take all appropriate actions, including retaliation, to obtain the removal of any practice or policy of a foreign government that is unjustified or unreasonable, and that burdens or restricts U.S. commerce, Paal did not think imposing a high tariff is realistic in today’s environment. This would amount to a tax on the American people, which House Speaker Paul Ryan is adamantly against.

Trump could choose to impose a voluntary restraint agreement (VRA) on Chinese imports, as President Reagan did in the early 1980s on Japanese imports, especially Japanese steel and automobiles. But this could only have symbolic significance in terms of meeting political needs at home, instead of any real effect in re-balancing Sino-U.S. trade, because someone in the U.S. in the related supply chain will be hurt. Paal predicted that VRAs would make the U.S. less competitive in general.

He posited that protectionist trade policy, combined with increasing infrastructure investment, a boost of defense spending from $600 billion and a corporate tax cut, would lead to a stronger dollar and rising interest rates, both of which would then lead to an even larger U.S. current account deficit, just the opposite of Trump’s claim. By then, Trump could only wish that people will have forgotten his promises in the first place.

In addition to the trade officials, there is Steve Bannon, Trump’s Chief Strategist in the White House, (who resigned in August) with a very conservative provenance at the far-right news media, Breitbart News. There is also a conservative Vice President, Mike Pence, with close ties to Congress, where he served as a Representative from Indiana for a decade (2003-2013). At the National Security Council (NSC), functional directors have been named to supersede regional directors to reach the head of the NSC staff, National Security Advisor Michael Flynn (who later resigned on February 13 and replaced by Lt. Gen. H. R. McMaster). The Senior Director for Asia at the NSC is Matthew Pottinger, a Wall Street Journal journalist-turned-Marine, who served under Flynn in the U.S. Marine Corps. These people will have to fight the new bureaucratic impediments on national security issues.

President Xi Jinping’s congratulatory phone call to Trump after the election was a good start. With the 19th Party Congress pending later this year, Paal suspected, China is looking for a calm and peaceful relationship with the U.S. Taiwan’s President Tsai Ing-wen’s phone call with Trump in December was more ceremonial than an intentional reversal of the American One-China policy. Taiwan’s establishment also denies any intention to change the status quo after Beijing’s insistence on the One-China policy as a cornerstone for Sino-U.S. relations and cross-Strait relations. Taiwan is not seeking instability.

Paal pointed to signs of stability in U.S. policies with some of Trump’s cabinet appointees. The Defense Secretary, James Mattis, reaffirmed the U.S.-Japan alliance during his first official visit to Japan, while sending a message back home that the U.S. alliance structure is sound. Paal warned not to trust rumors or suspicions reported in major U.S. media until they’re formally announced by the administration. As we move forward, what will become more important than Trump’s impromptu pronouncements are those deeper relations underneath the surface between the White House and Capitol Hill, embedded in the bureaucracy and the personnel transition from one government agency to another. This is what Paal called “the deep state.” This deep
state will keep churning along and will make a strong effort to keep things in check and balance.

In conclusion, Paal expressed disappointment at the absence, since the election last November, of future policy indications vis-à-vis Russia, China, security order of the Asia Pacific, the international financial infrastructure including the future of Bretton Woods institutions, among many other issues. Most of the attention, inside and outside of the government, has been preoccupied by personalities. Paal urged the new Trump team to take a pro-active stance on these important policy issues.

This issue has become increasingly salient in China since the Chinese are aging faster than anticipated. By 2030, more than a quarter of Chinese will be over 60 years old. Arthur Kleinman, Professor of Anthropology and Professor of Psychiatry at Harvard Medical School, explored what this means for the Chinese economy, society and government.

Most people over 60 years have three or four chronic health problems, such as arthritis, high blood pressure, respiratory or cardiovascular disease. More than half of the people over 85 years have some degree of dementia. The Chinese healthcare system is very inadequate in dealing with these problems, despite the fact that the Chinese government has poured an enormous amount of money into healthcare in recent years. China doesn’t have a primary care system, but a hospital-centric system, in which Chinese elderly often find themselves lacking support and quality care.

Most Chinese in big cities live in high-rise apartment complexes. Older people are very uncomfortable staying by themselves in such an environment, when their children are at work and grandchildren at school during the day. It’s not infrequent that older people end up getting lost when wandering outside their apartment complexes. In fact, Alzheimer’s disease is the most expensive elderly problem to deal with, much more so than cancer and strokes. Adverse experiences in younger ages – poor nutrition, rapid transfer of lifestyles from rural areas to mega-city environments, unhealthy habits of smoking and alcohol, as well as hypertension – are all contributing factors to widespread dementia. Other Southeast Asian countries, such as Vietnam, Thailand and Malaysia, are right behind China in facing such challenges.

What does this trend mean for Chinese businesses? Enterprises formerly in the mining sector, facing the problem of

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As Chinese demand for nannies and caregivers exceeds supply, Chinese families’ traditional solution of relying on distant relatives from the countryside, or hiring rural women as nannies has become insufficient. The Chinese have begun to resort to other options. One is to explore what technology, such as robots and sensors, can do to substitute for labor in taking care of the elderly. Another is to revive elements from traditional Chinese culture to extend longevity, such as tai chi or qi gong, in combination with other forms of exercise, for the purpose of “nurturing life” (养生).

In addition to the family and cultural approaches to a productive active aging, there is a policy approach too. President Xi Jinping has named “nurturing the elderly” (养老) a central issue for the government. How to ensure financial security for older people, provide regular health maintenance checkups, and encourage social participation, such as continued learning and volunteer work, are all aspects of improvement for the government to consider. One policy change could be to extend the official retirement age from 55 years old for women and 60 years old for men, but that would run against the challenge of creating almost 20 million new jobs a year for young people. The Ministry of Civil Affairs and the Ministry of Health are all engaged in confronting this challenge. One of their initiatives is to elevate nursing schools to improve the quality of nurses, while trying to expand eldercare facilities.

Services for the elderly are becoming a large part of the services sector of the Chinese economy. The shortage of nannies and caregivers will be acute enough for the Chinese to consider not only migrants from Chinese rural areas but also immigrants from Southeast Asian countries. As people live longer after retirement, their quest for a meaningful life will also become salient. There will be more room for ethics, aesthetics and religion.

China is a microcosm of a global demographic transition to a more aging population. International organizations, such as the World Health Organization, the World Bank and the United Nations Development Program (UNDP), as well as local grassroots non-governmental organizations (NGOs), are all needed in the endeavor to improve health and social wellbeing of a rapidly aging population and thereby contribute to social development goals.
At a time of greater competition and strategic rivalry between the U.S. and China, what basic posture should the U.S.-China policy have? Should the U.S. adopt a tougher policy toward China than before, or an accommodating position on China’s rising power in the Asian Pacific?

To address this question, Susan Shirk, Research Professor and Chair of the 21st Century China Center of the School of Global Strategy and Policy at the University of California, San Diego, together with Orville Schell of the Asia Society, convened a group of respected China experts to review America’s past China policies, and distill lessons and directions for American future policies toward China. She reported the task force’s findings after an 18-month study and many unfettered conversations among these experts.

Since President Nixon, the U.S.-China policy posture has been what many call “engagement and hedge.” (Shirk preferred to call it “engagement from a principled position of strength.”) Despite very different values and political systems between the two countries, the U.S. government has tried to find ways to get along with China and to build foundations for cooperation on a multitude of fronts. In fact, according to Shirk, the U.S. “not only welcomed China’s rise, but sponsored China’s emergence onto the world stage” by facilitating its transition from a planned to a market economy, encouraging it to be a responsible stakeholder in the world system, and giving it a seat at the table in many international organizations. In the 1980s and ’90s, both governments were flexible enough diplomatically to adjust to each other’s constraints and achieve many common objectives, as demonstrated in the case of dealing with India’s nuclear threat in the late 1990s, when Shirk was working in the State Department in the Clinton administration. At the same time, the U.S. has maintained its military alliances in the Asia Pacific, giving the U.S. and its allies confidence to work with and influence China from a position of strength.

Throughout the past four decades, China always has had to combat a perception and worry from many foreigners that it would challenge the world order and “show its true colors” after it amasses sufficient capabilities. Under Qian Qi-chen, Vice Premier (1998-2003) and Foreign Minister (1988-1998), China was able to reassure other countries about its friendly intentions through credible actions, including settling border disputes with its neighbors and cooperating with the U.S. on many global issues.

However, this relatively benign picture changed markedly around 2008-2009. China became more assertive of its maritime rights in the South China Sea, provoking confrontations with several neighboring countries. This change of behavior could be motivated by the need to rally domestic support for the top Chinese leadership, but it re-enforced the anxiety around the world that China’s intentions are not as peaceful as it claims them to be. China’s policy and attitude toward foreign firms operating in China has also changed. Through establishing competitive laws and exploiting its market power, it forces technology transfer from foreign firms to domestic firms, and has set up many non-tariff barriers for foreign firms’ operations in China, thereby losing a critical lobbying voice for China in the U.S. Congress.
In addition, China has intensified political repression over civil society, especially in the media and legal professions. Foreign journalists and NGOs find it more restrictive to operate in China. While Shirk recognized that only China can decide its policies on human rights issues, she admitted that it is hard to argue that the American engagement policy improved the human rights situation in China. Although China generally moved in the right direction for many years in terms of improving its legal system and expanding personal freedoms, the trend in recent years is worrisome.

Why is 2008-2009 an inflexion point for China’s change of behavior? Shirk thought that the reasons are much more complex than a simple attribution to China’s increasing capabilities and the widespread repercussions of the 2008 global financial crisis. Just as importantly, Shirk pointed to the policy impact of the collective leadership under President Hu Jintao (2002-2012) and the shift of emphasis in China’s economic policy to state-led economic growth by nurturing state-owned enterprise (SOEs) at the expense of making the business environment more difficult for foreign firms. Furthermore, the collective leadership under Hu resulted in the fragmentation of policy initiatives among the bureaucracies without overall cohesion and orchestration from the very top leaders. This contributed to China’s overreaching in the South China Sea. Meanwhile, several key policymakers in the Development and Reform Commission (发改委), the most powerful economic policy-making body, were transferred directly from Shanghai, the bastion of SOEs. With a mercantilist mentality, these policymakers effectively tilted the playing field in favor of SOEs, against foreign firms.

In conclusion, Shirk did not think China’s rising power itself a problem, but China’s deliberate creation of political and economic barriers between the two societies is problematic. She urged the U.S. government to be absolutely clear about its national interests vis-à-vis China and to preserve the fundamental stability between the two countries through maintaining the One-China policy and the U.S. alliances in Asia Pacific. She warned that any radical deviation from these conventions will de-stabilize this important bilateral relationship.

Shirk, however, also called for greater firmness in the U.S. response to China’s actions that harm U.S. interests, credibly signaling American resolve and principles. At the same time, the U.S. should be open to offer reciprocity and respond positively to China’s progress in economic policies and civil society. Shirk emphasized the importance of keeping high-level communications between the two governments, especially given the concentration of the Chinese leadership at the top.
Robert Ross, Professor of Political Science at Boston College and an Associate of the Fairbank Center for Chinese Studies at Harvard University, analyzed recent trends in this regional balance of power.

Ross first discussed China’s post-1949 security environment. During this period, from 1949 to 1989, China won every land war it engaged in, including the Korean War (1950-53), the Sino-India war of 1962 and the multiple wars in Indochina. It also established superiority over Russia in Northeast Asia. Through these victories, China secured its borders. Beijing also replaced Taiwan as the sole Chinese government recognized diplomatically by the U.S. and its allies. During the second period from 1989 to about 2005, in a secure political environment, China pursued economic development. Its influence over its neighbors had grown so much that both Taiwan and South Korea paid increasing deference to China’s wishes. This was the period of China’s peaceful rise.

Second, Ross analyzed China’s changing geopolitical circumstances and the implications for China’s development of maritime power. China no longer worries about the Russian challenge in Northeast Asia and Central Asia. Over the past three years, Russia’s petro-economy has been in dire straits, due to plummeting oil prices. There is little prospect for a rapid recovery. As Russia’s military and political attention has been increasingly focused on Ukraine and NATO, it has redeployed its most capable military forces from the Far East to its Western front. The Far East population has declined from 14 million to about seven million. Thus, China is satisfied with its current ground force capabilities for defending its borders, and it can focus its resources on building its navy. China is in a position toward Russia similar to the U.S. position toward Canada, a benign northern neighbor that has allowed U.S. development of its naval capabilities.

Third, Ross compared China’s defense spending and naval capabilities with those of the U.S. Over the past 30 years, China increased its defense spending at an average annual rate of approximately 10 percent. China has now begun serial production of modern ships, including 60 new ships in 2016. By American standards, about 70 percent of Chinese ships and more than 50 percent of China’s aircraft are “modern.” Moreover, Chinese missiles are now able to target American bases in Asia.

In contrast to China’s improved naval capabilities, the U.S. Navy possesses 273 ships and has planned on operating 308 ships by 2020. This would require a 36 percent increase in the Navy’s budget. But approximately one half of the U.S. federal government spending is non-discretionary. In the discretionary budget, 50 percent is already allocated to defense, with the Navy, the Army, and the Air Force each taking about one-third of the defense budget. President Donald Trump has promised a 10 percent increase in the defense budget, but only one-third of this increase will be allocated to the Navy. Thus, any expansion of the U.S. Navy will be highly limited. Since “quantity has a quality dimension on its own,” the quantitative gap between the two navies will challenge U.S. security and the regional balance of power.

Under the “pivot to Asia,” the Obama administration announced that the U.S. would deploy 60 percent of the American
fleet to the region. In ten years, the U.S. may be required to deploy 75 percent of its fleet to Asia to keep up with China’s naval expansion. U.S. naval officers report that it will be very difficult for the U.S. to wage war against China within the South China Sea.

However, war does not have to happen between an established power and a rising power during a power transition. Ross argued that if China and the U.S. manage this transition well, they can avoid excessive conflict escalation. Ross pointed out that both countries must adjust to East Asia’s changing power dynamics. First, China must learn to use its newfound power well. It must be patient, relying on politics, rather than force, to achieve its objectives.

Second, without sacrificing its own core interests, the U.S. must adjust to the rise of China and the implications for U.S. alliance relationships. President Rodrigo Duterte of the Philippines has made it clear that he wants a better Philippine relationship with China. For over a decade, South Korea was reluctant to accept the Terminal High Altitude Area Defense (THAAD). Vietnam will not contribute to U.S. defense in Asia.

Ross suggested that the U.S. should open up the debate and let the American public decide how the U.S., given its budget constraints, should balance its interests between maintaining military supremacy in the Asia-Pacific with its domestic social welfare programs and a modernized infrastructure. If the American public prioritizes domestic affairs over maritime supremacy in East Asia, then the U.S. should avoid unnecessary yet costly challenges to Chinese security that do not contribute to U.S. security.

Nonetheless, U.S. policy makers have been determined to resist China’s rise, intent on preserving the strategic status quo. Ross expects heightened U.S.-China competition and warned of the danger of a downward spiral, which could lead to a war that no one wanted or intended.

When Xi Jinping assumed the leadership of the Chinese Communist Party (CCP) in late 2012, he was confronted with a serious erosion of central party control, informal power networks and entrenched corruption. How did Xi handle this existential threat and consolidate his leadership? Sebastian Heilmann, President of the Mercator Institute for China Studies (MERICS) in Berlin, former Visiting Fellow at the Fairbank Center for Chinese Studies and former Research Fellow at the Harvard-Yenching Institute, explained this conundrum and distilled Xi’s approach to leadership into four restorations and five innovations.

First, in contrast to other post-1978 Chinese leaders, Xi prioritized political recentralization over economic restructuring in the implementation of the CCP’s agenda for “comprehensively deepening reforms” that has been under way since 2013. Second, Xi boosted central authority by expanding disciplinary parallel bureaucracies and by implementing a relentless rectification campaign within the CCP under the cloak of anti-corruption.

Third, Xi has imposed “top-level design” (顶层设计), which stands for a system of centralized and top-down policy-making. This reversed the policies of the Deng Xiaoping and Jiang
Zemin eras of the 1980s and 1990s, when policy intelligence was believed to be distributed across the political system, and local-level experimentation and bottom-up problem-solving were actively encouraged. Fourth, Xi streamlined political power by aggressively attacking informal groupings within the party. In effect, tangible intra-party factional activity has reached a low point in CCP history.

In addition to these restorative measures that follow classical Leninist prescriptions, there are innovative elements in Xi’s approach to transform the CCP and make it fit for the 21st century.

First, Xi reorganized the party’s core executive around leader-driven central leading groups that predetermine decisions by formal top-level CCP organs. The separation of party organs from the management of economic affairs under previous leaders was downgraded to a mere “division of labor” (党政分工), thereby bringing party organs back into regular administrative and economic decision-making.

Second, with Wang Huning as his strategic advisor, Xi has put a great deal of effort into hardening CCP ideological prescriptions, with the intention to delegitimize “Western values” and re-conceptualize the global political and economic order from a Chinese perspective. Though it appears questionable whether a monistic, uniform ideology can be imposed on Chinese society today that is characterized by very diverse lifestyles, value orientations and worldviews, the intensity of CCP ideological work under Xi is starkly different from the much more relaxed approach taken by his post-1978 predecessors.

Third, under Xi Jinping’s leadership, China abandoned Deng Xiaoping’s guiding foreign policy principle of “hiding your strength and biding your time” (韬光养晦). It has become more assertive on a global level and sometimes aggressive in dealing with neighboring countries (most recently with South Korea). China has significantly expanded its maritime capabilities and broadened its economic diplomacy and external funding to open up doors abroad. Meanwhile, China moved into spaces where U.S. presence is weak (such as Central Asia) or is being weakened (multilateral trade and climate policy). Instead of Deng’s “hide and bide” guideline, Xi’s foreign policy pursues the Maoist guerrilla principle of “avoiding the solid main force and instead moving toward the empty spaces” (避实就虚).

Fourth, China harnessed new technologies in cyberspace and social media for political communication. Based on the belief that public opinion in the Internet era must be actively shaped and controlled by the CCP, the party’s cyber-administrators moved beyond clumsy censorship by using, for instance, refined algorithms to steer viewers away from subversive content to officially-approved content.

Fifth, under Xi’s leadership, China is building a system of “digital Leninism” through new types of business and social regulations. With financial and communication activities increasingly taking place online, Chinese regulators aim at compiling encompassing “social credit” scores, a kind of big data-enabled rating system, for every market participant, thereby gaining access to detailed and regularly updated data profiles of all companies and citizens.

What will Xi’s leadership look like after the 19th Party Congress in the fall of 2017? According to Heilmann, the best-case scenario is that Xi, after further consolidating his power, will feel secure enough to allow some degree of political relaxation and to decentralize some decision-making power, thereby reinvigorating bottom-up economic and policy dynamism. The worst-case scenario is further political and economic ossification as a result of rigid party control and expanded surveillance instruments. For international relations, Heilmann anticipated that, if liberal democracies continue to appear torn and weak, China will find an environment conducive to attacking “Western values” and promote its own version of political order based on non-liberal principles, not just domestically but also increasingly on a global level and in multilateral institutions.
CHINA: A BULLISH CASE

Chen Zhao

Recently retired as Co-Director of Macro Research, Brandywine Global Investment Management; former Partner, Managing Editor and Chief Global Strategist at BCA Research Group

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Against the prevailing diagnosis of the Chinese economy—over-capacity, over-investment and over-leverage—with a backdrop of slower growth, Chen Zhao, former Co-Director of Global Macro Research, Brandywine Global, offered a forceful counter-argument. His analysis demonstrated that China’s dramatic slowdown in economic growth rate since 2008 is not necessarily a reflection of serious economic illnesses, as many Wall Street analysts have argued. He remained optimistic about China’s long-term growth prospect.

First, he noted, at per capita GDP of around $9,000, steady state growth rate usually begins to slow as the impact of diminishing returns is felt. Compared with the average growth profile of Japan, South Korea and Taiwan during their similar stages of developments, China’s current slowdown is just in line with the pattern of these “Asian tigers” before it.

Second, a profound change in the world economy since the 2008 financial crisis has brought down the growth rate of the entire world economy, including China’s. Prior to the 2008 crisis, the world economy was characterized by a massive borrowing and consumption boom in the U.S. living side by side with a huge saving/investment boom in China. Since 2008, however, American households have stopped their spending binge, and a deleveraging cycle has started. This has led to a dramatic drop in private consumption and global aggregate demand. As a result, all major suppliers, including China, have begun to suffer an over-capacity problem. Thus, China’s over-capacity problem is more of a reflection of this lower underlying global demand than over-investment from earlier periods.

Third, the depth of the Chinese economic slowdown has been exacerbated by a series of policy mistakes. The RMB’s de facto peg to the U.S. dollar, which has appreciated dramatically in the last couple of years, has greatly compounded the export contraction. The Chinese government was reluctant to stimulate aggregate demand in 2014-15 when deflation was a clear threat. The central bank kept a very tight policy even though rates in the developed world fell to zero. All of these inappropriate policies further weakened China’s economic conditions.

The Chinese government was reluctant to stimulate aggregate demand in 2014-15 when deflation was a clear threat. The central bank kept a very tight policy even though rates in the developed world fell to zero. All of these inappropriate policies further weakened China’s economic conditions.

Zhao went on to rebut the widespread view that China is over-leveraged. While most people often cite a high debt/GDP ratio as a key indicator for economic risks and systemic vulnerability, few have noticed that there is a counter-intuitive correlation between interest rates and indebtedness of a nation: the higher the debt ratio, the lower the interest rates. This runs against the prevailing belief that the higher the leverage of an economy, the higher the financial risk.

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Why? The trick lies in the fact that savings and investment are the two sides of the same coin. Savings are intermediated into investments through three channels of any economy: the debt market or banks, the capital markets, or lending out the savings surplus to foreign countries if savings exceed domestic investment. Therefore, it is entirely possible that nations with higher saving rates end up with higher domestic debt levels. This is simply because they have larger pools of savings that need to be intermediated. Hence, the debt/GDP ratio is a poor measure of systemic risk for a nation’s economy.

The difference between the U.S. and the rest of the world is that the U.S. intermediates about 70 percent of financial resources through capital markets, while Europe and Asia must rely on banks for intermediation. As China and other Asian nations have very high saving rates, naturally, their debt ratios are very high. This implies that it is a very bad idea to engineer the so-called deleveraging process in a high-saving economy such as China’s as it is a recipe for financial disintermediation leading to saving excess and nominal contraction.

During the 2008-09 financial crisis, the U.S. government deficit shot up to about 10 percent of GDP due to bail-out programs like the Troubled Asset Relief Program (TARP). In contrast, the Chinese government deficit during that period didn’t change much. However, Chinese bank loan growth shot up to 40 percent while loan growth in the U.S. collapsed. These contrasting pictures suggest that most of China’s four trillion RMB stimulus package was carried out by its state-owned banks. Thus, these banks de facto carry fiscal responsibilities. The so-called “bad debt problem” is effectively a consequence of Beijing’s fiscal projects and thus should be treated as such.

Why is Zhao optimistic about China’s long-term growth prospects? First, he estimated that China’s industrialization process is about half-way through; there is still substantial room to go, including a continuation of moving millions of people per year from rural land to urban areas where productivity and wages are much higher than those in rural areas.

Second, the structure of Chinese manufacturing has been shifting at lightning speed from low value-added production, such as textiles and garments for exports, to much higher value-added manufactured goods such as electronics and equipment. Robots are widely used to lift productivity by exporters. Chinese private businesses are efficient, nimble and highly productive, surviving in a very tough business environment.

Finally, the driving force behind China’s growth has also begun to shift towards one that is more suitable for a middle-income economy. Chinese consumption has picked up in recent years, leaving investment less important in sustaining aggregate demand than before. The service sector has also exceeded the manufacturing sector. Zhao was optimistic that China would keep delivering a six to seven percent growth rate in the coming decade, with six to 6.5 percent as a steady rate.

Zhao was not oblivious to Chinese problems, however. He was worried that China could regress to the old model where state owned enterprises (SOEs) played a more dominant role in the economy. This regress could lead to a slow erosion of productivity growth. Zhao was also concerned that populist policies, such as escalating the minimum wage, social welfare and insurance, would sharply increase the operating costs of small businesses.
John Pomfret, former Washington Post correspondent and author of _The Beautiful Country and the Middle Kingdom: American and China, 1776 to the Present and Chinese Lessons_, shone some light on the current complex U.S.-China relations by bringing an historical perspective from the 19th century and commenting on the upcoming summit meeting between President Donald Trump and President Xi Jinping at Mar-a-Lago, Florida.

Pomfret saw parallels between Trump’s presidential victory last November and the rise to prominence of Dennis Kearney, an Irish labor organizer, who established the Workingmen’s Party of California in 1877 against the backdrop of heavy unemployment during the 1873-78 national depression. Kearney’s party won control of California’s legislature in 1878 and then rewrote the state’s constitution. The party took particular aim against cheap Chinese immigrant labor and those “robber barons” of the railroad companies that employed them. Its famous slogan was “The Chinese must go!” Kearney’s attacks against the Chinese found considerable support among white Americans of the time and eventually led to the national Chinese Exclusion Act of 1882. Today’s marginalized, grumbling Americans found similar echoes in Trump’s presidential campaign against his Democratic rival, Hillary Clinton, who personified the political establishment for globalization, free trade and immigration.

Pomfret also compared Trump with Chairman Mao, the founding father of the People’s Republic of China. Both of them had tremendous populist appeal. Trump’s slogan, “America First,” rings similar to Chairman Mao’s proclamation in 1949 that “the Chinese people have stood up.” They were both unpredictable and both capable of upending the odds. Pomfret suspected that Trump’s surprising presidential victory, his capricious personality and pompous showmanship have contributed to the rising interest and curiosity of Chinese tourists wanting to visit the U.S. in recent months. Both Trump and Mao have unusual beliefs such as “chaos is good for creating new orders.” Trump is apparently unable to distinguish friends from foes, as demonstrated by his treatment of Germany and Australia, America’s long-term allies. Trump’s executive orders to reverse Obama’s environmental policies in the name of supporting job growth will increase coal use in the U.S. energy mix, whereas China is embracing green technologies of the 21st century.

Trump had no set China policy as of a couple of weeks ago, oscillating from taking a fresh look at the U.S. One-China policy when he picked up a congratulatory phone call in December from Taiwan’s President Tsai Ing-wen to re-affirming the One-China policy soon after and dropping any mention of a possible 45 percent trade tariff on Chinese imports into the U.S. Trump is no exception to all his predecessors since President Nixon, who railed against China during their presidential campaigns and then embraced China after becoming President.

From Trump’s point of view, “China has played us.” China’s system has enabled it to deal with the U.S. better than the other way around. For example, in the commercial arena, the Chinese policy on joint ventures with foreign companies is designed such that Chinese partners in joint ventures with Americans almost invariably end up becoming American competitors several years later after obtaining

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American technologies. In the security arena, the U.S. has failed to stop China from building artificial islands in the disputed waters of the South China Sea, and de facto allowed China to push its security parameters out as far out as possible. The U.S. increasingly risks looking like a paper tiger from China’s perspective.

In anticipation of the summit meeting with Chinese President Xi Jinping, Trump said in an interview, “If China is not going to solve (the) North Korea (problem), we will.” Pomfret pointed out that China’s help on this problem is in fact essential, since any pre-emptive strike of North Korea by the U.S. will entail unthinkable destruction of Seoul, where 10 to 20 million people reside within the striking distance of North Korean missiles. The challenge is that China’s interest in this matter is fundamentally not aligned with that of the U.S. It does not want North Korea to collapse as East Germany did, leading to a cascade of events threatening its own regime.

For such a high-level summit meeting, the Chinese side is obsessed with diplomatic protocol, with little tolerance for mishaps. The Chinese are hoping that Trump will repeat the language of “a new type of great power relations” between the U.S. and China, as U.S. Secretary of the State Rex Tillerson did during his visit to Beijing earlier. This new type of relations would defy the historical pattern in which war resulted from conflicts between a rising power and the established power.

Having lived in China for five years until last August, Pomfret thought that nationalism in China is over-emphasized by many American observers. Overwhelmingly concerned with personal affairs, particularly improving the welfare of their own lot and private consumption, most Chinese couldn’t care less about the nationalist propaganda around them. At a general level, most ordinary Chinese do support China’s U.S. policy.

Pomfret was concerned that if Trump’s presidency is viewed by the Chinese as “the nail in the coffin,” signaling the end of the U.S. eminence – “the U.S. is finished,” – further accentuating the view that “America is in decline” since the U.S.-originated global financial crisis of 2008-2009, that would do harm to the Chinese process toward democracy. Even if the U.S. recedes from its global leadership role as a result of Trump’s antipathy to the liberal global order, Pomfret questioned if China wants to take on this role. Can China do it? What does China stand for? These questions are particularly difficult for China to address when it is antagonizing some of its neighboring countries and is having a hard time winning hearts and minds in its state-sponsored campaign to build “soft power” abroad.

**CHINA: END OF THE REFORM ERA**

*Professor Carl Minzner*

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*April 12, 2017*

Professor Carl Minzner of Fordham University School of Law sensed that China has moved into a post-reform era since the early 2000s and that this era is qualitatively different from the past three decades, marking an end to the reform era heralded by Deng Xiaoping in 1978. Minzner’s review of where China came from and where China is going reveals a worrisome picture for what lies ahead.

Politically, from the founding of the People’s Republic of China in 1949 until the 1970s, all power was overwhelmingly concentrated in one individual, Chairman Mao Zedong. He reigned through a cult of personality instead of building and strengthening legal institutions. He waged perpetual political campaigns through which all of his rivals such as Liu Shaoqi and Lin Biao were purged one after another. He instigated...
mass street movements to attack established bureaucracies, land owners and anyone resembling capitalists under the banner of “class struggle” and threw the country into absolute chaos for more than a decade. Economically, China pursued failed socialist policies. By 1978, China’s GDP per capita was even lower than that of India’s. And ideologically, China was closed to the outside.

In 1978, Deng Xiaoping, having been purged three times in political campaigns, emerged to be the next paramount leader after Mao. He decisively took the country into a very different direction of “opening and reform.” He understood the importance of institutions and procedures, and rejected mass movements. He began to rebuild the country politically and economically from Mao’s wreckage. He allowed economic freedom step-by-step and encouraged local policy experiments. He incentivized farmers through the “household responsibility system,” in which farmers could keep or sell their extra produce in free markets. As a result, all Chinese became better off materially. At the same time, Deng relaxed the Chinese Community Party’s (CCP) ideological rigidity and encouraged learning generally from abroad. After 1989, China’s political reforms became cautious in order to avoid the fate of a collapsed Soviet Union.

These reforms continued in the 1990s. President Jiang Zemin redefined the role of the CCP under his slogan “Three Represents” to absorb capitalists and high achievers into the Party. Prime Minister Zhu Rongji pushed reforms of state-owned enterprises (SOEs), shedding and transferring into the private sector many non-essential economic functions, including the housing market. He also pushed for economic openness and attracting foreign investments and technologies into China. His efforts culminated in China’s entry into the WTO in 2001, which unleashed another decade of growth and further integrated China into the world’s economic system. To outsiders, China exhibited an authoritarian resilience that was able to surmount the same kind of challenges that had thwarted Eastern European countries in similar development stages.

But since the early 2000s, China has steadily reversed the trend of “opening and reform.” Xi has waged a forceful anti-corruption campaign, which reined in his political rivals, such as Bo Xilai and Zhou Yongkang. The bureaucracies are too frightened about who will be the next “big tiger” to fall and who will be the next “small flies” to be implicated to take any actions in their daily work. Apprehension has inhibited any progress in making and implementing policies. Meanwhile, Xi has projected a populist persona to ordinary Chinese who resent corruption and unfairness. He is frequently referred to in the state media as “Uncle Xi” (习大大), an affectionate appellation by Chinese of a younger generation.

Under Xi’s leadership, the space for free speech in the media has been tightened. Public interest lawyers, if not in prison already, have been silenced. Minzner suspected that the next in line would be university professors; their academic freedom could be curtailed. The arrests in Hong Kong of some book sellers in 2015 and Xiao Jianhua, a financial tycoon, in 2016 by Chinese security officers put “one country, two systems” into doubt. Beijing tried to introduce patriotic education into Hong Kong, only to be pushed back by strong protests there.

Ideologically, Xi’s visit to Confucius’ birthplace, Qufu in Shandong Province, in 2013 signals a return to Chinese traditions rather than continuing to import ideas from the West. He intends to revive Chinese traditional culture as a shield from western influence and to fill the spiritual and moral void created by three decades of single-minded pursuit of material growth. Minzner attributed this shift in ideology to Xi’s systematic resistance to political reforms at a time of insurmountable economic challenges.

China’s GDP growth rate in 2016 was 6.7 percent, the lowest in decades. Although optimists view this in line with the growth pattern
of other “Asian tigers” in a similar development stage before China’s rise, Minzner was concerned about the sustainability of China’s rising debt levels. It is not easy for China to shift its habitual development model from investment-driven to consumption-driven. Xi is therefore forced to resort to traditional Chinese culture to frame any initiatives.

What does this mean for China? While optimists view this as a tough time for a strong Chinese leader, Minzner had become more concerned over the past decade about the risks entailed by China’s moving backward, opposite to Deng Xiaoping’s “opening and reform.”

CHINA’S ECONOMIC STATECRAFT IN ASIA

Dr. James Reilly
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April 19, 2017

When Beijing promotes its One Belt, One Road Initiative to the world, it always highlights the mutual benefits that this project will bring to both the host countries and China. But when Chinese investment goes abroad, does it really create a “win-win situation,” as so frequently phrased in Chinese diplomacy? Dr. James Reilly, Associate Professor of Government and International Relations at the University of Sydney, dissected Chinese investment and trading relations with foreign countries by examining different interests and objectives of various actors in China’s vast political industrial complex, and illustrated how these divergences can undermine China’s overall strategic and diplomatic objectives. Using the framework of the principal-agent model, he analyzed China’s relations with Myanmar and commented on those with North Korea.

Due to its socialist legacy, China has a centralized hierarchical governance structure, but delegates a fair amount of authority to local governments and state-owned enterprises (SOEs) in order to incentivize them to carry out Beijing’s policies and realize Beijing’s goals. This delegation of authority creates coordination and supervision challenges for Beijing, as local political leaders can abuse this authority and divert economic resources for their own purposes, while SOEs, eager to expand their commercial outreach, often act in ways that undermine Beijing’s political and strategic objectives.

For its southern neighbor Myanmar, Beijing’s primary objectives are border security and stability, secure energy resources for Chinese consumption, and opportunities for Chinese firms to invest and operate in Myanmar. Chinese leaders presume that expanding trade and investment will advance all of these goals, while also forging a positive image of China in the hearts and minds of the Burmese, and contributing to economic prosperity on both sides: a classic “win-win” outcome. However, the facts on the ground show that the SOEs’ activities exacerbate Myanmar’s domestic problems, such as armed conflicts and income inequality. These consequences, unintended by the Chinese central government, worsen Burmese populist and nationalist resentment against China. Such a situation is particularly likely when the local government, Myanmar in this case, has weak governance capability over its own internal affairs.

To secure energy supplies for Chinese domestic consumption, Beijing wanted to build an oil and natural gas pipeline through Yunnan, China’s southern province bordering Myanmar, while maintaining a secure border to prevent Myanmar’s internal violence from spreading into China. China National Petroleum Corporation

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(CNPC) won the pipeline contract and secured massive loans from Chinese state-owned banks. Other Chinese SOEs are involved in building a hydropower dam on the Irrawaddy River – the mother river of Myanmar, building port facilities, and developing large industrial zones in Myanmar. These SOEs’ activities and behavior abroad are difficult for the central government to monitor and regulate on the ground.

Beijing’s interest in Myanmar’s energy resources is only part of its expanding economic ties with Myanmar. By 2005, China’s foreign aid to Myanmar had already reached about $300 million. Beijing has also funded opium substitution programs through cultivating alternative crops aimed at reducing smuggling of drugs out of Myanmar and into China. Many Chinese SOEs have vested interests in these expanded economic ties. The increased flow of people and goods along with these projects has made the border porous.

Motivated by monetary reward, Chinese business people have inadvertently become involved in all kinds of conflicts inside Myanmar. These activities have fed into the border instability, even violence. In 2015, Myanmar’s internal violence spilled over to China and caused Chinese civilian casualties in the border area.

Beijing’s efforts to curb these problems have been anemic. Part of the reason is that Chinese SOEs operating in a foreign country often refuse to respond to guidance or directives from the local Chinese embassy in the foreign country. Only when their problems in that country are serious enough to reach the Chinese Ministry of Commerce would they alter their behavior. The Foreign Ministry has no direct authority over SOEs, whereas the Ministry of Commerce does and so is better placed to try to rein in SOEs.

Myanmar’s conventional approach to foreign policy is non-alignment: its closeness to China under the military junta was really an aberration. Under its new leadership, Myanmar is trying to restore a “new normal” by finding a middle road that makes good use of Chinese investment while minimizing its negative effects. As China continues its economic rise, Myanmar has to find ways to come to terms with Beijing. Reilly cautioned that the negative impacts of Chinese investments abroad should not be over-estimated. China will continue to exert its economic, diplomatic and strategic influence in its neighboring countries.

Reilly’s comments on Beijing’s engagement policy toward North Korea revealed a mixed picture. In the Dandong area, an ethnic autonomous prefecture in north-east China bordering North Korea, where many Korean-Chinese played the role of conduit in trade relations with North Korea, economic ties have benefited the border
region on both sides. Here, Chinese SOEs and state-owned banks, with authority delegated from Beijing, play similar roles as they do in China’s southern border, while facilitating diplomatic ties. These ties are useful for creating positive changes in North Korea, through exporting market-based economic dynamism and consumerism into the secluded country. Some Chinese scholars hope that economic engagement will eventually moderate North Korea’s nuclear ambitions and development, and encourage Pyongyang to open up to negotiations with the West.

But Beijing’s “sunshine” policy has not deterred North Korea’s nuclear program. China’s desire to retain normal economic ties with North Korea has limited many rounds of international sanctions against North Korea, as Beijing has consistently insisted on various exemptions in UN sanction packages. Even China’s new “tougher” approach, adopted since November 2016, still retains these loopholes for “normal” economic interactions. Reilly inferred from this pattern that China continues to be more worried about the risk of North Korea’s collapse than a nuclear North Korea.

On China’s recent sanctions against South Korean products and department stores, triggered by South Korea’s acceptance of the THAAD (Terminal High Altitude Area Defense) system from the U.S. as a shield against North Korea’s missile attack, Reilly was not surprised at China’s economic retaliation but at the scale and the cohesion that Chinese citizens exhibited in these consumer boycotts. He interpreted it as a result of an alignment between Beijing’s policy of reprimanding South Korea and the economic interests of relevant actors, as Chinese producers enjoy reduced competition from Korean exports and retail channels in the domestic market.

For Michael Forsythe of the New York Times, it is fascinating to witness the center of the Chinese universe moving from Beijing to Manhattan, as Chinese business tycoons with disputable reputations take luxury residences in New York. Wu Xiaohui, Chairman and CEO of the Anbang Insurance Group, which bought the Waldorf Astoria, the landmark hotel on Park Avenue, in 2014 for $1.95 billion, is one of them. Another is currently in the news: Chinese billionaire Guo Wengui, residing in his $67 million penthouse on Fifth Avenue, who blasted out corruption allegations of “nuclear bomb” grade against the top echelon of the Chinese Communist leadership through an interview with the Voice of America.

These are like an earthquake reverberating across the Pacific Ocean, foreshadowing the 19th Party Congress later this fall, just as the 2012 18th Party Congress was overshadowed by reports about the disgraced Chongqing Party Secretary Bo Xilai and his family members. Even though some of Guo Wengui’s allegations are unfounded or can be misleading, what is clear to Forsythe is that Xi Jinping’s anti-corruption campaign targets certain people. Guo has declared war on Wang Qishan, the head of the Central Commission for Discipline Inspection and the front leader of this campaign. Forsythe took Guo’s allegations as a clear sign of a weakness of the Chinese system that China is not governed by the rule of law, but by the rule of certain people who have lots of secrets.

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Some of Guo’s allegations are verifiable, others are yet to be debunked. How to winnow grain from the chaff? Forsythe shared with the audience his experiences and research techniques from his investigative reporting career, and encouraged young graduate students to dig out evidence and get to the bottom of these things, possibly with the financial help of some kind of fellowships.

Forsythe began his journalist career shortly after receiving his master’s degree from Harvard’s Regional Studies–East Asia (RSEA) program in 1999. What happened in the ensuing decade and a half was like a magnet that kept him pulled into China. Almost all western media coverage of China before 2012 was on economic news, centered around the theme “going abroad” (走出去). Since April 2012, when Chongqing’s Police Chief Wang Lijun defected to the American Consulate in Chengdu, a nearby city to Chongqing, and triggered the dramatic downfall of Bo Xilai in the following year, western journalists began to focus on political stories in China. If Bo’s case was so outrageous, what about other members of the Chinese Politburo Committee?

An examination of the top people, such as Zhou Yongkang and He Guoqiang, reveals a very similar profile. They rose to top tier leadership positions from their local bases where they had been patriarchs. Their sons and other relatives all set up companies in the places where they could enjoy the influence of their patriarchs and/or became heads of large SOEs. Their family background made them well-positioned to access information sources and logistical channels and to benefit from any policy changes, thereby amassing staggering amounts of wealth.

Against this backdrop, David Barboza, another New York Times correspondent, published a definitive account in the fall of 2012 of how the family members of Prime Minister Wen Jiabao acquired stunning amounts of wealth over relatively short periods of time. Even this extensive account revealed only the tip of the iceberg, according to Forsythe, because the New York Times, holding a high journalistic standard, cannot publish any rumors or suspicion without verifiable facts. Any numbers without backup proof have to be left out of the publication. When Bloomberg News couldn’t take the heat from the Chinese authorities generated by his investigative reporting of top Chinese leaders, Forsythe transferred to the New York Times and became a colleague of Barboza’s.

To encourage similar type of investigative reporting by future unabashed journalists, Forsythe compared the Chinese system of records with that of America. China has a better corporate record system than the U.S. Even private Chinese companies have to file with the State Industry and Commerce Ministry (工商局), whereas non-public companies in the U.S. don’t have to publicly disclose their ownership. These Chinese records, including historical shareholdings, are all available to the public for free. This is where Barboza got hold of a great deal of indicative information about the holdings of Wen’s family members. Hong Kong has a similar depository of commercial records, also available with a small charge.

On the other hand, the Chinese don’t have good records of property ownership, unlike the U.S. With American property records, it is quite easy to find out which properties are owned by the relatives of top Chinese leaders and how much they paid. Xi’s sister in-law and his niece and many others all own luxury properties in the U.S. To find out who are the relatives of these top leaders, family tombstones can provide indelible evidence of their relationships; the Chinese have such great respect for their ancestors so that their family trees are all carved on tombstones.

Forsythe does not shun investigating American princelings either, such as the Trump family. But he pointed out a difference...
between the two cultures. In the U.S., American businesses don’t want to be perceived as having relations with any princelings, whereas Chinese companies consider their relations with princelings as a plus for their businesses, bolstering their security and outreach network. With Guo Wengui speaking publicly to the Voice of America, Chinese crony capitalism and corruption are going global this year.

FIFTY YEARS WITH CHINA: A CANADIAN PERSPECTIVE
Professor Bernard Frolic
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May 3, 2017

Since China has a major presence in the world today with an increasing voice and weight in international affairs, let alone its One Belt, One Road Initiative and its own initiative of the multilateral Asian Infrastructure Investment Bank (AIIB), it is hard for students of younger generations to imagine where China came from half a century ago. Bernard Frolic, Professor Emeritus of the Department of Political Science at York University, brought a Canadian perspective to the vicissitudes of Canada’s relationship with China since World War II.

He reviewed Canada’s evolving role in dealing with China: from a pioneer in exploring possible economic relations with Beijing in the 1960s when the People’s Republic of China (PRC) was basically closed to the western world, to a facilitator in bringing China into the modern world after 1970 when Canada established diplomatic relations with the PRC ahead of the U.S. Canada now finds itself confronting a dominant partner of near superpower status in all kinds of negotiations. Frolic also explained how the alternation between the Liberal Party and the Conservative Party in charge of the Canadian government affected its approach and attitude toward China.

In 1943, Canada was an ally of China, then ruled by the KMT, in its formidable fight against Japan. After the KMT lost the civil war against the Chinese Communist Party (CCP) in 1949 and escaped to Taiwan, Canada, unlike the U.S. in this regard, did not have diplomatic representation in or a strategic commitment to Taiwan. After the PRC expelled about 1,000 Canadian missionaries from the mainland in 1950, Canada did not have active relations with the PRC. But Canada was interested in having trade relations with Beijing and looked for commercial engagement possibilities, which included exporting wheat to China in 1961.

Under the leadership of Prime Minister Pierre Trudeau (1968-1984, except during June 1979-March 1980) of the Liberal Party, Canada intended to help China find its place in the modern world, but feared economic reprisals by the U.S., since trade with the U.S. was about 80 percent of Canada’s total trade, and Trudeau’s relationship with President Richard Nixon was awkward at best, if not openly adversarial. The changing tide in the Vietnam War and the Cold War in the late 1960s opened up the possibility of a new relationship with Beijing. After two years of negotiations, Canada established its embassy in Beijing in 1970.

Canada supported China’s accession into the UN, and agreed to “neither challenge nor endorse” Beijing’s proposition that Taiwan is part of China. Later, 35 countries followed this “Canadian formula” to establish diplomatic relations with Beijing. Frolic’s later archival research at the Canadian Ministry of Foreign Affairs revealed that it had taken the Chinese six months in 1969 to conclude that
Canada was not acting as a surrogate of the U.S and that “Canada was a friend of China in the American backyard.” Canada was the first foreign country to set up development programs in China. Did Canada aim at changing China through a peaceful revolution, or at learning more about China through engagement? Canada leaned toward the latter. It played the role of mentoring and nurturing China into the world community.

In the 1980s, the Conservative Party replaced the Liberal Party in control of the Canadian government and offended China with criticism, following President Carter’s inclusion of human rights into American foreign policy. Canada set up a representative office in Taiwan in 1986 under Prime Minister Brian Mulroney (1984-1993). When the June 4th incident broke out in Beijing’s Tiananmen Square in 1989, Canada allowed more than 10,000 Chinese students to live in Canada permanently. This became a watershed between Mulroney and Chinese Premier Zhao Ziyang, and led to the deterioration of bilateral relations in 1991 when Chinese Premier Li Peng told the Canadian ambassador, “We don’t need you.”

Canada realized its limited influence in transforming China, and began to try to find a balance between ideological pursuits and economic interests in its relations with the PRC in the 1990s. When the Liberal Party returned to office in 1993, Prime Minister Jean Chrétien (1993-2003) said, “I can’t tell the Premier of Saskatchewan what to do. How can I tell the Chinese what to do?” Under Chrétien’s leadership, Canada’s relations with China mostly focused on trade and economics. As Chinese immigrants to Canada increased sharply in the late 1990s, the Canadians became wary of China and were concerned about unemployment, the high cost of living as well as cyber espionage among many other problems. Canada steadily turned inward: realism and nationalism became dominant over idealism and internationalism.

In 2006, Conservative Party leader Stephen Harper became Prime Minister (2006-2015). He advocated a principled foreign policy, highlighting the importance of the rule of law, human rights, religious freedom and other western values. He sidelined experienced China hands in the government, considering them closet Liberals. He employed a small group of people with no prior experience in China to make policies toward China, and ditched the strategic partnership deal with China, which had been reached just a year earlier by his predecessor Prime Minister Paul Martin (2003-2006). He received the Dalai Lama in his Parliament Hill office in 2007, not only as a religious leader but also as a political leader, unnecessarily irritating China and making any large deals with China unlikely to be finalized.
In the aftermath of the 2008 financial crisis, facing a shrinking U.S. appetite for imports and President Obama’s rejection of the Keystone Pipeline project, which would bring oil from the oil sands in Alberta into the U.S., Harper was eager to open more markets for Canadian exports, especially oil and natural gas. He visited China in December 2009 and lifted up the bilateral relationship to a new stage by acknowledging and respecting each other’s values and core interests, and by downgrading human rights issues. That is, Harper reverted to the basic line of the past Liberals under pressure from the Canadian business community and the next election. He eventually won the 2011 election with the support of a strong economic performance, which was in no small part related to Canada’s economic relations with China. Canada’s total trade with China has grown to almost $100 billion a year, with a large deficit accrued to Canada. In 2015, Liberal Party leader Justin Trudeau (Trudeau Junior) became Prime Minister and began a fresh approach toward China. In September 2016, he hosted Chinese Premier Li Keqiang in Ottawa and agreed to explore a possible free trade agreement with China, with the goal of doubling trade by 2025.

Although America is always Canada’s first and foremost concern, Frolic thought that Canada now has to “wait and see” what will happen to the NAFTA (North American Free Trade Agreement) and how the trade disputes with the U.S. over Canadian exports of lumber and dairy products to the U.S. will be resolved. What is clear to him is that the Chinese have become more demanding in bilateral negotiations with Canada. The Chinese are very explicit in asking for the removal of barriers for Chinese investments into Canada and requesting that human rights concerns not be raised. At the same time, Canadian politicians have become more sensitive to public opinions. While the Canadians don’t like several aspects of China, such as Chinese SOEs, cheap exports and its human rights record, Canada has to come to terms with the fact that China is the second largest economy in the world and Canada’s second largest export market after all.