



Balancing Cooperation and Competition:  
A New Era In U.S.-China Relations  
Task Force Report  
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THE HENRY M. JACKSON  
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UNIVERSITY *of* WASHINGTON



# **Balancing Cooperation and Competition:**

*A New in Era in U.S.-China Relations*

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## List of Acronyms and Abbreviations

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AG	Attorney General
ADB	Asian Development Bank
ADIZ	Air Defense Identification Zone
AIIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASMC	American Superconductor Corporation
ATP	Advanced Technology Products
BIT	Bilateral Investment Treaty
BMD	Ballistic Missile Defense
C4ISR	Concept of Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance
CBRN	Chemical, Biological, Radiological, and Nuclear
CCB	China Construction Bank
CCP	Chinese Communist Party
CERC	U.S.-China Clean Energy Research Center
CFIUS	Committee on Foreign Investment in the United States
CGIT	The China Global Investment Tracker
COP21	21st Conference of the Parties
CSIS	Center for Strategic and International Studies
DOD	United States Department of Defense
DOHS	United States Department of Homeland Security
DOJ	United States Department of Justice

DPP	Democratic Progressive Party
DPRK	Democratic People's Republic of Korea (North Korea)
DRL	Bureau of Democracy, Human Rights and Labor Affairs
EEU	Eurasian Economic Union
EEZ	Exclusive Economic Zone
EPA	United States Environmental Protection Agency
ESPO	Eastern Siberia-Pacific Ocean (Oil Pipeline)
EU	European Union
EW	Electronic Warfare
FDI	Foreign Direct Investment
FON	Freedom of Navigation
FTA	Free Trade Agreement
FTAAP	Free Trade Area of the Asia-Pacific
GDP	Gross Domestic Product
GFW	Great Fire Wall
GHG	Greenhouse Gases
GIFT	Global Internet Freedom Task Force
HEU	Highly Enriched Uranium
HRDF	Human Rights & Democracy Fund
HRL	Human Rights and Labor
ICBC	Industrial and Commercial Bank of China
ICBM	Intercontinental Ballistic Missile
ICC	International Criminal Court
ICCPR	International Covenant on Civil and Political Rights
ICESCR	International Covenant on Economic, and Social and Cultural Rights
ICT	Information and Communication Technologies
IEA	International Energy Agency
IIE	Institute of International Education
IMF	International Monetary Fund
INDC	Intended Nationally Distributed Contribution
IP	Intellectual Property
IPR	Intellectual Property Right
ISIS	Islamic State of Iraq and Syria
ISR	Intelligence, Surveillance, and Reconnaissance
ITA	Information Technology Agreement
ITC	International Trade Commission
JEM	Justice and Equality Movement
JGSDF	Japan Ground Self-Defense Force
JMSDF	Japan Maritime Self-Defense Force
JSDF	Japan Self-Defense Forces
KMT	Kuomintang
LCD	Liquid Crystal Display
MIRV	Multiple Independently Targetable Reentry Vehicle
MLP	National Medium- and Long-Term Program for Science and Technology Development
MRBM	Medium-Range Ballistic Missile
NAICS	American Industry Classification System
NAPCI	Northeast Asia Peace and Cooperation Initiative
NATO	North Atlantic Treaty Organization

NDB	New Development Bank
NEASPEC	North-East Asian Subregional Programme for Environmental Cooperation
NGO	Nongovernmental Organization
NOCS	Chinese National Oil Company
NRC	NATO-Russia Council
NSA	National Security Agency
OBOR	One Belt, One Road
OPCON	Operational Control
PBOC	People's Bank of China
PLA	People's Liberation Army
PLAAF	People's Liberation Army Air Force
PLAN	People's Liberation Army Navy
PRC	People's Republic of China
R&D	Research and Development
RMB	Renminbi
ROK	Republic of Korea (South Korea)
RRR	Reserve Requirement Ratios
RTA	Regional Trade Agreement
S&ED	Strategic & Economic Dialogue
S&T	Science and Technology
SCO	Shanghai Cooperation Organization
SCS	South China Sea
SIPO	Chinese State Intellectual Property Office
SLM	Sudan Liberation Movement
SOE	State-Owned Enterprise
TEMM17	17th Tripartite Environment Ministers Meeting
THAAD	Terminal High Altitude Area Defense
TIFA	Trade and Investment Framework Agreement
TPP	Trans-Pacific Partnership
TRA	Taiwan Relations Act
TTIP	Transatlantic Trade and Investment Partnership
U.S.	United States of America
UN	United Nations
UDHR	Universal Declaration of Human Rights
UNCLOS	United Nations Convention on the Law of the Sea
UNFCCC	United Nations Framework Convention on Climate Change
UNHR	United Nations Human Rights Council
UNSC	United Nations Security Council
USAF	United States Air Force
USMC	United States Marine Corps
USPTO	United States Patent and Trademark Office
USTR	United States Trade Representative
VPN	Virtual Private Network
WB	World Bank
WIPO	World Intellectual Property Organization
WMD	Weapons of Mass Destruction
WTO	World Trade Organization

# Executive Summary

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The dyadic pairing of the United States and China has emerged as the most important bilateral relationship of the twenty-first century. While the U.S. continues to dominate the post-Cold War world order as sole superpower, it is increasingly challenged by the burdens of global leadership. Chief among these challengers is China, whose increasing economic importance and rising political and military power on the world stage has created opportunities for both confrontation and cooperation. Whether the two countries will ultimately work together to promote international peace and economic development, or whether their relationship will devolve into acrimony as their respective national objectives increasingly collide, remains to be seen.

Recent history has indicated that a positive bilateral relationship between the U.S. and China based on mutual respect and recognition of benefits is possible. Over the past decades the U.S. and China have developed ever-closer trade and investment ties as China has embraced free-market economic behavior, leading to profound economic interdependence between the two nations. In an increasingly globalized world, China's integration into multilateral systems of financial governance such as the World Trade Organization (WTO) have demonstrated China's willingness to conform to international norms and standards. In the security sphere, China's evolving policy towards North Korea and nuclear proliferation have made positive strides despite recent setbacks. Despite the victory of the Democratic Progressive Party (DPP) in Taiwan's January 2016 elections, both the U.S. and China have taken a pragmatic approach to maintaining current political and diplomatic arrangements. Bilateral cooperation on environmental policy, highlighted by a series of agreements culminating in last year's 21st Conference of the Parties (COP21) Paris Agreement, is another collaborative opportunity for both countries, as is

increasing cooperation in emergent policy fields such as intellectual property (IP) and cybersecurity.

Despite this recent progress, U.S.-China relations continue to face challenges. The increasing capabilities of China's military, which have expanded rapidly in recent years, have manifested themselves in a number of territorial disputes and other confrontations with neighbors in the South China Sea over territorial and resource objectives. The technological superiority of U.S. forces in the region, on whom regional powers like Japan and the Republic of Korea (ROK) depend for many of their security arrangements, has narrowed as China arrays increasingly sophisticated naval, air, and missile capabilities opposite U.S. and other forces in the region. Security issues, and the uncertainty of how far China is willing to pursue its security objectives, were at the heart of America's recent "pivot to Asia." Despite their close economic linkages serious disagreements between the U.S. and China remain in some areas, especially regarding foreign direct investment (FDI) regulations and access to the Chinese market, theft of intellectual property, and cyber crime. Additionally, a host of macroeconomic questions, such as whether China will win or lose big by creating a parallel set of financial institutions such as the Asian Infrastructure and Investment Bank (AIIB), whether its erratic fiscal and currency policies will finally catch up to it, and whether China's slowing growth and market volatility will have global repercussions, remain unanswered. Although not a major policy agenda item, the cause of China's poor human rights record has been taken up by activists throughout the U.S. and elsewhere, pitting global civil society actors and international laws and norms against a Chinese desire for national unity, security, and order. These issues present no easy avenue for resolution, which means that compromise between the U.S., China, and other parties will be essential if progress is to be made in these areas.

Because of the outsized influence of the relationship between the U.S. and China on world affairs, the nature and future of U.S.-China relations remains a popular and often

contentious topics of both scholarly and public debate in both countries and among international observers. In response to increased collaboration in recent decades some commentators portrayed the relationship between the U.S. and China as inherently benign and destined for an eventual convergence and the establishment of a bipolar world dominated by American and Chinese blocs. In reaction to this idealistic picture other commentators, especially in the U.S., began to portray the relationship between the U.S. and China as inherently and perhaps irreparably conflicted, a view that became widely disseminated and subsequently politicized.<sup>1</sup> Whatever the reality may be, and despite their differences, policymakers in both China and the U.S. have strong reason to publicly emphasize the positive aspects of their relationship while dealing with differences through private diplomatic channels (dialogues) and person-to-person exchanges.<sup>2</sup> Attention called to negative aspects of the U.S.-China relationship run counter to the stability, security, and development promoted recently by both governments and in the broader international order. Persistent suspicion and wariness also preclude a balanced discussion of substantive policy issues, and how lasting and meaningful solutions can be developed through bilateral or multilateral forums.

The goal of this Task Force report, developed by students in the University of Washington's Henry M. Jackson School of International Studies, is neither to portray China as a benign global actor nor to condemn it for its real or perceived missteps and transgressions. Rather, it seeks to present a holistic analysis of the complex and multifaceted relationship between the U.S. and China, one that can be simultaneously cooperative and conflictual but is at all times competitive. The title of this report, *Balancing Cooperation and Competition: A New Era in U.S.-China Relations*, was chosen deliberately to reflect the need for a comprehensive reimagining of U.S. policy towards China. Rooted in an analysis of theoretical, historical, and

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1. Robert G. Sutter, *U.S.-Chinese Relations: Perilous Past, Pragmatic Present*, 2nd ed. (New York: Rowman & Littlefield Publishers Inc., 2013), 2.

2. Ibid.

contemporary sources, and with an eye to recent and future developments, this report delves into a number of fundamental facets of the U.S.-China bilateral relationship and situates them within the larger web of policy issues affecting relations between the two countries. These explorations logically divide themselves into three major policy areas: security and international relations, economy, and human rights and the environment.

This report takes a pragmatic and varied approach to each of these three policy areas. In the area of security and international relations, this report advocates for a policy of containment. The U.S. should seek to counter the military rise of China by modernizing its military capabilities to keep pace with Chinese innovations as well as increasing the capacity of its allies. It should also look to neighbors and regional powers in Asia for assistance, providing military and economic inducements where possible to contest the spread of Chinese influence. Although the U.S. should strive for peaceful relations with China, alliance-building and military modernization are common-sense hedges against possible Chinese expansion.

In the area of economy, the U.S. should pursue a policy of engagement. The ratification of a bilateral investment treaty (BIT) between the U.S. and China would provide a forum for discussion and resolution of economic issues of mutual concern, as well as provide an opportunity for the U.S. to address a number of its longstanding economic complaints. Both nations have a long history of economic cooperation and interdependence, and this successful history of cooperation should be continued and maximized.

In the area of human rights and the environment, the U.S. should pursue two separate strategies dictated by past track records in each area. As China's human rights regime will prove difficult to change, the U.S. should continue to minimize human rights as an official policy agenda item while working to promote international human rights norms and express solidarity with human rights defenders in China and elsewhere. In environmental policy, the U.S. should continue its current trend of cooperation with China by building on the recent success of bilateral

and multilateral initiatives. In both cases, a visible demonstration of American leadership on the world stage will be essential for achieving policy goals.

The authors of this Task Force report believe that this policy approach has the best chance of balancing essential U.S. policy goals with a desire for international peace, order, and security. This approach is reflected in this set of overarching policy recommendations. Each is described briefly here and developed more fully in the individual sections of the Task Force report.

- **Foster economic and security relationships with regional powers in Asia.**

China's ambitious program to expand its military capabilities and renewed territorial disputes in the South China Sea were a leading impetus for the United States' so-called "pivot to Asia." The "pivot" calls for a revised deployment of U.S. forces in the region, as well as forging stronger military and economic ties to regional powers. The U.S. must solidify its bilateral linkages to its traditional allies ROK and Japan as well as expand its efforts to contest Chinese influence in Southeast and Central Asia. It must also actively engage with India and contest China's growing relationship with Russia.

- **Work to promote territorial sovereignty and freedom of navigation for all nations in the South China Sea.** Much of the increase in China's military capability has come in its naval, air, and missile programs, all of which are well-suited for defending or contesting objectives in the South China Sea. The increasing severity of territorial disputes and military encounters in the region raise the real possibility of armed conflict over disputed islands, military installations, or oil and gas infrastructure. The U.S., China, and regional powers such as Japan and South Korea should preserve freedom of navigation in the

South China Sea for all nations, while working towards peaceful resolution of territorial disputes.

- **Maintain current security and diplomatic arrangements with Taiwan, recognizing China's One-China policy while continuing economic and military cooperation with Taiwan.** Despite the victory of the DPP in Taiwan's recent elections, the relationship between Taiwan and China is likely to remain deadlocked but stable. Historically, all three parties have recognized the pragmatic importance of restraint and not engaging in provocative actions to unilaterally change the status quo. The American goal of maintaining regional stability would be well-served by continuing to affirm China's One-China policy while continuing to provide economic and military assistance to Taiwan.
- **Ratify a U.S.-China bilateral investment treaty (BIT).** China and the U.S. have the largest economies in the world. Long in the works, negotiating a BIT will provide a forum to address longstanding concerns held by U.S. policymakers and the American business community regarding fiscal policy and economic malpractice by the Chinese government, clarify Chinese regulations for international investors, create investment opportunities in both the U.S. and China, and ensure that American workers and businesses are protected through a policy of fair trade.
- **Work with China to develop and promote international norms in the emergent fields of intellectual property and cybersecurity.** Serious concerns have been raised by U.S. policymakers and the American business community over theft of intellectual property and cyber attacks known or suspected to have originated from China. As policy in these fields is rapidly evolving, the U.S. should work closely with China to develop

and promote intellectual property and cybersecurity norms, building on the success of recent bilateral negotiations. The outcome of this partnership could serve as an example for future multilateral, international agreements. However, the U.S. should simultaneously work to expand its cyber defense capability as a hedge against the failure of a deal.

- **Work multilaterally to promote international human rights norms and express solidarity with human rights defenders in China.** China has been criticized by many nations, organizations, and individuals for its poor human rights record, including persecution of ethnic minorities, lack of personal freedoms, censorship, and detention of activists. Due to deeply-held philosophies of governance and the relative weakness of civil society in China, American or international pressure is unlikely to bring about significant changes in China's human rights policy. Instead, shows of solidarity with Chinese human rights defenders, raising international awareness of China's human rights record, and working to promote international human rights norms are currently the most effective ways that the U.S. can promote human rights in China.
- **Pursue environmental cooperation with China, building on the success of ongoing bilateral and multilateral initiatives.** In addition to being the world's largest economies, the U.S. and China are also the world's largest consumers of raw materials and largest emitters of CO<sub>2</sub>. China's rising affluence and expanding middle class mean that its global footprint will only continue to increase, even as developed nations begin to reduce emissions and implement other environmental initiatives. Despite issues arising from economic competition, differing levels of development, and conflicting domestic interests a recent series of successful collaborations and person-to-person diplomacy

culminating in the COP21 Paris Agreement in November 2015 show a positive trend in bilateral cooperation in environmental policy. The U.S. should work to build on these successes, demonstrating American leadership and promoting domestic consensus on environmental issues.

# Section I:

## Security and International Relations

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Much of the literature produced on United States-China relations today focuses on security issues in the Asia-Pacific region. In recent years China has made great efforts to increase its military capabilities, particularly its navy, missile program, and cyber warfare program. A series of territorial confrontations over disputed areas around the South China Sea (SCS) have alarmed many of China's neighbors and drawn international condemnation. Historically, the United States has had a sizable military presence in the region, with significant forces based in the Republic of Korea (ROK) and Japan since the end of World War II. Originally intended to counter Soviet ambitions, the longstanding military superiority of U.S. forces in East Asia have served as an effective deterrent against a Chinese military buildup in more recent years. However, China's recent actions and rapidly increasing military capabilities have the potential to challenge this military superiority, undermining existing security relationships and potentially destabilizing the region.

Security concerns in the region have resulted in the so-called "pivot to Asia," which calls for both a strategic redeployment of U.S. forces in East Asia and close collaboration with regional allies who look to the U.S. for leadership. However, this reorientation extends far beyond the traditional allies of Japan, the ROK, and Taiwan. In addition to maintaining and solidifying these alliances, the U.S. must develop closer ties with regional powers in Southeast and Central Asia to contest the increasing spread of Chinese influence. The U.S. must also develop a comprehensive security relationship with India and look for ways to contest China's growing relationship with Russia. Although China's integration into a regional multilateral security arrangement would be preferable to the growing tensions, the U.S. must hedge its bets by modernizing its navy, improving air and missile defense systems, and developing both cybersecurity policy and capability.

# Taiwan

*Vivian Chang*

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## Abstract

### Key Policy Decisions

The current United States status quo stresses the process of peaceful cross-strait dialogue with no provocations or unilateral changes by either China or Taiwan towards resolution (whether unification, independence, or confederation). To continue reducing tension and maintaining stability within the Taiwan strait, the U.S. should adhere to the status quo and play the “leverage game” by shaping the environment under which China and Taiwan operate and responding appropriately to either side under given circumstances (with warnings or reassurances).

### Background

Although cross-strait relations between China and Taiwan have made great strides in recent years, bouts of tension still exist between the two. China is firmly against Taiwan independence and strongly discourages U.S. involvement with Taiwan. Both China and Taiwan have adhered to the One-China policy since 1980 and is the foundation of Chinese Communist Party (CCP) policy on Taiwan. The CCP considers the people of Taiwan to be Chinese and that Taiwan is a part of China. However, an increasingly large majority of people in Taiwan consider themselves to be Taiwanese and that Taiwan possesses its own sovereignty. The fundamental difference in how the national identity of the people of Taiwan is perceived between China and Taiwan is a complicated issue that is the root of many political problems in the Taiwan Strait. For both sides, this difference is arguably irreconcilable. The U.S.’ role can best be described as preventing conflict between China and Taiwan and shaping the interactions to reduce the possibility of conflict through policy and rhetoric. To China, the U.S. upholds the “One-China” policy and the three joint communiques of 1972, 1978, and 1982 with China by its own interpretations. At the same time, to Taiwan, the U.S. also upholds the Taiwan Relations Act (TRA) and other commitments such as arms sales and the Six Assurances (an executive order of Ronald Reagan) of 1982.

### Recommendations

- Affirm the U.S.’ interpretation of the “One-China” policy, the three communiques, the U.S.’ non-support for Taiwan independence, membership in state-organized organizations, and “two Chinas” or “one China, one Taiwan” to China when necessary.
- Affirm the Six Assurances and the TRA to Taiwan when necessary.
- Continue arms sales to Taiwan as the executive branch sees fit under given circumstances to bolster and maintain Taiwan’s public confidence and to combat China’s attempts to weaken that confidence.
- Carefully shape and monitor the environment in which both China and Taiwan operate in relation to the U.S. by placing warnings, not threats, to induce restraint on provocative actions by either side and soften with reassurances.
- Emphasize the process of peaceful resolution between China and Taiwan and that no side can unilaterally change the status quo.

## **Taiwan's Significance to the U.S. as an Economic and Cultural Partner**

As the Asia-Pacific region rises as a key theater of global politics and economics, the U.S. must also strive to play an active role in the opportunities that will emerge. The unofficial relationship that the U.S. shares with Taiwan by maintaining peace and stability across the Taiwan Strait plays an important part in the turn to Asia. Kurt M. Campbell, then Assistant Secretary of the Bureau of East Asian and Pacific Affairs states that an important component to the success of U.S. foreign policy towards a rising Asia requires the U.S. to build a robust and diversified relationship with Taiwan as positive U.S.-Taiwan relations would advance many of the U.S.' economic and security interests in the Asia-Pacific region. Campbell states that in particular, good management of U.S.-Taiwan relations will have a positive impact on the way partners in the Asia-Pacific region view the U.S..<sup>1</sup>

Taiwan has been an important economic and cultural partner to the United States since the TRA. In his 2014 testimony, Daniel R. Russel, Assistant Secretary of the Bureau of East Asian and Pacific Affairs, states that Taiwan had become the U.S.' 12<sup>th</sup> largest trading partner and one of the top 10 destinations for U.S. agricultural and food exports. Two-way investment in both the U.S. and Taiwan spurs growth in both economies: in 2012, there had been over \$16 billion of direct investment positions by U.S. firms in Taiwan and close to \$8 billion of FDI from Taiwan in the U.S..<sup>2</sup> During 2012-2013, Taiwan was also the sixth largest source of international students to the U.S., sending more students to the U.S. than either mainland China or India on a proportional basis.<sup>3</sup> In March 2013, the U.S. has also restarted engagement with Taiwan under TIFA after a six year hiatus which allowed the U.S. and Taiwan to address and resolve "trade and investment concerns, including technical barriers to trade, affecting a broad range of sectors,

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1. "Why Taiwan Matters, Part II," U.S. Department of State, last modified October 4, 2011, <http://www.state.gov/p/eap/rls/rm/2011/10/174980.htm>.

2. "Evaluating U.S. Policy on Taiwan on the 35th Anniversary of the Taiwan Relations Act," U.S. Department of State, last modified April 3, 2014, <http://www.state.gov/p/eap/rls/rm/2014/04/224350.htm>.

3. Ibid.

such as agriculture, IPR, pharmaceuticals, and medical devices.” In a 2011 testimony from Kurt M. Campbell, it is stated that Taiwan was the 6<sup>th</sup> largest export market for U.S. food and agricultural products and only second to Canada's consumption on a per capita basis.

Taiwan has also worked closely with the U.S. to quickly move U.S. government staff and their families stationed in Japan during the Tohoku earthquake on March 11<sup>th</sup>, 2011 in the event of a possible larger evacuation. During its assistance, Taiwan “provided flexible and valued assistance to more than 100 Americans, and stands ready to do so again should a similar disaster occur in the region.”<sup>4</sup> Taiwan has also supported recovery efforts in the U.S. after the 2011 Mississippi River flood with donations, significantly helping the lives of victims in more than ten states.<sup>5</sup>

### **China’s “One Country, Two Systems” and its Implications**

China’s One-China policy gradually evolved into the concept of “one country, two systems” coined by Deng Xiaoping. The key points of this concept are: “China will do its best to achieve peaceful reunification, but will not commit itself to ruling out the use of force” by promoting economic and cultural exchanges between China and Taiwan.<sup>6</sup> Eventually, reunification would be achieved through peaceful negotiations under the One-China policy where mainland China will continue its socialist system and Taiwan would be able to maintain its capitalist system “for a long period of time to come.”<sup>7</sup>

According to the Ministry of Foreign Affairs of the People’s Republic of China, China’s “one country, two systems” policy declares Taiwan as “a sacred and inseparable”<sup>8</sup> part of China

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4. “Why Taiwan Matters, Part II.”

5. Ibid.

6. “White Paper - The One-China Principle and the Taiwan Issue,” Embassy of the People's Republic of China in the United States of America, n.d., <http://www.china-embassy.org/eng/zt/twwt/White%20Papers/t36705.htm>.

7. Ibid.

8. “A Policy of “One Country, Two Systems” on Taiwan,” Ministry of Foreign Affairs of the People’s Republic of China, n.d., [http://www.fmprc.gov.cn/mfa\\_eng/ziliao\\_665539/3602\\_665543/3604\\_665547/t18027.shtml](http://www.fmprc.gov.cn/mfa_eng/ziliao_665539/3602_665543/3604_665547/t18027.shtml).

that has been separated from the mainland since 1949. Deng Xiaoping has stated that China will “respect the realities and existing system there [Taiwan]”<sup>9</sup> as long as Taiwan reunifies with China. The policy states that the “complete reunification of China is the common aspiration of all the Chinese....The concept has been warmly received by the Chinese people both in China and overseas and by the world public opinion.”<sup>10</sup> The policy also states that any attempt to split China will never be accepted as an alternative and that anyone who betrays the principle of one China or advocates for either “two Chinas” or “one China, one Taiwan” will “surely run into the firm opposition of the entire Chinese people including the people of Taiwan.”<sup>11</sup> For China, Taiwan is strictly a province of China and the Chinese government is “the sole representative of the China in the international community,” negating Taipei’s claim to international sovereignty.<sup>12</sup> Beijing labels Taipei’s assertion over its sovereignty as “separatist.”<sup>13</sup>

The Chinese government firmly believes that the world majority advocates for Taiwan's reunification with China and that all people of Chinese ethnicity definitely support the concept of one China, regardless of whether or not this is actually true. This includes the people of Taiwan whom the Chinese government firmly identifies as solely Chinese (and not Taiwanese). Since the Chinese government considers the Taiwanese to be Chinese (and may not even recognize the validity of the idea of a Taiwanese identity), they should as well, without question, support Taiwan’s reunification with China. These assumptions that the Chinese government leads itself to wholly believe are dangerous as it causes tension with Taiwan and eliminates any chance for the Chinese government to listen and take Taiwan’s stance seriously.

The assumptions that the Chinese government make are further highlighted in Tiexun Leng’s article, “On the Fundamental Characteristics of the “One Country, Two Systems” Policy,

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9. Ibid.

10. Ibid.

11. Ibid.

12. Richard C. Bush, *Untying the Knot: Making Peace in the Taiwan Strait* (Washington: Brookings Institution Press, 2005), 91, [http://www.nbr.org/publications/asia\\_policy/AP2/AP2\\_Untying%20RT.pdf](http://www.nbr.org/publications/asia_policy/AP2/AP2_Untying%20RT.pdf).

13. Ibid., 106.

published in volume one of the *Academic Journal of "One Country, Two Systems."* Leng, a professor at the Wuhan University School of Law, Civil, and Commercial Law, states that Taiwan, Hong Kong, and Macao must be reunited with China and that "there is no room for compromise."<sup>14</sup> He also includes Deng Xiaoping's response to an interview question posed by United States newsman Mike Wallace on September, 2, 1986, "What is in it for Taiwan to be reunified with the mainland?" in which the response was: "First of all, it is a national question, a question of national sentiment. All members of the Chinese nation want to see China reunified. The present state of division is contrary to our national will."<sup>15</sup> Again, Deng Xiaoping stresses that he believes all people of Chinese ethnicity, including the Taiwanese people, commonly desire reunification and that this belief uniformly persists within the Chinese government today.<sup>16</sup>

### **The Current Status Quo**

The U.S.' current status quo is essentially a set of formulas that vary in emphasis and are combined flexibly in various combinations in accordance to Washington's assessment of given circumstances. According to Richard C. Bush, the director of the Center for Northeast Asian Policy Studies and previous Chairman of the Board of the American Institute in Taiwan, these formulas include:

...the affirmation of the one-China policy itself; the three U.S.-PRC communiqués; the Taiwan Relations Act; insistence on peaceful resolution of the cross-strait issue; continued arms sales to Taiwan; nonsupport for "two Chinas" or "one China, one Taiwan"; nonsupport for Taiwan independence; nonsupport for Taiwan's membership in state-based international organizations; the so-called "six assurances"; recognition of the need of the assent of the people of Taiwan for any cross-strait solutions; and so on.<sup>17</sup>

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14. Tiexun Leng, "On the Fundamental Characteristics of the "One Country, Two Systems" Policy," *Academic Journal of "One Country, Two Systems"* 1 (2011): 49-59, [http://www.ipm.edu.mo/cntfiles/upload/docs/common/1country\\_2systems/issue1/p49.pdf](http://www.ipm.edu.mo/cntfiles/upload/docs/common/1country_2systems/issue1/p49.pdf).

15. Ibid.

16. Ibid.

17. Bush, *Untying the Knot*, 255.

A fundamental U.S. policy objective in regards to the one-China policy that has governed the conduct of the status quo is preserving peace and stability in Asia. In order to prevent instability and possible war between China and Taiwan, the U.S. exerts influence on Beijing or Taipei (or both), discourages provocation by either Beijing or Taipei, discourages overconfidence and a lack of confidence, maintains public support for U.S. policies back at home, and maintains a degree of ambiguity on the U.S. use of force.<sup>18</sup> The U.S. also does not clearly state whether it would defend Taiwan in the event of an attack by China. It has been argued that this use of strategic ambiguity shapes the intentions of Taiwan and China. China is constrained from “making an unprovoked attack on Taiwan by raising at least the possibility that the United States will intervene” and Taiwan is constrained from “taking steps that Beijing would find intolerably provocative by suggesting that Washington would not intervene or would otherwise punish Taiwan.”<sup>19</sup>

### **Tsai Ing-wen’s Presidential Victory: Future Predictions for Cross-Strait Relations and U.S. Policy**

Tsai Ing-wen of the Democratic Progressive Party (DPP) won the presidential election in Taiwan on January 16, 2016. Beijing does not trust the DPP party as the goal for the DPP’s platform was to build an independent Taiwanese state. The CCP states that it “refuses to conduct party-to party exchanges with the DPP before the latter formally abandons the Taiwan independence platform,”<sup>20</sup> although, there have been many informal contact between DPP and CCP officials. Beijing did, however, anticipate that the DPP would win the 2016 elections and has reiterated that Tsai Ing-wen’s acceptance of the “1992 consensus” would be the “foundation

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18. Ibid., 255.

19. Ibid., 256.

20. Wen-Cheng Li, “The Start of the New Tsai Ing-wen Era,” Analysis No. 293, January 2016, (Milan: Italian Institute for International Political Studies, January 2016), 5, [http://www.ispionline.it/sites/default/files/publicazioni/analisi293\\_wen-cheng\\_lin\\_18.01.2016\\_0.pdf](http://www.ispionline.it/sites/default/files/publicazioni/analisi293_wen-cheng_lin_18.01.2016_0.pdf).

or precondition for future cross-strait talks.”<sup>21</sup> Unlike Ma Ying-jeou who met with Xi Jinping on November 7, 2015 in Singapore and reached the agreement that the “two sides of the Taiwan Strait reached a consensus on the one China principle in 1992,”<sup>22</sup> Tsai Ing-wen has refused to accept the “1992 consensus” but does not deny its history.<sup>23</sup>

Ma Ying-jeou’s administration was much preferred for Washington as his administration handled China policies well in maintaining stability and substantially improving cross-strait relations. John Kirby, a spokesperson for the U.S. Department of State Bureau of Public Affairs issued a press statement congratulating Tsai’s victory and stated that the U.S. anticipated that the new Tsai administration will build on the efforts of the Ma administration and will continue to “work constructively to ensure a smooth transition and continue to promote peace and stability in the region.”<sup>24</sup> In late May and early June 2015 when Tsai Ing-wen made a trip to the United States, she promised that she would maintain the current status quo and would not provoke China.<sup>25</sup> Washington was satisfied with Tsai’s China policy as Washington’s policy was also to maintain the status quo, and therefore has “no reason to oppose Tsai’s moderate approach.”<sup>26</sup>

Although Beijing does not favor the turnover from Kuomintang (KMT) to DPP in Taiwan, the U.S. can anticipate Beijing’s response to Tsai Ing-wen and the new DPP rule to be moderate. From 2000 to 2008, China’s policy towards DPP President Chen Shui-bian’s leadership was “to listen to what one says and watch what one does.”<sup>27</sup> If Tsai is unable to present an alternative formula for the 1992 consensus that is acceptable to both China and Taiwan or come to an agreement in regards to the consensus (as previous presidents in Taiwan have been doing), then Beijing’s response to the Tsai administration would not be moderate:

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21. Ibid.

22. Ibid.

23. Ibid.

24. “On Taiwan’s Election,” U.S. Department of State, last modified January 16, 2016, <http://www.state.gov/r/pa/prs/ps/2016/01/251328.htm>.

25. Li, “The Start of the New Tsai Ing-wen Era,” 5.

26. Ibid., 10.

27. Ibid., 7.

very likely, China would “suspend cross-strait talks, resume diplomatic warfare against Taipei, discourage Chinese tourists from visiting Taiwan, and reduce economic favors to Taiwan” and would only negotiate with Taipei on “a case-by-case basis.”<sup>28</sup> Pushing Beijing to the point of force however, would not be supported by the majority of the people in Taiwan and would also further alienate the U.S. A radical China policy by the DPP would be unlikely as Taiwan’s economy significantly depends on the mainland Chinese market, as Taiwan has invested over \$200 billion in China.<sup>29</sup>

China also has the power to destabilize Taiwan. On March 14, 2005, China's National People’s Congress enacted a law that gave China’s State Council and Central Military Commission authorization to use force against Taiwan in the case where peaceful means of eventual unification were exhausted. Along with the Anti-secession Law, China’s military, the People’s Liberation Army (PLA) “deploys more than 1,500 missiles targeting the island and has never renounced the use of force against Taiwan.”<sup>30</sup> Tsai Ing-wen would need Beijing’s cooperation for her to even concentrate on domestic reforms by maintaining a stable cross-strait relationship as Beijing holds significantly more leverage than Taipei, even though that leverage costs Beijing as well.<sup>31</sup>

Joseph Wu, the DPP’s Secretary General, gave a speech in Washington, D.C. on January 19, 2016 sponsored by the Center for Strategic and International Studies (CSIS) and the Brookings Institution on the outcomes and implications for Taiwan's 2016 elections. Wu states that the 2016 DPP campaign has “actively sought balanced positions on potentially confrontational issues, including cross-strait relations”<sup>32</sup> by staying moderate, thus garnering the support of Taiwan’s middle majority. He noted that since Tsai Ing-wen’s visit to the United

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28. Ibid., 7.

29. Ibid., 4.

30. Ibid., 5.

31. Ibid.

32. Jaushieh Joseph Wu, *Taiwan after the KMT: Interpreting the 2016 Election*, (Washington D.C.: Center for Strategic and International Studies, January 19, 2016), 4, [http://csis.org/files/attachments/20160119\\_Wu\\_Speech.pdf](http://csis.org/files/attachments/20160119_Wu_Speech.pdf).

States during June 2015 in which she stated her China policy (that she would maintain the status quo and not provoke China), the DPP has adhered to those policies during their campaign. Wu's statements are a further reassurance to the U.S. that neither Tsai Ing-wen nor the current DPP government is likely to pursue radical policies that may provoke China and significantly disturb the maintenance of stability between China and Taiwan.

Among the points in the Tsai administration's new agenda is "cross-strait reconciliation."<sup>33</sup> Wu answers the question regarding the "1992 consensus" and states that the "DPP has never denied the historical fact of the cross-strait dialogues that took place in 1992, and indeed acknowledges the shared desire of the two sides at that time to advance cross-strait relations by fostering mutual understanding."<sup>34</sup> With what Tsai and the DPP have stated thus far, the U.S. can likely expect that the DPP and the Tsai administration will proceed responsibly and engage with China in a moderate stance, one that avoids confrontation and surprises in order to find mutually acceptable modes of interaction between China and Taiwan.

Another significant point in the DPP's agenda was the prospects for Taiwan-U.S. relations. Wu stated that Taiwan's relations with the U.S. will be of "utmost importance" and that the DPP will continue to improve economic, security, and political ties between Taiwan and the U.S. Wu affirmed that the Tsai administration and the DPP will "adopt a consistent and predictable policy agenda with the U.S. so that Taiwan can be regarded as a trustworthy strategic partner..."<sup>35</sup> Both Tsai's promise to maintain the status quo and Wu's statements in regard to the DPP's goals reassure U.S. concerns of a new DPP government heavily affecting cross-strait relations.

### **Playing the "Leverage Game": Maintaining the Current Status Quo**

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33. Ibid., 7.

34. Ibid., 7.

35. Ibid., 8.

Maintaining the current status quo would be the least harmful policy option that would continue to balance tensions and maintain stability on both sides of the Taiwan Strait in what Bush calls the “leverage game.”<sup>36</sup> Washington has been an object of leverage by both Taipei and Beijing: when either side thinks that it has gained an advantage in Washington – whether in political rhetoric or international affairs – will often times exaggerate the significance of that gain in order to weaken the legitimacy and confidence of the other side.<sup>37</sup> Bush also notes that “Taiwan seeks to solidify and strengthen its ties with the United States...Beijing seeks to weaken that material and psychological support.”<sup>38</sup> Washington also exerts its own leverage on both Taipei and Beijing in order to prevent disputes from growing into dangerous conflicts. Washington stresses the process of peaceful resolution by deciding how to best balance a mix of warnings (to both sides as not to take actions that would create unwanted instability) followed by reassurances. It “[restrains] Beijing from using force against Taiwan but refusing support for any separatist aims in Taiwan and constraining Taiwan from taking provocative political initiatives while calming the island's periodic fears of abandonment.”<sup>39</sup>

Richard C. Bush has included a figure (Figure 1) in his book *Untying the Knot: Making Peace in the Taiwan Strait* showing the rationale from both Taiwan and China if either were to cooperate or defect from one another.<sup>40</sup> Neither side is willing to risk the first step in cooperation due to a fundamental lack of trust between the two sides. Each side fears that if they were to take the first step towards cooperation, the other side would take advantage of their goodwill because the temptation to exploit the other would be difficult to resist. In game theory, this is called the “Prisoners’ Dilemma” where both sides understand the value of cooperation but would rather choose the more attractive option of mutual defection than mutual cooperation due to the

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36. Bush, *Untying the Knot*, 251.

37. *Ibid.*, 251.

38. *Ibid.*, 269.

39. *Ibid.*

40. *Ibid.* 140.

incentives and risks posed to both sides. China fears that if it renounces its use of force, Taipei will bring about permanent separation or declare independence as the Republic of Taiwan and make China “lose face” and end up looking foolish in the bargain. Taiwan fears that it would have to give up its insurance (mainly economic and security-wise) on the U.S. in the event that China goes back on its promises to Taiwan under its “one country, two systems” policy.<sup>41</sup>

**Figure 5-2. The Prisoners’ Dilemma and Cross-Strait Relations**

		China	
		Cooperate (C)	Defect (D)
Taiwan	Cooperate (C)	<p>3</p> <p>Settlement</p> <p>3</p>	<p>4</p> <p>PRC exploits Taiwan’s goodwill</p> <p>1</p>
	Defect (D)	<p>3</p> <p>Taiwan exploits PRC’s goodwill</p> <p>3</p>	<p>3</p> <p>Current status quo</p> <p>3</p>

**Figure 1: The Prisoners’ Dilemma and Cross-Strait Relations<sup>42</sup>**

Bush argues that strategic ambiguity is a better option than declaring in advance what the U.S. would do under specific circumstances for these reasons: 1) it is impossible to predict all contingencies, 2) specifying circumstances under which the U.S. would act would increase probing by Beijing and Taipei, 3) U.S. response will be guided as much by domestic politics as by how conflict began, 4) clarity reduces U.S. flexibility and increases obligations, 5) ambiguity

41. Ibid., 141.

42. Ibid., 141.

is useful to countries that might contribute to Taiwan's defense (Japan in particular) but whose governments are unwilling to face a public discussion of the possibility.<sup>43</sup>

The U.S. should not mediate or push either side to engage with each other to discuss sovereignty issues. The U.S. should continue to balance trust between China and trust between Taiwan carefully to build good relations with both sides of the Taiwan Strait. The U.S. should continue to affirm its interpretation of the “One-China” policy and the three communiques for the purposes of international organizations and formal bilateral relations but take no position on China's “one country, two systems” policy. To China, the U.S. should also continue to affirm its nonsupport for Taiwan independence, membership in state-organized organizations, and “two Chinas” or “one China, one Taiwan” alternatives to “One-China.” To Taiwan, the U.S. should continue to affirm the “six assurances,” the TRA, and its arms sales to bolster confidence. China will continue to work towards unification under “One-China” and Taiwan will continue to walk the delicate line of maintaining its unofficial sovereignty while cooperating with China to ease tensions and its fears of separation from the mainland. The U.S. will need to continue carefully balancing its dual deterrence strategy of warnings and reassurances to successfully leverage on both China and Taiwan, and respond accordingly to the leverage exerted by both Taiwan and China on the U.S. As has been the case with the status quo thus far, the U.S. needs to continue appropriately “shap[ing] the intentions of both Beijing and Taipei so that neither acts in a way that is provocative to the other”<sup>44</sup> under any future circumstances.

## **Conclusion**

In order to successfully continue playing the leverage game with China and Taiwan, the U.S. should adhere to the current status quo under its dual deterrence strategy and respond

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43. Ibid., 256.

44. Ibid., 263.

accordingly to China and Taiwan given the circumstances. The environment under which China and Taiwan operate with each other will need to be carefully shaped and monitored as to make sure cross-strait stability is not threatened by warnings or reassurances to either side when necessary. The emphasis on the process of peaceful resolution should continue to be the goal of the status quo and the U.S. will need to make sure that neither side provokes the other.

The U.S. should also expect that the Tsai Ing-wen administration and the DPP will not pose a significant threat to the maintenance of stability between China and Taiwan if the Tsai administration adheres to maintaining the status quo and advocates for improving relations with China in a mode that is acceptable to both China and the people of Taiwan. Tsai Ing-wen does not aim to provoke China as it is necessary for her to gain Beijing's cooperation to successfully implement both the domestic and international reforms that she advocates. Furthermore, Tsai has promised to be cautious so as to not provoke China. As long as Tsai is able to uphold a reasonable and acceptable mode of interaction with China in regards to the "1992 consensus," it is also very unlikely that China will resort to drastic measures and will more likely implement a moderate stance towards Taiwan.

# Northeast Asia

*Yueh Chang*

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## Abstract

### Key Policy Decisions

The main goal for the United States is to maintain its power and influence in the region and to cope with a rising China. The challenge for the U.S. is to maintain its relationship with Japan and the Republic of Korea (ROK) as its cornerstone in the Asia-Pacific while China is expanding its economic influence and military presence in the region. How to make sure that allies align with the U.S. and maintain their position on containing China are major tasks for the United States in the future, considering that the ROK is having a better and smoother relationship with China. Things the U.S. needs to work on include strengthening the trilateral relationship among its allies Japan and South Korea, and to maintain and strengthen the military bases in the region. At the same time, there is a need to cooperate with China on some security issues in the region, for example the nuclear threat from the Democratic People's Republic of Korea (DPRK).

### Background

Considering the close relationship between the U.S. and Japan and the U.S. and the ROK, Northeast Asia can be seen as the cornerstone of U.S. foreign policy and security in the Asia-Pacific region. Since the postwar period, Japan and South Korea have been the closest allies for the U.S. in the region. During the Cold War, the U.S. engaged politically, economically and militarily in both countries in order to contend with the Soviet Union and the threat of communism. After the collapse of the Soviet Union and the rise of terrorism in the Middle East, the United States gradually withdrew its focus on the region. However in recent years, with the issues of the North Korean nuclear threat, China's rising power and the coming end of the war in Afghanistan, the U.S. began to shift its view back to Asia. The major goals and policy of the U.S. towards the region are "rebalancing" and "pivoting". In order to rebalance and pivot, it contains two processes, one is moving the U.S. military focus from other regions to Asia, second is expanding the U.S. influence within the Asia-Pacific region, not just the Northeast Asia but the whole of Asia. To do this, the U.S. must maintain or increase its military presence in Northeast Asia and increase economic influence in other areas.<sup>1</sup> The presence of the U.S. interest in the region is to most effectively contain China's power but also to maintain a good relationship with Japan and the ROK since both of the countries are the U.S.' second and third largest economic partners in the region.

### Recommendations

- Increase allies' military confidence in the region, and use deterrence to decrease coercive actions from China and contain China's military presence in the region.
- Maintain the technological advantage of weaponry in the region.
- Strengthen the trilateral relationship between U.S., Japan, and the ROK.
- Propose an international organization that discusses security issues in the region.

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1. Richard Weitz, "Pivot Out, Rebalance In," *The Diplomat*, May 3, 2012, <http://thediplomat.com/2012/05/pivot-out-rebalance-in>.

## **Nationalism and Territorial Disputes**

There are three major issues in Northeast Asia that involve the U.S. and China's interests and will determine U.S.-China relations in the long run. One is the territorial dispute between China-Japan and China-ROK. The second is the U.S. military presence and security in the region. And the last one is on the historical grievances between Japan-ROK and Japan-China. One of the core causes of the conflict between Japan and China is that both countries see themselves as the leader of Asia. Japan became an economic power after World War II, but has stagnated the last two decades. China was the leader before 1800 and is now a rising power in the twenty-first century. Many conflicts between the two countries or conflicts over the region are caused by nationalism and hostile attitudes between the two competitors. Problems with territorial disputes around the East China Sea are direct symptoms of this increasing nationalism. For the United States, the interest towards East China Sea is in a more derivative way, however, the U.S. and Japan have military agreements, if Japan and China have military conflicts due to the territorial dispute, the U.S. will have to support Japan, which confronting China for the first time after the twentieth century.

In terms of territorial disputes, the biggest conflict is in the East China Sea. The East China Sea extends to the east of the Ryukyu Islands; north to Kyushu, northwest to Cheju Island off of the Republic of Korea; and west to China. The countries that border the Sea include Japan, Republic of Korea, the Republic of China (Taiwan) and the People's Republic of China. The East China Sea contains natural gas and oil through the hydrocarbon reserves there are difficult to estimate.<sup>2</sup> China and Japan have overlapping claims to both the continental shelves and the Exclusive Economic Zone (EEZs) extending from their respective continents. Japan believes that each country should separate the EEZs at equal distance; meanwhile, China claims an extended

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2. James Manicom, *Bridging Troubled Waters: China, Japan, and Maritime Order in the East China Sea* (Washington: Georgetown University Press, 2014), <http://muse.jhu.edu/books/9781626160361>.

continental shelf beyond the line to the Okinawa Trench followed by UNCLOS III. For both China and Japan, the East China Sea is important for its fishing resources. Not just that, China also discovered an undersea natural gas field called “Chunxiao gas field” which lies in an EEZ area which Japan also sees as its EEZ. The economic value of the Chunxiao gas field is even greater than the fishing industry in the East China Sea. For Japan, the significance of this gas field is relatively low compared to China because most of the gas fields lie on the Japanese side and the transportation costs for the gas in the Chunxiao gas field is relatively high. The main reason for Japan to insisting on preserving its rights is the concern that if Tokyo gives any concession on the issue, Beijing may take further steps and exploit other disputed areas that are significantly more important than Chunxiao.<sup>3</sup>

The dispute over the Senkaku/Diaoyutai Islands is similar to that of the East China Sea dispute. Japan and China both claim authority over this small island group. The islands were initially useful as the basis for a claim to maritime space, but over time, they became an important nationalist symbol in the bilateral relationship. In order to expand the EEZs, the two countries tried their best to claim authority over the Senkaku Islands. In September 2012, Japan bought three islets from a private Japanese owner. In response to the Japanese government’s purchase, China protested the move and has since sent maritime law enforcement ships to patrol near the Senkaku Islands to challenge Japan’s ability to demonstrate exclusive administration.<sup>4</sup> In September 2013, China published a white paper entitled “Diaoyu Dao,” and submitted information to the UN Commission on the Limits of the Continental Shelf regarding China’s extended continental shelf in the East China Sea, and claimed authority over the islands and nearby EEZs. In November 2013, China announced the creation of its Air Defense Identification Zone (ADIZ) in the East China Sea with coverage that included airspace above the Senkaku

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3. Yağmur Erşan, “China, Japan Conflict on Chunxiao/Shirakaba Gas Field,” *Turkish Weekly*, July 25, 2013, <http://www.turkishweekly.net/2013/07/25/news/china-japan-conflict-on-chunxiao-shirakaba-gas-field>.

4. Manicom, *Bridging Troubled Waters*.

Islands that overlapped with previously established Japanese, South Korean and Taiwanese ADIZs. Enforcement of its East China Sea ADIZ against Japanese aircraft and responses to Japanese maritime activity near the Senkaku Islands reflects Chinese efforts to normalize its presence near the islands and demonstrate its intent to defend its claims while avoiding serious miscalculations with Japan. The PLA Navy uses “low-intensity coercion” and refrains from becoming directly involved in territorial and maritime disputes to avoid escalation. Although the PLA Navy remains at a distance, its deployed surface combatants are ready to respond to a deteriorating security environment. During the 2014 Asia-Pacific Economic Cooperation (APEC) Summit, President Xi held his first bilateral meeting with Japanese Prime Minister Abe and announced a vague four-point agreement trying to improve bilateral ties and initiate possible collaboration on the Senkaku islands with Japan, however, nothing specific or practical has been proposed and nothing has developed for the Senkaku Islands dispute.

Similar with the Senkaku Islands, Ieodo Rock (internationally known as the Socotra Rock) is also a territorial dispute related to EEZs between China and the Republic of Korea. With potential oil reserves at stake, China, Japan, and South Korea all seek to claim the authority over the island. Situated 149 km from Mirado and 287 km from the nearest Chinese island, Sheshandao, Ieodo is closer to Korea. It was first recognized as the island in the international waters, however when the international community extended the maximum reach of EEZs to 200 nautical miles, the ownership of the rock became complicated. In the case of the East China Sea, this created overlapping zones among China, Japan, and South Korea. Ieodo overlaps between Chinese and Korean EEZ, meaning it is up to the states to delineate the actual maritime boundary. They have made no headway in 16 rounds of negotiations. In February 2016, two Chinese military aircraft flew over South Korean and Japanese air defenses near a disputed island in the East China Sea. The two Chinese aircraft identified themselves shortly after entering into Seoul’s air defense zone, then quickly left before the South Korean air force

scrambled their jets. Some believed that the action of the PLA was a response to recent talks between Seoul and Washington on the deployment of a new missile defense system in the region. Beijing is concerned that the deployment of the Terminal High-Altitude Area Defense (THAAD) system on the Korean peninsula will threaten China's security, and to fly over the disputed island is a warning against the deployment.<sup>5</sup>

Both the Senkaku Islands and Ieodo Rock dispute can be categorized into the dispute over the East China Sea. And since the extension of the maximum reach of EEZs started, tension in the East China Sea has increased. There are two major features of the recent phase of tensions. First, nationalism began to be involved in the East China Sea issue with the same symbolic attachment as they do the disputed Senkaku/Diaoyu Islands. Second, the ratification of UNCLOS by Japan and China in 1996 increased the salience of maritime jurisdictional entitlements such as fisheries, marine research, and offshore gas and oil exploration for central policymakers in Tokyo and Beijing. During periods of tension, official Chinese statements and state media seek to frame China as reacting to threats to its national interests or to provocations by outside actors. China has also used punitive trade policies as instruments of coercion during past tensions, and could continue to do so in the future disputes.

## **Military**

As the U.S.' biggest ally and China's biggest competitor in the region, Japan has played a huge role in the Asia-Pacific region since the postwar period. However Japan has experiencing economic stagnation, disasters, and political paralysis while China has become a major power in the region. This changing power relationship increased Japan's sense of insecurity. However in response to China's assertive stand on the East China Sea and Senkaku Islands, alliance

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5. Christopher Harress, "Chinese Military Aircraft Breach Korean and Japanese Air Defense Zones Near to Disputed Ieodo Island," *International Business Times*, February 2, 2016, <http://www.ibtimes.com/chinese-military-aircraft-breach-korean-japanese-air-defense-zones-near-disputed-2290227>.

cooperation has evolved due to changes in the regional security environment. Japan began to push for its own upgraded military capabilities and has increase its pending on defense each year marginally. The U.S.' military presence in Japan consists mostly of naval and air forces. Japan is in a very complex security environment. It has concerns about North Korean nuclear weapons and also Beijing's coercive action in the East China Sea. These two major forces push Japan to be more militarily active in the region. The increasing conflicts in the East China Sea in particular have forced Japan to recognize its role as a regional power against a rising China. In response to this complex regional security environment, Japan is trying to build a comprehensive security strategy so that it could have its own ability when facing conflicts. In December 2013, Prime Minister Abe announced his three core national security objectives that are closely related to U.S. and China. The first objective is to strengthen deterrence to manage the threat from China in the East China Sea. The second is to improve the security environment in the region by strengthening Japan-U.S. relations, and finally to promote cooperation with others and improve the global security environment. From the apology regarding comfort women, it is apparent that Abe is trying to resolve the distrust between Japan and the ROK, and hope that a better relationship and more cooperation can emerge.

In order to maximize the use of the Japan Self-Defense Forces (JSDF), Abe and the government reinterpreted Article 9 in Japanese Constitution. According to Article 9, any use of the military forces are prohibited from resolving international disputes, however by reinterpreting the article, Abe is trying to argue that the limited use of forces is allowed. The JSDF includes 247,000 active and 56,000 reserve personnel. The Japan Ground Self-Defense Force (JGSDF) includes 151,000 personnel. The Japan Maritime Self-Defense Force (JMSDF) includes 45,500 personnel and fields 47 principal surface combatants, 18 submarines, 6 patrol and coastal combatants, 35 mine warfare vessels, seven naval aviation air groups. And in terms of Air Self-Defense, it includes 47,000 personnel. In terms of the security cooperation with the

U.S., the new guidelines of defense cooperation 1) improve the operational coordination between two militaries by holding up Alliance Cooperation Mechanism, 2) broaden the scope of functional cooperation into many other areas, and 3) further integration of the two militaries with third countries.<sup>6</sup>

Unlike Japan's security concerns, the biggest concern of the ROK is North Korea's threat. Again, unlike Japan, the U.S.' military presence in the Republic of Korea is more on the ground.<sup>7</sup> It has been noticed that the ROK started to focus on improving its relationship with China due to Beijing's closer relationship with Pyongyang. There is concern that this increasingly close relationship between the ROK and China will affect the U.S. "pivot" and "rebalancing" in the Northeast Asia region; however, a recent poll shows that South Koreans (especially the younger generation) are still in favor of the alignment with the U.S. In order to better prevent the nuclear threat from the DPRK, the ROK started the discussion with the U.S. to deploy THAAD on the peninsula. Beijing strongly protests the possible deployment, and warned that the relationship between the ROK and China "destroyed in an instant"<sup>8</sup> if the system is deployed. What China is concerned about is that the THAAD in the ROK could undermine China's nuclear deterrence and allow the U.S. track the launches of Chinese missiles. The ROK also has a strong position on the issue and asked China to not intervene its own national security. The relationship between the ROK and China is experiencing a chill.

The ROK's current military forces include 495,000 troops, 24,000 tanks, 26,000 armored vehicles, 58,000 field artillery pieces and multiple-launch rocket systems, and 60 guided weapon systems that are mostly army-centric and ground-based paradigm. The United States has around

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6. Michael Green, Kathleen Hicks, Mark Cancian, Zach Cooper, and John Schaus, *Asia-Pacific Rebalance 2025: Capabilities, Presence, and Partnerships: An Independent Review of U.S. Defense Strategy in the Asia-Pacific* (Washington D.C.: Center for Strategic and International Studies, January 2016).  
[http://csis.org/files/publication/160119\\_Green\\_AsiaPacificRebalance2025\\_Web\\_0.pdf](http://csis.org/files/publication/160119_Green_AsiaPacificRebalance2025_Web_0.pdf).

7. Ibid.

8. David E. Sanger and Choe Sang-hun, "U.S. Prods China on North Korea, Saying Soft Approach Has Failed," *New York Times*, January 7, 2016, <http://www.nytimes.com/2016/01/08/world/asia/us-tells-china-that-soft-approach-to-north-korea-has-failed.html>.

30,000 troops in Korea and most of them are Army or Air Force personnel. During wartime, a U.S. General is the chief in command; however, in recent years, the U.S. and ROK are preparing for the transition of wartime operational command. However, without a specific date for the Operational Control (OPCON) transition, the wartime operational transition has been delayed. One of the shortfalls of U.S. military presence in the area will be the speed of the OPCON transition. By speeding up the OPCON transition, the ROK could gain more independence regarding to its own security affairs, could further deter the DPRK with a more professional and stronger troops, and spend more on their own defense and further allow the U.S. to cut down the military budget in the region.<sup>9</sup> According to The Pentagon's report on U.S. strategy for a possible war against China, an AirSea Battle was planned (still under development). It involves massive air and missile strikes targeting China's military assets, bases and infrastructure, as well as communications, economic and political centers.<sup>10</sup> U.S. military bases in Japan and Korea allow the U.S. to have a military threat near the Chinese mainland. And of course, in response to the AirSea Battle, Beijing is seeking to counter the battle by implementing Anti-Access/Area Denial (A2/AD), the military capacity to restrict or deny access to U.S. naval and air forces to sensitive waters off the Chinese mainland and to attack the U.S. bases, particularly in Republic of Korea and Japan.<sup>11</sup>

### **Historical Grievances**

One other area that will influence American power in the region will be the relationship between the two biggest U.S. allies. By having a strong trilateral relationship between the U.S.-Japan-Korea, the United States will be able to have a strong cornerstone in the region and a

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9. Walter Sharp, *OPCON Transition in Korea* (Washington D.C.: Center for Strategic and International Studies, Office of the Korea Chair, December 2, 2013),

[http://csis.org/files/publication/131216\\_OPCON\\_Transition\\_in\\_Korea.pdf](http://csis.org/files/publication/131216_OPCON_Transition_in_Korea.pdf)

10. Peter Symonds, "CSIS Report: A Blueprint for US War with China," World Socialist Web Site, January 25, 2016, <https://www.wsws.org/en/articles/2016/01/25/csis-j25.html>.

11. Ibid.

strong base for its “pivot” in the Asia-Pacific. Due to the issues related to historical memory, the two allies remain distrustful. For the U.S., one big challenge is to unite its allies and for China, a close Japan and Republic of Korea relationship that is in favor of the U.S. is not good. The first challenge that the United States faces is to solve the historical grievances issue between Japan and ROK. It would be a hard case, which would have to come at a cost, for example, to convince the Japanese to put aside the national pride. Better management is needed for a long-term trilateral relationship. It seemed possible when recently Prime Minister Abe officially apologized for the comfort women issue during World War II and promised an \$8.3 million payment to victims in the Republic of Korea. Tokyo and Seoul agreed that this apology would be an “irreversible resolution,” and that after the resolution, the Republic of Korea will never raise the issue of comfort women again when dealing with Japan.<sup>12</sup> Although the step seems significant for Japan-ROK relations, the agreement is controversial. There are 46 comfort women who are still alive, and only a few of them are appeased with the apology. Many of them complained that even though there was an apology and compensation for the comfort women, none of them were actually involved in the conversation. The Korean public also criticized President Park for accepting the apology too easily. A more sincere and careful approach is definitely needed from both sides. However, without an initial conversation that tries to ease the historical tension between the two countries, there would never be true cooperation between them. Only when the two countries face their historical scars together that a further collaboration can occur. The U.S.’ position in those conversations should be that of a facilitator.

### **Detailed Recommendations and Explanation**

The major goal for the United States in the region is to first contain regional Chinese

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12. Choe Sang-hun, “Japan and South Korea Settle Dispute Over Wartime ‘Comfort Women,’” *New York Times*, December 28, 2015, <http://www.nytimes.com/2015/12/29/world/asia/comfort-women-south-korea-japan.html>.

military power. In order to balance China's military and political influence in the region, the U.S. needs to take a stronger approach. The first thing that the U.S. should do is to increase the military confidence of its allies. This means strengthening their deterrence power in the specific areas for each. For Japan, it will be to increase maritime capabilities. The U.S. can promote and push for a joint operational team with Japan (which is already in progress) so Japan's national defense or security does not solely depend on U.S. forces. By doing so, the U.S. can help put Japan in competition with China and make sure that the regional leader in Northeast Asia is an American ally. The second recommendation will be to push for joint projects on new maritime weapons such as missile submarines. By having a jointly-funded project, the U.S. will be able to share the spending on weaponry with Japan. In terms of the ROK, increased missile defense capabilities will be the focus. Similar to Japan, a joint project on innovative missile defense capabilities can be promoted from the U.S. side. Finally, joint military training with Japan-U.S.-ROK should be introduced, so that the U.S. Army can train the Japanese and Korean armies simultaneously (to decrease the budget) and also give the two countries more opportunities to cooperate. By having stronger and more confident regional allies that with strong self-defense capabilities, the U.S. can increase their deterrence power and create a more trilateral or multilateral regional military alliance in containing China's military power.

In terms of military capabilities, one of the biggest advantages that the U.S. has compared to China is advanced technology in weaponry. The U.S. needs to maintain this advantage and prevent China from catching up. However, it will be costly; the one option the U.S. has is to create a jointly funded project with its Northeast Asian allies on new weapons. For Japan and the ROK, they will have the chance to share advanced technology information with the U.S, and for the U.S., its two allies can help contribute funds for the new military prototype. Two areas are worth funding, 1) software on missile defense capabilities and submarine or undersea capabilities, and 2) cybersecurity related technology. The innovative missile defense is a specific

response to North Korea's nuclear threat. Both Japan and the ROK have concerns over the issue, so this can also be an opportunity for Japan-ROK cooperation on military and security.

The second focus for the U.S. is to strengthen its allies (Japan and Korea) and help them realize their potential as regional powers that can contain and limit China's coercive policy in the region. By doing so, the United States will be able to have strong and stable military bases close to China. One policy recommendation to improve the allies' relationship is to encourage Japan and the ROK to solve the comfort women issue in a multilateral aspect. By multilateral it means not just between the two governments, but also third or fourth parties that include women's rights organizations. Further compensation, official seminars, and conversations can be done collaboratively. One of the foreign policy goals for Prime Minister Abe is to increase collaboration with third countries. In order to solve the distrust between Japan and many other Asian countries, the recognition of World War II grievances is necessary.

To push the conversation further, the U.S. should encourage China and other Northeast Asian countries to pursue more cooperation on issues from different aspects, not just economic cooperation. The security issue and territorial disputes have always been hot topics in Northeast Asian countries, however not much consensus or diplomacy has been built up to create a fruitful discussion. This is due to the ongoing territorial disputes and distrust brought by unsolved World War II grievances. One thing the U.S. should do to improve the situation is to create an international meeting with China, the U.S. and other Northeast Asian countries especially on topics such as World War II grievances. By initiating a conversation on historical scars, we can hope to see a more forgiving attitude initiated between ROK, Japan, and China. In this forum the U.S. can be the facilitator, and human rights organizations or non-governmental organization can also join. By easing tensions festering since World War II, hopefully, trust between NE Asian countries can be generated. After having some initial trust between the countries in the region, the U.S. can then start to propose further conversations on issues such as territorial disputes and

nuclear threat. Even though the Northeast Asia Peace and Cooperation Initiative (NAPCI) proposed by President Park is a very similar project, without an initial icebreaker or fundamental rapprochement between these countries that have a long history of distrust, it is impossible to create a consensus on these controversial issues. Addressing historical grievances might not be enough to mitigate conflict, but if the grievances can be resolved, it serves as a hopeful start to easing tensions between Northeast Asian countries.

An effective policy would combine increasing the military power in the region, however, to seek cooperation on historical grievances and finally, build on a Northeast Asian organization that concentrates on the security issue in the region.

### **Chinese Response**

Chinese strategies and goals toward Northeast Asia are never officially addressed which could mean they “remain unclear.” Many scholars believe that Chinese leaders tend to accommodate the existing system in the region and are patiently expanding China’s influence. Since the steady rise of Chinese power, China has had a different project in the region. Very similar to the U.S., China in recent years is preparing to have its own “pivot” of sorts to the region.<sup>13</sup> Increasing collaboration in trade and influence on the North Korean nuclear threat can all be seen as China’s “pivot.” However, in recent events, Beijing seems to be adopting a different stance. China began to practice more assertive foreign policy and seek recognition as the region’s dominant power. China had a very strong stand on both the East China Sea and Senkaku/Diaoyutai Islands with Japan. One of the biggest challenges for China is to prevent a greater U.S. presence in the region and further alignment between Japan and Republic of Korea in containing China. North Korea’s nuclear threat is also problematic for China. On the one hand

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13. Joshua Kurlantzick, Sheila A. Smith, Alexander Gabuev, Brahma Chellaney, James Reilly, Scott A. Snyder, and Merriden Varrall, “Beijing’s Asia Pivot in 2016,” Council on Foreign Relations, January 5, 2015. <http://www.cfr.org/china/beijings-asia-pivot-2016/p37409>.

the nuclear weapons are a threat to China's regional security, on the other hand, North Korea is nominally one of China's allies. In order to prevent a united Korea that favors the U.S., China needs to prevent the DPRK from collapsing. Overall, the Chinese strategy can be explained by a Chinese idiom “软硬兼施” (*Ruan Ying Jian Shi*) which means to have a hard and soft method and attitude on different issues. China would be more engaged and more collaborative in terms of economic issues and concerns over the nuclear threat from North Korea. However, when dealing with national security and territorial disputes, China could become coercive and assertive.

Considering China's *Ruan Ying Jian Shi* strategy and the “pivot” to Northeast Asia, China would have to increase its influence in the region financially and politically even more in response to a stronger U.S. military presence or regional military presence that is in favor of the U.S. If Japan and Korea accept the joint funding project on innovative weaponry, it might serve to prevent China from further assertive action but it could also result in a more hostile relationship between the U.S. and China. However it will be less likely that China uses military force to confront U.S. military in the region because China would have to consider its own military power compared to that of the U.S.. A more possible response to the weaponry build up is that China would increase its military spending to speed up on catching up with the U.S.. The rivalry between the U.S. and China will increase in the form of arms race. What China might want to do would be to proceed to a further military build-up, and to push ROK economically in order to split the ROK from U.S. and Japan. One big concern for China regarding the U.S.-Japan-ROK alliance is that their collaboration might result in stronger protection of Taiwan independence. In terms of lingering World War II grivances, China might push further and also ask Japan to apologize for the comfort woman issue between Japan and China. The U.S. should also encourage Japan to start the comfort woman conversation with China. However, it is possible that China may push the conversation even further and to ask Japan to also apologize for

its invasion in 1931-1937.

## **Conclusion**

In order to maintain regional stability in Northeast Asia, a strong U.S. military presence is needed. Things that the U.S. can do to achieve this goal include 1) increasing allies' military confidence in the region, and to use deterrence to decrease coercive actions from China in the region and manage China's military presence, 2) maintaining the technological advantage of weaponry in the region by having a joint weaponry program with the alliance, 3) strengthening the trilateral relationship between the U.S., Japan and the Republic of Korea by solving historical grievances, and 4) an international institution that discusses security issues in the region should be initiated by the U.S., and China invited to join.

The future of the U.S.-China relationship should be characterized as cooperation in some areas, but containment and competition in both military and security. In terms of cooperation, increasing dialogue on historical grievances and distrust created by WWII and other earlier events could help build trust. Both U.S. policy and China's grand policy toward the region are "pivot"-related so increasing cooperation in international institutions may be possible. In terms of containment and competition, the U.S. should impose a harder military presence in the region focused on building up Japan and ROK's self-defense ability and defense technology. The tension in the East China Sea will then become less like a territorial dispute, but rather more like an arms race. If the U.S. can keep up its advantages on technological development, it will then be able to use deterrence of strengthened military capabilities to stop China's coercive action in the region. Hopefully the U.S. can maintain its influence in the region and have a stronger cornerstone in its journey on the Asia-Pacific "pivot."

# Southeast Asia

*Prabhjot Kaler*

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## Abstract

### Key Policy Decisions

The United States is seen as the “least distrusted power” in Southeast Asia with no territorial ambitions at odds with the Association of Southeast Asian Nations (ASEAN)<sup>1</sup> or any other states. The importance of this region to overall U.S. goals and strategy is exemplified by President Obama’s “pivot” or “rebalance” to the Asia-Pacific region in 2010. Hillary Clinton, in speaking to the ASEAN Regional Forum in Hanoi in July 2010, proclaimed that the U.S. had a strong interest in Southeast Asia and one of the main focuses of that interest was the issue of freedom of navigation and the South China Sea (SCS).<sup>2</sup> The ultimate goal of the United States in the area is to re-engage the region in an effort to curb and mitigate China’s rising assertiveness and maintain the United States’ preeminence in the economic and military realms of the region. This does not mean the U.S. should work to keep China out of Southeast Asia, for its proximity and interests in the region will not allow this. The policies recommended here will allow the U.S. to recommit to the Southeast nations highlighting its intent to support a prosperous and stable Southeast Asia.

### Background

The rise of China has presented Southeast Asia with many questions regarding the future of regional actors such the ASEAN nations and the role of the U.S. as the region’s primary security guarantor. Southeast Asian nations have looked at China with a sense of trepidation and hope. The Southeast Asian goal is to “bring about some degree of political convergence so that both great powers will have a stake in preserving Southeast Asia’s autonomy and promoting its prosperity.”<sup>3</sup> Southeast Asia is most important for strategic and economic purposes. First, this region serves as a bridge between the Indian and Pacific Ocean linking east with west. Hence, sea-lanes of communication and freedom of navigation are of critical importance to all parties involved. Secondly, because of its established robust economies, such as Singapore, and its growing global economic market, the region is also an area of growing economic importance. Finally, the region possesses large amounts of natural resources, which Beijing wishes to acquire. Southeast Asia is a region that has been at the center of many great world power rivalries and whose importance has transcended centuries of changing global structure. The United States still retains a large strategic, political, and economic interest in the region; hence, it is of the utmost importance one discusses this region in detail. There exist a plethora of areas of potential conflict in the region. Whether it is the South China Sea or China’s military buildup in the region, China’s aggressive policies in the region must be addressed. However, there also exist many avenues of cooperation, which can foster growth and increase positive ties between the two powers who both have invested interests in the region. These avenues will be economic

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1. Sheldon W. Simon and Evelyn Goh, eds., *China, the United States, and Southeast Asia: Contending Perspectives on Politics, Security, and Economics*, (New York: Routledge, 2008).

2. Munir Majid and Nicholas Kitchen, “Southeast Asia between China and the United States,” *London School of Economics and Political Science*, Ideas Reports- Special Report (2011-12): 21-35, [http://eprints.lse.ac.uk/47502/1/Southeast%20Asia%20between%20China%20and%20the%20United%20States\(lsero\).pdf](http://eprints.lse.ac.uk/47502/1/Southeast%20Asia%20between%20China%20and%20the%20United%20States(lsero).pdf).

3. Simon and Goh, *China, the United States, and Southeast Asia*.

and related to the freedom of navigation in regions such as the Straits of Malacca. It will be important for both the U.S. and China to address and engage with regional actors such as ASEAN if these powers wish to maintain or increase their influence in the region. It is also imperative to highlight that Southeast Asia is an area made up of many diverse nations who are divided culturally, politically, and economically.<sup>4</sup> The key for the United States will be to apply a multilateral policy in regards to China, which further U.S. goals but also remember that individual policies and relationships may need to be bolstered in order to achieve other goals.

### Recommendations

- Maintain and emphasize the U.S. strategic “vital core” interest in preserving the freedom of navigation in the South China Sea and Southeast Asia. Any breach of this freedom will elicit a strong response from the U.S. and its allies.
- If Beijing maintains its current aggressive posturing (building islands and deploying missile systems) in the South China Sea, the U.S. must first increase its Freedom Navigation (FON) Patrols to preserve U.S. credibility and power in the region. It can then support the Philippines and Vietnam militaries directly in increasing their presence in the SCS. However, the U.S. must maintain its neutrality in territorial claims.
- The U.S. must cultivate strong military to military ties with ASEAN countries in Southeast Asia. Peacetime military engagement, dialogue, reassurance, and trust building will all be crucial U.S. tactics to achieve this. Diversifying the U.S. portfolio – the countries in which U.S. troops are stationed – in the region will also mitigate the negative effects of loss of access to any one country.
- The U.S. must give China a greater role, symbolic or literal, in maintaining the openness of the sea lanes in the Strait of Malacca. China has repeatedly stated that these sea-lanes are a “core” interest for Beijing. These “confidence building” measures will increase positive ties between the U.S. and China and decrease negative misperceptions and intentions.
- Continued support of Southeast economies and inclusion of China in all economic forums concerning the region will work towards maintaining stability in the region and will be prosperous for the U.S., China and Southeast Asia.

### Chinese Goals and Interests

China’s primary security concern in Southeast Asia is the United States. China’s diplomatic profile is far greater in the region than the United States. For China; Southeast Asia is a region with high foreign policy importance. Since the mid-1990s, China has reassured its neighbors through multilateralism in order to increase its economic ties to the region.<sup>5</sup> However, areas of contention in and around the South China Sea have led to direct military confrontations with Vietnam and the Philippines and have fostered the possibilities for future conflict. Beijing’s

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4. Majid and Kitchen, “Southeast Asia between China and the United States.”

5. Ibid.

long-term goal is to reduce the influence of the United States, or any other major power in what China considers its “strategic backyard.”<sup>6</sup> Despite wanting to reduce U.S. influence in the region, China has shown few indications of wanting to replace the U.S. role as a security guarantor in the region. This is in part due to two reasons; many Southeast Asian nations are hesitant towards a modernizing and growing Chinese military, and China has mostly benefited from the relative security, stability, and prosperity the U.S. has provided. Adding to this mix of contradictory Chinese interests is the fact that many in China are seeing the U.S. reengagement in the region, specifically in the South China Sea, as a tool to contain China.<sup>7</sup> Moving forward, China’s growing projection of power and interest in resources and markets will play an important role in developing Beijing’s foreign policy towards the region and the United States.

### **Freedom of Navigation and the South China Sea**

Both China and the U.S. have come to acknowledge that obstruction of sea lanes would not be beneficial to any party whose trade flows through the region. There are certain international norms that should be followed when it comes to dealing with commercial shipping in the region. Differences occur regarding the right of free passage through exclusive economic zones (EEZs) of naval warships. China’s recent aggressive behavior has led to legitimate perceived security concerns for the sea-lanes, which crisscross and traverse the region. For the U.S., maintaining freedom of navigation is both a national interest and major foreign policy goal. The United States understands that it must pay attention to both conventional military and non-conventional terrorist threats in order to retain the capabilities to always maintain freedom of navigation.<sup>8</sup> Energy security is crucial for China, given its need to secure important sea lanes in Southeast Asia. Much of China’s future energy needs will be met by Africa and the Middle East,

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6. Ibid.

7. Ibid.

8. Richard Sokolsky, Angel Rabasa, and C. R. Neu, *The Role of Southeast Asia in U.S. Strategy toward China* (Santa Monica, CA: Rand, 2000).

hence, it will need to transport this energy through the critical maritime bottlenecks of Southeast Asia.<sup>9</sup> The region itself is also reported to possibly have large beds of untapped gas, only further increasing the possibilities for tension and conflict between China and surrounding nations.

Chinese control of the sea lanes would also give China a measurable amount of leverage against Japan, South Korea, and Taiwan. Though ships could still sail around the SCS, this leverage is unacceptable to U.S. interests.

The United States has expressed great concern about maintaining freedom of navigation as a core “national interest.” In the South China Sea, the U.S. has not taken any position on the competing sovereignty claims in the region. Rather it believes China and the nations of Southeast Asia must come to a collaborative diplomatic solution without the use of force.<sup>10</sup> However, the U.S.’ hands-off narrative has not stopped Washington from being increasingly involved in the region.

Conflict in the South China Sea stems from competing claims of large parts of the sea by many regional actors. Territorial claims are decades old; however the number of confrontations has recently increased. Much of the South China Sea is believed to be rich in oil and gas deposits as well as fisheries.<sup>11</sup> Trade and navigation also play a major role here as many important sea trade lanes pass through this Sea. Another aspect of these claims is China’s growing domestic support for more assertiveness in the region. This also plays into the hands of the Chinese Communist Party (CCP), which can gain more legitimacy as the “rightful” representatives of the Chinese people being more assertive. Energy resources, domestic support, and historical claims have all led to more “opinions in Beijing...turning in a hawkish direction.”<sup>12</sup>

Growing nationalism and a hawkish attitude in the South China Sea have led to a Chinese

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9. Simon and Goh, *China, the United States, and Southeast Asia*.

10. U.S. Library of Congress, Congressional Research Service, *U.S.-China Relations: An Overview of Policy Issues*, by Susan V. Lawrence, R41108 (August 1, 2013), <https://fas.org/sgp/crs/row/R41108.pdf>,

11. *Ibid.*

12. Lyle J. Goldstein, *Meeting China Halfway: How to Defuse the Emerging US-China Rivalry* (Washington D.C.: Georgetown University Press, 2015).

military buildup in the region, which has only further complicated the situation and led to further deterioration of relations between China and its Southeast Asian maritime neighbors. The PLA Navy (PLAN) is building fast attack craft (Type 2208) and light frigates (Type 056) at an alarming level. Furthermore, the PLAN is launching more advanced Song, Yuan, and Kilo class submarines in the region.<sup>13</sup> The U.S. and its allies have viewed this naval buildup with increasing suspicion. A stronger military coupled with more aggressive Chinese posturing will allow the Chinese to project more power in the region. This is already evident in China's recent behavior. In early May 2014 China deployed a drilling rig into a contested part of the Sea. Later in the year, Beijing escalated its movements and building activities in and around reefs in the Spratly Islands groups.<sup>14</sup> More recently, satellite images have shown the deployment of surface to air missiles on islands in the Paracel Island chain.<sup>15</sup> Furthermore, China has shown no sign of slowing down its construction of artificial Islands in the SCS. Tensions have now once again increased in the region and the U.S. must address these recent provocations. This new aggressive behavior will be at odds with the U.S.' "core" national interest of maintaining stability and peace in the region.

With its reengagement in the region, the U.S. has also revamped its commitment to many of its allies. During an April 2014 visit to the region, President Obama signed a new defense cooperation agreement with the Philippines.<sup>16</sup> In 2011 the U.S. also transferred a large patrol cutter to the Philippines Navy and President Obama stated that U.S. Marines will be stationed in Australia.<sup>17</sup> An effective policy will be one in which the U.S. reinforces its "core" interests in the region by deterring Chinese aggression and expansion in the area. Continuing its freedom of navigation patrols to maintain U.S. power in the area is also vital. Though these maneuvers will

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13. Ibid.

14. Ibid.

15. Michael Forsythe, "China Has Deployed Missiles on Disputed Island, Officials Say," *New York Times*, February 17, 2016, <http://www.nytimes.com/2016/02/18/world/asia/china-missiles-south-china-sea.html>.

16. Goldstein, *Meeting China Halfway*.

17. Ibid.

not tip the regional balance of power, they will be important in reassuring allies of U.S. credibility in the region. China's maneuvers in and around the South China Sea are a reflection of Beijing's interests. China wants to, and will be, involved in the region whether the U.S. approves of it or not. Maintaining American neutrality on territorial claims while still clearly stating our interests in freedom of navigation and increasing military ties with neighboring countries will make U.S. intentions clear to Beijing and reinforce our allies.

### **Military Buildup**

China's military buildup presents an immediate challenge to the U.S. as it tries to maintain its preeminence as the primary security guarantor of the region. It is critical to note that the U.S. cannot hinder or work to stop the modernization and growth of the People's Liberation Army (PLA) unless it is willing to go to war. As noted earlier, there is ample evidence the PLA is working to establish a stronger and more potent military/naval force in order for Beijing to accomplish its foreign policy goals. Michael Chambers notes that, "the long-time emphasis on the army and a people's war defense of China has been replaced by meeting security threats away from the mainland...the primary purpose may be denial of access to the mainland but ultimately, the PLA seeks the ability to operate beyond Taiwan..."<sup>18</sup> Beijing already has the ability to project ample power against Southeast Asian nations in areas such as the South China Sea. However, one must remember that the PLA is still very much limited to the regions immediately surrounding Chinese territory and still retains little to no projection of power outside these regions.

To reiterate, there is no evidence to support the claim that China's wishes to replace the U.S. in Southeast Asia. It is reluctant to take on all the responsibilities the U.S. currently holds and many nations are reluctant to trust Beijing's intentions. China's aspiration to control the

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18. Simon and Goh, *China, the United States, and Southeast Asia*.

South China Sea without such a commitment is problematic. For the foreseeable future, the U.S. military will play a critical role in the region. Conflict may occur for the PLA's buildup destabilizes the region's stability. In international politics discerning the true intentions of a state is difficult. Though China professes that its rise is peaceful and its wishes for no military conflict in the region, it is important for the U.S. to address and work towards balancing against the rising military arm of Beijing so that it can maintain its capabilities to project U.S. power in Southeast Asia.

### **Economic Development and Investment**

Though many areas of conflict exist, economic development and investment is an area in which the U.S. and China can cooperate. The economic stakes in Southeast Asia are exceptional, holding abundant promise for future growth. With a population of over 500 million, the region is large market for both Chinese and American goods and services.<sup>19</sup> A core element of any future U.S. foreign policy in the region must include economic statecraft as a driver of growth and cooperation in the region. American companies are continually trading and investing in the region, increasing the ties between U.S. and ASEAN firms. The current reality is that U.S. "investment in the region is still substantially greater than China's."<sup>20</sup>

Regional economic integration in Southeast Asia has also increased substantially. Intra-regional exports have increased from 34% in 2002 to over 50% in 2007.<sup>21</sup> Southeast Asian nations are also investing in China; Singapore is involved in over 16,000 projects with investments totaling almost \$31 billion.<sup>22</sup> China's economic interests are only increasing in Southeast Asia and cooperation on this front is possible in the immediate future. As Majid and Kitchen state, "The Americans understandably wish to benefit from the projected Asia-Pacific

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19. Sokolsky, Rabasa, and Neu, *The Role of Southeast Asia in U.S. Strategy toward China*.

20. Majid and Kitchen, "Southeast Asia between China and the United States."

21. Ibid.

22. Ibid.

growth in the future, but participation has to be on an inclusive basis if autarchic arrangements or trade wars are not to develop which will stunt that prosperity.”<sup>23</sup> It is important to note that competition in economic terms can be beneficial. Competition based on established rules and norms could actually promote growth as American and Chinese companies compete for labor and markets in Southeast Asia. However, the policy of inclusive cooperation on economic fronts recommended here will increase trust between the two major powers who wish to exert influence in the region and may sow the seeds for future cooperation in other areas of conflict.

### **Conclusion**

As stated earlier, U.S. goals in Southeast Asia are to reengage the region in order to maintain its economic and military preeminence. The recent summit of ASEAN leaders in California highlights the positive relations the current administration is pursuing and is a step in the right direction. However, it is critical to acknowledge that China has always played a significant and influential role in the region and will continue to do so. Beijing has increased its military assertiveness while also increasing economic ties to the region. Many Southeast Asian nations understand that both the U.S. and China will be involved in all political, economic, and military aspects of the region and maintaining amicable relations with both powers will be a necessity. In the long run, however, both the U.S. and China wish to see stability continue in Southeast Asia. Economic growth and freedom of navigation are critical to the U.S. in the region. Maintaining and increasing the security apparatus in Southeast Asia to protect vital sea-lanes and decrease the likelihood of conflict between China and its neighbors will benefit all who find their trade flowing through this region. Chinese involvement in maintaining the sea-lanes will work to mitigate some of the negative effects, which will accompany increased military presence in the region. Improving bilateral economic relations/regional economic relations on a

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23. Ibid.

whole with Southeast Asia will also achieve American goals of maintaining economic growth and trade in the region.

China will view the U.S.' military-military engagements in the region through a confrontational lens and may intensify its aggressive behavior in area like the South China Sea, the U.S. must remain strong in the face of such adversity and reassure its allies that it is still able to maintain peace and stability in the region. Areas of conflict do exist, and the policy surrounding these areas must be carefully handled as to avoid unnecessary contention. Giving China a greater role in solving its Malacca dilemma and promoting economic cooperation will work towards building trust and confidence between these two powers. A better relationship may ease tensions in regions like the South China Sea, however, if China continues to build islands and deploy missiles in the region, the U.S. must ramp up its support for regional militaries and increase its FON patrols. This will show China and the rest of the world that U.S. is still capable and credible in asserting its power. As the U.S. moves deeper into the twenty-first century, Southeast Asia will retain its significance.

# India

*Prabhjot Kaler*

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## Abstract

### Key Policy Decisions

India sits at the precipice of being a major world player. In order for the United State to address China on a global, regional, and bilateral level, it must also address the presence of India. The Indian Ocean is a potential area of conflict among the U.S., China, and India. The U.S. must maintain current levels of military to military dialogue with room to increase these dialogues in the coming years. This will send a clear signal to China on U.S. intentions in the Indian Ocean. Chinese and U.S. investment in India has increased substantially in recent years and both states will benefit in the long term by pursuing a collaborative economic policy in regards to India. It is important to note that India will not be used as a pawn by either state. India has and will maintain a strong non-aligned mentality and will cooperate with both China and the U.S. only when interests converge between these powers. The U.S. must work to open networks of communications and dialogues in the region in order to decrease negative misperceptions between the New Delhi and Beijing. China will be present in India and the Indian Ocean, it is imperative the U.S. maintain its, or India's, dominance in the Indian Ocean.

### Background

India has become a region of great U.S. intrigue and interest. With a fifth of the world's population and growing economy and military, India's rise has been overshadowed by its larger Asian neighbor China. Some Chinese officials, who see India as a strategic rival as China looks to become a regional hegemon, have met the rise of India with concern. Others, however, see India as a region that may benefit China in the long run. China and India have not always been on the best of terms. The border dispute in Kashmir and the subsequent war which followed in the 1960s served to hinder Chinese and Indian relations for decades. An outspoken critic of the China, the Tibetan Dali Lama has also taken refuge in India, only adding to the discord among these two states. As the U.S. looks to preserve its interests in Southeast Asia in regards to China, it now subsequently finds itself addressing the looming shadow of India as well. India has always been on the radar of American officials but has rarely found itself at the center of U.S. foreign policy concerns. As the U.S. once again "pivots" towards Asia, the U.S. finds itself looking at India for economic opportunity and military cooperation. Indian and U.S. relations are no longer constrained by three principal obstacles of the past; Cold War politics, a stagnant commercial relationship, and disagreements over India nuclear program.<sup>1</sup> India's economic growth has given India the "capacity to act on issues of primary strategic and economic concern to the United States."<sup>2</sup> The U.S. has therefore, acquired a growing stake in Indian success as it pertains to U.S. interests. Others also look to India as a primary balance of power against a China which is becoming more and more assertive. Some shared values and converging goals in the Indian Ocean have led to greater cooperation between India and the U.S. The U.S. must look to build upon this cooperation in the coming decades in order to address China.

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1. Evan A. Feigenbaum, "India's Rise, America's Interest: The Fate of the U.S.-Indian Partnership," *Foreign Affairs* 89, no. 2 (2010): 76-91.

2. Ibid.

## Recommendations

- The U.S. must cooperate with India to limit China's assertiveness and maintain its dominance in the Indian Ocean. Increasing military to military dialogue as well as supporting increased Indian naval presence in the Indian Ocean will work towards mitigating Chinese presence in the region.
- U.S. must open new avenues of economic and military dialogue between India and China in order to decrease misperceptions and reinforce positive relationships. Decreasing misperceptions will allow for positive growth between India and the U.S. and contribute towards building a conducive environment for future increases in bilateral ties.
- A friendly India will be key in maintaining regional stability and economic growth. The U.S. must remove structural impediments in order to bolster confidence between the two states. U.S. must loosen visa policies and press India to loosen caps on foreign investment for American businesses. These types of moves will increase positive ties among the U.S. and India and lead to stronger economic development in India.

## U.S. Goals and Interests

American goals regarding India are clear; the time has come for increased cooperation between these two democracies on economic, political, and strategic fronts. Removing barriers which impede cooperation are a crucial first step in increasing positive ties and establishing a more constructive foundation moving forward. Seeing how the U.S. looks to limit Chinese expansion in the Indian Ocean, increased military to military dialogue and cooperation will serve to curb China's assertiveness.

## Indian Ocean

As China's power increases, energy security is becoming a larger and larger concern in Beijing. Eighty percent of China's oil imports are said to transit the Malacca Strait, thereby making the Indian Ocean a crucial stepping-stone to Chinese energy needs.<sup>3</sup> China has begun improving naval bases in Myanmar, increasing its submarine presence around Sri Lanka, and already maintains strong military ties with Pakistan. Granted, the future of Chinese and Burmese relations is yet to be realized, Chinese influence in Myanmar cannot be overlooked. Though it

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3. Lyle J. Goldstein, *Meeting China Halfway: How to Defuse the Emerging US-China Rivalry* (Washington D.C.: Georgetown University Press, 2015).

denies any existence of the “string of pearls” strategy, it is a grave concern to the U.S. and India that China has significantly bolstered its military presence in the area:

The U.S. possesses great interest in the Indian Ocean. First, the Indian Ocean is a vital body of water through which large amounts of East Asian trade flows. This trade is crucial Southeast and East Asia, and global economic stability. The freedom navigation in the Indian Ocean is also critical as the U.S. finds the region crucial in its ability to respond to nontraditional security threats in the region. With its turbulent history with China, India interpreted China’s naval assertiveness to secure its energy-transport route in the Indian Ocean as an “expansion” of a rising China that can directly harm India’s national interests. At this point, the U.S. and China share the perception of Chinese expansionism, and this shared perception facilitates their cooperation to cope with China in South Asia and the Indian Ocean.<sup>4</sup>

To clarify, securing one’s energy and security interests is not out of the ordinary for any state, especially one with the military power and economic growth like China. However, as India looks to exert more influence in the region, it is at odds with a China that wishes to do the same.

The Indian Ocean security issue may be an area, which can foster future conflict. However, in the immediate future all parties understand that the Indian Ocean is of vital interest. Hence, every move made by China in this region has the possibility of being met with a subsequent U.S. and Indian response. This region is much less volatile than areas such as the South China Sea. However, the U.S. must not actively provoke China in the region, rather it must work to simply deter and mitigate what may be perceived as Chinese aggression. China wants to be present in the Indian Ocean and the U.S. must acknowledge this, however, the U.S. and India must maintain their dominance in the Indian Ocean.

### **Economic Development**

There still exist areas of cooperation among these three giants, which may have the possibility of sowing the seeds for future collaboration. Both Washington and Beijing have met India’s recent economic successes with positive reinforcement. China-India trade saw a sharp

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4. Hankwon Kim, “The Implications of the Chinese “String of Pearls” for the U.S. Return to Asia Policy: The U.S., China, and India in the Indian Ocean,” *Journal of Global Policy and Governance* 2, no. 2 (2013): 193-204.

upturn “from under \$5 billion in 2000, [growing] to exceed \$70 billion in 2011, when China suddenly emerged as India’s top trading partner.”<sup>5</sup> With the opening of Myanmar, there now exists the potential for a land route linking India and China which will further increase the economic integration of the two states. U.S.-India trade has also more than doubled between 2004 and 2008, “from just under \$30 billion to \$66 billion,” while “Indian direct investment in the United States reached \$4.5 billion in 2008, just over a 60 percent increase from 2007.”<sup>6</sup> The U.S. has a growing interest in promoting economic liberalization in India, for if these conditions persist, “India...may be capable over the next generation of emulating East Asia’s high growth and rapid industrialization.”<sup>7</sup> The U.S. and China should not compete for India’s markets but rather work to strengthen the Indian economy further supporting global economic growth. Decreasing trade restrictions on Indian goods and promoting American business to increase FDI in India will assist the U.S. in achieving its goals.

Many in China perceive U.S. involvement in India as a direct attempt by the U.S. to encircle, entrap, and contain China. Though these views are warranted, this is not the policy recommended here. U.S.-Indo economic cooperation will help the Chinese markets as well. However, competition based on established norms and rules in the Indian market between the U.S. and China could also benefit all three parties. This beneficial competition may come about naturally if cooperation is not achieved in this front. However, cooperation is possible. With the help of confidence building measures and the reduction of barriers, the U.S. can potentially open the Indian market to FDI which will assist China as it increases its economic ties with India.

## **Conclusion**

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<sup>5</sup> Goldstein, *Meeting China Halfway*.

<sup>6</sup> Feigenbaum, “India’s Rise, America’s Interest.”

<sup>7</sup> Haass, Richard., Rose, Gideon, and Council on Foreign Relations. *A New U.S. Policy toward India and Pakistan: Report of an Independent Task Force*. Task Force Report (Council on Foreign Relations). (New York, NY: Council on Foreign Relations, 1997).

Delhi, to a degree, looks to the U.S. as an actor that will facilitate the rise of India to major world power status.<sup>8</sup> India has begun increasing ties with Southeast Asian nations like Vietnam in order to increase its presence in the South China Sea. Though these ties are limited, this is seen by Beijing in a negative light. India views China as first tier security priority and has thus taken measures, which have increased tension in the region between the two giants.<sup>9</sup> It is therefore critical the U.S. address India in order to further its goals in region regarding China.

Despite past histories, current relations between Beijing and New Delhi are calm, as seen by the mostly successful summit between the heads of states of both nations in 2014.<sup>10</sup> China sees great promise in India's growing economic presence and market value. India strategic position will be crucial as China pursues a revival of the "New Silk Road."<sup>11</sup> Beijing is well aware of the possibility of an informal alliance between the U.S. and India. As one Chinese analyst warned, "India's desire and determination to join hands with the United States and Japan to restrain Chinese activities in the Indian Ocean is more obvious with each passing day."<sup>12</sup>

It is time the U.S. increases strategic relations with India, "one based on shared values and institutions, economic collaboration, and the goal of regional stability."<sup>13</sup> The U.S. must make it clear that its goals are not be to encircle China by pursuing a strategic relationship with India. This will serve to only deteriorate U.S.-Chinese relations on other fronts. The U.S.' end goal should be to utilize India as regional actor to promote stability and dominance in the Indian Ocean as China increases its influence and presence in the region. Whether the U.S. wishes to stem Chinese assertiveness in the future or promote collaborative growth, India will be a key player.

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8. Feigenbaum, "India's Rise, America's Interest."

9. Ibid.

10. Goldstein, *Meeting China Halfway*.

11. Ibid.

12. Ibid.

13. Gideon Rose, *A New U.S. Policy Toward India and Pakistan: Report of an Independent Task Force Sponsored by the Council on Foreign Relations*, Task Force Report No. 10, (New York: Council on Foreign Relations, January 1997).

# Russia, Central Asia, and Europe

*Yuxi Wei*

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## Abstract

### Key Policy Decisions

These recommendations are given to address problems or opportunities that come with closer Sino-Russian relations and China's increasing influence in Central Asia and Europe. The recommendations mainly suggest the containment of Sino-Russia and Sino-Europe Relations and encourage United States cooperation with China in constructing Central Asia.

### Background

Firstly, Sino-Russia relations have become noticeably closer since the Crimean and Ukrainian Crises. The U.S. and U.S. allies have deliberately isolated Russia by implementing economic sanctions in order to pressure Russia to withdraw from Eastern Ukraine; as a result, Russia is forced to approach China for political and economic cooperation, despite the fact that Russia also feels threatened by China's rise. Closer Sino-Russia relations pose threats to U.S. interests with regards to global strategy on the international stage and to regional goals, especially in Northeast Asia. Dealing with closer Sino-Russia relations, the recommendations suggest encouraging U.S. Asian allies to mend ties with Russia, and reconciling U.S.-Russia relations by actively working out a resolution to the Ukrainian issue with Russia. By doing so, Russia will be given the choice to become less dependent on China, and remain as a force to balance China's rise in East Asia.

Secondly, in Central Asia, U.S. needs to understand that it cannot compete with either China or Russia for influence in this region, due to the proximity and policy priority. At the same time, U.S. interests do share commonalities with Chinese interests, as both countries want to maintain stability in Central Asia. Meanwhile, due to China's rising profile in Central Asia and a claimed Russian sphere of privileged interest, Central Asia has come to be seen as a source of possible Sino-Russia friction, even conflict. Therefore, this chapter recommends that the U.S. can cooperate with both Russia and China in order to stabilize this region, meanwhile seeking opportunities to complicate Sino-Russia relations.

Finally, the increasing Chinese investment in Europe gives China the leverage to use economic means to achieve political goals. In order to decrease foreign criticisms about China's human rights situation, Chinese government has been successfully using economic sanctions to punish states that pressure China on human rights issues. Consequently, it raises the possibility that the U.S. may be isolated from its allies on China policy, especially with regard to human rights issues. The development of Sino-U.K. relations is particularly worth attention. As the relations between the U.K. and China have been improved significantly and their areas of cooperation have extended into security, it raises concern that the U.K.'s arms embargo on China may be lifted. The recommendations in this section suggest that Europe's collective arms embargo on China need to be ensured, and this can be achieved by employing public diplomacy that raises public awareness of China's violations of human rights in Europe. By doing so, it is believed that the European public will pressure their government to prevent further accommodating China's policy, and not to pursue close relationship with Chinese government.

## Recommendations

In order to address U.S.-China relations regarding Russia, Central Asia, and Europe, effective policy decisions include the following:

- Reconcile U.S. ties with Russia by starting negotiations over the Ukraine Crisis through the NATO-Russia Council (NRC).
- Based on the condition and outcomes of the negotiation, the U.S. should encourage its Asian allies to mend ties with Russia.
- Cooperate with China in constructing Central Asian infrastructure and stabilizing the region.
- Cooperate with Russia on security issues in Central Asia, and seek opportunities to undermine Sino-Russia relations by highlighting China's increasing influence in the region as a threat.
- Understand the arms embargo imposed by European states on China is crucial; in order to ensure the arms embargo on China will not be lifted in the future, use public diplomacy to highlight China's violations of human rights to the European public.

## Recommendations Regarding Russia

- Reconcile ties with Russia and start negotiations on solving the Ukraine issue, the negotiations can be started by having high level official dialogue, or by resuming the NATO-Russia Council.
- If the negotiations show positive signs, encourage U.S. Asian allies, (especially Japan) to engage with Russia to mend ties.

## Background

Sino-Russian relations have been improved since the Crimean Crisis in 2013. This improvement in the Sino-Russia relations is noticeable in particular with regard to their energy cooperation. Meanwhile, Russia's arms sales to China have also made progress, and China has become the first buyer of Russia's newest air defense system.<sup>1</sup> The increasing number of joint military exercises between China and Russia also demonstrate their improving relationship.

The energy cooperation between China and Russia has made significant progress and has become the spotlight of the Sino-Russia relations since the Crimean Crisis. One of the achievements of energy cooperation between China and Russia after the Crimean Crisis was the 30-Year Gas Deal, which was signed in May 2015 and has a total value of \$400 billion.<sup>2</sup> Even

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1. "China to Receive First Russian S-400 Missile Systems No Earlier Than In a Year - Source," *TASS*, November 12, 2015, <http://tass.ru/en/defense/835761>.

2. Jane Perlez, "China and Russia Reach 30-Year Gas Deal," *New York Times*, May 21, 2014,

though the amount of exported gas will not make China become the largest importer of Russian gas, the gas deal still holds significance. Because of an argument over final prices, the gas deal has been discussed for 10 years without conclusion; the recent making of the deal signals that Sino-Russian relations have drawn closer.<sup>3</sup>

In addition to the Sino-Russian cooperation in energy, the security relations between China and Russia has also moved forward. The contract for the S-400 Triumph missile defense system, Russia's latest and most advanced air defense system, was signed in April 2015; China is the first buyer and will receive the systems in 12-18 months.<sup>4</sup> Moreover, the transfer of Su-35 combat aircraft was announced in November 2015, which will add another boost to China's air force, while China awaits the deployment of the J-20 and the J-31.<sup>5</sup> Both the S-400 system and the Su-35 are the deals that had been discussed for years without significant progress, but the completion of the two arms sales in 2015 indicates a change in the strategic level of the Sino-Russian relationship.<sup>6</sup> At the same time, while the arms sales have proceeded, joint military exercises and drills between China and Russia are also ongoing, especially naval exercises in Northeast Asia. In May 2014, China and Russia held the joint naval exercise "Joint-Sea 2014" in the East China Sea, while other military exercises took place in Central Asia, the Black Sea and Mediterranean Sea, along with another joint naval exercise "Joint-Sea 2015-II" being conducted in the Sea of Japan in August 2015.<sup>7</sup> The implication is that not only are Sino-Russian relations making progress, but also this progress is going to exert effects in the Asia-Pacific region.

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<http://www.nytimes.com/2014/05/22/world/asia/china-russia-gas-deal.html>.

3. Yu Zheng, ed., *多极化背景下的中俄关系: 2012~2015 (The Sino-Russian Relations In The Background of World Multipolarization)* (Beijing: Economy & Management Publishing House, 2015), 184.

4. Franz-Stefan Gady, "China to Receive Russia's S-400 Missile Defense Systems in 12-18 Months," *The Diplomat*, November 17, 2015, <http://thediplomat.com/2015/11/china-to-receive-russias-s-400-missile-defense-systems-in-12-18-months>.

5. Paul Schwartz, "Sino-Russian Defense Relations Intensify," *The Asian Forum*, last modified December 24, 2015, <http://www.theasianforum.org/sino-russian-defense-relations-intensify>.

6. Zheng, *The Sino-Russian Relations*, 179.

7. Zheng, *The Sino-Russian Relations*, 180-182; Franz-Stefan Gady, "Russia and China Kick Off Naval Exercise in Sea of Japan," *The Diplomat*, August 24, 2015, <http://thediplomat.com/2015/08/russia-and-china-kick-off-naval-exercise-in-sea-of-japan>.

## U.S. Interests

Although closer Sino-Russia relations will not cause damage to U.S. strategic goals immediately, they are definitely threatening to U.S. interests both globally and regionally. While the enhanced energy cooperation between China and Russia will not pose threats to the U.S., the approaching and collaborative attitudes, implied by the leaders signing energy contracts, raise the possibility that China and Russia will strengthen their cooperation in global affairs through international institutions and in defense cooperation. The improved defense cooperation between China and Russia worries U.S. allies and threatens U.S. efforts to balance China's influence in the Asia-Pacific.

Closer Sino-Russia relations with the increased level of strategic partnership impede U.S. strategic goals of promoting democracy, and it can be seen particularly in the making of UN resolutions regarding the Syrian Crisis. Since the PRC claimed its place in the UN in 1971, it has used its veto power only ten times, in which four times were used in coordination with Russia to veto the UN resolution supported by the U.S to refer Syrian government to the international criminal court.<sup>8</sup>

Meanwhile, the closer security cooperation between China and Russia also has negative implications for U.S. interests in the Asia-Pacific region. The sale of the S-400 missile defense system may upgrade China's ability to dominate skies along its border. According to the stated ability, the system may not provide enough support for China to strike targets on Senkaku Island, which is located 370 km east of China and at the very edge of the operational range of 400 km of the system, but the system still allows China to strike any target in Taiwanese airspace.<sup>9</sup> Fortunately, the purchasing of this system may not be as threatening, particularly since the stated ability of the system is questionable, because of certain technical details, such as the system may

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8. Zheng, *The Sino-Russian Relations*, 174; Ian Black, "Russia and China Veto UN Move to Refer Syria to International Criminal Court," *The Guardian*, May 22, 2014, <http://www.theguardian.com/world/2014/may/22/russia-china-veto-un-draft-resolution-refer-syria-international-criminal-court>.

9. Gady, "China to Receive Russia's S-400 Missile Defense Systems in 12-18 Months."

not be able to be deployed on the sea level in Fujian Province. Nonetheless, the fact that Russia is willing to sell this level of military technology to is alarming, since increased arms sales may boost China's capacity and deter U.S. intervention in the South China Sea or Taiwan Strait.<sup>10</sup>

Moreover, China and Russia both have territorial disputes with Japan in Senkaku and Northern Islands respectively. The joint Sino-Russian military exercises surrounding Japan clearly threaten the security of this U.S. major ally. China and Russia have been conducting joint naval exercises in Northeast Asia since 2013. In June 2013, a joint naval exercise was held in the Sea of Japan, in May 2014, it was held in the East China Sea, and in August 2015, it was held in the Sea of Japan and off the coast of Russia's Primorsky territory, approximately 250 miles away from Japan.<sup>11</sup> As a result, the U.S. may need to invest more military forces in East Japan in order to ensure the security of Japan, which could complicate the U.S.' ability to project military power during a major diplomatic crisis or militarized dispute.<sup>12</sup>

### Analysis of Recommendations

It is necessary to understand that Russia is also threatened by China's rise. Although the two sides see each other as strategic partners and try to unite against U.S. dominance on the international stage, because of China's increasing national strength, their partnership still lacks trust, which consequently complicates the potential emergence of a Sino-Russia alliance. Russia's concerns about China are based on China's increasing presence in Russia's Far East, in Central Asia and China's growing military capacity. China's investment, particularly in energy in Siberia, poses the threat that the Far East may become reoriented. Russia's concerns were evident in its attempt to maintain the overall control over entire Siberian pipelines; consequently,

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10. J. Michael Cole, "Alarm Over China's S-400 Acquisition is Premature," *The Diplomat*, April 22, 2015, <http://thediplomat.com/2015/04/alarm-over-chinas-s-400-acquisition-is-premature>.

11. Gady, "Russia and China Kick Off Naval Exercise in Sea of Japan."

12. Peter Harris, "This Is How Russia and China Could Make Big Trouble for America," *The National Interest*, August 5, 2015, <http://nationalinterest.org/feature/how-russia-china-could-make-big-trouble-america-13493>.

in order to prevent China controlling the end in Daqing, it took 10 years for China and Russia to finalize the routes of the Eastern Siberia-Pacific Ocean oil pipeline (ESPO).<sup>13</sup> Moreover, Russia's weapons sales to China have declined from more than \$3 billion in 2005 to less than \$700 million in 2012, which is due to the mistrust between China and Russia, and is also partly because Russia worries that China is stealing its intellectual property.<sup>14</sup> In addition, even in Russia's military exercises on its own territory in 2010 and in 2013, it tested its military ability against enemies designed to look like People's Liberation Army (PLA) forces.<sup>15</sup> Furthermore, even though Russia is collaborating with China under the framework of the Shanghai Cooperation Organization (SCO), Russia has shown passive attitudes, and seeks to exclude China and to integrate the former Soviet republics within other bodies, such as the Eurasian Economic Union (EEU) and the Collective Security Treaty Organization.<sup>16</sup> Addressing the current and the potential threats that closing Sino-Russian relations may pose on U.S. interests, the recommendations are as follows:

- U.S. needs to reconcile ties with Russia by starting negotiations on solving the Ukraine issue, the negotiations can be started by having high level official dialogue, or by resuming the NATO-Russia council

The improvement in Sino-Russian relations is the result of Russia showing a more active attitude when dealing with China.<sup>17</sup> Russia turning to China is the outcome of its isolation by the West since the Crimean Crisis. In other word, the collective G-7 economic sanctions on Russia are aiming for coercing Russia into withdrawing from Crimea, these economic measures also have deteriorated ties between Russia and U.S., and have forced Russia to cooperate with or even

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13. Jeffrey Mankoff, "Russia's Asia Pivot: Confrontation of Cooperation?" *Asia Policy* 19 (January 2015): 75, [http://nbr.org/publications/asia\\_policy/free/ap19/AsiaPolicy19\\_Mankoff\\_January2015.pdf](http://nbr.org/publications/asia_policy/free/ap19/AsiaPolicy19_Mankoff_January2015.pdf); Nianli Zhou 中俄政治与经贸发展关系的非对称现象与分析 (On the Asymmetry of Political and Economic Relations Between China and Russia and the Countermeasures)." *Northeast Asia Forum* 2 (2014), 72.

14. Ibid., 77.

15. Ibid.

16. Dmitri Trenin, *From Greater Europe to Greater Asia? The Sino-Russian Entente* (Moscow: Carnegie Endowment for International Peace Carnegie Moscow Center, April 2015), 13-4, [http://carnegieendowment.org/files/CP\\_Trenin\\_To\\_Asia\\_WEB\\_2015Eng.pdf](http://carnegieendowment.org/files/CP_Trenin_To_Asia_WEB_2015Eng.pdf).

17. Zheng, *The Sino-Russian Relations*, 177.

depend on China for political and economic support. For example, as gas sales to Europe are the major source of Russia's national income, coupled with Western sanctions and the efforts by the EU to reduce dependency on Russia's energy, the decreasing oil price has bankrupt the Russian economy.<sup>18</sup> As a result, the gas deal between China and Russia was signed under the circumstances that the International Monetary Fund (IMF) projected Russia's economic growth would be down to 0.2%.<sup>19</sup> Therefore, the reconciliation of U.S.-Russia relations, and the lift of sanctions under certain conditions may decrease Russia's dependence on China thus alienates China and Russia from each other.

The reconciliation of U.S.-Russian ties can start from negotiations on Ukrainian issues. Although the economic sanctions put on Russia were for violation of the Minsk Agreement, there is no sign that Russia is withdrawing from Crimea, even under the harsh economic pressure.<sup>20</sup> Since the hard measures have not yet brought expected results, other forms of diplomacy, such as negotiations, may be used as a way to resolve the issue. In January, U.S. Assistant Secretary for European and Eurasian Affairs Victoria Nuland met with Russian officials to discuss the situation in Eastern Ukraine and both officials described the negotiations as constructive and helpful.<sup>21</sup> In the meantime, Russia has implied its willingness to start negotiations with the U.S. through NRC; in response to NATO Secretary General Jens Stoltenberg's announcement in December 2015 to resume the procedures of convening NRC in order to engage Russia, Russian Foreign Minister Sergey Lavrov said that Russia he is ready to hold such meetings and "has never refused to work in this format or any other formats."<sup>22</sup> While

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18. Ibid, 34-35.

19. Perlez, "China and Russia Reach 30-Year Gas Deal."

20. "John Kerry Condemns Russia's Repeated Aggression in Syria and Ukraine," *The Guardian*, February 13, 2016, <http://www.theguardian.com/us-news/2016/feb/13/john-kerry-condemns-russias-repeated-aggression-in-syria-and-ukraine>.

21. "US-Russia Talks on Ukrainian Conflict Likely to Advance after Deadlock," *Sputnik*, February 11, 2016, <http://sputniknews.com/politics/20160211/1034552281/us-russia-ukraine-talks-may-advance.html>.

22. "NATO Resumes Contacts with Russia - Stoltenberg," *TASS*, December 2, 2015, <http://tass.ru/en/politics/841017>; "NATO - Russia Council Resumption Can Help Overcome Differences - Lawmaker," December 2, 2015, <http://tass.ru/en/politics/841017>.

the U.S. reaffirms the position that the U.S. will not make concessions regarding Crimea's attribution, the negotiations will predictably proceed with difficulties. However, other compromises, such as building a neutralized Ukraine or establishing Crimea as a buffer zone, can be made, so that it does not incline to either the West or Russia. In this case, sanctions may be partially lifted. As U.S.-Russia relations may be reconciled to a certain degree, Russia will become less dependent on China, and Sino-Russia relations may become less close.

The resolution of the Ukrainian issue is likely to be welcomed by China. Although China did not publically oppose Russia's annexation of Crimea, when Chinese Premier Li Keqiang met with Ukrainian President Poroshenko in January 2015, Li emphasized that China respects Ukraine's territorial integrity.<sup>23</sup> Moreover, Ukraine traditionally has had a good relationship with China, especially regarding military technology. Ukraine has sold China military equipment that Russia was unwilling to provide, such as the Chinese aircraft carrier Liaoning, originally named Varyag.<sup>24</sup> Even though Russia's military technology is far more advanced than Ukraine's, Russia does not make some of its military equipment available, and so Ukraine becomes the only source for China to purchase Soviet period weapons. China's improving relationship with Russia after the Crimean Crisis to a certain extent caused impediments on Sino-Ukraine relations.<sup>25</sup> As the Ukraine issue is resolved and Russian-Ukraine relations become normalized in the future, Sino-Ukraine relations may warm again.

- If the negotiations show positive indication, encourage U.S. Asian allies to engage with Russia, especially Japan to mend its ties with Russia

Closer Sino-Russia relations have become a concern to U.S. Asia-Pacific strategy because Russia's arms sales to China will boost China's military capacity in both the South and East China Sea. More importantly, Russia, by cooperating with China militarily, will not become

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23. Kim Coghill, "China Premier Says Respects Ukraine Integrity, Won't be Drawn on Crimea," *Reuters*, March 15, 2015, <http://www.reuters.com/article/us-china-parliament-ukraine-idUSKBN0MB05220150315>.

24. Zheng, *The Sino-Russian Relations*, 178.

25. *Ibid.*

the force to balance China's rise in Northeast Asia, and may become a threat to U.S. allies, especially Japan, which has territorial disputes with Russia in Northern Territories. In order to address this, the U.S. needs to encourage Japan to mend ties with Russia.

Russia, in the hope of diversifying the sources of investment in its energy sector and seeing Japan as a promising source of investment, has made efforts to cultivate economic ties with Japan. In 2013, Shinzo Abe, the first Japanese Prime Minister in a decade travelling to Moscow, launched a new channel of investment that aims at developing Russia's Far East and involves initial funds starting from \$1 billion.<sup>26</sup> Meanwhile, concerned about potential conflict in East Asia, during Abe's visit to Moscow in 2013, both sides agreed to accelerate efforts to reach a peace treaty to settle territorial disputes.<sup>27</sup> However, these efforts to normalize Russo-Japanese relations were terminated, as Japan joined the U.S.-led sanctions on Russia, Moscow has lowered its expectations on Japan, though the Japanese sanctions themselves were expected to have minimal effects on Russo-Japanese economic ties.<sup>28</sup> Following Japan's participation on sanctions, Russia and China conducted joint military exercise in the East China Sea in May 2014.<sup>29</sup>

Nonetheless, as both Putin and Abe show interest in continuing regular and steady dialogue, Abe should be encouraged to mend the ties with Russia, in face of a growingly assertive China in East Asia.<sup>30</sup> Even though there may not be substantial progress on resolving the territorial disputes between Russia and Japan, the dialogues held between two state leaders may be reconciling signals and may again encourage trade ties between the two states.

Depending on the results of negotiations between the U.S. and Russia that were suggested in the

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26. "Russia and Japan Create Joint Investment Pot with \$1 Billion Entry Ticket," *RT*, April 29, 2013, <https://www.rt.com/business/russia-japan-investment-plans-576>.

27. Mankoff, "Russia's Asia Pivot."

28. Trenin, *From Greater Europe to Greater Asia?* 14.

29. Mark Heinrich, "Russia Says Begins Military Exercises in Pacific Islands Also Claimed by Japan," *Reuters*, August 12, 2014. <http://www.reuters.com/article/us-russia-japan-kuril-idUSKBN0GC0020140812>.

30. Isabel Reynolds, "Japan Holds Separate Military Drills With Russia, U.S.," *The Japan Times*, October 27, 2014, <http://www.japantimes.co.jp/news/2014/10/27/national/just-800-km-apart-japan-holds-military-drills-russia-u-s>.

previously, if certain criteria are met, Japan should lift its sanctions against Russia.

Wanting to pull Moscow closer to its position on territorial disputes in East China Sea, China has been pleased to see the deterioration of the ties between Russia and Japan.<sup>31</sup>

Therefore, the improvement of Russo-Japanese relations will not be seen positively by China.

### **Recommendations Regarding Central Asia**

- It is necessary to sustain U.S. presence in Central Asia in order to monitor its stability, but it needs also to be understood that U.S. power can only have limited influence in this region therefore the U.S. needs to cooperate with China (and Russia) in constructing Central Asian infrastructure and stabilizing the region.
- Cooperate with Russia on security issues in Central Asia and seek opportunities to alienate Sino-Russia relations by highlighting China's increasing influence in the region as a threat.

### **Background and U.S. Interests**

The stability of Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) is considered by China essential to the stability of Xinjiang province and Northern China.<sup>32</sup> Believing that economic prosperity will bring regional stability, China has been actively expanding its trade relations and investment in Central Asia, in order to encourage Xinjiang's border trade with Central Asia states and promote Xinjiang's economic development.<sup>33</sup> The trade between China and Central Asia countries has increased from \$1.8 billion in 2000 to \$50 billion in 2013.<sup>34</sup> Meanwhile, Chinese investment in Central Asia mainly goes into energy sector and infrastructure construction, including constructing oil pipelines in Kazakhstan and gas pipelines in Turkmenistan, restructuring the electric grid in Kyrgyzstan, and building China-Kyrgyzstan-Uzbekistan Railway.<sup>35</sup> Therefore, it is reasonable to see that China, as a major investor and

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31. Trenin, *From Greater Europe to Greater Asia?* 14.

32. Bernardo Mariani, *China's Role and Interests in Central Asia*, (London: Saferworld, October 2013), 1, <http://www.saferworld.org.uk/downloads/pubdocs/chinas-role-and-interests-in-central-asia.pdf>.

33. Zheng, *The Sino-Russian Relations*, 92.

34. Jack Farchy, "China's Great Game: In Russia's Backyard," *Financial Times*, October 14, 2015, <http://www.ft.com/intl/cms/s/0/d35d34ca-6e70-11e5-aca9-d87542bf8673.html#axzz40dKU0B74>.

35. Zheng, *The Sino-Russian Relations*, 91; "The China - Kyrgyzstan - Uzbekistan Railway Project," GOV.UK,

developer in Central Asia, has made some positive impacts to the region. U.S. interest in Central Asia has certain intersections with China's interests. Since 9/11, U.S. has been trying to stabilize Afghanistan; therefore, stabilizing the neighboring region of Central Asia also holds significance.

Central Asia is also a region that may cause future Sino-Russian conflicts. While Central Asia has been claimed by Russia as a Russian sphere of privileged interests, China's trade amount has surpassed Russia's in 2008 and now China has become the largest trade partner with Central Asia.<sup>36</sup> Moreover, due to Central Asia's interdependence with Russia, as Russia's economy was shattered by western sanctions on its annexation of Crimea, Central Asian states have also experienced a decline in national revenues.<sup>37</sup> In contrast to Russia and Central Asia's sobering economic condition, China's trade with the region reached \$50 billion in 2014 and in 2015 it offered investment packages of total \$48 billion to Kazakhstan, Uzbekistan and Kyrgyzstan.<sup>38</sup> Therefore, it is evident that Russia's economic influence in Central Asia has been gradually replaced by China. Moreover, there is potential friction between China and Russia with regard to Central Asia, as China's investment in energy in Central Asia ended Russia's monopoly and casts shadow on the prospect of Russia's energy sale to China.<sup>39</sup> Consequently, the change of status and the differences in investment goals can all become sources of future disputes between China and Russia.

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last modified June 5, 2014, <https://www.gov.uk/government/publications/the-china-kyrgyzstan-uzbekistan-railway-project>.

36. Alexander Cooley, *Great Games, Local Rules* (New York: Oxford University Press 2012), 86-87; Eugene Rumer, Richard Sokolsky, and Paul Stronski, "U.S. Policy Toward Central Asia 3.0," Carnegie Endowment for International Peace, last modified January 25, 2016,

<http://carnegieendowment.org/2016/01/25/u.s.-policy-toward-central-asia-3.0/it2s>.

37. Tao Wang and Rachel Yampolsky, "Will China and Russia's Partnership in Central Asia Last?" *The Diplomat*, September 21, 2015, <http://thediplomat.com/2015/09/will-china-and-russias-partnership-in-central-asia-last>.

38. Reid Standish, "The United States' Silk Road to Nowhere," *Foreign Policy*, September 29, 2014, <http://foreignpolicy.com/2014/09/29/the-united-states-silk-road-to-nowhere-2>.

39. Wang and Yampolsky, "Will China and Russia's Partnership in Central Asia Last?"

## Recommendation Analysis

- It is necessary to sustain U.S. presence in Central Asia in order to monitor its stability, but it needs also to be understood that U.S. power can only have limited influence in this region therefore the U.S. needs to cooperate with China in constructing Central Asian infrastructure and stabilizing the region.

As the U.S.' grand strategy to rebalance Asia-Pacific and withdraw U.S. military forces from Afghanistan, Central Asia as the prism in countering terrorism in Afghanistan no longer holds the high priority it used to be. However, even though the U.S.' focus is shifting to Asia-Pacific, the U.S. should still sustain its influence and presence in Central Asia, in order to monitor the stability in this region and to prevent the emergence of failed states. While the economic development in Central Asia has been bolstered by China's investment, the regimes, due to severe corruption and administration disabilities, are still weak and may be endangered in the future. The emergence of failed states in the region will cause serious consequences for U.S. security and strategies, just as the failed states such as Afghanistan and Syria.<sup>40</sup> Therefore, the U.S. has the responsibility to keep its presence in this region to monitor its stability, and be able to respond to emergency in the first place.

While military involvement in Central Asia is costly to the U.S., as U.S. main focus shifts to Asia-Pacific and it may raise tensions with China, Russia and even Central Asian regimes, U.S. engagement in this region should emphasize economic cooperation to integrate the region, and seek for influence through encouraging trade relations alongside with China. Due to the proximity and the investment capital, U.S. investment in the region is in no comparison to China. Even though U.S. envisioned its own Silk Road Initiative in 2011, which creates a new North-South transit and trade routes and aims at building a regional energy market that may ensure Afghanistan's economic stability, it is considered to lack of substance.<sup>41</sup> For example, the two

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40. Jeffrey Mankoff, *The United States and Central Asia After 2014* (Washington D.C.: Center for Strategic & International Studies, January 2013), 1, [http://csis.org/files/publication/130122\\_Mankoff\\_USCentralAsia\\_Web.pdf](http://csis.org/files/publication/130122_Mankoff_USCentralAsia_Web.pdf).

41. "U.S. Support for the New Silk Road," U.S. Department of State, n.d., accessed February 19, 2016, <http://www.state.gov/p/sca/ci/af/newsilkroad>.

key New Silk Road initiative's projects of CASA-1000 hydroelectricity grid and the TAPI natural gas pipeline both need cooperation and coordination among the Central Asian governments, but this is hard to achieve due to the distrust among them.<sup>42</sup> In contrast, China has worked with the Central Asian government to build infrastructure and its ambitious Silk Road Economic Belt seeks to build a trade routes from the East to the West, with sufficient funding.<sup>43</sup> Therefore, the U.S. can cooperate with China to achieve its own New Silk Road initiative.

China may have mixed feelings about U.S. engagement in Central Asia, as China would like to see possible expansion of trade and transit in Eurasia but worries that U.S. engagement may impair China's strategic interest.<sup>44</sup> Since China has been constructing the transit from the East to the West, it may be willing to see the U.S. constructing the trade transit from the South to the North. However, China may suspect the U.S. of alienating SCO members from each other, which damages China's regional interests. In this case, China may become reluctant to cooperate with the U.S.<sup>45</sup> To address this, the U.S. may need to promote transparency about Washington's future plan in Central Asia, in order to build trust for cooperation with China.<sup>46</sup>

- Cooperate with Russia on security issues in Central Asia and seek opportunities to alienate Sino-Russia relations by highlighting China's increasing influence in the region as a threat.

While China has been very cautious about its security role in Central Asia and has not sought to project military influence in this region, in the matter of mutual security concerns, the U.S. needs to figure out how to work collaboratively with Russia, which plays the main constructive role in regional security.<sup>47</sup> Moreover, U.S. continuous commitment in Central Asia

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42. Standish, "The United States' Silk Road to Nowhere."

43. Ibid.

44. Andrew C. Kuchins and Jeffrey Mankoff, "Central Asia in a Reconnecting Eurasia: U.S. Policy Interest and Recommendations, A Report of the CSIS Russia and Euraisa Program, (New York: Center for Strategic and International Studies, May 2015), 9, [http://csis.org/files/publication/150507\\_Kuchins\\_CentralAsiaSummaryReport\\_Web.pdf](http://csis.org/files/publication/150507_Kuchins_CentralAsiaSummaryReport_Web.pdf).

45. Manyuan Dong and Xiaohui Su, *中国周边安全环境评估及政策选择 (The Evaluation of Security Environment Surrounding China and Policy Choices)* (Beijing: World Knowledge, 2015), 393.

46. Mankoff, *The United States and Central Asia after 2014*, 26.

47. Rumer, Sokolsky, and Stronski, "U.S. Policy Toward Central Asia 3.0."; Mankoff, *The United States and Central Asia after 2014*, 26.

may lead to strategic competition with Russia in this region, which may in turn become an obstacle for future U.S.-Russian security cooperation on Central Asian issues. Therefore, while the U.S. sustains its engagement in this region, it needs to actively approach Russia for possible cooperation. In contrast to China's increasing presence in the region, the U.S., due to its strategy shift to Asia-Pacific and the distance, will never be a real threat to Russian influence in Central Asia.<sup>48</sup> This needs to be demonstrated to Russia by minimizing U.S. chances for future plans of military deployment that may be viewed as a threat to Russian security interests, and by decreasing U.S. involvement in Central Asian domestic politics.<sup>49</sup> By doing so, Russia may reverse its resistant attitudes and strengthen cooperation with the U.S. on Central Asian matters.

In the meantime, it is imperative for the U.S. to prevent a Sino-Russian condominium in Central Asia.<sup>50</sup> Central Asia is a region wedged between China and Russia, and it is considered that there is potential for future Sino-Russian friction, even conflict.<sup>51</sup> If Sino-Russia relations in this region are dealt carefully and successfully so that Russia becomes more open to China's rise, it may have more implications for further Sino-Russian cooperation in East Asia and the Pacific.<sup>52</sup> On the other hand, if there is friction between China and Russia over Central Asian issues, the overall Sino-Russia relations may also become strained. Therefore, while the U.S. approaches Russia to advance mutual trust for regional security cooperation, considering Moscow's worries about its declining power and China's increasing influence in Central Asia, the U.S. could highlight China's rise as a threat, especially to Russia; it needs to stress that the expansion of China's footprint in the region has come largely at the expense of Russia's influence.<sup>53</sup>

China has been vigilant about U.S.-Russia cooperation, thus U.S. regional security

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48. Mankoff, *The United States and Central Asia After 2014*, 26.

49. Ibid, 27.

50. Ibid, 27.

51. Trenin, *From Greater Europe to Greater Asia?* 13.

52. Mankoff, *The United States and Central Asia after 2014*, 26

53. Rumer, Sokolsky, and Stronski, "U.S. Policy Toward Central Asia 3.0."

cooperation with Russia in Central Asia will also be seen by Beijing with disapproval.<sup>54</sup> Meanwhile, in order to avoid future conflicts with Russia over Central Asian issues, Beijing has demonstrated its ability to deal with Russian sensibilities.<sup>55</sup> China has avoided political alliance with Central Asian states, insisted military absence in Central Asia and sought for security cooperation with Central Asian states only through the Shanghai Cooperation Organization (SCO), in which Russia enjoys an informal co-leadership alongside China.<sup>56</sup> Therefore, there will be certain difficulty in alienating Sino-Russia relations in Central Asian matters.

### **Recommendations Regarding Europe**

- Understand the arms embargo imposed by European states on China is crucial.
- In order to ensure the arms embargo on China will not be lifted in the future, use public diplomacy to highlight China's violations of human rights to European public.

### **Background and U.S. Interests**

Since the start of the economic crisis in 2008 and the European debt crisis in 2009, Chinese investment has increased dramatically in Europe. Trade between the European Union (EU) and China has been increased from €178 billion in 2004 to €467 billion in 2014, and China has already become EU's largest partner source of imports and the EU's second largest export partner.<sup>57</sup> While the economic relationship between Europe and China has advanced, China's influence in Europe is also increasing. China's growing economic influence has resulted in its increasing political leverage in the policymaking of European states. It is in particular noteworthy that China has been implicitly using economic sanctions to make European states accommodate to its strategic goals, regarding sensitive issues such as human rights and Tibet problems. German economists Andreas Fuchs and Nils-Hendrik Klann found from 2002 to 2008,

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54. Dong and Su, *The Evaluation of Security Environment Surrounding China and Policy Choices*, 391-395.

55. Trenin, *From Greater Europe to Greater Asia*, 14

56. Rumer, Sokolsky, and Stronski, "U.S. Policy Toward Central Asia 3.0."; Trenin, *From Greater Europe to Greater Asia?* 14.

57. Tilman Pradit, "China's European Century," *The Diplomat*, December 24, 2015, <http://thediplomat.com/2015/12/chinas-european-century>.

a country's leader hosting of Dalai Lama resulted in an average 12.5% drop in its export to China for the following two years.<sup>58</sup> The economic sanctions imposed by China not only caused a decrease of bilateral trade, but may have also resulted in China giving additional business deals to other competing neighboring countries, which did not criticize China. For example, in 2009 after French officials announced that then-President Nicolas Sarkozy would meet with the Dalai Lama, China postponed the EU-China Summit that was to be held in Paris and ultimately moved it to Prague. China also froze an order for 150 plans from Airbus, a France-based aerospace company. Moreover, two Chinese trade delegations canceled trips to France and signed \$15 billion worth of trade deals with other European countries.<sup>59</sup> As a result, European states are less likely to pressure China on the human rights issues and Tibet problems. By raising the economic costs for U.S. allies, China can isolate the U.S. in its China policy to a degree.

Moreover, while the U.K. is the U.S.' most important and closest ally among European countries, China's relationship with the U.K. has remarkably improved. By December 2015, the overall trading volume in yuan has doubled since that period in 2014. Chinese banks, such as the Industrial and Commercial Bank of China (ICBC) and the China Construction Bank (CCB) have been allowed to open branches in London.<sup>60</sup> Meanwhile, in less than 5 years the U.K. has become the top destination in Europe for China's foreign direct investment.<sup>61</sup> While the economic cooperation is improving, the overall Sino-U.K. relationship is improving as well. British Prime Minister David Cameron declined to issue a statement on Liu Xiaobo's Nobel Peace Prize and traveled to China two days after. Cameron also encouraged the EU to acknowledge China's market-economy status and avoided bringing up human rights issues when

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58. James Reilly, "China's Unilateral Sanctions," *The Washington Quarterly* 35, no. 4 (Fall 2012): 126, <http://dx.doi.org/10.1080/0163660X.2012.726428>.

59. Ibid.

60. Philippe Le Corre, "What the Budding China-UK Romance Means for the Global Economy," Brookings Institution, last modified October 22, 2015, <http://www.brookings.edu/blogs/order-from-chaos/posts/2015/10/22-china-uk-relations-lecorre>.

61. "Chinese Investment into Europe Hits Record High in 2014," Baker & McKenzie, February 11, 2015, <http://www.bakermckenzie.com/news/Chinese-investment-into-Europe-hits-record-high-in-2014-02-11-2015>.

meeting with Chinese leaders.<sup>62</sup> In addition to human rights issues, the Sino-U.K. relations cast shadows on U.S. global interests. Despite clear U.S. disapproval, the U.K. was the first G7 state to join China-backed Asian Infrastructure Investment Bank (AIIB), which raises the possibility of undermining U.S. backed financial institutions, such as the IMF and Asian Development Bank (ADB).<sup>63</sup> Moreover, Sino-U.K. relations have started to have security implications, as the U.K. not only is allowing China to invest in its energy sector, which gives China the access to U.K.'s critical infrastructure database, but also is helping China train some of its peacekeeping forces.<sup>64</sup>

Most importantly, as Sino-U.K. relations extend from merely economic cooperation to partnership with strategic and security implications, it raises U.S. concern that further advancement of Sino-U.K. relations may result in the removal of the arms embargo, leaving the U.S. isolated in its arms embargo towards China. The arms embargo was imposed after the killings of unarmed protesters during the Tiananmen Square demonstrations. Maintaining the collective U.S.-EU arms embargo against China has been the frontline of U.S. policy on China's human rights issues, and has symbolic meanings.<sup>65</sup> However, since 2003, France, along with other EU members such as Spain and Greece, has sustained a campaign calling for lifting the embargo. Even though the U.K. has consistently opposed the lifting of the arms embargo in public, reports indicate that U.K. diplomats have been more flexible in private.<sup>66</sup> As Sino-U.K. relations are making profound improvements, the possibility that the U.K. may also reverse its position on lifting the embargo increases. In this case, the U.S. will be isolated in its arms embargo towards China, and will be seen as isolated from its allies.

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62. Reilly, "China's Unilateral Sanctions, 128.

63. Matthias Sobolewski and Jason Lange, "U.S. Urges Allies to Think Twice Before Joining China-Led Bank," *Reuters*, March 17, 2015, <http://www.reuters.com/article/us-europe-asia-bank-idUSKBN0MD0B320150318>.

64. Reed, Stanley and Steven Erlanger, "Britain to Grant China a Large Stake in Nuclear Industry," *New York Times*, October 21, 2015, <http://www.nytimes.com/2015/10/22/business/international/hinkley-point-nuclear-plant.html>.

65 Richard Weitz, "EU Should Keep China Arms Embargo," *The Diplomat*, April 18, 2012, <http://thediplomat.com/2012/04/eu-should-keep-china-arms-embargo>.

66. Ibid.

## Recommendation Analysis

- Understand the arms embargo imposed by European states on China is crucial
- In order to ensure the arms embargo on China will not be lifted in the future, use public diplomacy to highlight China's violations of human rights to European public
- It is believed that the European public will pressure their government to prevent further accommodating China's policy, and not to pursue close relationship with Chinese government.

Firstly, it needs to be understood that the collective U.S.-EU arms embargo on China is the centerpiece of U.S.-EU cooperation with regard to China. This position needs to be reaffirmed.

Even though China is using economic statecraft to manipulate European countries to accommodate to its goals, the U.S. does not have the power to directly address the trade relations between European countries and China. Also, the efforts of some EU members to lift the arms embargo towards China originates from the attempt that Beijing can use its foreign exchange reserves to help stabilize the euro and support the EU's economic recovery.<sup>67</sup> While the U.S. does not have the ability to alone help recovery of the EU's economy, U.S. policy cannot directly address this issue.

However, in consideration to U.S. influence over European media based on similar values, public diplomacy directed to the European public can be used to stress China's human rights issues and encourage the European public to pressure their government. As the major U.S. goal in response to Sino-EU relations is to make sure EU members will not lift the arms embargo towards China, U.S. public diplomacy, by raising awareness of China's violations of human rights, can highlight the concept that the EU arms embargo towards China is imposed in order to change China's behaviors. As a result, the arms embargo may be ensured by the European public's pressure on their governments.

Moreover, the public diplomacy underlining China's violations of human rights can also

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67. Ibid.

be used to influence the European public to pressure their government not to pursue close relations with China. The example can be seen how human rights issues in Hong Kong played out in pressuring the U.K. government and raises the possibility of distancing its ties with China.

Human rights in Hong Kong may be the most sensitive factor in Sino-U.K. relations, which can be brought up in order to distance China and the U.K. In the Hong Kong protests against limiting voting rights at the end of 2014, the U.K. did not respond to the issue relating to its former colony.<sup>68</sup> However, in February 2016, as the editor Lee Bo, who is a British citizen and specialized in books critical of Chinese communist leadership, went missing, the U.K. Government published its Six-Month Report to Parliament on Hong Kong, covering developments from July to December 2015.<sup>69</sup> Moreover, Britain has issued its strongest public criticism of China, calling it a “serious breach” of the 1984 treaty, which was signed to safeguard the rights and freedom of Hong Kong after U.K. relinquished control of Hong Kong.<sup>70</sup> Lee’s identity as a British citizen certainly played a part in U.K.’s distinct reactions in the two events. In response to the U.K.’s criticism, Chinese Foreign Minister Spokesman Hong Lei said that China is strongly displeased by the British report, and refuted the British government’s report on Hong Kong, indicating “no foreign country has the right to interfere in it.”<sup>71</sup> Even though the effect of this episode is unknown at this point, it certainly will decrease the closeness of Sino-U.K. relations and creates distrust.

China has been constantly criticizing western opinions of its human rights issues.

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68. Nicholas Watt, Paul Lewis and Tania Branigan, “US Anger at Britain Joining Chinese-Led Investment Bank AIIB,” *The Guardian*, March 12, 2015, <http://www.theguardian.com/us-news/2015/mar/13/white-house-pointedly-asks-uk-to-use-its-voice-as-part-of-chinese-led-bank>.

69. “Six Monthly Report to Parliament on Hong Kong: July-December 2015,” GOV.UK, last modified February 11, 2016, <https://www.gov.uk/government/news/six-monthly-report-to-parliament-on-hong-kong-july-december-2015>.

70. “UK: Hong Kong Bookseller ‘Removed’ in Breach of China Treaty,” *New York Times*, February 12, 2016, <http://www.nytimes.com/aponline/2016/02/12/world/asia/ap-as-hong-kong-britain-missing-booksellers.html>; Chris Buckley, “Britain Accuses China of Violating Treaty in Hong Kong Bookseller’s Case,” *New York Times*, February 12, 2016, <http://www.nytimes.com/2016/02/13/world/asia/britain-china-hong-kong-bookseller.html>.

71. “China Refutes British Latest Six-Monthly Report on Hong Kong,” *Global Times*, February 16, 2016, <http://www.globaltimes.cn/content/968141.shtml>.

However, since China's ties with Europe are mainly economic, it has much less influence on European public opinions than the U.S. does. As U.S. public diplomacy succeeds with regard to highlighting China's violations of human rights, the European public and the European governments are pressured to distance their ties with China. China may again employ economic sanctions and play the European states against each other. Therefore, this strategy may not work for EU as a whole, but may be effective in addressing China's relations with certain individual European states.

### **Conclusion**

These recommendations are given to address problems or opportunities that come with the closer Sino-Russia relations, and China's increasing influence in Central Asia and Europe. The recommendations mainly suggest the containment of Sino-Russia and Sino-European Relations and encourage U.S. cooperation with China in constructing Central Asia.

With regard to Sino-Russian relations, the recommendations suggest that U.S.-Russian relations need to be reconciled, so that Russia will not become too close with China. The reconciliation will start based on bilateral talks between the U.S. and Russia over the future of Ukraine and Crimea. China will not be reluctant to see the resolution of Ukrainian issues, since the deteriorated ties between Russia and Ukraine also put Sino-Ukrainian relationship at odds. However, another recommendation made in order to reduce the threats that a Sino-Russian entente posed in Northeast Asia may make Beijing more troublesome towards Washington. In order to prevent the future military cooperation between China and Russia in Northeast Asia and in the attempt to cooperate with Russia to balance China's influence, it is recommended to encourage Japan to mend ties with Russia.

Concerning China's relations with Central Asia, the recommendation suggests that the U.S. needs to cooperate with China in order to construct and stabilize Central Asia, since the U.S. is

not very successful in dealing the disputes among the Central Asian governments. However, while China is expecting possible transit expansion in Central Asia, it may not be willing to collaborate with U.S. due to its mistrust of U.S. goals. In this case, the U.S. needs to build trust with China, regarding to economic cooperation. The U.S. should also cooperate with Russia on security issues, not only to stabilize the Central Asia region, but also to seek for chances to alienate Sino-Russia relations. Nevertheless, it may be hard to achieve, as China has been very tactical in handling its relations with Russia in Central Asia.

Regarding Sino-European relations, the recommendation prioritizes the importance of understanding that the collective U.S.-EU arms embargo towards China needs to be ensured. The recommendation suggests the public diplomacy can be used to stress China's violations of human rights in order to influence the public opinions in Europe, so that the public will pressure the government not to establish too close of a relationship with China, and not to lift the arms embargo.

# Nuclear Proliferation and Weapons of Mass Destruction

*Guen Woo Jeong*

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## Abstract

### Key Policy Decisions

China's military build-up, its increasing nuclear capabilities, and its association with states capable of using and transferring Weapons of Mass Destruction (WMD) pose a significant threat to United States security interests. These risk factors require the U.S. to employ policies that involve both engagement and containment to address respective issues. Balancing cooperation and competition with China will allow the U.S. to serve its security interests.

### Background

The PRC's military modernization and expansion are perceived as threats to the U.S. and its allies. Consequently, the growing military power of China has put a high premium on strengthening U.S. alliances and partnerships in the Asia-Pacific. Paralleled with its increasing military capacity, China's increasing nuclear capabilities are gradually diminishing the U.S. technical comparative advantage over China. Therefore, maintaining a U.S. technical comparative advantage in nuclear capabilities should be the main goal to prevent China from exploiting its nuclear capabilities. The Democratic People's Republic of Korea (DPRK)'s nuclear weapons program constitutes another risk to regional U.S. allies. Past U.S. efforts to denuclearize North Korea, and China's reluctance to impose severe sanctions against North Korea have led the U.S. to reconsider its policy toward North Korea. Along with international cooperation, China's cooperation is essential to impose effective sanctions against North Korea. Hence, actions that press China to reconsider its priorities toward North Korea must be employed. Similarly, preventing proliferation of WMD necessitates cooperation from the international community and China's continuous effort to comply with its non-proliferation commitments. While cooperating with China in promoting non-proliferation confidence-building activities, such as classifying WMD-related products that must be banned, the U.S. should continue to link its export of high-tech products with dual-use capabilities to China to the latter's compliance with its non-proliferation obligations. With respect to the Pakistani nuclear program, which is catalyzed by U.S. favoritism toward India, the U.S. should take a bilateral approach to Pakistan and propose a similar deal such as what India received.

### Recommendations for the PRC's military build-up

- Strengthen U.S. alliances and partnerships in the Asia-Pacific to counterbalance China's military growth.
- Support Japan's reinterpretation of exercising collective self-defense rights.

### Recommendations to respond increasing Chinese nuclear capabilities

- Address China's concerns about the U.S. Ballistic Missile Defense (BMD) program as much as necessary by operating the program with improved transparency that security requirements allow.
- Officially recognize reciprocal vulnerability with regard to the PRC's nuclear force
- Strengthen the existing bilateral nuclear cooperation with China, such as a U.S.-China nuclear cooperation agreement.

- Increase restrictions toward China’s legal and illegal access to U.S.-origin dual-use goods, software, and technology by improving the existing licensing system and fortifying the cybersecurity environment.

#### Recommendations for denuclearization in North Korea

- Keep the U.S. door open to negotiate with North Korea, but continue imposing and coordinating strong, effective, unilateral, and international sanctions against North Korea through close cooperation with the international community.
- If Chinese firms do not observe sanctions, the U.S. should push China to reconsider its priorities towards DPRK, including the regime survival or its denuclearization, by introducing other actions that the U.S. may take through coordination with the Republic of Korea (ROK).

#### Recommendations for proliferation of WMD

- Continue to guide the international community to underscore the need for compliance with its non-proliferation commitments as an indispensable element of China’s status as a global power while classifying WMD-related products that should be banned as soon as possible through cooperation with the international community.
- Continue to link its export of high-tech products with dual-use capabilities to China to the latter’s compliance with its non-proliferation obligations.
- Apply severe punitive measures against enterprises or individuals that do not comply with obligations.
- In the case of Pakistan, the U.S. should take a bilateral approach to Pakistan and propose a similar deal such as what India received.

### **Issues Regarding the PRC’s Military Buildup**

Currently, China’s military build-up serves as the most noteworthy challenge to U.S. interests in the Asia-Pacific. Particularly, China’s military expenditure in Anti-Access/Area Denial (A2/AD) capabilities intensifies distress in the region about Chinese conception of peace and security. China’s objective of A2/AD policy is to confine or outright deny the U.S. freedom of entry or maneuver, and its A2/AD investments embrace areas such as space, cyber, electronic warfare (EW), blue-water naval capability, long-range and anti-ship missiles, fighter and stealth aircraft, and Concept of Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) capabilities.<sup>1</sup> Those investments signify Chinese

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1. Michael Green, Kathleen Hicks, Mark Cancian, Zach Cooper, and John Schaus, *Asia-Pacific Rebalance 2025: Capabilities, Presence, and Partnerships: An Independent Review of U.S. Defense Strategy in the Asia-Pacific*, (Washington D.C.: Center for Strategic and International Studies, January 2016), 116, [http://csis.org/files/publication/160119\\_Green\\_AsiaPacificRebalance2025\\_Web\\_0.pdf](http://csis.org/files/publication/160119_Green_AsiaPacificRebalance2025_Web_0.pdf).

efforts to prevent the presence of U.S. forces from the region when necessary. Therefore, such developments heighten the risk to deployed U.S. forces in the Western Pacific, to U.S. allies and partners, and to the freedom of access to international airspace and waters on which the U.S. economy depends as do American allies in Northeast Asia.

Most estimations of Chinese defense expenditure commonly indicate China’s regional domination in military spending as it transitions to become the most powerful nation in Asia. These tendencies are not only guided by China’s concern about the possible challenge from the U.S. and neighboring actors, but are also directed by the reality that China has the material capability to afford such efforts. In its 2010 Defense White Paper, China unprecedentedly offered detailed information about its military expenditure.<sup>2</sup> Previously, it had declined to report precise information about its military spending. The 2010 White Paper stated that the defense budget was split approximately equally between personnel, training and maintenance, and equipment expenditures.

**Table 1: China’s Defense Expenditure in 2009 (unit: RMB billion)**

	Active Force	Reserve Force	Militia	Total	
				Amount	Percentage
<b>Personnel</b>	167.063	1.465	0	168.528	34.04
<b>Training &amp; Maintenance</b>	152.171	1.965	12.859	166.995	33.73
<b>Equipment</b>	157.426	1.431	0.73	159.587	32.23
<b>Total</b>	476.66	4.861	13.589	495.11	100.00

Graphics shows China's defense expenditure in 2009 (Xinhua/Lin Hanzhi)

**Figure 2: China’s Defense Expenditure in 2009 (unit: billion RMB)<sup>3</sup>**

Figure 2 supports these government statements by providing a breakdown of the PRC’s

2. The People’s Republic of China, Information Office of the State Council, *China’s National Defense in 2010* (Beijing, March 2011), [http://www.gov.cn/english/official/2011-03/31/content\\_1835499.htm](http://www.gov.cn/english/official/2011-03/31/content_1835499.htm).

3. *Ibid.*, 33.

2009 military budget: spending for personnel, training and maintenance, and equipment is almost equal, with equipment expenses slightly higher.

Even though China's 2013 Defense White Paper did not explain defense spending thoroughly, the Chinese Ministry of Finance revealed that in 2013, there had been a 11.2% increase in the 2012 military budget that had been "used to improve living and training conditions for our troops, support the military in promoting IT application, strengthen the development of new- and high-technology weapons and equipment, and enhance the country's modern military capabilities."<sup>4</sup> Similar to the 2013 White Paper, the 2015 White Paper provided a vague presentation on China's military spending. On March 4th, 2015, a few months before China defense White Paper 2015 was published, Fu Ying, spokeswoman for the National People's Congress, announced that the defense appropriation for 2015 increase 10.1% from the previous year, roughly placing spending at \$145 billion, making China the world's second-largest military spender.<sup>5</sup> Ms. Fu's statement indicates that such expense is increasing more rapidly than the total growth rate of the Chinese economy.

On the other hand, the US Department of Defense (DOD) assessed that China's actual military expense for 2010 was over \$160 billion. The DOD estimated China's actual military spending at \$120-180 billion in 2011, compared to the official figure of \$91.5 billion. The 2015 DOD report on China estimated that "China's total military-related spending for 2014 exceeds \$165 billion U.S. dollars (USD)."<sup>6</sup> Even though the 2015 DOD report neither presented a different range of estimation nor used the same technique to evaluate, the U.S. estimation evidently exceeded the PRC government's publication. This leads to a conclusion that the U.S. must stay alert about PRC's non transparent military budget and must increase its efficiency in a

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4. Anthony H. Cordesman, Steven Colley, and Michael Wang, *Chinese Strategy and Military Modernization in 2015: A Comparative Analysis* (Washington D.C.: Center for Strategic and International Studies, October 10, 2015), 94, [http://csis.org/files/publication/150901\\_Chinese\\_Mil\\_Bal.pdf](http://csis.org/files/publication/150901_Chinese_Mil_Bal.pdf).

5. *Ibid.*, 95.

6. *Ibid.*, 99.

military operation by coordinating Joint military exercise with its strategic allies and partners.

As proof of increasing military investments, Chinese military operations have improved in both quantity and complexity. 2015's "Annual Report to Congress" provided detailed information about the current capabilities of the People's Liberation Army (PLA). According to the report, the Second Artillery Forces have more than 1,200 short-range ballistic missiles (SRMBs) in its inventory, and the PRC is improving the lethality of its conventional missile forces by fielding a new ballistic missile, the CSS-11, paired with the previously deployed conventional alternative of the CSS-5 medium ballistic missile (MRBM), which will increase China's precision-strike capabilities.<sup>7</sup> The PLA Navy (PLAN) currently has the highest number of vessels in Asia, comprised of over 300 surface ships, submarines, amphibious ships, patrol craft, as well as 5 nuclear attack submarines (SSN), 4 nuclear ballistic missile submarines (SSBN), and 53 diesel attack submarines (SS/SSP). Furthermore, Liaoning, the first aircraft carrier of the PLAN that entered service in 2012, returned to Dalian, went through a comprehensive maintenance process, and is expected to take a crucial part in training China's carrier pilots and deck crews, as well as experimenting strategies that will be used with later, more capable carriers.<sup>8</sup> In addition, the PLA Air Force (PLAAF) is one of the most powerful air forces in Asia and the world's third leading air force with more than 2,800 total aircraft, while the PLA Army maintains its long-standing investments in its land forces, concentrating on improving the capacity to fight and win land wars with operational campaign-level forces.<sup>9</sup> Finally, the report highlights the fact that by the end of October 2014, China had launched 16 spacecraft, either nationally or through a private space launch provider. These spacecraft mostly expanded China's satellite communication (SATCOM) and intelligence, surveillance, and

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7. U.S. Department of Defense, Office of the Secretary of Defense, "Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2015," D-117FA69 (May 8, 2015), 8, [http://www.defense.gov/Portals/1/Documents/pubs/2015\\_China\\_Military\\_Power\\_Report.pdf](http://www.defense.gov/Portals/1/Documents/pubs/2015_China_Military_Power_Report.pdf).

8. Ibid., 8-11.

9. Ibid., 11-13.

reconnaissance (ISR) capabilities.<sup>10</sup>

To counteract China's military build-up, the U.S. should strengthen its alliances and partnerships in the Asia-Pacific to counterbalance China's military growth. This can be achieved by coordinating frequent and complex joint military exercises and establishing security cooperation with its allies and partners. In 2011, the U.S. and Australia adopted an agreement allowing the United States Air Force (USAF) and United States Marine Corps (USMC) use of Australia's military bases on a rotational basis. It has been four years since the USMC began to rotate at Darwin, and will expand to a maximum size of 2,500 Marines. In a similar sense, in 2014, the U.S. took a major step forward to advance its posture in the Philippines, signing the bilateral Enhanced Defense Cooperation Agreement (EDCA). This bilateral agreement is expected to offer the U.S. a legal framework under which to undertake a modest, but important military construction, beneficial to the U.S. partnership with the Armed Forces of the Philippines (AFP). In addition, the U.S. maintains a rotational force of Littoral Combat Ships (LCSs) operating out of Singapore. The United States Navy (USN) plans to rotate up to four LCSs out of Singapore, offering a noteworthy enhancement in USN presence and partnership opportunities throughout Southeast Asia.<sup>11</sup> The military collaboration between the U.S. and its allies and partners in the region demonstrates U.S. effort to counteract the Chinese military build-up, seeking U.S.-led peace.

Also, the U.S. should support Japan's new interpretation of exercising collective self-defense rights. Even though China, a country victimized by Japan's imperialism during the World War II era, could contend that such a decision is a sign of Japanese militarism, Japan sees to exercise its right to counteract deteriorating regional security.<sup>12</sup> Despite historical tensions

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10. Ibid., 13.

11. Green, Hicks, Cancian, Cooper, and Schaus, *Asia-Pacific Rebalance 2025*, 32-3.

12. James Schoff, "U.S. Reassurance and Japanese Defense Reforms Can Improve Security in East Asia," Carnegie Endowment for International Peace, last modified March 13, 2014, <http://carnegieendowment.org/2014/03/13/u.s.-reassurance-and-japanese-defense-reforms-can-improve-security-in-east-asia>.

between Japan and Korea, the U.S. must encourage South Korea to continue trilateral security cooperation. Encouraging Japan to play greater roles in the regional security will better serve the U.S. interest since the U.S. could share the operational burden with Japan and the joint military operation could serve as deterrence to China.

### **Issues Regarding China's Increasing Nuclear Capabilities**

China's nuclear weapons doctrine puts great emphasis on sustaining a nuclear force capable of surviving an attack and returning with adequate force to inflict intolerable damage on an opponent. A newly created mobile missile, with warheads containing Multiple Independently Targetable Reentry Vehicles (MIRVs) and penetration aids, are expected to safeguard the feasibility of China's strategic deterrence against continuous development in U.S. and Russian strategic ISR, precision strike, and missile defense capabilities. The PLA has assigned advanced command, control, and communications capabilities to its nuclear forces. These capabilities enhance the Second Artillery Force's ability to direct and govern various units in the field. In a 2015 China Military Power Report, the PRC's nuclear capabilities were stated as follows:

Land-Based Platforms: China's nuclear arsenal currently consists of 50-60 ICBMs, including the silo-based CSS-4 Mod 2 and Mod 3(DF-5); the solid-fueled, road-mobile CSS-10 Mod 1 and Mod 2 (DF-31 and DF-31A); and the more limited range CSS-3 (DF-4). This force is complemented by liquid-fueled CSS-2 intermediate-range ballistic missiles (IRBM) and road-mobile, solid-fueled CSS-5 (DF-21) MRBM for regional deterrence missions. Sea-based Platforms: China continues to produce the JIN-class SSBN, with four commissioned and another under construction. The JIN will eventually carry the CSS-NX-14 (JL-2) SLBM with an estimated range of 7,400 km. Together, these will give the PLA Navy its first credible long-range sea-based nuclear capability. JIN SSBNs based at Hainan Island in the South China Sea would then be able to conduct nuclear deterrence patrols – China will probably send out the first in 2015.<sup>13</sup>

In addition to current nuclear capabilities, China is also developing various technologies to counteract the U.S. and its allies' ballistic missile defense systems, encompassing maneuverable reentry vehicles (MaRV), MIRVs, decoys, chaff, jamming, and thermal shielding.

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13. Office of the Secretary of Defense, "Annual Report to Congress," 31.

Furthermore, the Second Artillery Corps regularly conducts training exercises featuring maneuver, camouflage, and launch operations under simulated combat conditions, which are designed to enhance survivability.<sup>14</sup> Altogether, these technologies and training improvements not only reinforce China's nuclear capability, but also enhance its precision-strike capabilities.

Another factor that contributes to the improvement in China's nuclear capability is China's acquisition of dual-use capability. Many of the companies that U.S. firms regularly deal with have their own relations with the Chinese military.<sup>15</sup> Those military-connected Chinese companies, such as Tsinghua Holdings, Inspur Group, China Electronics Technology Group Corporation, and Beijing Teamsun Technology, have established partnerships with major American tech firms including IBM, Intel, and Microsoft among others.<sup>16</sup> Though the U.S. defense industry maintains considerable advantages over that of China in the areas of management and systems integration, the consistent outflow of advanced technology cannot help but to diminish the American comparative advantages over China. Ultimately, the increasing bilateral partnerships in technology sectors could unconsciously advance the fundamental technology capabilities of the Chinese military, a threat to the American national security.

Even though there has been some progress on non-nuclear forms of cooperation between U.S. and China such as anti-piracy confidence-building measures of 2011, U.S.-China engagement on nuclear issues has not resulted in direct practical steps for official bilateral cooperation on nuclear issues. China remains reluctant to participation in any form of frameworks or negotiations for several reasons, including its assertion that the U.S. and Russia must further decrease the number of their nuclear arsenals before China would become involved in negotiations and Beijing's concerns that the greater transparency demanded by any agreement

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14. Ibid., 32.

15. Robert Farley, "A Dual-Use Dilemma in US-China Defense Industrial Interaction," *The Diplomat*, November 2, 2015, <http://thediplomat.com/2015/11/a-dual-use-dilemma-in-us-china-defense-industrial-interaction>.

16. "U.S. Tech Companies and Their Chinese Partners With Military Ties," *New York Times*, October 30, 2015. <http://www.nytimes.com/interactive/2015/10/30/technology/100000004009974.mobile.html>.

could weaken China's security.<sup>17</sup> Therefore, pursuing a formal arms control agreement with China may be hindered by Beijing and could possibly aggravate the current friction in U.S.-China relations.

To respond to China's increasing nuclear capabilities, the U.S. should address China's concerns about the U.S. BMD program as much as necessary by operating the program with improved transparency allowable by security requirements. For example, the U.S. could reassure China with a clear statement that notifies the U.S. does not look to develop its ballistic missile defenses in order to counteract China's nuclear deterrence. With respect to deploying Terminal High Altitude Area Defense (THAAD) in South Korea, the U.S. must strongly stress that THAAD is a purely defensive mechanism and THAAD's deployment to South Korea is not necessary if North Korea is denuclearized. Such U.S. efforts could not only highlight the point that THAAD is not targeting China, but also, could open the possibility of the U.S. overturning its decision on THAAD in an effort to incentivize China to play greater roles in controlling North Korea.

At the same time, the U.S. should officially recognize the reciprocal vulnerability with regard to the PRC's nuclear force. Such acknowledgement could reveal a fundamental status quo or, to some extent, would affect Chinese nuclear policy with stabilizing effects. In this case, the U.S. and China exist in a condition of mutual vulnerability to counterpart's nuclear forces. China has frequently expressed its insistence that the U.S. is seeking to escape from a position of vulnerability, and this concern may promote China's qualitative and quantitative developments of its nuclear forces. This would lead the U.S. to stand a better chance of engaging China in a discussion on nuclear issues, encouraging China to be transparent about its capabilities. As a result, the credibility of U.S. assurances about its BMD program would likely be strengthened by

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17. John K. Warden, Elbridge A. Colby, and Abraham M. Denmark, *Nuclear Weapons and U.S.-China Relations: A Way Forward* (Washington D.C.: Center for Strategic and International Studies, March 2013). [http://csis.org/files/publication/130307\\_Colby\\_USChinaNuclear\\_Web.pdf](http://csis.org/files/publication/130307_Colby_USChinaNuclear_Web.pdf).

such a recognition.

Furthermore, the U.S. must strengthen the existing bilateral nuclear cooperation with China. The renewal of the U.S.-China nuclear cooperation agreement in 2015 has not only enabled the U.S. to continue its presence in China's nuclear energy market but also encourage China to adopt U.S. technology and operating plant exchanges. Specifically, the U.S. firm Westinghouse, now mostly owned by Toshiba of Japan, agreed to supply its most advanced reactor, AP1000, and its reactor technology, to China. The Westinghouse technology transfer agreement for the AP1000 reactor grants the Chinese a “nonexclusive license to use that technology in China,” with Westinghouse retaining all its intellectual property rights.<sup>18</sup> Proliferation concern stems from the Westinghouse agreement that gives China the right to export a large passive plant to any country except the U.S. and Japan, the continuation of U.S. presence in Chinese nuclear energy market and China's adoption of U.S. technology can restrain China's development in nuclear capabilities.

Finally, the U.S. should increase restrictions toward China's legal and illegal access to U.S.-origin dual-use goods, software, and technology by improving the existing licensing system and fortifying cyber security environment. The current key U.S. trade controls laws and regulations include 1) The Arms Export Control Act (AECA) and the International Traffic in Arms Regulations (ITAR) administered by the Department of State's Directorate of Defense Trade Controls (DDTC), 2) The Export Administration Regulation (EAR) administered by the Department of Commerce's Bureau of Industry and Security (BIS), and 3) the trade and economic sanctions programs and regulations administered by the Department of the Treasury's Office of Foreign Assets Control (OFAC).<sup>19</sup> However, the current licensing protocols and

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18. U.S. Library of Congress, Congressional Research Service, *U.S.-China Nuclear Cooperation Agreement*, by Mark Holt and Mary Beth D. Nikitin, RL33192 (May 6, 2015), 4, <https://www.fas.org/sgp/crs/row/RL33192.pdf>

19. Eric Carlson and Peter Lichtenbaum, *China-Related Export Control Risks*, (Washington D.C.: Covington & Burlington LLP, 2015).  
[https://www.cov.com/files/Uploads/Documents/China\\_Export\\_Controls\\_Article\\_2013-07-22.pdf](https://www.cov.com/files/Uploads/Documents/China_Export_Controls_Article_2013-07-22.pdf).

policies are inadequate to address the threats the U.S. faces in the 21<sup>st</sup> century, because of the irresolute export jurisdiction and classification of every item that will be exported or transferred within China. Improvements could be made to the licensing protocols and the underlining policies by determining the export jurisdiction and classification of all items subjected to the licensing protocols. Since fortifying the cybersecurity environment is a critical way to restrict China's illegal access to American dual-use goods and technologies, investment in defensive cyber capabilities must continue as well.

### **Issues Regarding Denuclearization in North Korea**

In recent years, the North Korean nuclear weapons program has reached a point where it is based solely on highly enriched uranium (HEU). Despite limited information on this second program, in February 2015, Chinese scientists reportedly estimated that North Korea currently had 20 nuclear weapons. They also estimated that Pyongyang possesses the uranium-enrichment capacity to build 40 weapons by the end of the Obama administration. This is higher than the Western estimate of 8-16 weapons.<sup>20</sup> Additionally, the fourth nuclear test and long-range missile based satellite launch by North Korea in January and February 2016 demonstrated its increased nuclear and missile capability, posing threats to U.S. allies in the region.

China's reluctance to impose severe sanctions against DPRK for its recent nuclear test as well as its long-range missile capability have led the U.S. leaders to reconsider the contemporary U.S. foreign policy toward China. Japan and South Korea, two strong U.S. allies in Northeast Asia, have regarded DPRK's nuclear test a threat to national security and strongly urge that the North Korean regime must be subjected to a UN Security Council resolution that imposes additional sanctions against the DPRK in response to a nuclear test and a long-range missile test

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20. Green, Hicks, Cancian, Cooper, and Schaus, *Asia-Pacific Rebalance 2025*, 21.

in January and February 2016.<sup>21</sup> In addition, China has been criticized by the U.S. for its ineffective policies to rein in the DPRK. The Chinese government has resisted tough sanctions intended to reduce the amount of oil that China exports to North Korea and to discontinue importing mineral resources. Until now, China has adopted sanctions that only curb the transfer of military equipment or other items that would assist North Korean weapons program.<sup>22</sup> While U.S., Japan, and South Korea maintain that existing sanctions have not stopped the DPRK from developing nuclear weapons and that they must be increased. China takes a less stern position, insisting a resolution should “do the work of reducing tension, of working toward denuclearization, of maintaining peace and stability, and of encouraging a negotiated solution.”<sup>23</sup> The U.S. and its allies are now cooperating on drafting a proposed resolution for United Nations Security Council endorsement that would impose unprecedentedly tough sanctions on the DPRK’s trade and finance,<sup>24</sup> as well as unilateral sanctions regardless of the result of the United Nations Security Council (UNSC) endorsement.<sup>25</sup> Notably, South Korea completely suspended the operation of the Kaesong industrial complex, cutting off North Korea’s official remaining source of hard currency.<sup>26</sup> In addition, on February 18, 2016, President Barack Obama signed into law legislation expanding sanctions to punish North Korea for its nuclear program, human rights record and cyber crimes.<sup>27</sup> Most experts believe the most effectual approach against the DPRK would be one that the Chinese most disapproves of: a restriction or discontinuation of oil

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21. Eleanor Albert, Jayshree Bajoria, and Beina Xu, “The China-North Korea Relationship.” Council on Foreign Relations, last modified February 8, 2016, <http://www.cfr.org/china/china-north-korea-relationship/p11097>.

22. David E. Sanger and Choe Sang-hun, “U.S. Prods China on North Korea, Saying Soft Approach Has Failed,” *New York Times*, January 7, 2016, <http://www.nytimes.com/2016/01/08/world/asia/us-tells-china-that-soft-approach-to-north-korea-has-failed.html>.

23. “UN Security Council Vows New Sanctions After N. Korea's Rocket Launch,” *BBC*, February 8, 2016, <http://www.bbc.com/news/world-asia-35518058>.

24. “Park, Obama, Abe to Cooperate for Strong Sanctions on N. Korea.” *Yonhap News Agency*, February 9, 2016, <http://english.yonhapnews.co.kr/northkorea/2016/02/09/0401000000AEN20160209003452315.html>.

25. Kazuki Uechi and Takashi Funakoshi, “Japan Moves toward Unilateral Sanctions over North Korea's Missile Launch,” *The Asahi Shimbun*, February 8, 2016, [http://ajw.asahi.com/article/behind\\_news/politics/AJ201602080046](http://ajw.asahi.com/article/behind_news/politics/AJ201602080046).

26. “S. Korea to Suspend Operation of Kaesong Complex,” *Yonhap News Agency*, February 10, 2016, <http://english.yonhapnews.co.kr/northkorea/2016/02/10/68/0401000000AEN20160210003600315F.html>.

27. Roberta Rampton and Ayesha Rascoe, “Obama Signs North Korea Sanctions Bill into Law: White House,” *Reuters*, February 18, 2016, <http://www.reuters.com/article/us-northkorea-usa-sanctions-idUSKCN0VR2KQ>.

and food exports to the North. The DPRK is heavily reliant on oil that runs through a small number of pipelines and food sources transferred from China. China's concern is that without Chinese oil and food exports, the North Korean regime could collapse, or worse, go to war, placing American and South Korean forces on the Chinese border in a severe position. Similarly, the other dilemma that China faces is the North Korean refugee issue. If China starts granting refugee status to North Korean defectors, a mass outflow of the North Korean population could ensue. China is concerned that this would lead to the disintegration of the North Korean regime and undermine regional security. However, since China's own human rights practice is problematic, it is not necessary for China to be concerned about the North Korean human rights practice. Beijing's apathetic attitude toward human rights of North Korean defectors demonstrates its willingness to maintain the alliance with North Korea even when international criticisms persist.<sup>28</sup> Consequently, China seeks to maintain the geographical status quo in which the DPRK functions as a buffer between China and the U.S.

Encouraging China to take greater responsibility for convincing North Korea to stop its nuclear program has proved unfruitful and unpromising. A possibility of North Korea to join bilateral or multi-party peace talks aiming to denuclearize North Korea became even more obscure after North Korea declined a U.S. proposal in which the Obama administration secretly agreed to peace talks to try to formally end the Korean War, on the day before its nuclear test on January 6th, 2016.<sup>29</sup> Despite the uncertainty that North Korea would accept future negotiations, the U.S. should keep its door open to negotiate with North Korea. In that way, the U.S. could justify its retaliatory actions if North Korea ignores the proposal and continues its nuclear development. Recent U.S. retaliatory actions include 1) additional deployment of Patriot missile

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28. Eunbee Chung, "The Chinese Government's Policy Toward North Korean Defectors," *Yonsei Journal of International Studies* 5, no. 2 (Fall 2013): 285-92, [https://yonseijournal.files.wordpress.com/2014/04/fall-2013\\_eunbee-chung.pdf](https://yonseijournal.files.wordpress.com/2014/04/fall-2013_eunbee-chung.pdf).

29. Alastair Gale and Carol E. Lee, "U.S. Agreed to North Korea Peace Talks Before Latest Nuclear Test," *Wall Street Journal*, February 21, 2016, <http://www.wsj.com/articles/u-s-agreed-to-north-korea-peace-talks-1456076019>.

systems to South Korea,<sup>30</sup> 2) conducting largest-ever annual joint exercises Key Resolve and Foal Eagle that mobilize high-profile military assets such as a U.S. B-52 bomber, F-22 stealth bomber squadron, a nuclear-power submarine, and the *USS New Orleans*, an American amphibious warfare ship,<sup>31</sup> and 3) intensified joint amphibious drill aiming to boost their capability to infiltrate deep into North Korean territory and destroy the North Korean key facilities including its nuclear and missile test sites.<sup>32</sup>

If North Korea persists in its nuclear program, the U.S. must continue imposing and coordinating strong, effective unilateral and international sanctions against North Korea through close cooperation with the international community. Since unilateral and international sanctions are more effective when combined, the U.S. needs to seek international cooperation from its allies and the international community. However, most of firms that do business with North Korea are in China and they would be subjected to those sanctions, hurting Chinese economic interests. China's support is crucial to North Korea's survival, imposing sanctions on these enterprises would unavoidably come at the expense of other priorities in the U.S.-China relationship. In this context, the U.S. should push China to reconsider its priorities towards North Korea, including regime survival or its denuclearization, by introducing other actions that the U.S. may take such as THAAD deployment to South Korea. As mentioned in the previous section, the U.S. should strongly emphasize that THAAD is a purely defensive system and THAAD deployment to South Korea is not required if North Korea is denuclearized. Such U.S. efforts not only could underline the point that THAAD is not targeting China, but also could open the possibility of the U.S. overturning its decision on THAAD in an effort to incentivize China to play more responsible roles in reining North Korea.

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30. "(2nd LD) U.S. Deploys Additional Patriot Missile Systems to S. Korea," *Yonhap News Agency*, February 13, 2016, <http://english.yonhapnews.co.kr/news/2016/02/13/0200000000AEN20160213000652320.html>.

31. "(2nd LD) N. Korea Warns of 'Pre-Emptive' Strike against South, U.S.," *Yonhap News Agency*, February 23, 2016, <http://english.yonhapnews.co.kr/news/2016/02/23/0200000000AEN20160223012052320.html>.

32. *Ibid.*

## Issues Regarding Proliferation of WMD

China now engages to some extent in every multilateral regime committed to the non-proliferation of WMD. In addition, it has established control lists consistent with export control regimes with respect to proliferation-sensitive goods and technology. Even though Chinese controls on the trade of sensitive WMD-related materials have improved over the last decades, the WMD-related materials with Chinese-origin have occasionally been used by unstable regimes such as Syria's Assad regime and the Pakistani regime. In April 2014, Kafr Zita, a rebel-held town in northern Syria, was attacked by the Assad regime with chlorine gas, and evidence showed that the chlorine came from China North Industries (Norinco), the state-owned defense company (Figure 3).<sup>33</sup>



**Figure 3: A chlorine gas canister clearly showed the marking of the Chinese arms manufacturer Norinco and the stamp Cl<sub>2</sub>, the scientific shorthand for chlorine, as well as the character 年 (Nián), meaning “year”<sup>34</sup>**

There have been allegations that Iran, whose biggest trading partner is China, ordered 10,000 chlorine canisters from China and loaded them onto planes to Syria.<sup>35</sup> The state-owned

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33. David Volodzko, “China’s Role in the Syria Crisis, Revisited,” *The Diplomat*, September 28, 2015, <http://thediplomat.com/2015/09/chinas-role-in-the-syria-crisis-revisited>.

34. Damien McElroy, “Syrian Chemical Weapons Use Backed-up by Second Investigation,” *The Telegraph*, May 11, 2014, <http://www.telegraph.co.uk/news/worldnews/middleeast/syria/10823180/Syrian-chemical-weapons-use-backed-up-by-second-investigation.html>.

35. Con Coughlin, “West Fears Iran Is Supplying Chlorine Bombs to Syria,” *The Telegraph*, May 6, 2014, <http://www.telegraph.co.uk/news/worldnews/middleeast/iran/10809186/West-fears-Iran-is-supplying-chlorine-bombs-to-Syria.html>.

Norinco denied it sold Syria chlorine gas allegedly used in the chemical attack.<sup>36</sup> Even though chlorine gas has commercial uses and it is not by itself a chemical weapon, exposure to its dangerous concentrations could be fatal.<sup>37</sup> China's failure to prevent misuse of chlorine gas by a third party suggests that there is still room for improvement for China with respect to trading chemical substance that could be weaponized.

Pakistani nuclear development is another problematic proliferation issue. Pakistan's weapons program is still active and poses significant threats to neighboring states and the U.S. allies. Pakistani nuclear scientist A. Q. Khan not only utilized a group of affiliations and espionage agents to misappropriate enrichment centrifuge technology from URENCO, a nuclear fuel company, but also manipulated networks in China to procure missile and weapon technology. According to the evidence, the PRC government helped Pakistan transform its enriched uranium into nuclear weapons:

China's ties to the network was a concern, particularly because China was an early recipient of the uranium enrichment technology using centrifuges that Khan had acquired in Europe. In return, in 1982, China gave Pakistan 15 tons of uranium hexafluoride gas for production of bomb grade uranium, 50 kilograms of weapons-grade enriched uranium enough for two bombs, and a blue-print for a nuclear weapon that China already tested.<sup>38</sup>

In February 2010, the Chinese government agreed to help Pakistan construct two more nuclear reactors, Chashma-3 and Chashma-4, together with the two preexisting nuclear reactors.<sup>39</sup> Also, with China's help, Pakistan has developed and built the Shaheen-1 and Shaheen-2 missiles, whose primary target is India. Seeking treatment equal to that given to India

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36. Shai Oster, "China's Norinco Says It Never Sold Chlorine Gas to Syria," *Bloomberg*, May 16, 2014, <http://www.bloomberg.com/news/articles/2014-05-16/china-s-norinco-says-it-never-sold-chlorine-gas-to-syria>.

37. "Chlorine," U.S. Environmental Protection Agency, n.d., accessed February 24, 2016, <http://www3.epa.gov/ttn/atw/hlthef/chlorine.html>.

38. U.S. Library of Congress, Congressional Research Service, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*, by Shirley A. Kan, RL31555 (January 5, 2015), 5, <https://www.fas.org/sgp/crs/nuke/RL31555.pdf>.

39. Fuzuo Wu, "China's Continued Weapons of Mass Destruction-related Exports: What Can Be Done?" The Global Economic Governance Programme, last modified September 2013, <http://www.globaleconomicgovernance.org/sites/geg/files/GEG%20FUZUO%20WU%20SEPTEMBER%202013%20web.pdf>.

by the West, Pakistan now possesses as many as 120 warheads,<sup>40</sup> while some suggest that it possesses a considerably larger number of nuclear warheads. Furthermore, Pakistan serves as a home to extremist groups such as the Taliban and the Islamic State of Iraq and Syria (ISIS), which claim that they can acquire their first nuclear weapon from Pakistan.<sup>41</sup>

The Pakistani nuclear weapons program is notably alarming: India-Pakistan relations are deeply constrained, and has caused a series of border skirmishes, terrorist attacks, and threats that have led the two nations to the brink of war. Chinese assistance to Pakistan's nuclear program appears to be a response to U.S. assistance to India's civilian nuclear energy program to seek a strategic relationship with India. India, the world's largest democratic nation, is strategically valuable for the U.S. in order to counterbalance China. Pakistan has not been offered a similar deal on nuclear energy by the U.S. This obvious favoritism toward India could raise the nuclear rivalry between the deeply strained states, and gradually exacerbate tensions in the already dangerous region.<sup>42</sup>

Failure to prevent proliferation challenges could lead to more states or non-state actors acquiring WMD and WMD-related technologies. The more states there are with WMD, the more likely it is that these weapons will be used either intentionally or through strategic miscalculation, or suffer loss of control. An increase in the number of states with WMD or weapons-usable materials also heightens the risk of terrorist access to these stockpiles. Although Chinese regulations on the trade of sensitive WMD-related materials have shown some progress over the last decades, Syrian and Pakistani examples evidently manifest Chinese contribution to the proliferation of WMD.

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40. New York Times Editorial Board, "The Pakistan Nuclear Nightmare," *New York Times*, November 7, 2015, <http://www.nytimes.com/2015/11/08/opinion/sunday/the-pakistan-nuclear-nightmare.html>.

41. Heather Saul, "ISIS Claims It Could Buy Its First Nuclear Weapon from Pakistan Within A Year," *The Independent*, May 22, 2015, <http://www.independent.co.uk/news/world/middle-east/isis-claims-it-could-buy-its-first-nuclear-weapon-from-pakistan-within-12-months-10270525.html>.

42. Jayshree Bajoria and Esther Pan, "The U.S.-India Nuclear Deal," Council on Foreign Relations, November 5, 2010, <http://www.cfr.org/india/us-india-nuclear-deal/p9663>.

Without action from both the Chinese government and the international community, China is likely to continue exporting WMD-related products despite its integration into the international non-proliferation and multilateral export control regimes. Also, there are many WMD-related products that are not banned under various chemical, biological, radiological, and nuclear (CBRN) treaties. Therefore, the U.S. should continue to guide the international community to underscore the need for compliance with its non-proliferation commitments as an indispensable element of China's status as a global power and classify WMD-related products that should be banned as soon as possible through cooperation with the international community. Furthermore, the U.S. should continue to link its export of high-tech products with dual-use capabilities to China to the latter's compliance with its non-proliferation obligations. For those enterprises or individuals that do not comply with obligations, the U.S. must apply severe punitive measures against them.

Lastly, in the case of Pakistan, the U.S. should take a bilateral approach and suggest a similar deal such as what India received, while encouraging India to initiate dialogue with Pakistan to pursue reducing the number of nuclear arms. At the same time, the U.S. should mediate between India and China with respect to potential conflicts that could be caused by intensifying tension between the two nations. Through these actions, the U.S. could increase its influence in the region by approaching India and Pakistan bilaterally, while challenging dominant Chinese influence in the Pakistani nuclear market by providing the opportunity to make a bilateral nuclear deal in which the U.S. could curb proliferation of WMD through Pakistan's adoption of U.S. nuclear technology.

## **Conclusion**

In order to resolve security issues between the U.S. and China, seeking Chinese cooperation is crucial and unavoidable because of increasing Chinese political influence and

military capability. In each security issue this chapter addressed, there are various areas where the two parties could work in partnership. Such areas of cooperation include bilateral and multilateral security cooperation, and counter-proliferation. To some extent, the U.S. should avoid unnecessary conflicts when it comes to the areas of cooperation to better serve U.S. interests. However, this does not mean that the U.S. must avoid all conflicts that could occur between China. The U.S. must stay uncompromising when its national interests are endangered, even at the expense of other priorities in the U.S.-China relationship. For example, the U.S. must remain unyielding towards China's reluctance on sanctions against North Korea's provocation or Chinese-origin proliferation of WMD. To conclude, the U.S. must remain balanced between areas of cooperation and those of competition to maximize national interests.

# Cybersecurity

*Christian Robledo*

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## Abstract

### Key Policy Decisions

Cybersecurity remains a critical issue in United States-China relations. Over the past few years, the U.S. has seen a surge in Chinese cyber attacks on public and private networks causing billions of dollars in damage and intellectual property theft. Given the strong economic ties between both countries, the U.S. must continue to foster high level-joint dialogues between both governments, but at the same time it must make massive investments in strengthening its cyber defenses.

### Background

The U.S. Department of Defense (DOD) considers China among the most serious cybersecurity threats to private and public networks. The cybersecurity threats not only encompass possible network disruptions but also theft of intellectual property, both resulting in the loss of billions of dollars. At the end of last year, President Obama and Chinese President Xi made a series of historic cybersecurity pledges that included a bilateral agreement to not “conduct or knowingly support cyber-enabled theft of intellectual property, including trade secrets or other confidential business information” and to continue high-level joint dialogues in the future. The pledges were shortly followed by a series of specific measures agreed to by the U.S. Department of Justice (DOJ), the U.S. Department of Homeland Security (DOHS) and a Chinese State Councilor. Additional high-level joint dialogues are set to take place later this year.

### Recommendations

- The U.S. and China must continue to foster strategic bilateral dialogues to decrease cyber disputes and in the case of the U.S., shield as best possible private industries from economic losses.
- The DOD must continue to strengthen its cyber forces and cyber defenses. Even though U.S.-China agreements should diminish the role of Chinese state actors in cyber crimes, the role of non-state actors still poses a critical threat.
- The U.S. Congress approve the current request from President Obama of \$19 billion for the fiscal 2017 budget proposal that will fund massive cybersecurity efforts aimed at helping both private and public networks strengthen their cybersecurity defenses.

## **Background**

Cybersecurity has been and continues to be among the most pivotal issues that influence United States relations with China. Over the past few years, numerous private and public sector networks have been the target of Chinese hacking which has resulted in the theft of intellectual property, personal data, military information and other invaluable assets, costing billions of dollars in damage. A recent report, sponsored by Hewlett Packard Enterprise, estimated that the annual average cost of cyber crimes to 58 benchmark U.S. public and private organizations was \$15.4 million per company.<sup>1</sup> The study analyzed a diverse group of industries that ranged from those in the financial services, to those in hospitality. The report also concluded that the U.S., compared to other countries, continues to rank highest in costs associated with cyber crime.

Reports such as the one mentioned above highlight the vulnerability of private and public networks and illustrate the need to fortify cyber defenses. The nature of cyberspace, specifically cyber attacks, however, pose a variety of challenges that makes them extremely difficult to deal with. Those challenges include, but are not limited to: lack of agreement over critical terminology (e.g. what constitutes a “cyber crime,” “cyber attack,” “cyber threat,” etc.), matters of attribution (i.e. where a threat or attack emanates from and whether it involves state or non-state actors), and challenges associated with time, i.e. the ability of policymakers to develop and pass cyber defense legislation or budgets lag far behind the rapid rate at which cyber attack capabilities evolve.

Although attribution certainly continues to be the biggest challenge in dealing with cyber attacks, in recent years, experts have identified China, among other countries, as the most concerning. The 2015 Department of Defense “Annual Report to Congress” states that China’s People’s Liberation Army (PLA) modernization includes unprecedented developments in cyber

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1. *2015 Cost of Cyber Crime Study: United States* (Traverse City, MI: Ponemon Institute, October 2015), <https://ssl.www8.hp.com/ww/en/secure/pdf/4aa55208enw.pdf>.

capabilities in “counter-space, offensive cyber operations, and electronic warfare capabilities meant to deny adversaries the advantages of modern, informationized warfare.”<sup>2</sup> Furthermore, concerns are also emphasized in the 2015 “DOD Cyber Strategy” report: “...China has developed advanced cyber capabilities and strategies...China steals intellectual property (IP) from global businesses to benefit Chinese companies and undercut U.S. competitiveness.”<sup>3</sup> Moreover, China’s cyber capabilities and willingness to use these for economic gain were displayed in a 2014 high-profile incident in which five Chinese military hackers, all members of the PLA, were indicted by the DOJ on charges of “economic espionage and other offenses directed at six American victims in the U.S. nuclear power, metals and solar products industries.”<sup>4</sup> Immediately following the accusations, the Chinese Foreign Ministry accused the U.S. government of using “fabricated facts” and vehemently denied any involvement, “[t]he Chinese government, the Chinese military and their relevant personnel have never engaged or participated in cybertheft of trade secrets. The U.S. accusation against Chinese personnel is purely ungrounded and absurd.”<sup>5</sup>

Given the inextricable economic relationship between the U.S. and China, and the importance of protecting U.S. economic interests, the U.S. has sought to actively engage the Chinese government with the goal of finding common solutions to cybersecurity disputes. In a joint news conference in September of 2015, President Obama and Chinese President Xi Jinping made a number of bilateral pledges regarding cybersecurity. President Obama voiced his commitment to fostering engagement with China and cited that both countries had come to an

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2. U.S. Department of Defense, Office of the Secretary of Defense, “Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2015,” D-117FA69 (May 8, 2015). [http://www.defense.gov/Portals/1/Documents/pubs/2015\\_China\\_Military\\_Power\\_Report.pdf](http://www.defense.gov/Portals/1/Documents/pubs/2015_China_Military_Power_Report.pdf).

3. U.S. Department of Defense, “The DOD Cyber Strategy,” (April 2015). [http://www.defense.gov/Portals/1/features/2015/0415\\_cyberstrategy/Final\\_2015\\_DoD\\_CYBER\\_STRATEGY\\_for\\_web.pdf](http://www.defense.gov/Portals/1/features/2015/0415_cyberstrategy/Final_2015_DoD_CYBER_STRATEGY_for_web.pdf).

4. “U.S. Charges Five Chinese Military Hackers for Cyber Espionage Against U.S. Corporations and a Labor Organization for Commercial Advantage,” U.S. Department of Justice, press release, May 19, 2014, <http://www.justice.gov/opa/pr/us-charges-five-chinese-military-hackers-cyber-espionage-against-us-corporations-and-labor>.

5. Eric Tucker, “US Charges Chinese Officials in Cyberspying Case,” *Washington Times*, May 19, 2014, <http://www.washingtontimes.com/news/2014/may/19/us-eyeing-charges-in-foreign-cyber-espionage-case>.

agreement that neither state would “conduct or knowingly support cyber-enabled theft of intellectual property, including trade secrets or other confidential business information for commercial advantage”<sup>6</sup> and that both countries would “work together, and with other nations, to promote international rules of the road for appropriate conduct in cyberspace.”<sup>7</sup> Although specific measures – some of which are described below – have been agreed upon by the U.S. and China, their effectiveness and the willingness of both governments to abide by them, remains to be seen.

The DOD official cyber strategy includes the overarching goal of “defending the U.S. homeland and U.S. interests from attack, including attacks that may occur in cyberspace”<sup>8</sup> by means of building and maintaining “robust international alliances and partnerships to deter shared threats and increase international security and stability.”<sup>9</sup> Specifically as it pertains to China, the 2015 official U.S. cyber strategy includes the following:

Strengthen the United States cyber dialogue with China to enhance strategic stability. Through the course of this strategy, as part of the U.S.-China Defense Consultative Talks and related dialogues, such as the Cyber Working Group, DoD will continue to hold discussions with China to bring greater understanding and transparency of each nation’s military doctrine, policy, roles and missions in cyberspace. The goal of this work is to reduce the risks of misperception and miscalculation that could contribute to escalation and instability. DoD will support U.S. government efforts to strengthen confidence-building measures to bring a greater level of trust to the U.S.-China relationship. In addition, DoD will continue to raise concerns about China’s cyber enabled theft of U.S. intellectual property, trade secrets, and confidential business information.<sup>10</sup>

In May of 2015, China published its own official military strategy report, which outlines its “active defense” posture on a host of issues including cybersecurity and further reveals its importance to its “economic and social development”:

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6. “Remarks by President Obama and President Xi of the People's Republic of China in Joint Press Conference,” The White House, Office of the Press Secretary, press release, September 25, 2015. <https://www.whitehouse.gov/the-press-office/2015/09/25/remarks-president-obama-and-president-xi-peoples-republic-china-joint>.

7. Ibid.

8. U.S. Department of Defense, “The DOD Cyber Strategy.”

9. Ibid.

10. Ibid.

Cyberspace has become a new pillar of economic and social development, and a new domain of national security. As international strategic competition in cyberspace has been turning increasingly fiercer, quite a few countries are developing their cyber military forces. Being one of the major victims of hacker attacks, China is confronted with grave security threats to its cyber infrastructure. As cyberspace weighs more in military security, China will expedite the development of a cyber force, and enhance its capabilities of cyberspace situation awareness, cyber defense, support for the country's endeavors in cyberspace...<sup>11</sup>

Observers believe that China's decision to emphasize and boost its cyber capabilities is a direct contestation to those of the U.S. The decision to publish the military strategy report, for example, came on the heels of the DOD publishing its own official cyber strategy report only a month before. Despite the report's assertive tone, it also indicates that China seeks to expand its cooperative measures to work alongside of other countries in matters of cybersecurity: "...and participation in international cyber cooperation, so as to stem major cyber crises, ensure national network and information security, and maintain national security and social stability."<sup>12</sup>

Neither China, nor the U.S. denies that fundamental disagreements over matters of cybersecurity exist. Most notably, both governments have fundamental differences over conceptions of cyberspace norms that are inextricably tied to notions of freedom of speech, a free society and the role of the state. Furthermore, recent high-level joint meetings and initiatives have only focused on agreements over state sponsored cyber *economic* espionage, but have not addressed other forms of espionage such as government intelligence gathering, something both the U.S. and Chinese governments engage in.

Despite areas of conflict, initial bilateral measures of cooperation, beyond symbolic joint news conferences and pledges, have taken place. In December 2015, the first U.S.-China high-level joint-dialogue on cybercrime between Attorney General (AG) Loretta E. Lynch, Department of Homeland Security Secretary Jeh Johnson, and Chinese State Councilor Guo Shengkun was held. The aim was to "review the timeliness and quality of responses to requests

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11. "Full Text: China's Military Strategy," *Xinhua*, May 26, 2015, [http://news.xinhuanet.com/english/china/2015-05/26/c\\_134271001\\_4.htm](http://news.xinhuanet.com/english/china/2015-05/26/c_134271001_4.htm).

12. *Ibid.*

for information and assistance with respect to cyber crime or other malicious cyber activities and to enhance cooperation between the United States and China on cybercrime and related issues.”<sup>13</sup>

The outcome of the joint-dialogue resulted in five specific areas of cooperation: 1) Guidelines for Combating Cybercrime and Related Issues establishes guidelines for requesting assistance on cybercrime between the two governments, 2) Tabletop Exercise, an agreement on conducting cybercrime scenarios in spring of 2016 with the goal of increasing understanding of each government's processes and procedures, 3) Hotline Mechanism, a streamlined means of communication that will decrease the likelihood of escalation, 4) Enhance Cooperation on Combatting Cyber-Enabled Crime and Related Issues, an agreement on cybercrime case cooperation on issues like “child exploitation, theft of trade secrets, fraud and misuse of technology and communications of terrorist activities,” and 5) Second U.S.-China High-Level Joint Dialogue on Cybercrime and Related Issues, a second scheduled high-level joint dialogue between both governments to take place in June 2016.<sup>14</sup>

### **Recommendations**

Given the economic interests of private businesses both in the U.S. and in China, and the importance of trade between the two countries, it is vital that both continue on a path of strategic engagement as a means to resolve cybersecurity disputes. Despite areas of disagreement, especially differences over cyber norms, a stronger and more transparent relationship can bring mutual benefits if clear agreements over cybersecurity are fostered. For this reason the following policy recommendations are highly encouraged:

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13. “First U.S.-China High-Level Joint Dialogue on Cybercrime and Related Issues Summary of Outcomes,” United States Department of Justice, press release, December 2, 2015, <http://www.justice.gov/opa/pr/first-us-china-high-level-joint-dialogue-cybercrime-and-related-issues-summary-outcomes-0>.

14. Ibid.

- The U.S. and China must continue to foster strategic bilateral dialogues to decrease cyber disputes and in the case of the U.S., shield private industries from economic losses.
- The DOD must continue to strengthen its cyber forces and cyber defenses. Even though U.S.-China agreements should diminish the role of Chinese state actors in cyber crimes, the role of non-state actors still pose a critical threat.
- The U.S. Congress should agree on approving a current request from President Obama of \$19 billion for the fiscal 2017 budget proposal that will fund massive cybersecurity efforts and “enable agencies to raise their level of cybersecurity, help private sector organizations and individuals better protect themselves, disrupt and deter adversary activity, and respond more effectively to incidents.”<sup>15</sup>

The U.S. and China have taken significant initial steps in establishing common guidelines and procedures as a means to enhance cooperation in cybersecurity matters. The initial high-joint meetings however, have mainly focused on preventing and managing cyber *economic* espionage against private businesses, but have not addressed other types such as government intelligence espionage.

It is known that both the U.S. and China engage in collecting government intelligence. High-profile public incidents such as those revealed by National Security Agency (NSA) whistleblower Edward Snowden revealing the NSA’s tapping into the cellphones of world leaders, most notably that of German Chancellor Angela Merkel, have put the U.S. in an awkward position of discussing intelligence gathering with China. For example, documents also revealed by Snowden directly accuse China of stealing F-35 stealth fighter plans to build its own

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15. “FACT SHEET: Cybersecurity National Action Plan,” The White House, Office of the Press Secretary, press release, February 9, 2016, <https://www.whitehouse.gov/thepressoffice/2016/02/09/fact-sheet-cybersecurity-national-action-plan>.

version, the J-31 and Chengdu-20 fighter jets.<sup>16</sup> Chinese officials, of course, deny such accusations with Chinese Foreign Ministry spokesman Hong Lei commenting, “The allegations are totally groundless and unproven... We, on the other hand, do have documents that show a certain country has a dishonorable record on cyber security.”<sup>17</sup> It is imperative that if intelligence gathering will not be part of cybersecurity conversations between the U.S. and China, that the U.S. develop its cyber defenses specifically aimed at strengthening military and government networks to avoid losing technological advantages over China.

Economic interests bind the U.S. and China, but the relationship is delicate because of each country's foreign policy towards other countries. The DOD , for example, in its “Cyber Strategy” report considers Iran, Russia, and North Korea to be major cybersecurity threats along with China.<sup>18</sup> China, although disagreements do exist between the two countries, is considered North Korea’s closest ally, but North Korea’s actions to include a cyber attack on Sony Pictures Entertainment and its recent decision to launch a satellite into orbit, are a threat to the U.S. and threat to regional stability. As of this month, the United Nations (UN) “strongly condemned” the launch and issued a warning to its government. Moreover, observers fear that the partnership between China and Russia may pose a major challenge to the U.S. in the future. China has been a major trading partner to Iran and recently announced its decision to increase trade to \$600 billion.<sup>19</sup> Iran, until recently when a nuclear deal was passed, was considered a major threat to the U.S. and to the region.

Although the U.S. and China have initiated cooperative steps on matters of cybersecurity, conflicts and differences still exist with regard to cyber norms and cyber sovereignty. In 2011, China and Russia and the Shanghai Cooperation Organization (SCO), submitted a draft of the

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16. Franz S. Gary. “New Snowden Documents Reveal Chinese Behind F-35 Hack.” *The Diplomat*, January 27, 2015, <http://thediplomat.com/2015/01/new-snowden-documents-reveal-chinese-behind-f-35-hack>.

17. Ibid.

18. U.S. Department of Defense, “The DOD Cyber Strategy.”

19. Sara Hsu, “China’s Relations With Iran: A Threat to the West?” *The Diplomat*, January 27, 2016, <http://thediplomat.com/2016/01/chinas-relations-with-iran-a-threat-to-the-west>.

*International Code of Conduct on Information Security* to the UN Secretary General. Such a document “sought to identify the rights and responsibilities of states in the information space by calling on them [to]”:

comply with the Charter of the UN by highlighting the respect for sovereignty and territorial integrity; not to use ICT [information and communication technologies] for hostile activities and aggression and not to proliferate information weapons or related technologies; to cooperate in combating criminal and terrorist activities that use ICT; to promote the establishment of a democratic and multilateral internet management system; and to promote the important role of the United Nations in formulating international norms.<sup>20</sup>

However, the U.S. sees this as an attempt by China to legitimize even greater state control over the internet. The 2015 Department of Defense *Annual Report to Congress* regards the proposal as “intergovernmental control over cyberspace governance, advances principles of non-interference, and enshrines a broad conception of States’ rights to control online content.”<sup>21</sup> Again, a clear divide exists between the U.S. and China regarding government influence over the internet.

The continuation of strategic bilateral dialogues between U.S. and China will decrease the probability of misunderstanding cybersecurity issues and increase the probability of stability between the two countries and also within the region. Guidelines and common agreements on cyber terminology and concepts will help experts from both the U.S. and China more effectively identify attacks and aid in information sharing. Through the development of advanced cyber capabilities both the U.S. and China will be able to trace the origins of cyber attacks and perhaps work closely in holding more individuals accountable. Furthermore, stability and the protection of networks will ensure to the extent that is possible, the protection of important U.S. economic interests at home and abroad. Finally, the funding approval by the Congress will allow the U.S. to better equip itself for possible future cyber attacks.

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20. “An Updated Draft of the Code of Conduct Distributed in the United Nations - What’s New?” NATO Cooperative Cyber Defense Centre of Excellence. February 10, 2015. <https://ccdcoe.org/updated-draft-code-conduct-distributed-united-nations-whats-new.html>.

21. Office of the Secretary of Defense, “Annual Report to Congress.”

It is expected that China will continue cooperating in holding high-level joint dialogues. Both the U.S. and China have a vested interest in maintaining strategic stability between the two countries given their strong economic and trade ties. The initial five cooperative measures already taken between both governments demonstrate that China that is willing to engage with the U.S. to avoid misunderstanding over cyber disputes. Despite signs of cooperation however, is expected that, just as indicated in China's *Military Strategy*, the Chinese government will continue on a path to "expedite the development" of all aspects of it cyber force.

### **Conclusion**

The U.S. and China share important economic and trade ties, for this reason regarding cybersecurity both countries must continue on a path of strategic engagement. Specifically, the U.S. must support bilateral dialogues in order to decrease cybersecurity disputes and increase cooperation; the DOD must continue to strengthen its cyber forces and cyber defenses; and the U.S. Congress must approve a budget proposal of \$19 billion for fiscal year 2017 that will fund massive cybersecurity efforts for private and public networks. These recommendations will not only ensure that U.S. domestic and international economic interests are protected to the best degree possible, but they will help strengthen U.S.-China relations by decreasing the possibility of disputes.

# Section II:

## Economy

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As the world's two largest economies, the outsized reach of China and the United States is reflected worldwide in commodities markets, investment patterns, and the landscape of international institutions. In addition to being major importers, exporters, and investors on the world stage, the economies of both nations are heavily intertwined with each other; the U.S. is by far China's largest trade partner, and the growing Chinese middle class represent significant market for American goods and services. Despite decades of economic interdependence, areas of contention remain. American politicians and members of the American business community have accused the Chinese government of economic malpractice in a number of areas, including offering improper or illegal subsidies to state-owned enterprises, currency manipulation, poor oversight of the safety and quality of consumer goods, poor enforcement of laws governing intellectual property, and an opaque regulatory framework governing foreign direct investment (FDI) that continues to bar international investors from many sectors. Additionally, and despite its membership in a number of multilateral organizations such as the World Trade Organization (WTO) and World Bank (WB), the creation of parallel systems of financial governance such as the Asian Infrastructure Investment Bank (AIIB) and their subsequent embrace by other world powers has been criticized by American observers.

Many of these economic impediments can be addressed with the renewed negotiations and eventual ratification of a bilateral investment treaty (BIT) between the U.S. and China. BIT negotiations would provide a bilateral forum for these issues to be raised, if not resolved. Such an agreement could also help to allay American concerns about growing the U.S. growing trade deficit with China, promote a policy of fair trade that protects American workers and businesses, and open up new investment opportunities in both the U.S. and China.

# Multilateral Trade

*Zengyang Mi*

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## Abstract

### Key Policy Decisions

International trade helps American small and medium-sized businesses to grow faster, hire more employees, pay higher wages, and help spread Americans ideas, innovation, and values. Making sure China, one of the most important trading partners of the United States, play by market rules will ensure the U.S. will be able to compete fairly and succeed in the global economy.

### Background

In the 2013 Third Plenary Session of the 18th CCP Central Committee, the Chinese Communist Party (CCP) insisted on further economic reform to optimize the economic structure by transitioning from an investment-driven economy to an innovation-driven economy. However, the recent worsening economic conditions worry the leadership; the Chinese government stepped in to intervene in the economy by using old economic tools. China is not making significant efforts to improve trade fairness with the United States and rest of the world.

### Recommendations

- Assist with China's economic reform by ensuring China follows market discipline and global trading agreements.
- Strengthen U.S. strategic partnerships and presence in Asia and Europe through promoting Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP), which ensures U.S to compete fairly and win in the global economy by putting relevant discipline on state trading enterprises, state-owned enterprises, and designated monopolies.
- Continue the consultation with China regarding subsidies and other incentives that may violate World Trade Organization (WTO) commitments.
- Continue the trade relation with China to increase consumer choice in selecting goods and services while rebalancing trade deficits by encouraging more exports.

## **U.S.-China Mutual Interests on Economics and Trade**

As the largest economy in the world, the U.S. contributes more than 20% of the world's total income. The large global trading scale ensures the U.S. economy will have steady growth and prosperity; the Peterson Institute for International Economics estimates an average 9% annual increase in real incomes for every citizen in the United States since World War II, which translates to \$1.5 trillion in U.S. GDP in 2013.<sup>1</sup> Indeed, trading on global markets helps the U.S. to export the most competitive industries and products so that it raises American worker's incomes in aggregate. From this import perspective, it helps to increase consumer choice in selecting goods and services while it keeps prices relatively low. In fact, the Peterson Institute estimates that America will gain an additional 50% of purchasing power if America manages to reduce the remaining global trade barriers. The United States Trade Representative (USTR) suggests that the continuation of expanding current global trading pattern will help the world economy to recover from the financial crisis in 2008; it states such a policy has long-term benefits that should be restored as the central factor in the administration trade policy. The data shows 1) since 2009, exports have increased by \$700 billion, reaching an all-time high of \$2.3 trillion in 2013, 2) more American businesses exports than ever before, and 3) exports support 11.3 million jobs in communities in the nation, up 1.6 million since 2009. With all these positive effects, the U.S. manages to help American small and medium-sized business to grow faster, hire more employees, pay higher wages, and help spread Americans ideas, innovation, and values.<sup>2</sup> However, the concerns over whether China trades fairly with the U.S. and the rest of the global markets remain; such concerns include China's rare earths quotas, export subsidies, and Information Technology Agreement (ITA). In order to strengthen U.S. global economic and

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1. "Economy & Trade," Office of the United States Trade Representative, n.d., accessed February 9, 2016, <https://ustr.gov/issue-areas/economy-trade>.

2. U.S. Department of Commerce, Trade Promotion Coordinating Committee & Export Promotion Cabinet, *National Export Initiative Strategic Framework* (May 13, 2014), <http://trade.gov/neinext/neinext-strategic-framework.pdf>.

political interests, the U.S. is negotiating more multilateral trade agreements.

### **China's Economic Slowdown**

Although the CCP, as exemplified by President Xi Jinping, has acknowledged the slower rate of economic growth in the 2013 Third Plenary Session of the 18th CCP Central Committee, the CCP insisted on further economic reform to optimize the economic structure by transitioning from an investment-driven economy to an innovation-driven economy. However, the recent worsening economic conditions worry the leadership as steady economic growth is essential for maintaining social stability and harmony. The Chinese government stepped in to intervene in the economy by using old economic tools, such as propping up the faltering stock market and devaluing its currency to booster the gross domestic product.<sup>3</sup>

On the global market side, China is not making significant efforts to rebalance the trade deficits with the rest of the world including the United States. In 2014, China's global trade surplus in goods and services reached \$382 billion. Among all the countries, China ran the most unbalanced trade deficit with the U.S.: in 2014, the U.S. goods trade deficit with China increased by 7.5% year-on-year to \$342.6 billion; in the first eight months of 2015, the U.S. trade deficit in goods with China has reached \$237.3 billion, a 9.7% increase year-on-year.<sup>4</sup>

Behind the increasing trade deficit phenomenon, China is actually adopting a number of plans to prop up economic growth through external trade and investment in response to economic struggles at home. President Xi Jinping introduced The Silk Road Economic Belt and the twenty-first century Maritime Silk Road, also known as One Belt, One Road (OBOR), the

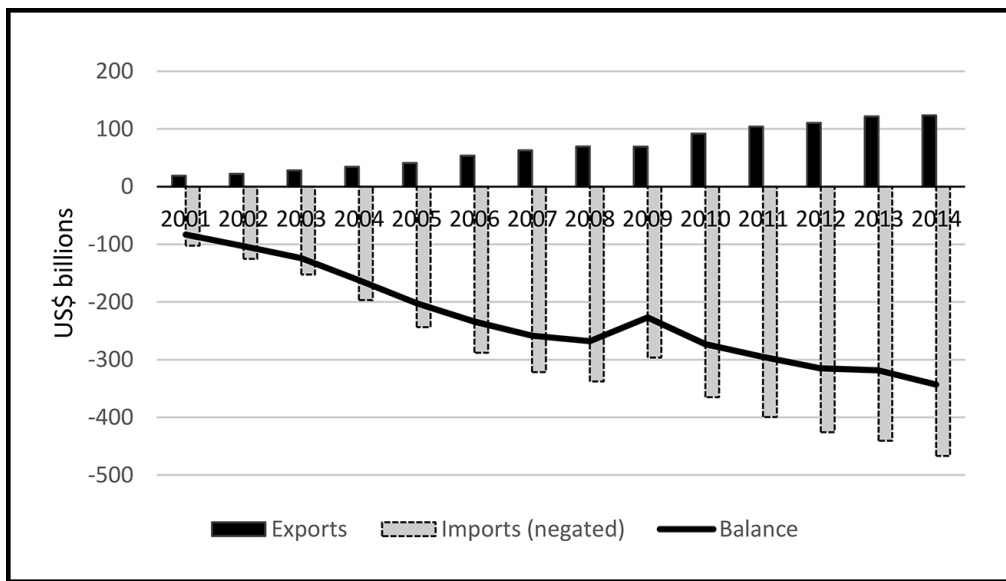
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3. U.S.-China Economic and Security Review Commission, *2015 Report to Congress of the U.S.-China Economic and Security Review Commission* by William A. Reinsch, Dennis C. Shea, Carolyn Bartholomew, Daniel M. Slane, Peter Brookes, Jim M. Talent, Robin Cleveland, Katherine C. Tobin, Jeffrey L. Fiedler, Michael R. Wessel, Carte P. Goodwin, and Larry M. Wortzel, (Washington D.C.: U.S Government Publishing Office, 2015), [http://origin.www.uscc.gov/sites/default/files/Annual\\_Report/Chapters/%3Cem%3EEedit%20Annual%20Report%3C/em%3E%202015%20Annual%20Report%20to%20Congress/Chapter%201%20U.S.-China%20Economic%20and%20Trade%20Relations.pdf](http://origin.www.uscc.gov/sites/default/files/Annual_Report/Chapters/%3Cem%3EEedit%20Annual%20Report%3C/em%3E%202015%20Annual%20Report%20to%20Congress/Chapter%201%20U.S.-China%20Economic%20and%20Trade%20Relations.pdf).

4. Ibid.

Asian Infrastructure Investment Bank (AIIB), and the New Development Bank (NDB), to extend its diplomatic influence while boosting Chinese exports in recent years.

### U.S.-China Trade Imbalance



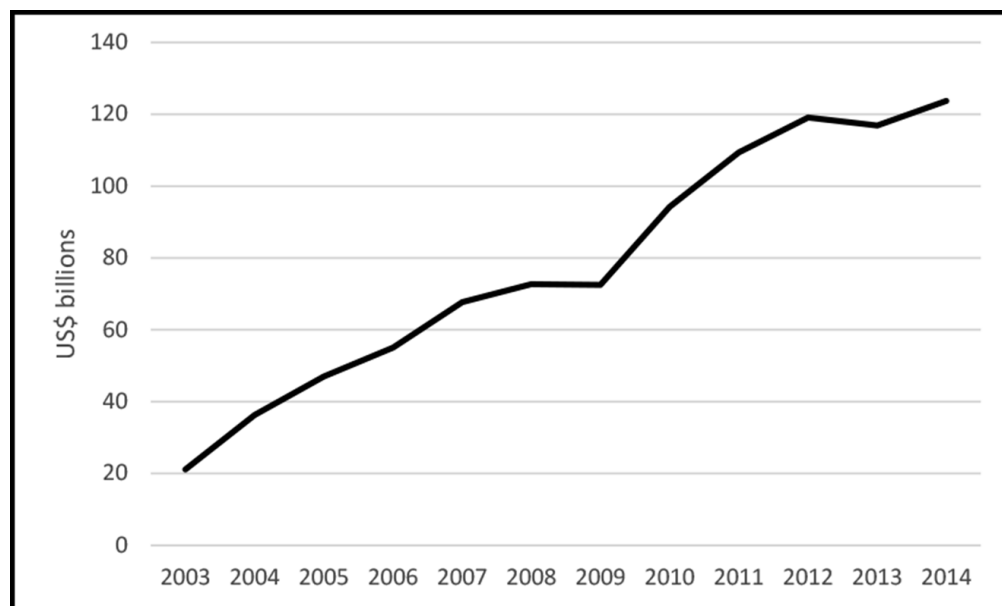
**Figure 4: U.S.-China Goods Trade, 2006–2014<sup>5</sup>**

Although China’s economy slowed down to 7% in 2015, the trade surplus with the United States continued to rise rapidly; the U.S. exports to China grew more slowly than the U.S. imports from China. In 2014, the U.S. goods trade deficit with China increased by 7.5% year-on-year to \$342.6 billion. U.S. exports to China grew only 1.9% year-on-year while imports from China grew 6% year-on-year; in other words, the increasing rate of importing goods from China was about 3 times larger than the increasing rate of exporting goods to China (Figure 4).<sup>6</sup> Meanwhile, China’s share of the U.S. goods deficit with the world reached a historical high of 47%; the total goods deficit for 2014 reached \$722.5 billion. However, the U.S. enjoyed a trade

5. Ibid., 48.

6. Ibid.

surplus of \$26.8 billion in services with China, while the trade deficit in goods were still 27 times larger than the trade surplus in services.<sup>7</sup> Particularly, the U.S. continues to have extremely huge deficits with China in advanced technology products (ATP) given the fact that most of the exports from China are to American technology giants like Apple and Microsoft (Figure 5).



**Figure 5: U.S. Deficit with China in ATP<sup>8</sup>**

### **China's Rare Earth Quotas**

After China joined the WTO in 2001, China failed to uphold its pledge to make a sufficient difference in trading rules. China was involved as a respondent in 34 cases and as the third party in 129 cases; such issues included unfair advantages in state-owned monopoly enterprises, unfair subsidies and incentives for designed industries including auto industries, and currency manipulation. In this section, the focus will be China's rare earth quotas, export subsidies, and standing on Information Technology Agreement.

In 2015, China decided to end the restrictive quotas on exports of rare earth minerals,

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7. Ibid.

8. Ibid., 49

tungsten, and molybdenum, all of which are indispensable to the production of clean energy and weapons guidance systems, as well as many other advanced technology industries. However, the real impact of such a policy on the global market remain questionable for several reasons; mainly, China's exports of rare earths declined before the WTO's ruling, which might be caused by the other nations' efforts to find alternative resources. Statistically, according to the *2015 Annual Report to Congress* submitted by U.S.-China Economic and Security Review Commission, China's exports of rare earths fell below the permitted quota as more sources of supply became available and the Chinese government did not abandon control over the rare earths industry, even when it ended the restrictive quotas on exports. China's Ministry of Commerce introduced a licensing system for enterprises which wish to export rare earth minerals in order to control the production and supply of rare earth minerals.<sup>9</sup> It is crucial to U.S. interests to make sure that China ends its rare earths quotas so that the limitation on production of advanced technology industries can be lifted.

### **China's Subsidies for Small and Medium Businesses**

Furthermore, in 2015, the United States Trade Representative started a new action against China's "Demonstration Bases-Common Service Platform" program, which was designed to provide prohibited export subsidies to Chinese business. The USTR targeted seven critical industries in China that were subsidized to compete unfairly in global markets, 1) textiles, apparel, and footwear, 2) advanced materials and metals (including specialty steel, titanium, and aluminum products), 3) light industry, 4) specialty chemicals, 5) medical products, 6) hardware and building materials, and 7) agriculture. Later, the European Union (EU), Brazil, and Japan joined this action to target on China's unfair export subsidies. According to China's subsidies, "enterprises that meet export performance criteria and are located in 179 Demonstration Bases

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9. Ibid.

throughout China receive cash grants and low-cost or no-cost services.”<sup>10</sup> Such export subsidies plan would \$1 billion USD– a direct, government-oriented, unfair advantage for Chinese businesses to compete in global markets – over a three-year period to Common Service Platform suppliers. Additionally, some Demonstration Base businesses have received more than \$635,000 worth of benefits annually; such businesses represent a significant portion of China’s exports. For instance, 16 of the 40 Demonstration Bases in China’s textiles sector accounted for 14% of China’s total textile exports in 2012.<sup>11</sup> As a result, subsidies give unfair advantages over Chinese businesses to compete in global markets while U.S. small and medium businesses struggle to survive on their own.

### **China’s Absence in the Information Technology Agreement**

Information technologies have played an active role in shaping the world the past few decades. China, as a dominant producer and consumer of technology goods, accounts for the largest share of U.S. imports including several key technology product lines (Figure 6). As a result, U.S. runs sizable trade deficits with China in technology products. However, China stalled the process of agreeing on the ITA, which targeted at 201 tariff lines including new-generation semiconductors, global positioning system navigation systems, tools for producing printed circuits, telecommunication satellites, and touch screens. In November 2014, U.S. convinced China to reconsider ITA. The outcomes include 1) revisit ITA list, and 2) ensure China’s tariff phase out periods comply with the ITA frameworks three staging categories of immediate, three years, and five years.<sup>12</sup> However, China still has not undertaken to reduce tariff on several key products, for instance liquid crystal displays (LCDs). While China is reconsidering the ITA, China is taking advantage of this negotiating period for around 80 IT products to trade under

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10. Ibid.

11. Ibid.

12. Ibid.

tariffs, 40% of the total products; as a result, China can also use this period to establish nontariff barriers that protect its sensitive products from global competition- the nontariff barriers can be achieved by discriminatory value-added taxes, hidden subsidies, biased standards, and control over procurement of key technologies by state-owned businesses.<sup>13</sup>

	<b>U.S. Imports</b>					
	<i>U.S. global imports</i>			<i>China's share</i>		
	<b>2002</b>	<b>2008</b>	<b>2014</b>	<b>2002</b>	<b>2008</b>	<b>2014</b>
Static converters	3,594	6,517	9,060	30.7%	45.0%	49.5%
Video game consoles	5,893	12,849	6,106	45.0%	90.2%	87.9%
Diodes, transistors, and semi-conductors	3,289	5,549	9,447	8.5%	17.2%	31.3%
CT scanners	387	455	526	1.0%	20.8%	20.6%
MRI machines	514	530	444	0.7%	4.0%	7.5%
	<b>U.S. Exports</b>					
	<i>U.S. global exports</i>			<i>China's share</i>		
	<b>2002</b>	<b>2008</b>	<b>2014</b>	<b>2002</b>	<b>2008</b>	<b>2014</b>
Static converters	1,505	2,815	4,004	3.3%	6.3%	6.6%
Video game consoles	1,161	4,567	2,939	0.4%	0.4%	0.7%
Diodes, transistors, and semi-conductors	4,020	8,555	7,466	5.4%	5.1%	4.8%
CT scanners	240	656	430	8.0%	6.0%	17.9%
MRI machines	478	441	722	4.1%	7.4%	20.8%

**Figure 6: U.S.-China Trade in Select Technology Products (US\$ millions; share %)<sup>14</sup>**

### **Beijing's Ambitious Roadmap of Using Economic Influence to Expand Political Influence**

As the biggest economic power in Asia, China is trying to play a more dominant role in both Asian and global perspectives after the election of President Xi Jinping. To extend China's political influence and to shift its massive overcapacity at home overseas, President Xi Jinping initialized the One Belt, One Road program.

According to Mine E. Cinar, the director of the center for International Business and the

13. Ibid.

14. Ibid., 58.

Department of Economics at Loyola University Chicago, used a Poisson pseudo-maximum likelihood estimator to estimate a gravity model of trade on China and its trading partners among the Silk Road. The OBOR proposal affects 4.4 billion people, 63% of the world population, and \$2.1 trillion worth of economies, 29% of the total global output. The report points out that the OBOR members, which including Afghanistan, India, Iran, Iraq, Italy, Kazakhstan, Kyrgyzstan, Pakistan, Portugal, Spain, Syria, Tajikistan, Turkey, Turkmenistan and Uzbekistan, have increased total trade between China at varying rates; the country with the highest growth rate, India, grows 23 times more than Italy (Figure 7).<sup>15</sup> Meanwhile, the report indicates that China utilized the trade advantages of Silk Road countries more than any other countries in the OBOR; it also suggests that most of the OBOR countries would continue to improve their trade with China in the future under the OBOR structure. The OBOR will allow China to connect Europe through Central and Western Asia by means of investments in much needed infrastructure and with South-East Asia through the Maritime Silk Road. The overall outcome will be a win-win situation for all the OBOR members. In return, China will expand its political influence in Asia through enhancing trading and bonding with OBOR countries. However, it is unclear that whether China will trade fairly – such as limiting subsidies on exports, regulating state-owned enterprises (SOEs), and regulating monopolies – with the OBOR members.

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15. E. Mine Cinar, Joseph Johnson, and Katherine Geusz, “Estimating Chinese Trade Relationships with the Silk Road Countries,” *China & World Economy* 24, no. 1 (2016): 85-103, doi: 10.1111/cwe.12145.

Trade Partner	Increase (US\$)	Increase (%)
India	65 573.11	41 126
Iran	39 065.18	13 673
Iraq	24 289.70	23 796
Italy	41 125.37	1727
Pakistan	14 138.02	2887
Portugal	3208.71	3517
Spain	23 873.19	3012
Turkey	24 924.50	7258
USA	532 496.03	3226
Africa (all)	178 259.28	15 625
EU (all)	540 441.99	3019

**Figure 7: Increase in Total Trade between China and Some Partner Countries, 1990–2013 (Trade in Millions of Constant 2005 U.S. Dollars)<sup>16</sup>**

In 2010, Asia-Pacific Economic Cooperation (APEC) economies’ long-term proposal of the Free Trade Area of the Asia-Pacific (FTAAP) took a huge step forward towards integration. This agreement is designed to integrate APEC economies more closely. In 2014, President Xi Jinping declared that China officially joined FTAAP negotiations in order to promote APEC’s integration into the next step, with the intention of bonding APEC countries more closely. Being a part of FTAAP also grants China to take a more active role while isolating U.S. influences in Asia. Especially, the FTAAP promotes objectives of 1) minimizing any negative effects resulting from the proliferation of regional and bilateral regional trade agreements (RTAs)/free trade agreements (FTAs), and 2) assisting interested APEC economies with participating in ongoing regional undertakings and preparation for the realization of the FTAAP.<sup>17</sup> In other words, FTAAP will directly improve China and the rest of the APEC countries in areas of investment, services, e-commerce, rules of origin, global value chain, supply chain connectivity, customs

16. Ibid., 86.

17. “Annex A - The Beijing Roadmap for APEC’s Contribution to the Realization of the FTAAP - Asia-Pacific Economic Cooperation,” APEC. November 11, 2014, [http://www.apec.org/meeting-papers/leaders-declarations/2014/2014\\_aelm/2014\\_aelm\\_annexa.aspx](http://www.apec.org/meeting-papers/leaders-declarations/2014/2014_aelm/2014_aelm_annexa.aspx).

cooperation, environmental goods and services, good regulatory practices, and more.<sup>18</sup> There is also room for FTAAP to address the concerns over unfair subsidies, SOEs, and tariffs regarding China's policy since many of FTAAP members overlap with TPP; it will be in the U.S.' interest to encourage American allies like Japan to confront the trading issues with China during the FTAAP negotiation. Meanwhile, the increasing economic power and political presence of China in Asia raises doubt that such an integrating process may either directly or indirectly undermine U.S. political alliances and economic interests. The U.S. has no response but to put more efforts and political capital into competing with larger regional influences in the Asia and Europe.

### **China's Pledge to Optimize Economic Structures**

During the period of high economic growth across three decades, the Chinese government has attempted to promote a welcoming environment to attract foreign investment. And yet, such incentive policies are gradually being replaced by subsidizing domestic production and investment. While China reached its slowest growth in 24 years, the top leadership started to accept the slower economic growth and to promote the "new normal," which referred to 1) transitioning from high-speed growth to medium-high-speed growth, 2) optimization and upgrading the economic structure, as well as 3) transitioning from an investment-driven economy to an innovation-driven economy.<sup>19</sup> The "new normal" recognition states that China is determined to optimize the economic structure with focus on consumption, services, and high-tech innovation.

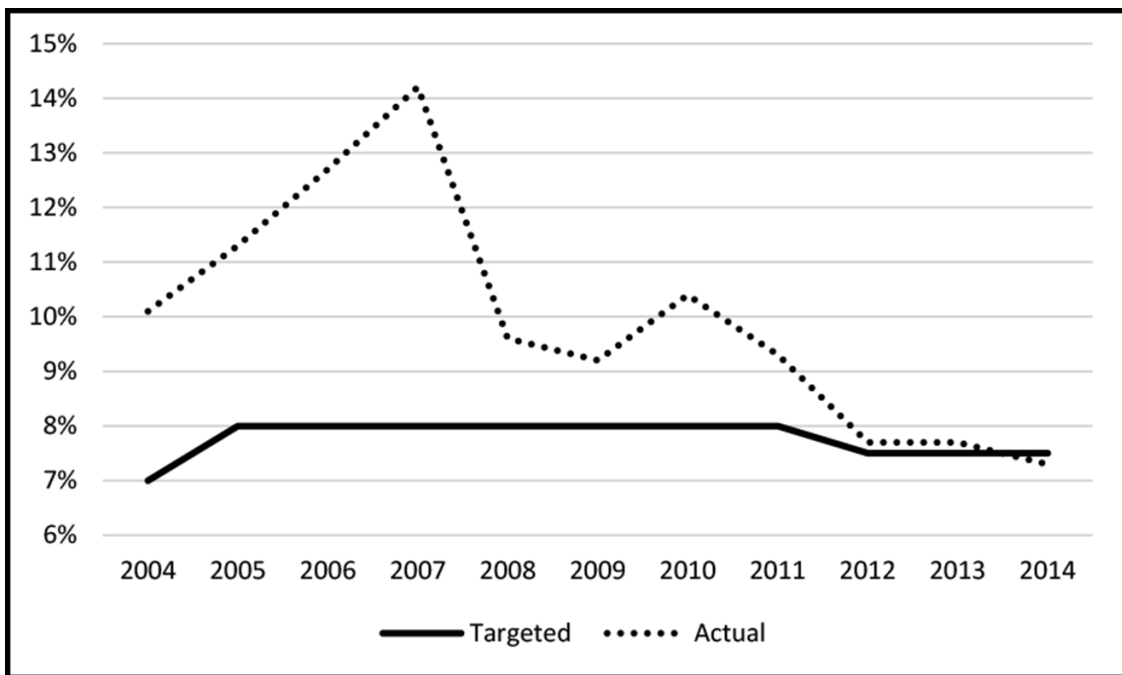
Although China accepted the "new normal" in 2014, when GDP growth fell to 7.3% – the lowest annual rate since 1990 – the leadership seemed to be extremely anxious when Gross Domestic Product (GDP) growth fell below 7% in 2015 (Figure 8). In fact, based on 2015

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18. Ibid.

19. Reinsch et al., *2015 Report to Congress of the U.S.-China Economic and Security Review Commission*.

Annual Report to Congress submitted by U.S.-China Economic and Security Review Commission, “China’s GDP grew only 3.7 percent year-on-year, while Fathom Consulting, another research firm, estimates GDP growth in 2015 will reach only 2.8 percent.<sup>20</sup> Gary Hufbauer, a senior fellow at the Peterson Institute for International Economics predicted a 4 percent GDP growth at best.” As a result, the Chinese government introduced a series of actions to boost growth; when the economic growth slowed down and the stock market crashed, Chinese leadership panicked and implemented full rescue actions; such rescue actions including 1) lowering interest rates six times since November 2014 to encourage business investments and borrowing money; and 2) reducing banks’ reserve requirement ratios (RRR) four times in 2015 to loosen lending.<sup>21</sup> All these actions violate China’s pledge to optimize economic structure. There will be a separate section discussing Chinese currency and manipulation.



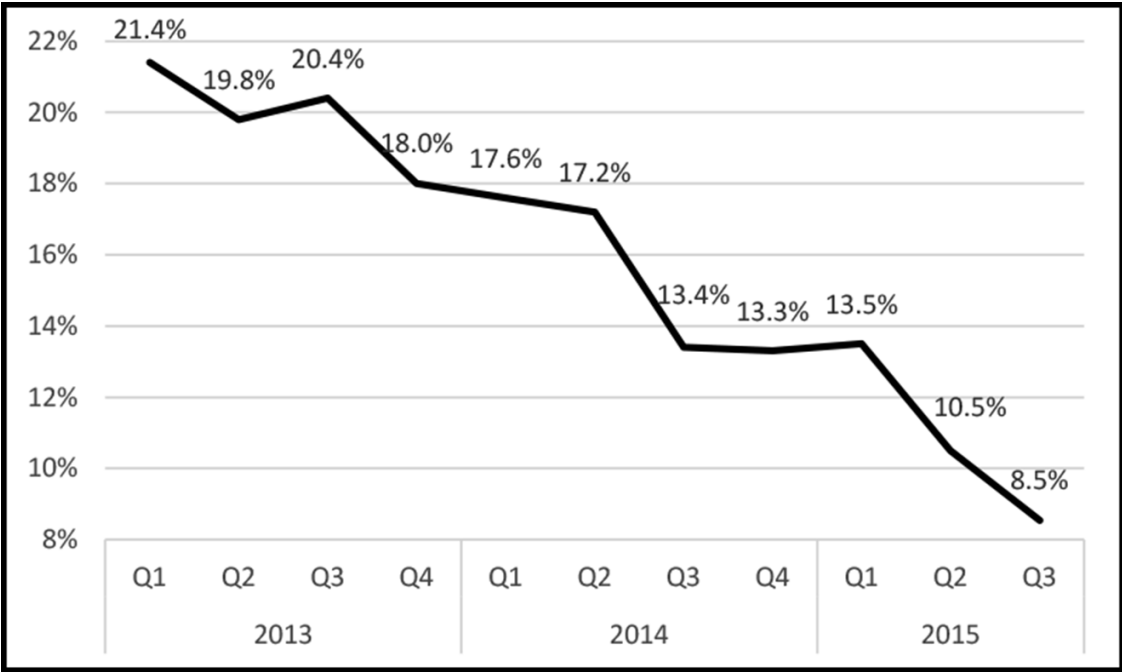
**Figure 8: China’s Actual and Targeted Real GDP Growth (year-on-year)<sup>22</sup>**

20. Ibid.

21. Ibid.

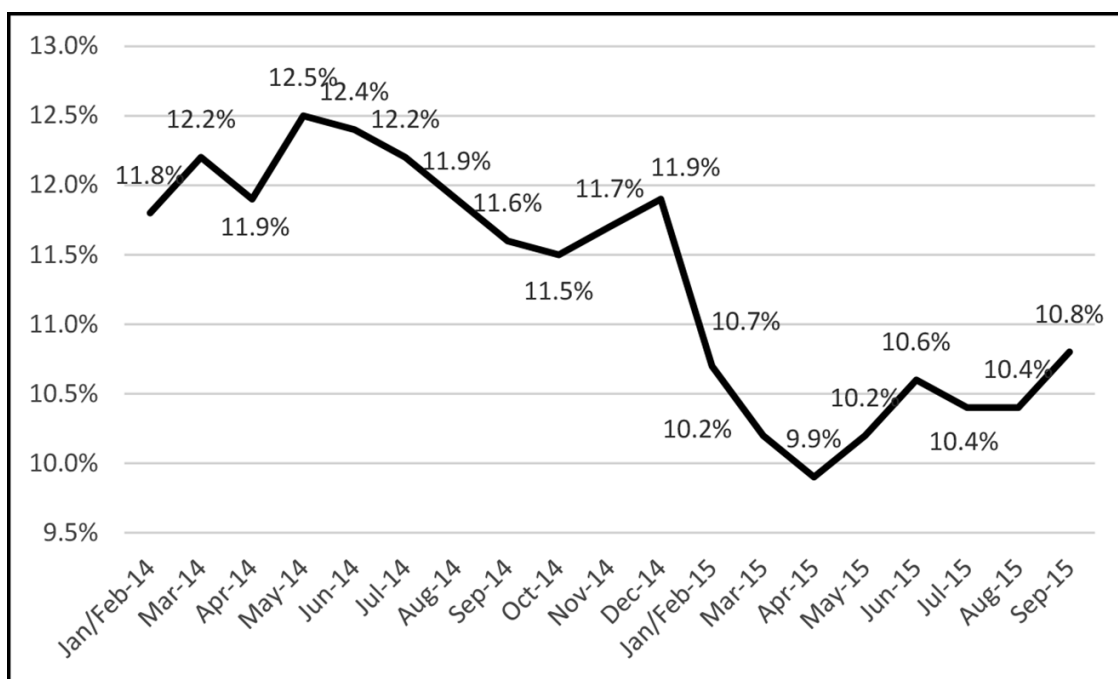
22. Ibid., 41.

In fact, when GDP growth fell below 7% in 2015, China did manage to reduce its reliance on fixed assets and increase disposable income per capita. China’s growth of fixed asset investment slowed to 8.5% year-on-year in the third quarter, which was the lowest expansion in the recent years (Figure 9), while China’s disposable income was able to increase 7.7% year-on-year in the third quarter, a rise in potential consumption. On the consumption side, China’s retail sales of domestic goods and services, an indicator for overall consumption, seemed to start rebounding after it hit the lowest growth at 9.9% monthly in April 2015 (Figure 10).<sup>23</sup>



**Figure 9: Growth in Fixed Asset Investment (quarterly, year-on-year)<sup>24</sup>**

23. Ibid.  
 24. Ibid., 42.



**Figure 10: China Retail Sales of Consumer Goods (monthly, year-on-year)<sup>25</sup>**

Besides China's consumption and investment falling dramatically in 2015, the consequences of reforming economic growth model also included a huge decrease in exports, one of most important source of economic growth for China; exports contracted 5.9% year-on-year in the third quarter of 2015 while imports contracted 14.5% year-on-year contracted to the third quarter of 2014 (Figure 11).<sup>26</sup> In response to such a relatively massive decline in exports, which directly transformed to a slowdown in GDP, the leadership was trying to enable the old economic tools to shifts its massive overcapacity at home to the rest of the world (such platforms could be AIIB, New Development Bank (NDB), and other institutions). Despite the military competition and regional conflicts, it is also in U.S. interests to see China have a healthy, successful economic transition from investment-driven economy to consumption-driven economy; a failure of China's economic reform could be as destructive as another great depression. Thus, it is important to continue and further cooperate under the existing structure of

25. Ibid., 43.

26. Ibid.

the U.S.-China Strategic and Economic Dialogue in order to provide assistance – including bilateral researches and “top-level design” – with China’s economic reform and to establish a more comprehensive, globally accepted trading discipline for China.

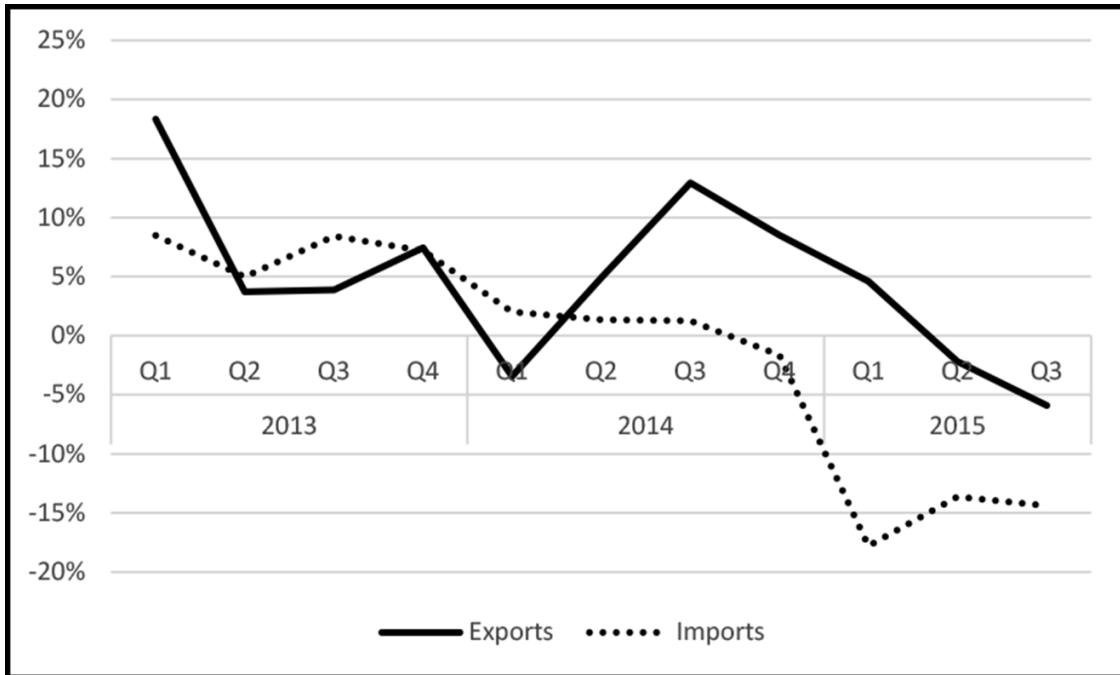


Figure 11: Growth in China’s Exports and Imports (quarterly, year-on-year)<sup>27</sup>

**Strengthen U.S. Strategic Partnerships and Presence in Asia and Europe**

As the traditional ally of America, the U.S. exported \$458 billion in goods and services to the EU in 2013, which supported 2.2 million U.S. jobs. The stock of U.S. and EU investment in each other’s economy added up to \$3.7 trillion in the same year. The total EU-related employment was close to 3 million. The EU and the United States together produced 50% of the total output and 30% of the total trade of the world.<sup>28</sup> In order to further the shared conviction: transatlantic trade and investment can further improve mutual job creation, economic growth,

27. Ibid., 44.

28. Executive Office of the President, Office of the United States Trade Representative, *TTIP Notification Letter*, by Demetrios M. Marantis, (March 20, 2013). <https://ustr.gov/sites/default/files/03202013%20TTIP%20Notification%20Letter.PDF>.

and competitiveness, President Barack Obama and EU leaders launched the Transatlantic Trade and Investment Partnership. Besides generating new business and employment, TTIP will also serve to make rules and discipline that address the existing challenges in the global trading market. TTIP will directly impact U.S.-EU strategic partnership and U.S. interests by 1) eliminating all tariffs and other duties charges on trade in agricultural, industrial, and consumer products, and 2) establishing appropriate, globally relevant discipline on state trading enterprises, state-owned enterprises, and designated monopolies, such as practices that promote transparency and reduce trade distortions.<sup>29</sup> Such a strategy could target at countries like China which have huge state-owned, monopolies enterprises that do not follow the WTO's principles.

To enforce the policy of Rebalancing to Asia, the U.S. also initialized and signed the Trans-Pacific Partnership, which economically unites Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Vietnam. The TPP, which is very likely to be approved by U.S. Congress, will ensure the U.S. will be able to compete fairly and succeed in the global economy; it puts discipline on state-owned enterprises, which could be used to target Chinese SOEs, to make sure that American private firms have the room to compete against others. President Obama considers the TPP as “middle-class-economics – the idea that the country does best when everybody has got a fair shot, everybody is doing their fair share, everybody is playing by the same rules.”<sup>30</sup> Besides, TPP provides more than 18,000 individual tax cuts on American exports – the largest tax cut in American trading history – to sell more “Made in America” goods and services. Additionally, American values, such as labor rights and environmental protection, will be spread through the trading route. TPP promises a trade-driven, inclusive, and sustainable global economy where America can enjoy fair trade, higher-paying employment, and more household purchasing power. More importantly, TPP

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29. Ibid.

30. “Statement by Ambassador Froman on the Release of the Trans-Pacific Partnership Text,” Office of the United States Trade Representative, November 9, 2015, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2015/november/statement-ambassador-froman>.

limits the partnership with countries like China that don't reflect U.S. trading interests and values.

By uniting more countries to agree on U.S. trading interests and principles, such as TPP and TTIP, U.S. will legalize the trading laws that restrict Chinese SOEs and unfair export subsidies in the future. If China fails to participate in U.S.-oriented trading agreements, it will not only diminish Chinese government's authority, China can also be prosecuted.

### **Reflection on U.S.-China Trade Relation and Global Market**

Should America contain China by using extreme actions giving the fact that China is still violating trade rules, such as subsidizing exports and giving unfair advantages to SOEs? Stephen S. Roach, a senior fellow at Yale University's Jackson Institute of Global Affairs and the former chairman of Morgan Stanley Asia, approaches China's entrance to the WTO and U.S.-China trade relation from different perspectives. First of all, Roach argues that "America's trade deficit is multilateral," in which America has deficits with eighty-seven nations besides China. Roach describes the attempt of restricting the America-China trade relation "by putting pressure on a bilateral exchange rate is like squeezing one end of a water balloon."<sup>31</sup> Additionally, he explains that this phenomenon will result in "merely redirecting that portion of the trade imbalance elsewhere, quite conceivably to a higher-cost foreign producer."<sup>32</sup> From an economic perspective, the U.S. does not produce each good in the society with a lower opportunity cost, also known as the comparative advantage. It will maximize American total output if America trades with some countries like China, which has lots of comparative advantages in producing goods. America initiating tariffs or limiting trading with China will only result in trading with another country with higher costs. Besides, this action will not only be a waste of resources but

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31. Peter Navarro and Stephen S. Roach, "China's Currency Manipulation: A Policy Debate," *World Affairs* 175, no. 3 (2012): 27.

32. *Ibid.*

will also create economic burdens on American middle-class households. In other words, America and its households have to spend more money on the same good if the U.S. limits, or completely halts, trade with China. Moreover, Stephen Roach uses the American chronic shortfall of savings as a piece of evidence; America's net national saving rate, also known as the savings including individuals, businesses, and the government, has remained "near or below zero" since 2008. In order for the economy to recover, the U.S. has no choice but to attract savings from abroad including the three trillion dollars from "the world's largest communist nation." Rather than pointing the finger at China, Stephen Roach suggests America should promote self-reflection. Last of all, Roach points out that China's globally economic role has altered from the "world's factory", simply producing cheap necessities for the society, to the "world's assembly line."<sup>33</sup> In fact, more than sixty percent of Chinese exports are the products designed by foreign invested enterprises. For instance, the message "Designed in California. Assembled in China" is stamped on every Apple product. Apple designs all products including the iPhone, iPad, and others in California, and produces them through the assembly lines located in China. In fact, the total production from these Chinese Apple's assembly lines result in a \$156.5 billion total sales and \$41.66 billion profits. All the profits and revenues generated by these foreign invested enterprises, like Apple Company, will eventually go back to Apple, not to China, with lower production costs and more efficient use of resources. Thus, U.S. companies and their entrepreneurs are better off when they move part of the operations of their businesses to China.

Has China made any contributions to the international community since its entrance to the WTO? Professor Gregory Veeck from Western Michigan University gives an example of China's contribution under the structure of the WTO. Since China's entrance to the WTO, the exports of agricultural and aquacultural products from China to North America have increased

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33. Ibid.

from \$4,666 million in 2001 to \$14,704 million; these exports ranged from “fish and shrimp to condiments, apple juice, spearmint, honey, and traditional medicines.”<sup>34</sup> Moreover, these necessities exported by China lowered the world price to historic levels since the establishment of the WTO because China was the most efficient global supplier in producing these necessities. Undoubtedly, China’s entrance to the WTO has significant effects on lowering agricultural and aquacultural products for consumers. Veeck’s also calculated China’s entrance to WTO creates “significantly higher levels of both imports and exports, including more products traded with more nations than ever before.”<sup>35</sup> In other words, even though the America-China agricultural and aquacultural trading does hurt some American domestic producers, the overall effects have had greater benefits than disadvantages.

### **Conclusion**

Overall, trading with China has not been an entirely harmful decision since consumers pay less for goods. America should recast the trade relation with China as “an opportunity.” However, it may also be critical for the U.S. to 1) provide assistance to China’s economic reform under the existing structure of the U.S.-China Strategic and Economic Dialogue, 2) to strengthen U.S. strategic partnerships and presences in Asia and Europe through promoting the TPP and TTIP so that U.S can compete fairly and succeed in the global economy, 3) to continue the consultation with China regarding subsidies and other incentives that may violate WTO commitments, and 4) to continue the current trade relation with China to increase consumer choice in selecting goods and services while rebalancing trade deficits by encouraging more exports.

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34. Gregory Veeck, “China’s Exports and Imports of Agricultural Products under the WTO,” *Eurasian Geography and Economics* 49, no. 5 (2008): 569-85.

35. Ibid.

# Foreign Direct Investment

*Zelalem Kassa*

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## Abstract

### Key Policy Decisions

The United States and China are the world's largest economies. They should make short-term and long-term agreements to liberalize investments through bilateral agreements. While U.S. firms like Google, Apple and Wal-Mart are some of the most successful companies in the world, China is not entirely open to these companies. On the other hand, the Chinese want to buy U.S. energy companies and other corporations like Boeing, but the U.S. does not want to sell them. This is because of the two countries' investment contradictions in terms of standard practices and negotiations; however, the U.S. and China should continue to try to negotiate a bilateral investment treaty (BIT) in order to grow both markets.

### Background

Investment cooperation between the U.S. and China makes both countries' investment standard. The U.S. and China have different investment agreements with each other, but in some parts, they have misunderstandings and disagreements for their investment work. Both countries are willing to focus on agreements to access investment opportunities for investors. Chinese government officials have been frustrated with U.S. political maneuvering to prevent investment in American oil companies. With respect to past experiences, the U.S. and China could learn vital things for future cooperation and make strategic plans to fix differences between them. The U.S.' criticism of China's lack of social responsibilities towards developing countries should be acknowledged by China, which should then instead try to work with the U.S. on improving social responsibilities.

### Recommendations

- The U.S. should continue to try to negotiate a BIT with China.
- Invest in standard practices that promote diverse investment agreements.
- Both countries should plan short-term and long-term agreements for investment liberalization.
- China should focus on incorporating social responsibility policies towards Third World countries in order to further enhance China's investment development.

## **Issues with Chinese International Investments**

The U.S. has held multiple investment negotiations with China. Furthermore, U.S. officials make continuous diplomatic overtures to China. They can make panel discussions, trainings and other experience-sharing techniques to make close relations for their investments.

China should improve upon its social responsibilities in its investment in other parts of the world. This is due to China's lack of concern regarding international norms for human rights issues. In developing countries, political leaders often violate human rights and instead focus on self-interest. This prevents the people from achieving any form of economic freedom. China is not concerned about this issue in its investments in developing countries. This creates a big problem for the U.S. and the global community. Focusing only on investment development has positive and negative effects. The positive side effect is profit from investment, but the negative side effect is the opening of opportunities for corrupt political leaders. To address this, China could develop good investment practices to have greater emphasis on social responsibility. This is one of the major conflicts in Sino-American investment relations around the globe. For this reason, establishing policies to moderate China's behavior would be important. If dictatorial political leaders get investment help from China, this could untimely impact the wellbeing of the populace in developing countries. If dictators shape the economic agenda of a respected country, then international intervention is necessary. Establishing relationships with authoritarian leaders would be unfair; thus, China should work with the U.S. and other countries to address this issue.

The U.S. should make short-term and long-term agreements through a bilateral investment agreement. By promoting continuous diplomatic relations, distrust can be eliminated in the Sino-American relationship. Furthermore, the Chinese government should open investment access for foreign investors. China has restricted more than 100 sectors seeking to invest from the U.S. and other countries. This limitation for future U.S.-China relations could have a negative influence for the two countries' investment access. The U.S. and China have

many areas in their investment relations that serve as cooperation and cause contradiction. To address this, if they have any unclear ideas of the other's interest, they can come together and discuss their differences, because by nature of being the world's leading economies, they are constantly making many decisions with global ramifications in relation to investment.

U.S. investment in China should be based on the BIT to facilitate investment development. According to a Service Industries report, formal discussions for the U.S.-China BIT began in July 2013. The BIT aims to "provide more opportunities for U.S. and Chinese companies to compete on a level playing field in each respective market."<sup>1</sup> In this treaty, the U.S. government creates investment opportunities for Chinese investors. On the other hand, the Chinese government limits investment access for U.S. investors. This restriction indicates China lingering distrust regarding foreign investors.

The U.S.' strategic goal is to build investment policy and facilitate negotiations with China. The U.S. government discussed the two countries' investment policy in Beijing to help find commonalities and differences between U.S. and Chinese investors. According to Catherine Maticic, "U.S. Vice President Joe Biden urged China to establish a level playing field for foreign and private businesses operating in China during a recent speech in Beijing. He stressed the need for rules that would open up investment in China's services sector, protect intellectual property, and lead to a relationship of mutual economic benefit."<sup>2</sup> Vice President Biden's speech was focused on the necessity of investment cooperation with China. The U.S. and China need to collaborate and solve differences between investment agreements in a diplomatic fashion.

Strategic distrust is one of the main sources of difficulty between the U.S. and China. China wants to build strong investment trust, relationships and partnership with the U.S.. The

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1. "Bilateral Investment Treaty," The US-China Business Council, n.d., accessed February 5, 2016. <https://www.uschina.org/advocacy/bilateral-investment-treaty>.

2. Catherine Maticic, "Biden Urges New Rules for Commercial Engagement in Beijing Speech," *China Business Review*, December 9, 2013, <http://www.chinabusinessreview.com/biden-urges-new-rules-for-commercial-engagement-in-beijing-speech>.

joint strategic goal uses investment to further relations. Furthermore, China seeks to improve this common trust in U.S.-Chinese relations. According to the report *Addressing U.S.-China Strategic Distrust*, “Since the end of the Cold War, the PRC leadership has consistently demonstrated the desire to ‘increase trust, reduce trouble, develop cooperation, and refrain from confrontation’ in U.S.-China relations.”<sup>3</sup> After the Cold War, China wanted to develop beneficial relations with the U.S. for investment development.

### **Consideration of Instability**

The recommendation for U.S.-China investment relations through investment negotiations should set short-term and long-term plans to build relations. In the past, the U.S. and China were more focused on investment competition, but the competition between these two nations has not been effective in facilitating cooperation between their investment relations. They have some investment agreements, but investment policies that are not entirely ‘open door’ could be unfair, thereby causing distrust between them.

One U.S.-China issue of conflict is that China does not consider social issues in developing countries. The international community and the U.S. criticized China about the 2003 Darfur crises. According to the International Energy Agency (IEA), “Sudan was among the very first countries to attract Chinese interest, with activities dating back to 1995. That involvement forced China to weather international scrutiny during the Darfur crisis.”<sup>4</sup> This example is significant because it highlights China’s involvement with the civil war. This directly impacted the relationship between the U.S. and China, as the U.S. did not want to help China’s

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3. Kenneth Lieberthal and Wang Jisi, *Addressing U.S.-China Strategic Distrust*, John L. Thornton China Center Monograph Series, Number 4, March 2012. (Washington D.C.: John L. Thornton China Center at Brookings, March 2014), [http://www.brookings.edu/~media/research/files/papers/2012/3/30-us-china-lieberthal/0330\\_china\\_lieberthal.pdf](http://www.brookings.edu/~media/research/files/papers/2012/3/30-us-china-lieberthal/0330_china_lieberthal.pdf).

4. Julie Jiang, “Chinese National Oil Companies’ Investments: Going Global for Energy,” International Energy Agency, November 3, 2014. <http://www.iea.org/ieaenergy/issue7/chinese-national-oil-companies-investments-going-global-for-energy.html>.

government support the civil war.

The Sudan Liberation Movement (SLM) and Justice and Equality Movement (JEM) fought the Sudanese government for political and economic freedom in Darfur. At the time, Chinese National Oil Companies (NOCs) invested in oil and gas in Sudan, leading to complaints from critics that China was the main actor during the civil war. During the civil war, Chinese military forces and air fighter jets were involved. According to *BBC News*, “The Panorama TV program tracked down Chinese army lorries in the Sudanese province that came from a batch exported from China to Sudan in 2005. The BBC was also told that China was training fighter pilots who fly Chinese A5 Fantan fighter jets in Darfur.”<sup>5</sup> The final result of the war was that many civilians were injured or killed, with many survivors fleeing the country. Accused of genocide, Sudan’s government went to the International Criminal Court.

According to the same news report, Chinese intervention in the Darfur civil war was completely unfair because to intervene in a country without the United Nations’ approval is wrong. The Chinese military made those responsible for the violence in Sudan appear controversial for the U.S. and international community. The issue greatly affected innocent people in Sudan, stirring criticism towards Chinese investment.

According to *BBC News*, “The United Nations says up to 300,000 people have died from the combined effects of war, hunger and disease. President Bashir puts the death toll at 10,000.”<sup>6</sup> The issue is clearly a matter of human rights violations. The Chinese government’s involvement in the war without international approval was unfair. However, the Chinese government has denied this claim.

U.S. government officials also complain about Chinese investment restrictions for U.S. investors. Many U.S. officials stated it was hard to discuss the issues with China. For this major

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5. Hilary Andersson, “China ‘is Fuelling War in Darfur,’” *BBC*, July 13, 2008, <http://news.bbc.co.uk/2/hi/africa/7503428.stm>.

6. “Q&A: Sudan's Darfur Conflict,” *BBC*, February 23, 2010. <http://news.bbc.co.uk/2/hi/africa/3496731.stm>.

policy, the U.S. focused on diplomatic engagement and with certain restricting policies. U.S. investors in China are also restricted to certain sectors. The government of China allows only specific industries for foreign investors, a problem could be solved by bilateral short-term and long-term strategic plans.

### **U.S. and Chinese Goals and Motivations**

The U.S. and China are in discussions to solve their investment conflicts, but solutions take time. For example, Chinese investment restrictions for the U.S. and other foreign investors should not be further developed. Instead, they should promote diplomatic engagement for their future cooperation.

China has not been focusing on social responsibilities for Third World countries. Investment without regard to social responsibilities could result in a negative response, particularly for countries ruled by dictators. Investment for a dictatorial regime could be unfair and China should balance social responsibility and investment in the Third World. China should work with the U.S. and the international community to appease critics regarding social responsibilities.

Future U.S.-China relations should focus on bilateral negotiations to build investment relations. According to the *United States-China Two-Way Investment Report*, “The two countries have agreed to negotiate a bilateral investment treaty. This could open the doors to large amounts of investment in both directions if it addresses key issues. For U.S. firms, access to more sectors and better protection of IPR are crucial. Chinese firms seek a less politicized environment in which to invest.”<sup>7</sup> This negotiation encourages investors to invest within a nondiscriminatory market in the U.S. and China.

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7. David Dollar, *United States-China Two-Way Direct Investment: Opportunities and Challenges* (Washington, D.C.: Brookings Institution, January 2015), <http://www.brookings.edu/~media/research/files/papers/2015/02/23-us-china-two-way-direct-investment-dollar/us-china-two-way-direct-investment-dollar.pdf>. Jan. 2015.

The issue of Chinese investment in the U.S. is to develop, strengthen and empower the U.S. financial sector. According to the Council on Foreign Relations, “openness to foreign investment generally benefits the United States, generating high-paying jobs, facilitating investment in research and development (R&D), and strengthening the country's manufacturing base.”<sup>8</sup> President Obama currently encourages foreign investors to work in the U.S. in different investment areas. The benefits of foreign investment in the U.S. primarily help to expand the financial sector. In this case, the benefit of Chinese investment in the U.S. is very important to facilitating the U.S. economy. Chinese investment in the U.S. is not only beneficial to the U.S. but also to China. Some Chinese government officials worry about the controversies between U.S. and Chinese investment (such as Chinese oil companies investing in the U.S.) but the two countries' current efforts at investment cooperation helps to build future cooperation.

According to the U.S. Department of State (DOS), “from 2012 to 2013, Chinese direct investment flows into the United States more than doubled...ongoing bilateral investment treaty negotiations hold the potential for even more mutually beneficial economic ties.”<sup>9</sup> Chinese investment in the U.S. economy opened different job opportunities. In this respect, the U.S. government could improve bilateral relations in order to build up its own economic strength.

### **Common Areas of Interest for Investment**

According to an American Enterprise Institute report, “From 2005 through 2015, the total value of China's investment and construction transactions around the world exceeded \$1.2 trillion.”<sup>10</sup> According to this report, Chinese investments in 40 countries were successful and

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8. David. M. Marchik, *Fostering Greater Chinese Investment in the United States*, Renewing America Policy Innovation Memorandum No. 13, (New York: Council on Foreign Relations, February 9, 2012). [http://www.cfr.org/content/publications/attachments/Policy\\_Innovation\\_Memo13\\_Marchick.pdf](http://www.cfr.org/content/publications/attachments/Policy_Innovation_Memo13_Marchick.pdf).

9. “The Future of U.S.-China Relations,” U.S. Department of State, last modified June 25, 2014. <http://www.state.gov/p/eap/rls/rm/2014/06/228415.htm>.

10. Derek Scissors, *The Double-Edged Sword of China's Global Investment Success* (Washington D.C., American Enterprise Institute, January 13, 2016), 4-5, <https://www.aei.org/wp-content/uploads/2016/01/Double-Edged-Sword->

these countries made contracts with China for different areas of investment. The U.S. has been the lead country in sharing bonds with China, and “also leads for 2005–2015 as a whole, having drawn \$100 billion (excluding bonds) in Chinese investment during this period.”<sup>11</sup> This indicates that the two countries have common investment interest.

On the other hand, China has restricted Asian investors in domestic investment. According to the U.S.-China Business Council, “The small share of U.S. investment in China is also due to market restrictions, while companies from other countries, like Japan, Singapore, and Taiwan, have significant investments in China.”<sup>12</sup> China restricts not only the U.S. and Canadian investors, but also those from neighboring countries. The two countries’ investment cooperation is an important common interest. The U.S. agreed to sell an oil company for China. This investment openness is important for China and in the future, China will open the doors for U.S. investors. According to *CNNMoney*, “Yantai Xinchao will acquire oil assets in the western Texas Permian Basin that are currently owned by Tall City Exploration and Plymouth Petroleum. The deal is part of a larger transaction between Yantai Xinchao and a second Chinese firm.”<sup>13</sup> This investment agreement helps improve bilateral investment cooperation. If China invests in U.S. oil, U.S. investors can later invest in China. U.S. action is therefore a good example for China.

Figure 12 shows Chinese investment around the globe and development within 11 years. In 2015 investment grew 10.7% compared to 2014. According to this research, Chinese investment success is based on other countries’ open door policies but currently China has also accepted a significant amount of foreign investment deals.

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of-China’s-Global-Investment-Success.pdf

11. Ibid.

12. Stephanie Henry, “Bilateral Investment: Growing, but Smaller Than It Should Be,” US-China Business Council. n.d., accessed February 6, 2016, <https://www.uschina.org/bilateral-investment-growing-smaller-it-should-be>.

13. Sophia Yan, “Chinese Company to Buy Texas Oil Fields in \$1.3 Billion Deal,” *CNNMoney*, October 26, 2015, <http://money.cnn.com/2015/10/26/news/companies/china-texas-oilfields>.

Table 1  
**Two Views of Chinese Outward Investment  
(\$ Billion)**

Year	China Global Investment Tracker	Ministry of Commerce
2005	10.2	12.3
2006	19.8	21.2
2007	30.4	26.5
2008	55.5	55.9
2009	55.6	56.5
2010	67.2	68.8
2011	71.1	74.7
2012	80.9	87.8
2013	85.8	92.7
2014	95.7	102.9
2015	110.8	113.6*
<b>Total</b>	<b>683.0</b>	<b>712.9</b>

**Figure 12: Two Views of Chinese Outward Investment (\$ Billion)<sup>14</sup>**

### **Conclusion**

The U.S. should continue to try to negotiate a BIT with China and invest in standardizing practices that promote a diverse investment agreement. Both countries should plan short-term and long-term agreements for investment liberalization. China should focus on incorporating social responsibility policies towards Third World countries in order to further China’s investment development. China should advocate for social responsibilities beyond its economic investment work in developing countries. By increasing investment cooperation, this will empower the two countries’ economic development.

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14. Scissors, *Double-Edged Swords*, 4-5.

# Bilateral Financial Cooperation

*Luis Mendoza*

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## Abstract

### Key Policy Decisions

The Obama Administration has assured China that the United States “welcomes a strong, prosperous and successful China that plays a greater role in world affairs,”<sup>1</sup> and that the U.S. does not seek to block China’s emergence as a great power. China, in return, has promised to follow the path of peaceful development.<sup>2</sup> However, Washington has struggled in encouraging China to address economic policies that the United States sees as denying a level playing field to U.S. firms trading with and operating in China. Other economic concerns related to the financial sector for the United States include transparency in the governance of the Asian Infrastructure Investment Bank (AIIB), strict foreign exchange restrictions, Chinese holding of U.S. Treasury securities and its currency policy. In recent months, the U.S. has strengthened cooperation with China to continue working on economic issues.

### Background

The U.S. has followed an engagement strategy toward China for almost four decades but now after 37 years of U.S.-China normalization, according to the World Bank (WB), China has become an upper-middle income nation. Because of this, Chinese leaders are investigating new ways to use their nation’s growing strengths to outline the international environment in China’s favor. China’s new direction is opening up new opportunities for cooperation. However, where U.S.-China interests are not at an agreement, Chinese activities are reheating old conflicts and creating new ones, such as U.S. discontent when its allies joined the AIIB. However as mentioned above, Washington should focus on cooperation instead of obstructing China’s growth. Chinese leaders still prioritize national economic growth and stability above all other policy goals. Additionally, the U.S.-China bilateral relationship is still perceived as China’s most important foreign policy relationship and there is a desire for it to be peaceful and cooperative.

### Recommendations

- Pursue exchange rate reform and transparency as priorities in U.S. engagement with China.
- Cooperate with the AIIB directly and indirectly through friendly members and agencies like the WB and Asian Development Bank (ADB), to ensure that China sticks to its promised plan of a “lean, clean and green” course and coordinate with the AIIB so that scarce resources are more efficiently distributed.

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1. “U.S.-China Joint Statement,” The White House, Office of the Press Secretary, press release, January 19, 2011, <https://www.whitehouse.gov/the-press-office/us-china-joint-statement>.

2. Jason Subler, “Exclusive Q&A with Chinese President Xi Jinping,” *Reuters*, October 17, 2015, <http://www.reuters.com/article/us-china-britain-xi-q-a-idUSKCN0SC03920151018>.

## **Overview of Financial Cooperation**

The U.S. and Chinese economies are the first and second largest in the world respectively, and they continue to rely on each other. The United States has sought to cooperate with China in rebalancing the global economy through what President Obama calls “healthy economic competition.”<sup>3</sup> However, many financial issues have distracted both nations from cooperation. The main issue primarily involves the lack of transparency regarding Chinese currency. Therefore, Washington must pursue exchange rate reform and transparency as priorities in its engagement with China.

Exchange rates are among the most important factors in the global economy. They affect the price of every nation’s imports and exports, as well as the value of every overseas investment.<sup>4</sup> Over the past years, some members of Congress have been concerned that foreign countries are using policies to advance unfair trade benefits against other countries. These concerns are focused on China’s foreign exchange interventions over the past decade to weaken its currency against the U.S. dollar. The main argument is whether or not countries are using policies to undermine free markets and intentionally push down the value of their currencies. A weak currency makes exports cheaper to foreigners, which can lead to higher exports and job creation in the export sector. There can also be implications for other countries. From the U.S.’ perspective, U.S. exporters and firms producing import-sensitive goods may find it harder to compete in global markets. However, U.S. consumers and businesses that rely on inputs from abroad may benefit when other countries have weak currencies, because imports may become less expensive.<sup>5</sup> When foreign countries intervene in foreign exchange markets, it may also help lower U.S. borrowing costs.

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3. U.S. Library of Congress, Congressional Research Service, *U.S.-China Relations: An Overview of Policy Issues*, by Susan V. Lawrence, R41108 (August 1, 2013), 1, <https://fas.org/sgp/crs/row/R41108.pdf>.

4. U.S. Library of Congress, Congressional Research Service, *Current Debates over Exchange Rates: Overview and Issues for Congress*, by Rebecca M. Nelson, R43242 (September 17, 2015), 17, <http://fas.org/sgp/crs/misc/R43242.pdf>.

5. Ibid.

In addition, there is popular belief that U.S. producers and jobs have been badly affected by the exchange rate policies adopted by China, Japan, and other nations. They believe that some countries are purposefully using numerous policies to weaken the value of their currency to boost exports and create jobs, but that these policies come at the expense of other countries, especially the United States. During the global financial crisis in 2008, some political leaders and policy experts argued that there was a currency war in the global economy as countries competed against each other to weaken the value of their currencies and boost exports.<sup>6</sup> The issue of China's management of its currency, the renminbi (RMB), also known as the yuan, once topped the Obama Administration's shortlist of economic disputes with China. It remains a major concern, but appears to have lost some of its urgency; instead the Treasury Department believes that "While the estimated range of misalignment has narrowed, China's real effective exchange rate continues to exhibit significant undervaluation."<sup>7</sup> An undervalued RMB makes China's exports to the world artificially cheap, and China's imports from the rest of the world, including the United States, artificially expensive for Chinese consumers.

The People's Bank of China (PBOC) has shifted direction to weaken the yuan with a shift to a more market-determined exchange rate. China's leadership has been urging the International Monetary Fund (IMF) to declare the yuan an official reserve currency equivalent with the dollar, euro, the Japanese yen and the British pound. On December 2015, the IMF executive board granted that request. Some people believe this move could raise China's influence in the world, challenging Washington in global affairs, but in reality, it just represents a sense of prestige. This achievement is more symbolic than truly indicative of China as a key currency player.

As mentioned earlier, China lacks transparency and because of this it is playing a dangerous game with its currency, making moves that could affect the global economy. China's

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6. Ibid.

7. Lawrence, *U.S.-China Relations: An Overview of Policy Issues*, 1.

central bank has allowed the yuan to fall upsetting global markets and producing new fears about Asia's largest economy. Part of the fear driving those markets lower is that investors are struggling to understand the PBOC's goals, more specifically, the policy struggle between conservative stability and liberalizing reform. For this reason the U.S. should pressure China to release economic data to the IMF to meet the Special Data Dissemination Standard. The data dissemination standard is used to guide member countries in the distribution of national statistics to the public and contributes to the efficient functioning of financial markets. This is an important step in meeting international standards of transparency in foreign exchange reserves and other economic data. China recognized that meeting the transparency standards of major reserve currencies would help its goal of increasing international use of the RMB.<sup>8</sup>

The U.S. can cooperate with China to help with its economic policies as well as benefit U.S. interests. The U.S. should find a productive way for China to have a controlled and steady depreciation. It is likely that any PBOC devaluation will cause a domino effect across the world. Other countries could be forced to lower the value of their own currencies to remain competitive with China and in result the U.S. dollar would then spike on a relative basis. Consequently, it would increase the value of dollar-denominated commodities and corporate debt, which would likely grind global growth to a stop. However, this decision to allow for a drop in the yuan will be harmful to the global economy but nonetheless judging by China's economy it seems like it is unavoidable. For this reason, the U.S. should be prepared for the yuan to drop.

In addition, there are concerns about the possibility that China is destabilizing the U.S. economy by drawing down its holdings of U.S. Treasury securities. However, it does not permit foreign currency to be spent in China, meaning that China has no choice but to invest its current large account surplus overseas. Many analysts also claim that the combination of China's large

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8. "2015 U.S.-China Strategic and Economic Dialogue U.S. Fact Sheet - Economic Track," U.S. Department of the Treasury, press release, June 25, 2015, <https://www.treasury.gov/press-center/press-releases/Pages/j10094.aspx>.

volume of exports to the United States and its purchase of U.S. debt has given China a major stake in the health of the U.S. economy.<sup>9</sup> Nonetheless, this should not be of major concern because due to their weaker economy they are unable to purchase as much debt as before.

The U.S. Administration needs to stress the importance of an exchange rate reform that would help combat China's lack of transparency and unstable currency. Based on China's slowing economy this reform is possible, not to mention China is already planning to move to a new, market-oriented growth model, based on household consumption and innovation rather than exports and investment. The main goal that the U.S. wants to achieve is to level the playing field for American exports, workers, and firms. They also want the market to set the rate for the U.S. dollar and yuan without the yuan depreciating against the dollar because it will hurt U.S. exports and reinforce the position of exports in the Chinese economy – however, this is not likely. The leading U.S. goal for finance is for the U.S. to prioritize a free float market because the yuan will depreciate due to China's weak economy anyways. Of course, this will affect the U.S. but they will still be better off with this result. For this reason, the U.S. should cooperate with China on reform so that China can have better control in the depreciation and be in a healthier position when the depreciation of the yuan does occur.

Besides currency policies, another challenge the U.S. has confronted lately is the construction of the AIIB. China's main objective is to play a greater role economically, especially in Asia. The creation of the AIIB is planned to help China meet that goal; however, there is popular belief that this new bank is a challenge that will complicate U.S. efforts to maintain its grip on the world's leading multilateral economic institutions. Another common belief is that the AIIB will not follow the kind of good governance practices that the IMF and World Bank follow. Regardless, the U.S. should find a way to cooperate with the AIIB directly and indirectly through friendly members and agencies like the World Bank and ADB. If the U.S.

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9. Lawrence, *U.S.-China Relations: An Overview of Policy Issues*, 1.

does not directly cooperate with China then the U.S. should cooperate with allies that joined the AIIB to insure that scarce resources are more efficiently distributed.

The AIIB is similar to the Asian Development Bank and the World Bank in that it aims to finance infrastructure investments, except it will serve more as a tool of Chinese rather than Western influence. China launched the AIIB on June 29, 2015. Representatives of 57 countries united in Beijing to sign the legal framework agreement to establish the \$100 billion AIIB.<sup>10</sup> The new AIIB will symbolize China's rise as a financial superpower, guiding the world's biggest infrastructure financing institution. Whatever hesitations there are about China's financial rise, most countries see the beneficial impact of the bank and would rather be inside it, getting a share of the infrastructure orders that the AIIB will finance. The U.S. first reacted by trying to marginalize the bank's impact, urging other Western powers to follow its lead and steer clear. As we have seen in recent months, that strategy has failed miserably, with Australia, the United Kingdom, France, Germany and even Taiwan interested in becoming founding members.<sup>11</sup> Of the major powers, only Japan has continued to follow its ally's lead. President Barack Obama criticized the bank saying that China may steer AIIB loans to meet political or strategic considerations rather than economic. The AIIB may have lower lending standards than existing multilateral institutions like the World Bank and Asian Development Bank, and essentially undercut their effectiveness. After failing to persuade allies from joining the AIIB, U.S. Treasury Secretary Jack Lew offered a gentler approach to China's proposed AIIB, saying, "We welcome China having a significant role in the global economic and financial architecture," adding that the U.S. would welcome the AIIB provided that it "complement existing international financial institutions ... and share the international community's strong commitment to genuine

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10. Swaminathan Aiyar, "Why U.S. Allies Are Happy to Join China's AIIB," *The Diplomat*, June 30, 2015, <http://thediplomat.com/2015/07/why-us-allies-are-happy-to-join-chinas-aiib>.

11. Ibid.

multilateral decision making and ever-improving lending standards and safeguards.”<sup>12</sup> In other words, member states must not let the bank become an institution allowing narrow Chinese economic interests in corrupt ways at the expense of local citizens and the environment. There is much speculation that the AIIB was made to compete against the World Bank and ADB, however, people need to understand that the China-led AIIB does not necessarily challenge U.S. financial hegemony but instead it is a golden opportunity for cooperation regardless of the initial reaction that Washington had. While many might be tempted to view China’s AIIB move as a direct threat to the U.S.-led global financial order, in reality the AIIB’s goals are much more limited. Washington should not view the AIIB as a new sign of strategic rivalry between China and the U.S.; such a distorted view would create unnecessary strategic significance for the AIIB, whose first and foremost goal is development. The AIIB is about funding more roads, railroads, airports, and pipelines for many developing countries in Asia. If the U.S. becomes oversensitive to China’s every effort in global governance, then it is possible that the U.S. might reach the wrong conclusion that China indeed is trying to overthrow U.S. hegemony and start taking countermeasures to limit China’s rising influence. In actuality, China will not challenge U.S. hegemony.

As mentioned before, the best course of action is for the U.S. to cooperate with the AIIB directly or indirectly to ensure that China sticks to their promised plan of a “lean, clean and green” course and coordinate with the AIIB so that scarce resources are more efficiently distributed. The U.S. administration cannot keep wondering about other countries’ motivations, but instead focus on an estimation of what can be accomplished by choosing to join. By participating in the AIIB, advanced economies will be able to influence its operations, guarantee that its methods are transparent, and put in place incentives for projects that preserve the world’s

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12. Tom Nagorski, “U.S. Treasury Secretary Softens View on China-Led Infrastructure Bank, But Stresses ‘High Standards’ in Asia Society Address,” *The Huffington Post*, June 3, 2015, [http://www.huffingtonpost.com/tom-nagorski/us-treasury-secretary-sof\\_b\\_6981960.html](http://www.huffingtonpost.com/tom-nagorski/us-treasury-secretary-sof_b_6981960.html).

natural resources and control climate change. Needless to say, the China-led AIIB poses some challenges to U.S. influence in Asia; however, healthy competition between different global financial institutions is good for Asia and the world as a whole. The U.S. should stop viewing the AIIB as a threat and instead pay more attention to how the quality of the AIIB as an institution can be improved.

### **Conclusion**

The United States should make an effort to open itself to China where areas of mutual cooperation are possible and valuable. Americans need to view China not as a threat, but as a challenge. America should address Chinese competition, not through economic protectionism, but rather through cooperation in financial investments. America should address increased Chinese political influence, not through aggressive unilateralism, but through expanding existing institutions to give Chinese authorities a role in shaping the international order. For that reason, the U.S. must find a solution that would allow China to cooperate towards exchange rate reform. Since China's economy is weaker we should help China control the impending depreciation of the yuan so that the U.S. can be in a better position when depreciation does occur. It is obvious that the U.S. goal is for the market to set the rate for the U.S. dollar and yuan. However, the U.S. doesn't want the yuan to depreciate against the dollar because it will hurt U.S. exports and reinforce the position of exports in the Chinese economy, but given China's widely perceived economic weakness, the yuan will most likely depreciate regardless; thus the U.S. should prioritize China to pursue a free floating exchange rate. By providing pressure and guidance we set ourselves in a position of action instead of reaction. China has been planning to move to a new, market-oriented growth model based on household consumption rather than exports and investment. This change will increase the market for U.S. goods and services in China and

promote strong global growth if it goes as planned.<sup>13</sup> According to *The China Dream: Great Power Thinking & Strategic Posture in the Post-American Era*, economic policies that make China less nationalistic and more market-oriented would be better for China's emerging high-skill and innovative sectors.<sup>14</sup> Officials have encouraged phasing out low-end exports in favor of promoting the service sector and high-tech manufacturing. Since China is already moving towards a more market-driven economy it will be easier to achieve exchange rate reform. In addition to exchange rate reform, the U.S. should cooperate with the AIIB directly or indirectly and if possible join the bank. Washington cannot keep second-guessing other countries' motivations, but instead think about what can be accomplished by choosing to join. By participating in the AIIB, advanced economies will be able to influence its operations and ensure that its processes are transparent.

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13. "2015 U.S.-China Strategic and Economic Dialogue U.S. Fact Sheet - Economic Track."

14. Mingfu Liu, *The China Dream: Great Power Thinking & Strategic Posture in the Post-American Era*. (New York: CN Times Book, Inc., 2015).

# Bilateral Investment Treaty

*Yen Nguyen*

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## Abstract

### Key Policy Decisions

In regards to the Sino-American investment relationship, it is crucial to engage in bilateral cooperation to reach an investment agreement. By focusing on Chinese-protected industries and the Committee on Foreign Investment in the United States (CFIUS) national security interests, the next step towards reaching an agreement is to convince the People's Republic of China and U.S. Congress. Congress and the executive branch should catch the recent and growing investment wave coming from China and use this to gain significance not only in the economic arena but also social and political ones.

### Background

A bilateral investment treaty (BIT) between China and the United States is of considerable significance. These two countries are currently the largest home and host locations to annual flows of foreign direct investment (FDI) to and from areas worldwide. Yet, bilateral FDI interaction between them is relatively small in both directions. Not to mention that both sides have considerable amounts of complaints about the FDI policies of the other.<sup>1</sup> Completion of a U.S.-China BIT or specific investment agreement is an important opportunity for the United States and China to increase their trade in business services. The United States can decrease its persistently large trade deficit with China by raising exports. With increased foreign interest, China can benefit by importing foreign technology in engineering, design, development, testing, marketing, advertising, logistics, and distribution to become a better competitor in the manufacturing competition. All of these are settings to engage in a bilateral investment agreement.

### Recommendations

- Engage in the possibility of bilateral investment agreements, focusing on topics such as FDI and resulting interests.
- Push for negotiations to open up specific industries like telecommunications, banking, agriculture and other Chinese industries which the PRC is known to protect.
- Push for bilateral investment agreements in case a BIT is not ratified.
- Continue discussion to better the upcoming BIT rounds between U.S. and China to benefit the bilateral relationship as a whole and thus stay present in regional investments.

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1. C. Fred Bergsten, "A Bilateral Investment Treaty and Economic Relations Between China and the United States." In *Toward a US-China Investment Treaty*, PIIE Briefing 15-1, (Washington D.C.: Peterson Institute for International Economics, February 2015), 41, <http://www.piie.com/publications/briefings/piieb15-1.pdf>.

## **Background**

According to the Council on Foreign Relations report *Revising U.S. Grand Strategy Toward China*, an inherent notion of central control in all dimensions is ingrained in China's defense mindset, given its painful history with "external intervention."<sup>2</sup> Since 1949, Chinese leaders have shared an intrinsically necessary notion of the state's power as supreme. Failure to create or maintain this supremacy, with the Chinese Communist Party (CCP) as head, would threaten the state's power within the country and within the global scene. This notion has developed through a turbulent history into the current demand for a steady assertion of presence and acquisition of power throughout the world.<sup>3</sup> Therefore, to understand China's goals and agenda, reviewing its conceptions of leadership is important. As Chinese theorist Ye Zicheng argues in his treatise on Chinese grand strategy, "There is a close connection between the rejuvenation of the Chinese nation and China's becoming a world power. If China does not become a world power, the rejuvenation of the Chinese nation will be incomplete. Only when it becomes a world power can we say that the total rejuvenation of the Chinese nation has been achieved."<sup>4</sup> Similarly, China's objectives in *The Hundred Year Marathon* align well with this goal, emphasizing on China's impending role as the dominant global power by 2049.

Because of a history of domestic turbulence which facilitated foreign manipulation, most political upheavals are known to be suppressed, backed by widespread nationalism.<sup>5</sup> However, political disquiet usually comes hand-in-hand with economic development. Blackwill and Tellis argue that China's steady economic success is challenging the concentration of state power.<sup>6</sup> High growth and economic expansion generate a demand for freedom in terms of negotiation

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2. Robert D. Blackwill and Ashley J. Tellis, *Revising U.S. Grand Strategy Toward China*, Council Special Report No. 72, (Washington D.C.: Council on Foreign Relations, March 2015), 7, [http://i.cfr.org/content/publications/attachments/China\\_CSR72.pdf](http://i.cfr.org/content/publications/attachments/China_CSR72.pdf).

3. Ibid., 8.

4. Ibid.

5. Ibid.

6. Ibid., 9.

power for the populace: the consumers and investors. This poison of rapid growth has worsened the conflict between a restricting regime and a rising demand for new forms of liberties, both personally and communally. As a result, the gas pedal that has accelerated China's economy within the international sphere has also poisoned the CCP's grip, creating a paradox.<sup>7</sup> And so the Chinese leadership, facing this paradox, has developed a strategic goal in order to keep its iron grip. By promising high levels of sustained economic success, the CCP justifies its rule.<sup>8</sup> Holistically, this strategy for maintaining political legitimacy while exercising control over economic activities is a self-providing social contract between the state and populace. Since successful economic performance is the essence of this social contract, there is a connection; as the state ensures a prosperous economy for both domestic and foreign strengthening and improving living standards for Chinese, the CCP rule is generally accepted.<sup>9</sup> It is the CCP's intention to use centralized leadership to unify the country. However, this doesn't address personal political freedom. The expectation of a political transformation resulting from economic development is emphasized by Blackwell and Tellis but has not been proved in reality.

From a global standpoint, the United States directly connects its primary interests to its foreign strategy.<sup>10</sup> These primary interests point towards a unifying, safe environment for the U.S. to live, prosper and generate a national standard of welfare and freedom. From a more mature global standpoint, the U.S. certainly holds more interests in regards to its place in the global scene. To the power competition between Europe and the East, the U.S. is a mediator, a guard whose goal is to balance others' power while asserting its own dominance. To the rising nuclear-oriented states, the U.S. works strenuously toward counter-proliferation. To Asia, the U.S. serves as a direct leader in terms of investment power and security safeguard, thus regional economy is in its interests. To China, the U.S. is an essentially unique friend, or foe, depending

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7. Ibid., 10.

8. Ibid., 11.

9. Ibid.

10. Ibid., 18.

on whose perspective. Blackwill and Tellis mention one of the reasons why China is a challenge to the U.S.: it is within China's interests to topple U.S. power as an Asian leading force, thereby replacing the U.S. presence in all vital global dimensions – political, economic and social legitimacy.<sup>11</sup> China's "new security measures" which rejects the American presence in Asian regional security and appoints itself as the most suitable regional security provider is evidence.<sup>12</sup> Yet, the PRC's rise to power might require using the U.S. as a stepping stone, with a prodding manipulation and in a competitive manner, as expressed in *The Hundred Year Marathon*. The book portrays a competition between the Chinese Dream and American Dream for an ever-changing hegemonic power, with the PRC's method of aggressive replacement.<sup>13</sup> Aligning with Blackwell and Tellis' ideas, Pillsbury reinforces the argument of a PRC agenda that challenges U.S. foreign interests, safety and welfare.

As the PRC seeks to replace the U.S. power vacuum, the U.S. seeks to maintain its role as a powerful leader. Aside from the fundamental differences between these two nations, reality paints a more cooperative present. On the one hand, the U.S., with its long and deep relationship with China on all fronts, relies heavily on its production, market and fiscal policies to sustain a U.S.-oriented supplier and consumer. On the other hand, China – though the PRC doesn't admit it often enough – depends largely on U.S. market demands and thus, trade relations. A codependent relationship, competitive and cooperative simultaneously, has been the characteristic of these two nations recently. But what about other countries? How important is China and the U.S. in the field of foreign relations? Among many other regional and global issues with which these two countries are involved, investment is the highlight of this section. A comprehensive comparison between these two on outward foreign direct investment, inward FDI, and their effects will be carried out on a bilateral, regional and global level. Southeast Asia,

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11. Ibid., 19.

12. Ibid., 14.

13. Pillsbury, Michael. *The Hundred-Year Marathon: China's Secret Strategy to Replace America as the Global Superpower*. Washington D.C.: Henry Holt and Co., 2015.

in particular, is a common interest since Southeast Asia is an investment hub to both China and U.S., as these two constantly compete, considering their prolific portfolios, as investors.

Competitors but also partners, China and the U.S. do have long overdue conflicts on economic barriers and transparency, while they are bilaterally and regionally closely tied to each other.

### **Towards A Bilateral Investment Treaty**

In a rapidly globalizing world on all fronts, treaties and agreements serve as the catalyst for an elimination of restrictions and a push towards open, transparent markets. Yet, no bilateral investment treaty (BIT) exists between these two most economically powerful nations.

According to Sarah Hsu from *The Diplomat*, “A Bilateral Investment Treaty (BIT) is an agreement between two countries that establishes rules for foreign investors and investments in both countries.”<sup>14</sup> The goal is to give investors more protection, freedom, and accessibility (markets, banking, funding...) when investing in foreign markets. Currently, the U.S. has BITs with 42 nation-states and is working on one with China. With over twenty-one rounds of talk since July 2013 that have yet to end, the discussion on a U.S.-China BIT has been underway with much to discuss. FDI, property investment, and the openness of specific industries are several topics. If this were to be concluded, both countries stand to gain, said Hsu.<sup>15</sup> For China, this would majorly benefit its “Go Out” policy. Started in 1999, the “Go Out” policy (Zou Chuqu) responded to China’s expanding trend of outbound direct investment.<sup>16</sup> The Asian Infrastructure Investment Bank (AIIB), the BRICS or New Development Bank, the Australia-China Free Trade Agreement, and the Regional Comprehensive Economic Partnership are examples of this policy. From the U.S. perspective, a BIT would need to address policies which aim to remove major hurdles for U.S. enterprises, especially with sectors that are traditionally closed to FDI like

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14. Sara Hsu, “The China-US Bilateral Investment Treaty: Next Week?” *The Diplomat*, September 18, 2015, <http://thediplomat.com/2015/09/the-china-us-bilateral-investment-treaty-next-week>.

15. Ibid.

16. Ibid.

“agriculture, fishing, transportation, media, telecommunications, and financial services.”<sup>17</sup> The BIT aims to “provide more opportunities for U.S. and Chinese companies to compete on a level playing field in each respective market” since the PRC has always restricted U.S. companies’ direct investment in China.<sup>18</sup> Both sides would like to eliminate barriers and this should be an incentive to come to an agreement.

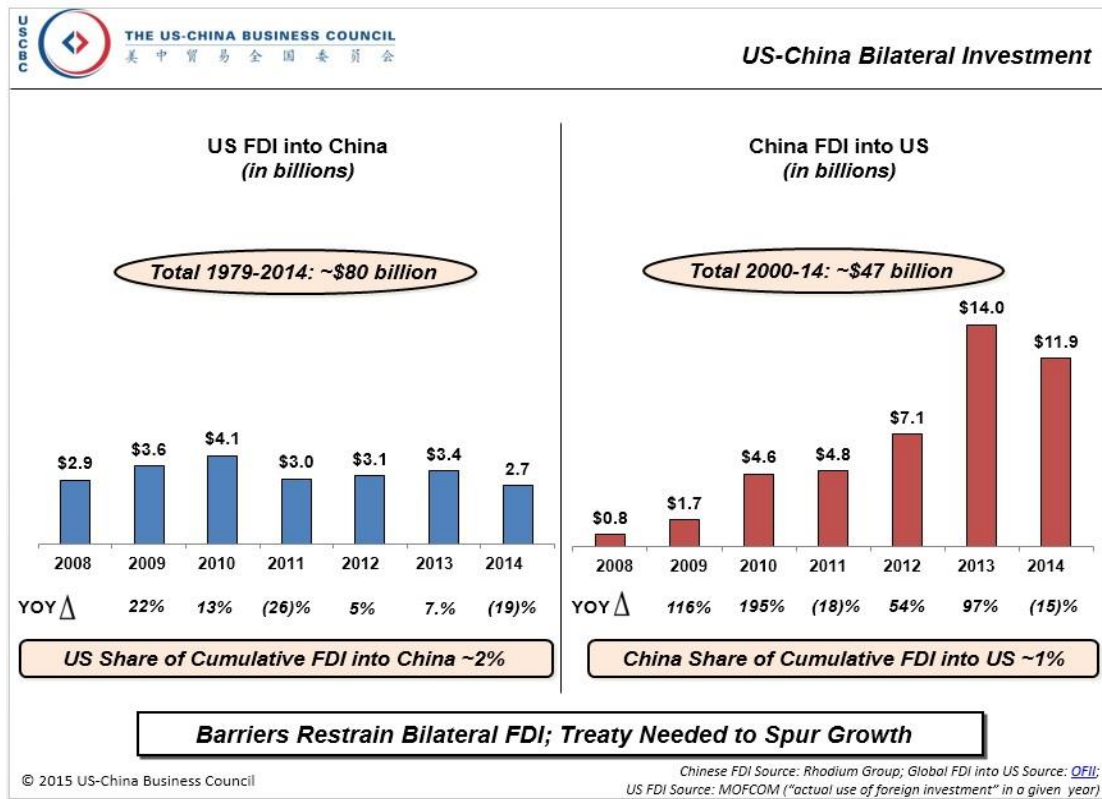


Figure 13: Barriers Restrain Bilateral FDI; Treaty Needed to Spur Growth<sup>19</sup>

Sino-American relations are bilaterally interactive. According to the U.S.-China Business Council, for the past 35 years, U.S. investments in China have increased dramatically. Similarly, Chinese investment in the U.S. is rising exponentially, in both the public and private sectors,

17. Ibid.

18. Ibid.

19. “Bilateral Investment Treaty,” The US-China Business Council, n.d., accessed February 5, 2016, <https://www.uschina.org/advocacy/bilateral-investment-treaty>.

mainly because of the United States' open market and lesser restrictions. However, the available data tells the U.S. that the realistic numbers of investment as a proportion of received cumulative FDI are relatively low in both countries. Figure 13 shows a relatively accurate statistical picture of these low percentages. However, as Shaun Breslin pointed out in his book, U.S. companies are actually more engaged in the Chinese economy than the numbers suggest, albeit through third party actors.<sup>20</sup> This shows that, whereas the United States has relatively offered certain investing freedoms and protections from competition to Chinese investors in the U.S., the Chinese government has only offered restrictions on U.S. investors. According to Hsu, over 100 industry sectors in China are off-limits to U.S. investors and if they are allowed, harsh and burdensome conditions are placed upon them.

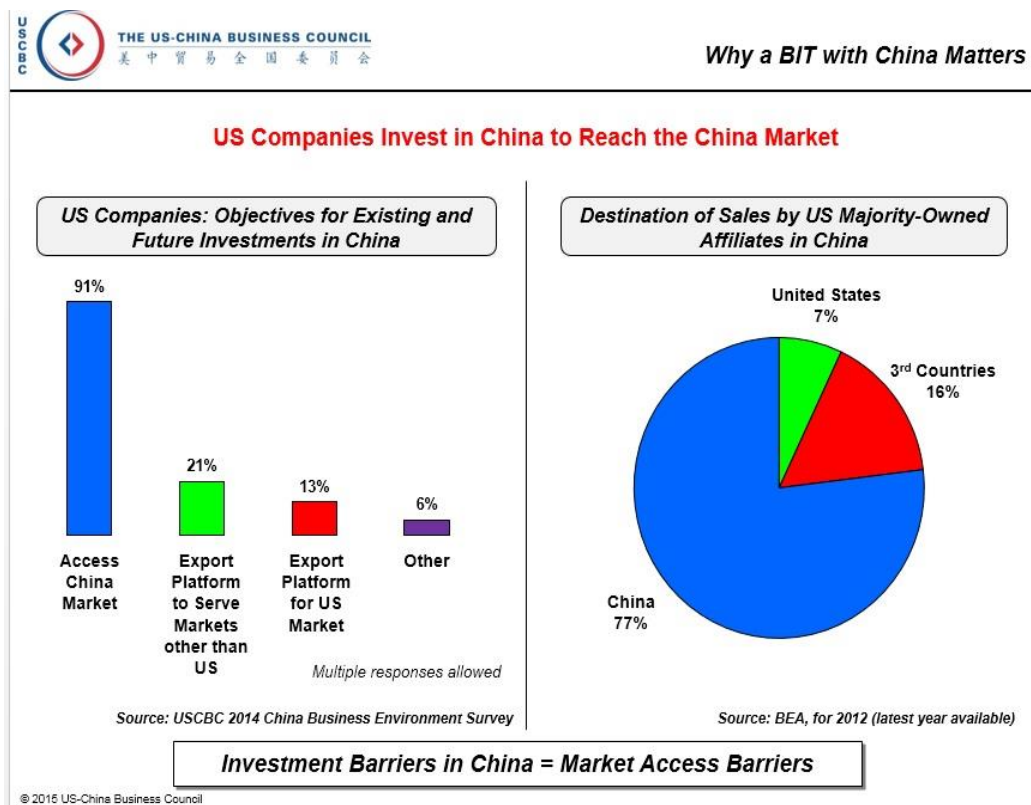


Figure 14: U.S. Companies Invest in China to Reach the China Market<sup>21</sup>

20. Shaun Breslin, *China and the Global Political Economy*, (Basingstoke: Palgrave Macmillan, 2009),129.

21. "Bilateral Investment Treaty," The US-China Business Council, n.d., accessed February 5, 2016,

So why should the PRC allow more U.S. investments? The U.S.-China Business Council says that a great portion of U.S.-invested goods are demanded by and supplied to China.<sup>22</sup> Figure 14 shows that U.S. investing firms cater to the Chinese market and hence, popular consumption.

Removing bilateral barriers would open the door to opportunity for the U.S. and Chinese companies not only in terms of investment. With a bilateral agreement, U.S. investors would have a chance to have equal accessibility in certain industries and be protected by the treaty. To continue with the provided data, Jensen emphasized, in the February 2015 briefing, the importance of a BIT for investment freedom.<sup>23</sup> According to him, in 2012, “cumulative Chinese investments in the United States totaled \$5.2 billion, which is less than 1% of total foreign investment in the United States.” Respectively, in 2013, “American investments in China reached \$3.4 billion, which was only 3% of total foreign investments in China.”<sup>24</sup>

Great benefits would be shared between these two nations, improving Sino-American relations.<sup>25</sup> On a simplistic term, investment is a component of gross domestic product (GDP), and an increase in investment within a country positively correlates to an increase in GDP. On the Chinese side, Chinese industries would stand to gain more exposure to U.S. markets and venture into more opportunities with U.S. companies. On the U.S. side, the BIT would let U.S. investors receive equal treatment, thus increasing confidence in the Chinese market for expansion of direct investment. According to Jensen, this BIT would “prohibit China from using regulations that favor Chinese firms or using state-owned enterprises (SOEs) to advance their own interests in the private market. An official agreement can provide legal ground to

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<https://www.uschina.org/advocacy/bilateral-investment-treaty>.

22. Ibid.

23. J. Bradford Jensen, “Role of a Bilateral Investment Treaty in Increasing Trade in Services Between China and the United States,” In *Toward a US-China Investment Treaty*, PIIE Briefing 15-1, (Washington D.C.: Peterson Institute for International Economics, February 2015), 24, <http://www.piie.com/publications/briefings/piieb15-1.pdf>.

24. Ibid., 25.

25. Ibid., 24.

transparently settle potential investor-state dispute.”<sup>26</sup> Also, it would 1), ensure better protections to intellectual property by eliminating investment restrictions that require U.S. firms to partner with Chinese firms, and 2) give U.S. companies the opportunity to expand into an economy with a middle class larger than the total population of the United States.

In general, a Bilateral Investment Treaty between China and the United States would diversify their bilateral investment portfolios. As Chan-Hyun Sohn states, the U.S. can respond to the growing China challenge in Asia by alleviating the competition for investment and collaborating with China.<sup>27</sup> In his article, ASEAN represents endless potential in terms of investment attraction, and thus competition to China.<sup>28</sup> The U.S., though with less power, also has investments in Southeast Asia, making it a competitor with China and Japan, who has always been a serious contender. China, an ASEAN investor itself, has been revving up the competition with the rest of Asia to attract FDI since their “Go Out” policy targets foreign markets.<sup>29</sup> Breslin confirms that China’s entry to the WTO increased the competition for regional inward FDI.<sup>30</sup> The region is concerned with the diversion of investment from Southeast Asia to China.<sup>31</sup> Daniel Russel, the assistant secretary of the Bureau of East Asian and Pacific Affairs, stated that the U.S. “remains the largest investor in Singapore and Southeast Asia, ahead of China, Japan, and South Korea combined.”<sup>32</sup> Securing investment in Southeast Asia would be an interest for the U.S. as the regional head. But with China as a regional competitor, the U.S. would need to adjust its relationship with the Chinese in order to lessen the competition and tension for the U.S.’ sake. More challenge in securing investments in Southeast Asia is not desired, therefore, a BIT would allow many more opportunities for Sino-American investment collaboration while alleviating the

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26. Ibid., 28.

27. Chan-Hyun Sohn, “The Effect of China’s Rise on FDI Competition in East Asia: Crowding-out or Crowding-in?” *Scottish Journal of Political Economy* 63, no. 1 (February 2016): 110-134, doi: 10.1111/sjpe.12113.

28. Ibid.

29. Ibid.

30. Breslin, *China and the Global Political Economy*, 125.

31. Ibid., 151.

32. “The United States: Southeast Asia’s Economic and Security Partner,” U.S. Department of State, January 22, 2016, <http://www.state.gov/p/eap/rls/rm/2016/01/251695.htm>.

competition by encouraging investment-seeking Chinese enterprises to obtain U.S. investment.

Besides, investment in China is “driven by demand in Japan, Europe, and most importantly, the United States.”<sup>33</sup> It is U.S. consumption that drives some Chinese factories, and since these Chinese factories seem to have been able to meet that demand from U.S., Chinese factories have been producing for the U.S. market. Even though the government cannot control this market demand, the U.S. characteristic of consumerism and capitalist way of spending is still socioeconomically reliable. If the U.S. utilizes its role as a demand-driver, it would be able to play that into the BIT negotiations.

In addition, the level of China’s foreign direct investment is positively correlated to inward direct investments in East and Southeast Asia.<sup>34</sup> This means that an increase in Chinese foreign investment helps East and Southeast Asia receive more investment, from inter-Asia and U.S. sources. This proves that a complete BIT between the U.S. and China would result in a relative increase of inward FDI for China, East and Southeast Asia, which allows the U.S. to maintain its dominance overseas.

Congress had proved to be difficult towards the “openness of the United States to Chinese capital.”<sup>35</sup> For instance, when Chinese enterprises had begun seeking opportunities to invest in the U.S., a significant concern from Beijing was that Washington would block them for security reasons. This concern turned out to be correct. The blockage, however, was not only from the executive branch, the Committee on Foreign Investment in the United States, but also from Congress. Congress feared that Chinese companies would be free-riding on the haven of U.S. opportunities and dodging security reviews while U.S. investors and potential investors,

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33. Breslin, *China and the Global Political Economy*, 148.

34. Busakorn Chantasawat, K. C. Fung, Hitomi Iizaka, and Alan Siu, “FDI Flows to Latin America, East and Southeast Asia, and China: Substitutes or Complements?” *Review of Development Economics* 14, no. 3 (August 2010): 533-546, <https://faculty.washington.edu/karyiu/confer/beijing06/papers/fung-et-al.pdf>.

35. Thomas J. Christensen, *The China Challenge: Shaping the Choices of a Rising Power* (New York: W.W. Norton & Company, Inc., 2015), 222.

would still suffer from restrictions within China.<sup>36</sup> Similarly, CFIUS is unwilling to change its procedures and track record of using political pressure to not jeopardize national security.<sup>37</sup> However, with a complete BIT, the fears of Congress and CFIUS would be alleviated. Upon this treaty, “A U.S.-China BIT is unlikely to change the CFIUS process because of the difficult political climate, but it could foster greater disclosure of unclassified evidence, arguments, and allegations considered in CFIUS deliberations.”<sup>38</sup> CFIUS can use the opportunity of the BIT or other investment agreement talks to lay out conditions for Chinese investors so that the U.S. national security isn’t compromised, thus alleviating CFIUS’ concerns.

China must negotiate for a BIT because they would want their investment coming to the U.S. not to be turned down because of Congress, CFIUS or any U.S. regulation. In January 2016, CFIUS blocked the sale of Philip’s lighting business to a group of Asian buyers that also includes Chinese companies. In late February of 2016, Fairchild Semiconductor refused an offer from state-backed China Resources and Hua Capital, due to concerns from U.S. regulators. A BIT would offer transparency in the CFIUS reviewing process for both sides, decreasing the negative conception which the Chinese investors harbored while CFIUS doesn’t have to compromise its review procedures, since there are many other political variables behind a CFIUS procedural change.<sup>39</sup> Moreover, a BIT would let the United States have a larger, more effective voice within the bilateral diplomacy, enabling the U.S. to expansively reach over other issues such like the South China Sea disputes, CO<sub>2</sub> and SO<sub>2</sub> emission levels, humanitarian issues, all of which should be within Congress’s interests, since they empower the U.S.’ dominance globally. According to the executive summary *New Neighbors*, Chinese FDI in the U.S. proved to be

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36. Ibid.

37. Gary Clyde Hufbauer Sean Miner, and Theodore Moran, “Committee on Foreign Investment in the United States and the US-China Bilateral Investment Treaty: Challenges in Meeting China’s Demands,” In *Toward a US-China Investment Treaty*, PIIE Briefing 15-1, (Washington D.C.: Peterson Institute for International Economics, February 2015), 37, <http://www.piie.com/publications/briefings/piieb15-1.pdf>.

38. Ibid.

39. Ibid.

benefiting local economies since these investments save local businesses from bankruptcy and bring progress, mostly under the form of acquisition.<sup>40</sup> In addition, Chinese-affiliated enterprises generate “higher employment intensity,” creating jobs through expansion within the U.S.. State senators and representatives should take this into account and acknowledge these local developments with Chinese FDI. In terms of Congress, a BIT requires the vote of two-thirds of the Senate, as opposed to a bilateral investment agreement, which would require a simple majority in both the House and Senate. If the Senate were to turn down a BIT, a bilateral investment agreement can be a substitute. A major concern in presenting a bilateral investment agreement is the Rules Committee. However, the success of the Trans-Pacific Partnership (TPP) legislation is the most favorable possible signal for the Rules Committee to agree with a bilateral agreement. In addition, the fact that the Republican control of the Senate since 2014 would help the prospects for ratification of a BIT because Republicans are “more pro-trade, pro-FDI, and generally more pro-business (the biggest supporters of the BIT) than Democrats.”<sup>41</sup> In essence, this current dynamic in the Senate is likely to be supportive of the proposed BIT. Since the Democrats could regain control of the Senate in the 2016 election, it is strongly urged that a major effort is made to present the issue before the current Senate.<sup>42</sup>

## **Conclusion**

Though both China and the U.S. have strategic narratives about each other, the U.S. and China also hold significant interests in each other.<sup>43</sup> Coming to an agreement on investment policies signals the future opportunities for both sides to not only prevent crisis or potential conflict but also engage in a transparent economic relationship. In addition, it is also encouraged

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40. Thilo Hanemann and Daniel Rosen, *New Neighbors: Chinese Investment in the US by Congressional District* (New York: Rhodium Group, May 20, 2015), 2, <http://rhg.com/reports/new-neighbors>.

41. Bergsten, “A Bilateral Investment Treaty and Economic Relations Between China and the United States,” 43.

42. Ibid.

43. Kevin Rudd, “America and China are Rivals with a Common Cause,” *Financial Times*, April 17, 2015, <http://www.ft.com/cms/s/0/3055b448-e426-11e4-9039-00144feab7de.html>.

that the BIT act as a strategic long-term response to the existing and future conflicts, as a BIT maintains a politically-bound collaboration.

Secondly, it is crucial for the U.S. to be constructive about those difficult areas that could be resolved with high-level political effort. Bilaterally, this means a final round of talks on the long overdue future of a potential BIT or other agreement. Regionally, this could include the U.S. and China working together to develop institutions such as the existing East Asia Summit into a more expansive Asia-Pacific community.

# Intellectual Property Rights

*Alex Neeley*

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## Abstract

### Key Policy Decisions

Increased cooperation and continued engagement with China is crucial to the protection of American intellectual property (IP). Through capacity-building efforts and reforms to its own domestic policy, the United States can encourage China, a notorious IP violator, to align with developed world intellectual property rights (IPR) standards and assist China in developing its own indigenous, self-reliant innovation industry.

### Background

The theft of intellectual property has become one of the most contentious issues in the already difficult U.S.-China relationship. From the U.S. view, Chinese businesses are attaining an unfair trade advantage through the theft of IP. However, China claims a need for IP sharing as a path to scientific and technological advancement. Though Chinese policy has called for increased indigenous innovation, China has continued to rely on technology transfer from the West and worse, has remained a leader in IPR violations. Therefore, it is crucial for the United States to act hastily and appropriately, as continued IPR violations have potentially adverse effects on U.S. business and the economy, in the realm of billions of dollars in lost revenue and a potential stagnation of future innovation.

### Recommendations

- Continue the current trend of cooperation with the Chinese government and establish precedent for a stronger rule of law. Additionally, establish agreements with China's neighbors to collectively pressure China to enforce better IP protection.
- Install knowledge sharing efforts to educate Chinese judges and lawyers on proper intellectual property prosecution and create a stronger rule of law environment.
- Denying technological transfer in the short term while supporting research exchanges and fellowships for Chinese innovators would steer the Chinese away from a reliance in foreign technology and will create a greater incentive to develop indigenous and self-sustaining innovation. Additionally, invest more in environmental cooperation grants with China in lieu of green tech transfer.
- With the United States being China's most important market for exports, a closure of the banking system to offending Chinese firms will cause adequate negative repercussions to Chinese business to effectuate substantial change in Chinese IP regulation.
- Over the long term, as Chinese companies and innovators mature, the Chinese government will likely develop adequate legal systems and stronger regulation of law to protect the intellectual property of domestic companies as well as foreign firms. This has been seen in the increase of IP protection filings over the last half decade.

## **U.S. Goals and Strategic Aspirations**

In today's increasingly interconnected world, highly industrialized and technologically advanced nations like the United States rely heavily on the production and innovation of IP goods and services to drive economic growth. According to the World Intellectual Property Organization "intellectual property (IP) refers to works of the mind: inventions, literary and artistic works, symbols, names and images used in commerce."<sup>1</sup> American innovators and scientists have been credited with the creation of some of recent history's greatest IP creations, including the light bulb, the airplane and the Internet, as well as thousands of other relevant technological software and hardware items. Additionally, the United States is the heart of modern popular culture, with American artists producing millions of movies and songs annually. These scientific and artistic innovations are (and will continue to remain) the pulse of the American economy. In 2009, U.S. President Barack Obama and his Administration unveiled the first edition of the *Strategy for American Innovation*, highlighting the importance of continued innovation and the great impacts these works have on the U.S. economy. The strategy called for the governmental empowerment and support of the private sector to sustain economic growth and create new American employment.<sup>2</sup> President Obama further asserted the importance of American innovation in his 2015 State of the Union Address, pressing a greater reliance on American science and technology as well as research and development (R&D) to spur economic growth and address the most pressing challenges of the nation, from health concerns to environmental degradation.<sup>3</sup> One of the most essential ways to promote the continuous research and development of the sciences, technology and the arts, is through IPR. Through patents,

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1. *What Is Intellectual Property?*, WIPO Publication No. 450(E), (Geneva: World Intellectual Property Organization, n.d.), accessed February 18, 2016, [http://www.wipo.int/edocs/pubdocs/en/intproperty/450/wipo\\_pub\\_450.pdf](http://www.wipo.int/edocs/pubdocs/en/intproperty/450/wipo_pub_450.pdf).

2. The White House National Economic Council and Office of Science and Technology Policy. *A Strategy for American Innovation* (October 2015). [https://www.whitehouse.gov/sites/default/files/strategy\\_for\\_american\\_innovation\\_october\\_2015.pdf](https://www.whitehouse.gov/sites/default/files/strategy_for_american_innovation_october_2015.pdf).

3. "Remarks by the President in State of the Union Address: January 20, 2015," The White House, Office of the Press Secretary, last modified January 20, 2015, <https://www.whitehouse.gov/the-press-office/2015/01/20/remarks-president-state-union-address-january-20-2015>.

trademarks and copyrights, IP protection safeguards business investment in creativity, research and development, and innovation, thus securing the intellectual capital and futures of companies. According to the United States Patent and Trademark Office (USPTO) and the 2013 *IP Commission Report*, U.S. innovation produces \$5 trillion towards the American economy each year, about a third of the nation's annual Gross Domestic Product output (\$16.77 trillion in 2013).<sup>4</sup> Additionally, the USPTO concluded that 18.8% of American employment was directly linked to IP-related industries. These numbers support the President's continued emphasis on the growth and protection of American IP firms and the continued funding and promotion of R&D.

Unfortunately in recent years, intellectual property rights and protections have endured a state of tremendous crisis. As developing world nations look to advance, many of these countries have sought to establish themselves in the intellectual property marketplace. Violating IPR has long been a strategy of economic development for the developing world. In fact, the U.S. once engaged in similar levels of IP theft that it discourages today: "In its adolescent years, the U.S. was a hotbed of intellectual piracy and technology smuggling...in violation of British export and emigration laws."<sup>5</sup> Today, for the many rapidly industrializing countries worldwide, the development of the IP sector is the logical next step in economic advancement, and no country has been more prevalent in its attempted advancement of IP industries than China.

Unfortunately, in its pursuit of IP development, China has also become the face of IPR theft and violations, with the United States Trade Representative (USTR) continuously placing China on its Priority Watch List of the worst violators of intellectual property rights.<sup>6</sup> With this come significant present and future impacts on the United States economy.

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4. The Intellectual Property Commission, *The Report of the Commission on the Theft of American Intellectual Property*, by Dennis C. Blair, Jon M. Huntsman, Craig R. Barret, Slade Gorton, William J. Lynn, III, Deborah Wince-Smith, and Michael K. Young, (May 2013).

[http://www.ipcommission.org/report/IP\\_Commission\\_Report\\_052213.pdf](http://www.ipcommission.org/report/IP_Commission_Report_052213.pdf).

5. Peter Andreas, "Piracy and Fraud Propelled the U.S. Industrial Revolution," *BloombergView*, February 1, 2013, <http://www.bloombergview.com/articles/2013-02-01/piracy-and-fraud-propelled-the-u-s-industrial-revolution>.

6. Executive Office of the President, Office of the United States Trade Representative, *2013 Special 301 Report*, by Demetrios Marantis, (April 2015), 4, 13,

<https://ustr.gov/sites/default/files/05012013%202013%20Special%20301%20Report.pdf>

In 2009, the United States International Trade Commission (ITC) estimated Chinese IP theft cost U.S. businesses \$48.2 billion in lost sales, royalties and license fees alone.<sup>7</sup> Further, the 2013 IP Commission estimates that the annual U.S. losses due to international theft of U.S. IP is likely in the hundreds of billions of dollars, at least in range of total U.S. exports to Asia in 2012 (over \$320 billion).<sup>8</sup> Additionally, between 50% and 80% of the problem, “across all categories of IP theft,” can be directly attributed to China.<sup>9</sup> This projection would fall between the various public and private sector estimates of a \$14.2-billion to \$90.5-billion range, with projections varying greatly due to different calculating methods. These profit losses are accomplished through both the illegal downloading and reselling of goods, as well as the imitation and copying of IP goods. And beyond losses in profits, these copied and counterfeit goods have constituted losses in brand value and lowered incentives in R&D, limiting future revenues and endeavors for several American businesses, while also raising the costs of preventive action taken by firms. With the heavy links between the American IP industry and the U.S. economy, lessened revenues and possible slowing of R&D produce potential risks for economic growth in the U.S..

With these great risks to economic stability, the issue of intellectual property rights has become an increasingly contentious point in the already unsteady U.S.-China relationship. Current U.S. strategy has largely called for continued engagement with China, a belief echoed by the Obama Administration’s *Strategy on Mitigating the Theft Trade Secrets*.<sup>10</sup> Additionally, the Administration’s report hinted at heightened prosecution and investigation of trade theft, along with a more general improvement of domestic legislation to assess the effectiveness of combating infringement. Moreover, the U.S. Department of State (DOS) and the USPTO has

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7. U.S. International Trade Commission, *China: Effects of Intellectual Property Infringement and Indigenous Innovation Policies on the U.S. Economy*, by Alexander Hammer and Katherine Linton, USITC Publication 4226 (May 2011), 3-37, <https://www.usitc.gov/publications/332/pub4226.pdf>.

8. Blair, Huntsman, Barret, Gorton, Lynn, Wince-Smith, and Young, *The Report of the Commission on the Theft of American Intellectual Property*, 3, 11, 15.

9. Ibid.

10. The White House. *Administration Strategy on Mitigating the Theft of U.S. Trade Secrets* (2013), 3, [https://www.whitehouse.gov/sites/default/files/omb/IPEC/admin\\_strategy\\_on\\_mitigating\\_the\\_theft\\_of\\_u.s.\\_trade\\_secrets.pdf](https://www.whitehouse.gov/sites/default/files/omb/IPEC/admin_strategy_on_mitigating_the_theft_of_u.s._trade_secrets.pdf).

also recently engaged in a limited amount of capacity-building symposiums in an effort to educate foreign countries on proper IP regulation.<sup>11</sup> Unfortunately, current U.S. strategy has been largely ineffective in quelling Chinese IP theft. A 2011 study by the ITC estimated that the U.S. economy would stand to gain \$107.0 billion if Chinese IP laws were to rise to the standards of their American counterparts.<sup>12</sup> These monetary losses should be enough incentive for the U.S. government to transform current policy. Couple these effects with potential losses in R&D and employment due to lost revenues and it becomes apparent that the U.S. government's current strategic approach must shift. These policies must be highly encouraging and persuasive in nature, in order to convince China of the importance of stronger IP regulation and to promote greater economic stability both domestically and worldwide.

### **China's Goals and Strategic Ambitions**

The rise of intellectual property violations in China strongly coincided with the rise of modern China as a whole and the ascent of Chinese leader Deng Xiaoping and his *Four Modernizations* plan. Among these modernizations, Deng called for the rapid development of China's science and technological sectors, as he considered science the "most crucial of the four modernizations, the one that would drive [industry, agriculture and national defense]."<sup>13</sup> Upon gaining leadership in 1978, Deng realized that China lagged far behind other nations – particularly nearby Japan – in the sciences and technology. Under Deng's leadership, the Chinese Communist Party (CCP) Five Year Plans set the country on the fast track of scientific development, with goals of technological equality with the West by the end of the twentieth

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11. Executive Office of the President, Office of the United States Trade Representative. *2015 USTR Special 301 Report*, by Michael B.G. Froman, (April 2015), 75, <https://ustr.gov/sites/default/files/2015-Special-301-Report-FINAL.pdf>.

12. Hammer and Linton, *China: Effects of Intellectual Property Infringement and Indigenous Innovation Policies on the U.S. Economy*, 23.

13. Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge, MA: Belknap Press of Harvard University Press, 2011), 169.

century.

The aspirations of Deng Xiaoping's science and technology modernization continue to hold a significant place in China's twenty-first century strategy. These ambitions are no better evidenced than in the CCP's *National Medium- and Long-Term Program for Science and Technology Development* (MLP). In January 2006, China initiated the MLP, a policy plan that "calls for China to become an 'innovation-oriented society' by 2020, and a world leader in science and technology (S&T) by 2050."<sup>14</sup> According to the plan, China will become one of the top countries in the number of annual invention patents granted to its nationals, as well as a leader in cited scientific papers. The plan also commits China to developing domestic research and development and becoming a leader in science-based industries through heavy investment of its increasing gross domestic product in R&D by 2020. This increase in domestic R&D will limit China's dependence on imported technology to 30% or below by the MLP's endpoint.<sup>15</sup> Additionally, China's 12th Five-Year plan (2011–15) called for the development of technological capabilities across several highly innovative IP industries, including the development of highly advanced informatics, bioengineering and aerospace and satellite equipment.<sup>16</sup> Yet, even with these great aspirations, little noticeable improvements have been made to remove China's title as one of the world's greatest offenders of IP theft.

### **Points of Contention: China's Lack of Rule of Law and IP Implementation**

China's rapid economic transformation has provided opportunities to the American economy that further complicate U.S. action towards Chinese IP violations. For one, the Chinese

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14. Cong Cao, Richard P. Suttmeier, and Denis Fred Simon, "China's 15-Year Science and Technology Plan," *Physics Today* 59, no. 12 (December 1, 2006): 38.

15. The State Council of the People's Republic of China, *The National Medium and Long Term Program for Science and Technological Development* (2006), 12.

16. Fifth Plenary Session of the 17th Central Committee of the Communist Party of China, *China's Twelfth Five Year Plan (2011-2015)*, trans. Delegation of the European Union in China, (2011), 10, <http://www.britishchamber.cn/content/chinas-twelfth-five-year-plan-2011-2015-full-english-version>.

market is the single most important international market to almost every American company. Over the last decade, U.S. exports to China have grown faster than exports to any other major U.S. trading partner, and U.S. exports to China increased 198% from 2005 to 2014 while American exports to China in 2014 alone totaled \$120 billion.<sup>17</sup> Yet, “despite broad success in the China market,” American firms have been finding the Chinese marketplace increasingly hostile due to two interrelated factors: “the infringement of their intellectual property rights (IPR) in China and China’s indigenous innovation policies.”<sup>18</sup> The prevalence of pirated products in China effectively creates an uneven playing field and unfair market practices.<sup>19</sup> Add on to these high piracy rates a central government that is indifferent in protection and even participating in IP theft, and U.S.-China trade becomes frustratingly inefficient for American firms. “[The Chinese] are targeting our private companies. And it’s not a fair fight. A private company can’t compete against the resources of the second largest economy in the world,” lamented the United States Assistant Attorney General (AG) for National Security John Carlin.<sup>20</sup>

China has become the world’s largest market for IP related piracy, with an estimated 99% of music being obtained illegally. A U.S. Customs and Border Protection report indicated that 72% of all seized counterfeit goods attempting to enter the United States in 2012 had origins in China. Monetarily, these seizures were valued at \$1.26 billion,<sup>21</sup> coupled with the U.S. International Trade Commission (ITC) estimation of \$48.2 billion in lost sales, revenues and

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17. The US-China Business Council, *US-China Business Council State Export Report 2015* (Washington D.C.: 2015), 1, [https://www.uschina.org/sites/default/files/USCBC%20State%20Export%20Report%202015\\_0.pdf](https://www.uschina.org/sites/default/files/USCBC%20State%20Export%20Report%202015_0.pdf).

18. Hammer and Linton, *China: Effects of Intellectual Property Infringement and Indigenous Innovation Policies on the U.S. Economy*, 1.

19. Business Software Alliance. *Shadow Market: 2011 BSA Software Piracy Report*. Ninth Edition, May 2012. (Washington D.C.: 2012), 5-6, [http://globalstudy.bsa.org/2011/downloads/study\\_pdf/2011\\_BSA\\_Piracy\\_Study-Standard.pdf](http://globalstudy.bsa.org/2011/downloads/study_pdf/2011_BSA_Piracy_Study-Standard.pdf).

20. “The Great Brain Robbery,” *60 Minutes* video, 00:50, last modified January 17, 2016. <http://www.cbsnews.com/news/60-minutes-great-brain-robbery-china-cyber-espionage>.

21. U.S. Department of Homeland Security, U.S. Customs and Border Protection, *Intellectual Property Rights Seizure Statistics Fiscal Year 2014* (2014), <https://www.cbp.gov/sites/default/files/documents/2014%20IPR%20Stats.pdf>.

license fees.<sup>22</sup>

Further, a 2015 FBI survey of 165 private American companies found that around half of the surveyed companies were victims of economic espionage. Within these 80 plus cases of theft, 95% of the cases involved individuals associated with the Chinese government.<sup>23</sup> While cyber-theft is common practice among Chinese IP thieves, instances of employee bribing and trespassing have occurred. Recently, a Chinese national was charged with participating in a lengthy conspiracy to help “steal valuable corn seeds from DuPont and Monsanto production fields in Iowa.”<sup>24</sup>

While China also continuously accuses the United States of participating in similar acts of IP violations, the conflict is exacerbated by an overall failure by the Chinese government to actually implement and regulate IP law. Since 2011, China has received more patent applications than any other country and China has one of the world’s fastest growing patent systems. However, “the problem (in China) is not the lack of laws...the problem is the implementation.”<sup>25</sup> Many of these implementation issues lie in an ineffective and undermanned IP court system in the massively populated and geographic space of China. Simply because there have been increases in IP law does not mean China has been effective in slowing IP theft.

The underlying factor in China’s slow judicial process and general lack of effective prosecution is largely due to a more concerning circumstance: the country’s utter disregard for Chinese rule of law. This absence is largely due to a complete lack of accountability on behalf of Chinese government leaders in the upholding of the Chinese Constitution as the supreme law of

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22. U.S. Library of Congress, Congressional Research Service. *China-U.S. Trade Issues* by Wayne M. Morrison. RL33536 (December 15, 2015), 43, <http://fas.org/sgp/crs/row/RL33536.pdf>.

23. Wesley Bruer, “FBI Sees Sharp Rise in Economic Espionage Cases,” *CNN*, July 24, 2015, <http://www.cnn.com/2015/07/24/politics/fbi-economic-espionage/index.html>.

24. Kurt Orzeck, “Chinese National Admits Plot To Steal DuPont, Monsanto IP,” *Law360*, January 27, 2016, <http://www.law360.com/articles/751862/chinese-national-admits-plot-to-steal-dupont-monsanto-ip>.

25. Blair et al, *The Report of the Commission on the Theft of American Intellectual Property*, 26.

the land.<sup>26</sup> CCP leadership grossly lacks the willingness to effectively and accountably perform constitutional duties to legislate proper law. Administrative mechanisms in China are often understaffed and suffer from high levels of painful bureaucracy and ethically questionable lawmaking methods. Corruptive behavior, from bribes to personal favors, runs rampant throughout the political system.<sup>27</sup> In effect, these corruptive actions trickle down into common Chinese business practice and the Chinese judiciary, creating an ineffective ability to arbitrate law independent of political and private sector pressures. In addition, the “devolution of state power to the local level and local protectionism...have been cited as reasons for the inefficacy of [China’s] National Copyright Administration.”<sup>28</sup> With this, the lack of rule of law has become “the most difficult challenge American enterprises face in China.”<sup>29</sup>

Additionally, due to this weak rule of law, already weak criminal sanctions and sentencing are further inadequate and ineffectual. China “suffers from inefficient judicial institutions, has weak criminal enforcement of IPR violations, and seldom imposes sentences that would rise to the level of deterrence for IP crimes.”<sup>30</sup> Even once cases are heard, the slow pace of the Chinese judicial process does not meet the fast turnaround American companies seek to remain competitive in the Chinese market. This was exemplified in the American pharmaceutical company Pfizer’s Beijing court case. First filed in 1994 with China’s State Intellectual Property Office (SIPO), Pfizer sought to obtain a patent for its erectile dysfunction product. After seven years of investigation and an additional five years of appeals, SIPO finally approved Pfizer’s patent. Yet, after twelve years of litigation, the drug generated extremely limited sales, as so many counterfeit erectile dysfunction drugs flooded the market, and Pfizer no longer held

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26. Randall P. Peerenboom, *China's Long March Toward Rule of Law*. (Cambridge, U.K.: Cambridge University Press, 2002), 61.

27. *Ibid.*, 295.

28. Blair et al, *The Report of the Commission on the Theft of American Intellectual Property*, 14.

29. Michele Nash-Hoff, “What Could Be Done about China's Theft of Intellectual Property?” *Industry Week*, February 9, 2016, <http://www.industryweek.com/intellectual-property/what-could-be-done-about-chinas-theft-intellectual-property>.

30. Blair et al., *The Report of the Commission on the Theft of American Intellectual Property*, 14.

monopoly over the viable market.<sup>31</sup>

China's hope for a more advanced rule of law is not entirely impossible or improbable. Since joining the World Trade Organization (WTO) in 2001, China has attempted to strengthen its legal framework and amend its IPR law to comply with the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).<sup>32</sup> Further, China and the neighboring Association of Southeast Asian Nations (ASEAN) have held a free trade agreement in place since 2002. ASEAN member states include Thailand and Vietnam, two notoriously active IP violators. However, in recent years, both of these Southeast Asian nations have seen moderate increases in patent and copyright applications and grants.<sup>33</sup> This has been aided in part by ASEAN's *2011-2015 Intellectual Property Rights Action Plan*. Within this plan, ASEAN calls for "active regional participation in the international IP community" as well as "closer relationships with dialogue partners and institutions to develop the capacity of stakeholders in the region." The plan's strategic goals also call for "intensified cooperation to enhance institutional capacity of IP in the region."<sup>34</sup> With this strong desire for regional cooperation on IP matters and an established trade relationship with China, ASEAN has the ability to incentivize and encourage China to harbor greater responsibility in IP protection. And while full commitment has not been made by China, a willingness to work with world organizations is a positive step for Chinese rule of law and Chinese IP protection.

### **Points of Contention: Technology Transfer**

Issues surrounding the transfer of technology continue to mar the U.S.-Chinese

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31. Andreas Schotter and Mary Teagarden, "Protecting Intellectual Property in China," *MIT Sloan Management Review*, June 17, 2014, <http://sloanreview.mit.edu/article/protecting-intellectual-property-in-china>.

32. "Ten Years of China in the WTO: Shades of Grey." *The Economist*, December 10, 2011. <http://www.economist.com/node/21541408>.

33. "Statistical Country Profiles," World Intellectual Property Organization, n.d., accessed February 18, 2016, [http://www.wipo.int/ipstats/en/statistics/country\\_profile](http://www.wipo.int/ipstats/en/statistics/country_profile).

34. ASEAN. *ASEAN Intellectual Property Rights Action Plan 2011-2015* (2011), 3-4, <http://www.aseanip.org/Portals/0/PDF/ASEAN%20IPR%20Action%20Plan%202011-2015.pdf>.

relationship. Technology transfer entails the transmission of knowledge and occasionally manufacturing methods, almost exclusively from the developed to the underdeveloped world. The amount of transferred technology is often where developed countries, like the United States, and developing countries, like China, differ. Often, developing countries seek higher volumes of technology transfer, coupled with weakened IP laws. These developing countries then do not have to bear the costs of developing and enforcing an IPR system to protect indigenous innovation. With lax IP laws, developing countries are able to imitate IP development through technological transfer from the developed world.<sup>35</sup>

China remains a major violator of IPR due to its continued lack of indigenous innovation. Within the MLP, the CCP calls for the continued, high-level importation of foreign technologies to assist in the expansion of foreign development.<sup>36</sup> However, for many foreign companies, this call by the MLP and the Twelfth Five Year Plan was seen as a justification for theft of foreign-generated IP and a shift away from the promised self-reliant and indigenous innovation policy. With more incentive to rush technological development into production than to actually indigenously innovate, Chinese companies, as well as the Chinese government, have elected to steal intellectual property from innovators worldwide, allowing these companies to become instant international competitors without expending the large R&D costs of their counterparts. Further, by “bypassing the difficult work of developing over decades human talent, business processes, and incentive systems to become innovators, these companies simply drive more inventive companies in the developed world out of markets or out of business entirely.”<sup>37</sup> In essence, through the policies and plans of the CCP, the “national industrial goals in China encourage IP theft” and, according to the IP Commission Report, “an extraordinary number of

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35. Rod Falvey and Neil Foster, *The Role of Intellectual Property Rights in Technology Transfer and Economic Growth: Theory and Evidence*. Working Papers. (Vienna: United Nations Industrial Development Organization, 2006), 77, [https://www.unido.org/fileadmin/import/60030\\_05\\_IPR\\_rights\\_in\\_technology\\_transfer.pdf](https://www.unido.org/fileadmin/import/60030_05_IPR_rights_in_technology_transfer.pdf).

36. The State Council of the People's Republic of China, *The National Medium and Long Term Program for Science and Technological Development*, 53.

37. Blair et al., *The Report of the Commission on the Theft of American Intellectual Property*, 10.

Chinese in business and government entities are engaged in the practice”<sup>38</sup> Recently, AG Carlin extended these accusations further, alleging Chinese policies as “blueprints” for theft and accusing the CCP of significant economic espionage, via cyber-theft and the stealing of trade secrets. In the past three decades, China has suffered from lax IPR laws and regulations, favoring scientific and technological modernization over fair trade practice.<sup>39</sup> Carlin argues, “When there’s a dedicated nation state who's using its intelligence apparatus to steal day in and day out what we're trying to develop, that poses a serious threat to our country. China wants to develop certain segments of industry and instead of trying to out-innovate, out-research, out-develop, they’re choosing to do it through theft.”<sup>40</sup>

While China has argued that the transfer of foreign technologies has been crucial in Chinese development of greater health and environmental standards, many developed world corporations see this type of policy as a shortcut in development that skips the process of real innovation.<sup>41</sup> By deploying their innovations in developing countries, these foreign firms lose control over patent enforcement and the ability to stop imitation and reverse-engineering from occurring.<sup>42</sup> This unfair shortcut was exemplified recently in *American Superconductor Corporation (ASMC) versus Sinovel (China) (2015)*. Every year, Chinese economic espionage and IPR theft target thousands of U.S. firms; however, rarely have American business executives spoken out against the Chinese, as they fear challenging the Chinese government will result in losing access to the all-important Chinese market.<sup>43</sup> ASMC was the rare case in which an American company did bring litigation against a Chinese imitator. In 2014, ASMC and Sinovel began a partnership in which ASMC would provide the software codes for wind turbine controls,

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38. Ibid., 3, 17.

39. Thomas I. Ross, “Enforcing Intellectual Property Rights in China,” *China Business Review*, October 1, 2012, <http://www.chinabusinessreview.com/enforcing-intellectual-property-rights-in-china>.

40. “The Great Brain Robbery,” 1:17-1:37.

41. “EPA Collaboration with China,” U.S. Environmental Protection Agency, n.d., accessed February 18, 2016, <http://www.epa.gov/international-cooperation/epa-collaboration-china>.

42. Blair et al., *The Report of the Commission on the Theft of American Intellectual Property*, 10.

43. “The Great Brain Robbery,” 3:15.

while Sinovel would provide the base structure of the wind turbines. However, according to ASMC, Sinovel soon came to access the knowhow to construct its own software. Upon further investigation, ASMC found that Sinovel had reverse-engineered ASMC software and the software in use was a direct imitation of its American counterpart. In 2015, ASMC filed a lawsuit in Chinese court, claiming Sinovel responsible for the theft of wind turbine control software codes which resulted in an estimated \$1.2 billion in revenue damages, forcing ASMC to fire nearly two-thirds of its workforce.<sup>44</sup> However, the Hainan Province High People's Court dismissed ASMC's case.<sup>45</sup> Effectively, this has rekindled some skepticism in U.S.-Chinese relations, as American businesses remain pessimistic in IPR protection in China and cautious of continued technology transfers.

### **Policy Recommendations**

In early 2016, AG Carlin stated, "we can no longer be a paper tiger" when it comes to intellectual property.<sup>46</sup> With economic costs to the highly important American IP industries in the billions of dollars, and with potentially serious consequences to future U.S. innovation, it is time for the United States government to strengthen both U.S. and Chinese IP protection. With this, the following policy recommendations will improve U.S.-China relations and to better protect current and future American intellectual innovation:

- *Maintain a policy of engagement and cooperation, while instituting a harder line in the short term.* The theft of United States IP and trade secrets is not something the U.S. government can take lightly. In the short term, a harder line on Chinese IP theft will encourage China to take IPR more seriously. However, continuing a trend of engagement

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44. Ibid.

45. Jianxiang Yang, "Sinovel Claims Court Win over AMSC," *Wind Power Monthly*, June 9, 2015, <http://www.windpowermonthly.com/article/1350760/sinovel-claims-court-win-amsc>.

46. "The Great Brain Robbery," 1:15.

is important to maintaining trust and cooperation from China. The White House and a number of Federal Agency leaders, through diplomatic engagement, need to continue to push the Chinese Communist Party to understand the importance of IP theft while also assisting in the process of better protection. Additionally, advocating for deeper cooperation with China's neighboring countries (i.e. ASEAN) as well as using international organizations (WTO) to protect IP will help curb and contain China's IP issues. Further, a substantial IP policy plan, like ASEAN's 2011-2015 *Intellectual Property Rights Action Plan*, can help guide its way to better IP regulation and implementation.

- *Greatly increase capacity sharing efforts with the SIPO and the Chinese judicial system and build institutions to contribute toward "rule of law environment."* Currently, the U.S. Department of State (DOS) as well as the U.S. Copyright Office has held numerous symposiums in Washington D.C. to help developing countries better understand IP regulation and the importance of IPR.<sup>47</sup> These symposiums need to be expanded upon for Chinese government officials. Additionally, the Global Intellectual Property Academy, a subset of the U.S. Patent and Trademark Office, will see a large increase in funding in order to train and teach Chinese judges and the Chinese judicial system of proper IP prosecution and sentencing. Effectively, this will create a stronger judicial environment and rule of law within China and limit the corruptive practicing currently occurring between the public and private sectors. Additionally, the U.S. government must encourage further private sector investment for rule of law capacity-building efforts, similar to the now defunct U.S.-China Legal Cooperation Fund. This Fund provided financial support via grants to projects promoting the strengthening and maturing of rule

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47. Marantis, 2013 *Special 301 Report*, 4, 13.

of law in China since 1999. In its fourteen years of existence, the Fund had supported numerous educational and legal organizations, “most of which were planning cooperative efforts in legal education, improvement of legal services, protection of legal rights, legislative and judicial procedure, and related areas.”<sup>48</sup> Unfortunately, the Fund decided to cease operations in 2013. However, the creation of a government-run fund would provide an important gathering place for legal and educational service organizations to seek funding and to draw private sector attention to invest. Along with this fund, the United States government, through diplomatic efforts, must continue to reiterate the importance of strengthened rule of law to Chinese officials.

- *Deny technology transfer in the short term to encourage Chinese indigenous innovation through fellowship programs.* Even with China’s recent promise of increased investment in research and development, the transfer of technology continues to be a hot issue in the IP regulation debate between China and the United States. For China, there is a continued reliance on U.S. innovation and technological skill and less reliance on domestic innovation and R&D. This is exhibited by China’s continued large trade deficit in international technology transfer.<sup>49</sup> And this will continue to be an issue until China fully commits to the developing of its own indigenous innovation. Where suitable, the U.S. should limit its technology transfer with China. This includes the transfer of technologies for environmental safety and sustainability. However, due to the sensitive nature of the United States’ stance on environmental sustainability in China, it would be unwise to completely neglect Chinese needs for green technologies. To alleviate these concerns, the United States should advocate an open collaboration of environmental knowledge and

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48. “Supporting Rule of Law in China,” *China Business Review*, May 1, 2009, <http://www.chinabusinessreview.com/supporting-rule-of-law-in-china>.

49. Giuditta De Prato and Daniel Nepelski, “International Technology Transfer Between China and the Rest of the World,” EUR 25960 EN (Luxemburg: European Commission Joint Research Centre Institute for Prospective Technological Studies, 2013), 11. <http://ftp.jrc.es/EURdoc/JRC79397.pdf>.

disciplines with China, while also supporting Chinese environmental innovation through research grant programs. Congress would allocate funds for fellowships that support Chinese scholars in studies and R&D to better advance the possibility of increased Chinese indigenous innovation and IP protection.

- *Create stricter IP criteria for investment in the U.S. banking system in the short term.*

The United States currently sits as the world's most powerful economy, with large quantities of commerce conducted in the U.S. dollar and via the United States banking system. With this, the U.S. government has the power to use greater economic leverage to hinder Chinese IP thieves. Currently, foreign companies that sell goods or services in the American market, or do any business conducted in U.S. dollars, must at some point in time, clear their payments through the U.S. banking system. With this, the U.S. government, especially through the work of the Department of the Treasury and with the cooperation of U.S. banks, has the ability to deny foreign corporations the ability to move its payments through the banking system. Effectively, this can shut down a foreign business completely, as payments are no longer processed and foreign companies received zero revenues. While Chinese companies may attempt to maneuver the system through reverse mergers and shell companies, this policy would ensure Chinese parent companies, and not only subsidiaries would feel the effects of banking system denials. While this approach may upset the CCP and is not necessarily engagement in nature, the policy would do nothing to change existing requirements for use of the American banking. Instead, the policy would only call for a more thorough and stricter following of U.S. banking system guidelines, a rule all parties should be able to respect and abide.<sup>50</sup>

By making these foreign companies comply with U.S. standard IP laws as a prerequisite

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50. "Regulations." Board of Governors of the Federal Reserve System, n.d., accessed February 25, 2016, <http://www.federalreserve.gov/bankinforeg/reglisting.htm>.

for U.S. market and banking access, offending companies must comply or forfeit potential revenues. This will diminish counterfeit items from entering the United States, while discouraging violating Chinese firms from continuing questionable trade practices.

- *Wait and see for China to create a stronger IPR and patent environment.* Over the last decade, China's State Intellectual Property Office and the country's judicial system has amped up efforts to prosecute IP related cases. This rise in activity has been concurrent with a limited increase in indigenous innovation in China. As Chinese innovators begin to create more, they will seek greater security in patents, copyrights and trademarks. Effectively, this will require the Chinese government and judicial system to become stronger in its regulation and prosecution of IP-related theft within the country and will create a better trade environment for foreign companies within the Chinese market. In the last half decade, China has already seen a tremendous increase in patent and trademark applications. With continued encouragement and assistance through the aforementioned recommendations, the waiting period for the U.S. will be expedited and may be resolved sooner than anticipated.

### **Chinese Reactions and the Future of U.S.-China Relations**

In a September 2015 meeting with United States President Barack Obama, Chinese President Xi Jinping promised an end to governmental participation in economic espionage.<sup>51</sup> If properly enforced, this is a strong first step in the fight to protect American business interests and establish stronger relations and trust with China. However, the fight cannot end here. The United States government must press harder against China to ensure the protections promised by U.S.

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51. Steven Mufson and Ellen Nakashima, "The U.S. and China Agree Not to Conduct Economic Espionage in Cyberspace," *The Washington Post*, September 25, 2015, [https://www.washingtonpost.com/world/national-security/the-us-and-china-agree-not-to-conduct-economic-espionage-in-cyberspace/2015/09/25/1c03f4b8-63a2-11e5-8e9e-dce8a2a2a679\\_story.html](https://www.washingtonpost.com/world/national-security/the-us-and-china-agree-not-to-conduct-economic-espionage-in-cyberspace/2015/09/25/1c03f4b8-63a2-11e5-8e9e-dce8a2a2a679_story.html).

law. These policies must be highly encouraging and persuasive in nature, to convince China of the importance of stronger IP regulation and to promote greater economic stability both domestically and worldwide.

In the short term, the United States must work to expedite China's slow-moving progress towards a stronger and more protective intellectual property system. These short-term policies will greatly aid China's recent, but sluggish improvements to the Chinese judicial system and will also increase willingness to participate and global IP agreements. But, as with any policy, there involves a great amount of risk taking. While China may be compliant with many of the above recommended engagement policies, there is little doubt that the United States would face some backlash, particularly from harsh policies such as a reduction in technological transfer and the denial of access to the U.S. banking system. Within these two latter policies, there would be serious repercussions and response from not only Chinese companies but also from the Chinese Communist Party itself. For one, the Chinese may turn to global organizations, such as the World Trade Organization (WTO), to decry U.S. violations of free trade. With the blocking of certain corporations to the use of the U.S. banking system and the overall non-discriminatory closure of all technology transfer to Chinese businesses, guilty or not, the United States leaves itself open to several intense, lengthy litigation battles. However, these policies will effectively create a short-term environment in which the initial resentment from China will lead to the country promoting less reliance and stronger Chinese indigenous innovation, coupled with a stronger judicial and IPR protection system. However, in the long run, there is already thriving sentiment that in due time, as indigenous innovators increase, Chinese innovators will begin to call for stronger implementation of IP regulation. Still, the United States must accelerate China's path toward IP protection for the betterment of U.S. business in the immediate future. Ultimately, this acceleration will lead to a faster solution to bettering the economic and political climate and creating the possibilities of further compliance and compromise between the two nations.

# Section III:

## Human Rights and the Environment

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China's policies towards human rights and the environment show both the limits and possibilities of soft-power diplomacy. China has been criticized by many nations, organizations, and individuals for its poor human rights record, including persecution of ethnic minorities, lack of personal freedoms, censorship, and detention of activists. However, China's approach to human rights seems to be rooted in deep-seated governance philosophies that likely cannot be significantly changed by outside intervention, especially in light of the lack of power that nongovernmental organizations (NGOs) and other civil society groups hold in China. By contrast, the U.S. and China have a recent history of close cooperation on environmental issues. Despite issues arising from economic competition, differing levels of development, and conflicting domestic interests a recent series of successful collaborations and person-to-person diplomacy culminating in the COP21 Paris Agreement in November 2015 show a positive trend in bilateral cooperation in environmental policy.

This dichotomy of what outcomes are feasible in each case informs the policy decisions presented. The U.S. should take a subdued role in promoting human rights in China, mostly by making real or symbolic shows of solidarity with Chinese human rights defenders, raising international awareness of China's human rights record, and working to promote international human rights norms. In environmental policy, both the U.S. and China should continue their efforts to find common solutions to climate change. As the two largest economies in the world, the two largest consumers of raw materials, and the two largest emitters of CO<sub>2</sub>, the policy groundwork laid by China and the U.S. will serve as a model and precedent for future international climate agreements. In both human rights and environmental policy, American leadership and domestic solidarity on the global stage are essential for promoting its policy agenda.

# Human Rights

*Lei Qi*

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## Abstract

### Key Policy Decisions

A combined, multifaceted approach is needed to address the human rights issues in China. On the one hand, Washington should continue its engagement with China through exchange programs and business interactions, so as to generate favorable opportunities to promote human rights in the long term. On the other hand, Washington should act more assertively by building an international coalition to exert collective pressure on China over human rights, and by articulating its support for human rights activists and relevant organizations despite Beijing's appeal.

### Background

Protecting human rights is not only a core value of the United States, but also a central goal of its foreign policy. Washington acknowledges that promoting human rights internationally serves its fundamental national interests, as it helps secure the peace, deter aggression, promote the rule of law, combat crime and corruption, strengthen democracies, and prevent humanitarian crises.<sup>1</sup> As an emerging global power, the Chinese government's violations of human rights not only add to the instability in bilateral U.S.-China relations, but also challenge the overall international system that upholds human rights as an essential, making promoting human rights in China imperative for the U.S. government.

### Recommendations

- Build international coalitions to promote international norms of human rights and exert collective pressure upon Beijing.
- Promote internet freedom and exchange programs to help the Chinese people engage in civil society.
- Support individuals and organizations who are victims of abuse or defenders of human rights to encourage activists to continue with their efforts.

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1. "Human Rights," U.S. Department of State, n.d, accessed February 18, 2016, <http://www.state.gov/j/drl/hr>.

## **Building International Coalitions to Promote International Human Rights Norms and to Exert Collective Pressure on Beijing**

Presently, the United States is the most vocal advocate of China's human rights promotion on the international stage. As previous Assistant Secretary of State for Democracy John Shattuck suggested, "the UN Human Rights Commission (UNCHR, now UN Human Rights Council, UNHRC) is probably the single-most important instrument for, at least on a multilateral basis, addressing the human rights violations in China."<sup>2</sup> Since 1990, the U.S. has been playing a leading role in sponsoring and lobbying for resolutions criticizing China's human rights record at the UNHRC. Although not forced to behave, China is expected to be "shamed" into changing its behavior. However, none of these attempts have been successful, as China thwarted voting on most resolutions through "no-action motions,"<sup>3</sup> and obtained substantial support from many Asian and African countries to vote down these resolutions by providing economic benefits, as well as addressing their common suspicion of Western countries' interventions.<sup>4</sup> Given this predicament, the U.S. should build a coalition to promote international norms of human rights and to exert collective pressure on the Chinese government. It should encourage other liberal powers, i.e. France, the United Kingdom and Japan, as well as organizations that have interactions with China, i.e. UNHRC, the European Union (EU), and Association of Southeast Asian Nations (ASEAN), to join the coalition and be more active towards human rights issues in China.

Washington adopts this approach in UNHRC. Despite previous unsuccessful attempts to bring up resolutions, it still forms a Western coalition within the UN to voice its concerns and criticisms about the CCP's violations of human rights to the Chinese representatives. Though this

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2. Ming Wan, *Human Rights in Chinese Foreign Relations: Defining and Defending National Interests* (Philadelphia: University of Pennsylvania Press, 2011), 48.

3. U.S. Library of Congress, Congressional Research Service, *Human Rights in China and US Policy*, by Thomas Lum, RL34729 (July 18, 2011), 31, <http://mchip.xykon-llc.com/sgp/crs/row/RL34729.pdf>.

4. Yuchao Zhu, "China and International 'Human Rights Diplomacy,'" *China: An International Journal* 9, no. 2 (2011): 232.

coalition has not necessarily made China itself a more responsible human rights protector, it still pressures China to make some compromises in dealing with human rights abuses in other countries. For example, in the case of the Darfur crisis in Sudan, the Chinese government faced huge pressure from both international human rights nongovernmental organizations (NGOs) and Western governments regarding its opposition to the UN's sanctions on the Khartoum regime, arguing that it was Sudan's internal affairs. China then realized its international reputation would be at risk if it insisted on its non-interference position over Sudan's issues. Therefore, when it later came to the crisis of South Sudan, China sent its special envoy there to help find a peaceful solution.<sup>5</sup> It can be a starting point to further pressure Beijing to modify its diplomatic principle of non-interference in dealing with human rights issues, and thereafter to adjust its own human rights policy to be more consistent with international normative consensus. The U.S. should further strengthen its coalition in UNHRC by addressing UNHRC members' obligation to uphold the Universal Declaration of Human Rights (UDHR) adopted by the UN General Assembly in 1948, the International Covenant on Civil and Political Rights (ICCPR) and the International Covenant on Economic and Social and Cultural Rights (ICESCR) produced by the UNCHR, and encourage its partners to be more outspoken about China's issues in UNCHR human rights meetings.

Besides building a coalition to uphold general human rights principles under the framework of UNHRC, cooperation can also be directed to promote specific principles through specialized organizations, for example, freedom of information through the WTO. Washington should urge the member states to collaborate with it to initiate a WTO case against China's information censorship, since China's behavior is likely to violate its commitment and at least three WTO clauses. When China joined the WTO in 2001, it agreed to open and liberalize its economy, and specifically pledged to create unrestricted market access for online data processing

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5. Ibid., 237.

services like search engines.<sup>6</sup> Therefore, Beijing's current information censorship violates its prior commitment to the WTO.

Apart from its own commitment to the WTO, Beijing's policies may also violate the General Agreement on Tariffs and Trade (GATT) Article III:4 and XI:1 and the General Agreement on Trade in Services (GATS) Article III:1. GATT Article III:4 requires countries to apply "no less favorable" treatment to products or services that it imports from other member countries.<sup>7</sup> China is likely to violate this clause due to its inconsistent application of censorship policies. For example, Twitter and Weibo provide similar social-media services. However, Twitter is blocked completely in China while Weibo is allowed to operate with selective filtering, showing a different treatment between foreign and domestic companies. GATT Article XI:1 prohibits all non-tariff barriers on trade.<sup>8</sup> China's blocks on foreign websites may be interpreted as a trade barrier or a form of protectionism, since such blocks prevent foreign companies from accessing the Chinese market. There is a successful precedent in the *U.S. v. Antigua Online Gambling* case for considering a ban on a service as a quota restriction.<sup>9</sup> Therefore, the WTO panel would likely find China in violation of this clause. Finally, GATS Article III:1 requires that countries publish all "relevant measures of general application."<sup>10</sup> China has not published the guidelines that it is using to block foreign websites, nor the list of foreign websites that it has already blocked. As a result, foreign internet companies are subject to arbitrary measures that constitute a barrier to doing business in China. This claim would likely hold up in a WTO panel, further bolstering the case against China's censorship.

The U.S. government should not only clarify to other WTO members that they share

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6. Kevin Holden, "Breaking Through China's Great Firewall," *The Diplomat*, July 30, 2013, <http://thediplomat.com/2014/07/breaking-through-chinas-great-firewall>.

7. "The General Agreement on Tariffs and Trade (GATT 1947)," World Trade Organization, n.d., accessed February 18, 2016, [http://www.wto.org/english/docs\\_e/legal\\_e/gatt47\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/gatt47_01_e.htm).

8. *Ibid.*

9. "United States Seeks Detailed Information on China's Internet Restrictions," Office of the United States Trade Representative, October 2011, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2011/october/united-states-seeks-detailed-information-china%E2%80%99s-i>.

10. "United States Seeks Detailed Information on China's Internet Restrictions"

responsibilities to uphold the WTO principles and to prevent its members from breaking their commitments or the WTO clauses, but also convince them that inaction on Beijing's violations will diminish the effectiveness of WTO principles, therefore making themselves vulnerable to further infringement. The U.S. can use its own business practices in China as an example of being treated improperly. China blocked photo-sharing applications Flickr and Instagram, as well as almost all Google services in 2014,<sup>11</sup> bringing huge economic losses to these companies. Also, some blocks target widely-used cloud services, such as Dropbox and Microsoft's OneDrive.<sup>12</sup> Since many U.S. businesses in China rely on these cloud services to store and share data, such blocks deeply disrupt their daily operations. An increasing number of companies from WTO member states are currently doing, or planning to do business in China, hence they face the same obstacles as U.S. companies do. It will encourage these countries to collaborate with the U.S. so as to prevent further profit losses. Possible actions include open criticism, negotiation, punitive tariffs, reduction of trade concessions, etc. Acting collectively is safer than acting alone, as it is less likely for China to retaliate against a number of countries through economic means at the same time.

The U.S. should encourage organizations and countries, not limited to WTO and its members, but all that have business interactions with China, to join the coalition to promote rule of law, labor rights, and civil society within China. Companies doing business in China should establish a good model as well as codes of conduct that uphold human rights for their Chinese partners and competitors. Applying human rights principles thoroughly, consistently and impartially in a company's global operations will not only contribute to the development of legal systems in which contracts are enforced fairly, but also prevent bribery and corruption, ensuring a favorable environment for doing business in China. Respecting human rights in their business

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11. Sarah Cook, "How Beijing's Censorship Impairs U.S.-China Relations," Freedom House, July 23, 2015, [https://freedomhouse.org/blog/how-beijing-s-censorship-impairs-us-china-relations#.VbZ-\\_flVhBc](https://freedomhouse.org/blog/how-beijing-s-censorship-impairs-us-china-relations#.VbZ-_flVhBc).

12. Ibid.

interactions with China also protects companies' most valuable asset in the world marketplace – brand image – as the media and the public are paying significant attention to companies' human rights practices. Thus, it is in their interest to coordinate with the U.S. to launch a joint battle to promote human rights in China.

### **Promote Internet Freedom and Exchange Programs to Help Chinese People Engage in Civil Society**

As a critical component of civil society development in China, the internet including social media has played a significant role in holding public discussions, organizing assemblies, and calling for protests. Bulletin boards, chat rooms, microblogs (Weibo), social networking and other outlets have allowed for a flow of an unprecedented amount of information among Chinese netizens, the number of which hit 668 million in 2015.<sup>13</sup> One study found that 61% of blogs carried “critical” opinions, including those related to society, government, and public figures, while 36% of blogs demonstrated “pluralism” or two or more different perspectives.<sup>14</sup> Furthermore, internet and cellular technologies have enhanced the abilities of activists and aggrieved citizens to assemble and to record and publicize social protests. Although restricted by the Great Fire Wall (GFW), the internet sphere is still the frontline exploring the fringe of public discourse about civil society tolerated by the CCP. Given this circumstance, the U.S. should work to promote internet freedom programs to help Chinese citizens circumvent censorship, get access to information blocked by the authorities, and engage freely in discussions about human rights and the civil society. It not only echoes American values of freedom, but also accords with U.S. efforts to promote democracy, as a large number of activists are using the internet to mobilize and advocate for political, social, and economic reforms in China.

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13. “China’s Netizen Population Hits 668 Million,” *China Daily*, August 23, 2015, [http://www.chinadaily.com.cn/china/2015-07/23/content\\_21391306.htm](http://www.chinadaily.com.cn/china/2015-07/23/content_21391306.htm).

14. Rebecca MacKinnon, “Flatter World and Thicker Walls? Blogs, Censorship and Civic Discourse in China,” *Public Choice* 134 (2008): 35, doi: 10.1007/S11127-007-9199-0.

This recommendation is consistent with current U.S. policy, urging the government to continue making such efforts. In 2006, the Bush Administration established the Global Internet Freedom Task Force (GIFT). Continued under the Obama Administration, GIFT's duties are to monitor internet freedom around the world; respond to challenges to internet freedom; and expand global access to the internet. Congress has appropriated around \$30 million a year for global internet freedom efforts,<sup>15</sup> and has been encouraging organizations and companies to contribute to funding. Programs are aimed at areas such as censorship circumvention technology, internet and mobile communication security, media training and advocacy, and public policy. Labor unrest in the summer of 2010 was a successful practice of Chinese labor using the Internet to organize protests in Southeast coastal cities. The Internet helped striking workers to communicate domestically and internationally, expose human rights abuses, learn from each other's protest strategies, and research relevant labor laws. The most significant strikes took place at Foxconn and Honda factories in Guangdong province, both of which resulted in improvements of working conditions and wage increases.<sup>16</sup> This successful attempt demonstrates that workers have the capacity to defend their human rights, encouraging other workers or even non-workers throughout China to take action as well.

According to a report released by the nonprofit Institute of International Education (IIE), during the 2014-2015 academic year, the number of Chinese students studying stateside was 304,040, a 10.8% increase over the 2013-2014 academic year.<sup>17</sup> Studying in the U.S. will allow Chinese-educated elites and youth to learn about U.S. democracy and its promotion for individualism and human rights. Many of them will become supporters of civil society as well as civil movements demanding human rights. After returning to China, these people have the

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15. "Internet Freedom," U.S. Department of State, n.d., accessed February 18, 2016, <http://www.state.gov/e/eb/cip/netfreedom/index.htm>.

16. "Socialist Workers, Is China's Labour Market at a Turning-Point?" *The Economist*, June 10, 2010, <http://www.economist.com/node/16319562>.

17. Bethany Allen-Ebrahimian, "Chinese Students in America: 300,000 and Counting," *Foreign Policy*, November 16, 2016, <https://foreignpolicy.com/2015/11/16/china-us-colleges-education-chinese-students-university>.

potential to make changes to the human rights conditions in society, as they may not only personally join the movements, but also advocate human rights principles and mobilize others to take action. According to the Department of State (DOS), approximately one-third of all Chinese citizens participating in U.S.-sponsored professional exchange programs work in fields related to democracy, rights, and religion.<sup>18</sup> Therefore, the U.S. should encourage such exchange programs, and help participating Chinese people to explore ideas of civil society.

### **Support Individuals and Organizations Who Are Victims of Abuse or Defenders of Human Rights to Encourage Activists to Continue With Their Efforts**

A large number of people and organizations, either Chinese or international, are currently fighting for human rights in areas such as the rule of law, freedom of speech and press, civil society movements, etc. Many activists have experienced frequent harassment by the authorities, and some even been imprisoned. Human rights organizations face strict regulations imposed by the CCP, and can hardly register as NGOs and enjoy due rights and benefits. U.S. policymakers should pivot their attention to these activists and organizations, and support them through assertive actions, such as providing aid and technical support to them, openly criticizing the CCP's harassment of dissidents, mentioning the names of jailed dissidents and advocating for their release in official meetings, etc.

This recommendation echoes the current policy, but requests the government to be more consistent in the way it raises its concerns on individual cases, and be assertive to use vocal diplomacy when private diplomacy yields no result. As a flagship program of the Bureau of Democracy, Human Rights and Labor (DRL), the Human Rights & Democracy Fund (HRDF) has been used to fulfill the Bureau's mandate of monitoring and promoting human rights and democracy worldwide. Its funding has grown from \$7.82 million in FY1998 to over \$207 million

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18. "China Includes Tibet Report," U.S. Department of State, last modified May 2010. <http://www.state.gov/j/drl/rls/afdr/2010/eap/129762.htm>.

in FY2010.<sup>19</sup> Such support helps to release activists and organizations' anxieties about government's harassments, fund their activities and campaigns, and enable them to continue with their work. Moreover, with the shield provided by the U.S., these activists will gain public attention and therefore have their experiences and voices more widely heard, hopefully facilitating the progress of human rights improvements.

A successful example here is the case of Chen Guangcheng, a Chinese human rights activist who has worked to advocate women's rights, land rights, and the welfare of the poor. The U.S. openly criticized the CCP's harassment of Chen, and provided diplomatic protection to him through the embassy. Few Chinese people knew about him and his advocacy before, but the U.S. intervention made him well-known in social media. Numerous Chinese netizens expressed their support for his efforts to protect the human rights of the underprivileged and his bold struggle with the government.<sup>20</sup> Though relevant posts were soon deleted by the authorities, Chen's story was still heard and inspired a large number of Chinese people to consider changing the status quo. The difficulty here is how to maintain the influence of activists like Chen, as their effects would be limited after their leaving. To solve this problem, Washington should maintain its solid and consistent support for human rights defenders as well as democracy advocates, and make continuous efforts to pressure the CCP to release high-profile political dissidents, such as Liu Xiaobo and Wang Bingzhang, both of whom are indicted on charges of "inciting subversion of state power"<sup>21</sup> for their crucial role in China's democratic movement.

Washington should uphold the President's meetings with the Dalai Lama despite the CCP's appeals and pressure, and voice its firm support for religious freedom. The Congress has passed the Tibetan Policy Act of 2002 (P.L. 107-228), directing the Executive Branch to encourage the PRC government to enter into a dialogue with the Dalai Lama or his

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19. "DRL Programs," U.S. Department of State, n.d., accessed February 2, 2016, <http://www.state.gov/j/drl/p>.

20. Rachel Vandenbrink, "Chen Urges People to Spur Reform," *Radio Free Asia*, January 29, 2013, <http://www.rfa.org/english/news/china/chen-guangcheng-01292013183008.html>.

21. Lum, "Human Rights in China and US Policy," 7.

representatives, as well as calling for the release of Tibetan political and religious prisoners in China.<sup>22</sup> U.S. officials should raise this issue in their meetings with Chinese officials, emphasizing their concerns about the Dalai Lama and other Tibetan dissidents, as well as religious freedom in Tibet.

Through these assertive actions, the Administration will send a clear signal to Chinese leaders of the significance the U.S. has placed on human rights, as well as to those human rights activists and organizations of solid support. Such support will enable them to continue with their efforts and may inspire more people to join the movement.

### **Beijing's Reactions**

Beijing's responses and reactions to these policy recommendations are predictable according to its past practices in dealing with foreign criticism and pressure upon its human rights problems. It will criticize the U.S. and its partners for interfering with China's internal affairs, claiming these countries are using the human rights issue as a tool to advance their own strategic goals. In many Chinese publications, U.S. human rights policy has been condemned as a tool for conducting "peaceful evolution" aiming at changing the nature of the Chinese social system.<sup>23</sup> As Hong Lei, Chinese Foreign Ministry spokesman, stated at a regular news conference, "We oppose any country using human rights issues as an excuse to interfere in China's domestic affairs."<sup>24</sup> In addition, the Chinese government and Chinese people have always been highly sensitive towards issues regarding security and foreign powers, mainly because of its history of being invaded and humiliated by foreign powers from the Opium Wars

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22. U.S. Library of Congress, Congressional Research Service, *Tibet: Problems, Prospects, and U.S. Policy* by Kerry Dumbaugh, RL34445 (April 10, 2008), 4, <http://fpc.state.gov/documents/organization/103673.pdf>.

23. Qi Zhou, "Conflicts over Human Rights between China and the US," *Human Rights Quarterly* 27, no. 1 (2005): 111, doi:10.1353/hrq.2005.0011.

24. Kaamashri Latcha, "Does the U.S. have the Moral Authority to Criticize China's Human Rights?" *The York Scholar* v.8.2 (Spring 2012): 26. <https://www.york.cuny.edu/academics/writing-program/the-york-scholar-1/the-u.ss-moral-authority>

to the Sino-Japanese war. This period of history left a deep and lasting impression on Chinese collective memory and created a “victim mentality.” Even young people are included, owing to the prevalent nationalist education. As a result, many of them doubt the real intention of the U.S., and regard its open criticism and assertive actions as humiliation and infringement on China’s sovereignty.

However, the collective efforts made by member states of the UN, the WTO and other organizations will demonstrate their non-hostile intentions towards China, as most of them do not demand China’s political change. Also, the U.S. and its partners are using diplomatic means, other than enforcement, to call for changes in China’s human rights problems. Furthermore, if Beijing complied with its Constitution and did not violate its citizens’ human rights in the first place, Washington would not have to take such actions. Chinese negative views about its intervention will not let these issues disappear from the U.S.’ agenda, as long as there is a sizable constituency lobbying for a strong stance on human rights in China.<sup>25</sup> Furthermore, human rights protection is fundamental to the U.S. government and the international order it has been upholding, and is one of the core values that consist of the American people’s self-identity and self-conception. Therefore, the U.S. government is not going to drop its concern about human rights in China just because of the CCP’s objections.

Also, Beijing will initiate its tit-for-tat rebuttal against external criticism by condemning Western countries’ human rights records. For example, in 2010, after the United States mentioned China’s clampdowns on ethnic minorities, human rights activists and public-interest lawyers in its statement, China replied by highlighting the problem of U.S. domestic violence, a huge gap between the rich and poor, as well as racial discrimination and the “systematic violation” of the rights of indigenous peoples.<sup>26</sup> However, such counterattacks will have little

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25. Wan, *Human Rights in Chinese Foreign Relations*, 51.

26. *Ibid.*

impact on the United States, mainly because they are biased and the U.S. government does admit its imperfect human rights records. Discussions about racial discrimination, inequality, and violence appear commonly in public media, and the communities have been working to solve these problems, rather than covering them up. There is also no doubt that the human rights record of the U.S. is much better than that of China, so it is in a position to promote better human rights practices in China. The CCP's logic that the U.S. should not criticize China's human rights problems is itself problematic, as being perfect is not a prerequisite of promoting such a universally accepted principle.

Beijing will also refer to its own definition of human rights as a source of refutation. Rather than focusing on individual rights (such as freedom of expression or religion), the CCP emphasizes its achievement in poverty alleviation, and has consistently promoted a hierarchy of rights in which social and economic rights are privileged over civil and political rights. In its 1991 White Paper, the Chinese government asserted that "the right to subsistence is the most important of all human rights, without which the other rights are out of question."<sup>27</sup> Admittedly, this is an important component of human rights, but it is not the precondition of other rights. One should still enjoy freedom of speech even he lives below the poverty line. As the U.S. Acting Assistant Secretary Uzra Zeya states, the U.S. recognizes the Chinese government's remarkable records of economic development over the last three decades, but they are not excuses for the CCP to escape from criticism over its abuses of human rights in aspects relating to religious freedom, environmental degradation, lack of rule of law, freedom of expression, assembly and association, etc.<sup>28</sup>

Domestically, Beijing has displayed a growing anxiety about the influence of the media on

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27. Sonya Sceats and Shaun Breslin, *China and the International Human Rights System* (London: Chatham House Royal Institute of International Affairs, October 2012), 6, [https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/International%20Law/r1012\\_sceatsbreslin.pdf](https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/International%20Law/r1012_sceatsbreslin.pdf).

28. "Press Conference Following U.S.-China Human Rights Dialogue," *U.S. Department of State*, last modified August 2, 2013, <http://www.state.gov/j/drl/rls/rm/2013/212667.htm>.

Chinese society and politics. Therefore, it is likely to strengthen its information censorship through more meticulous filtering and articulate its ban on “sensitive” issues and consequences of disobedience. It may create an undercurrent of fear among netizens and therefore induce self-censorship. It will also modify the Overseas NGO Draft Law, probably loosen restrictions over overseas NGOs that are not imposing direct threats to its rule and legitimacy, such as those concerning the environment and poverty reduction; while maintaining its regulation over all of them in order to further narrow space for civil society. In response to this, Washington should continue to press Beijing to relax its information control and create truly autonomous entities to define and implement remaining restrictions on content that is internationally recognized as harmful. It should work with diverse international and domestic actors to push back against restrictions and create space for the free flow of information, including referring to WTO and UN mechanisms to impose threat of sanctions, combined with encouraging domestic companies to share advanced technologies in Virtual Private Network (VPN) with their Chinese partners.

Given China’s current position in the world, it cannot ignore the pressure from the U.S. and the international society. It needs to keep its promise to be a responsible global power, and to assure its neighbors of its “peaceful rise.” To achieve this, the CCP has to prepare itself to accept prevailing norms in the international society. Given that human rights are an essential normative discourse in the contemporary world with international legitimacy, Beijing has to respond to the pressure upon its violations of this right by committing to making progress over it.

## **Conclusion**

This report recommends adopting an approach combining both engagement and assertive actions. On the one hand, the U.S. should continue its engagement with China through exchange programs and business interactions. It will generate favorable opportunities to promote human rights and ensure long-lasting effects. On the other hand, the U.S. should be more assertive by

building an international coalition to exert collective pressure on China over human rights, and articulating its support for human rights activists and relevant organizations. It will remind Beijing of U.S. and international regimes' continuous concerns, and encourage Chinese activists to continue with their efforts. These strategies will help to create social, cultural, and economic conditions in China that favor the progress of human rights improvements, but none of them would precipitate instant changes in CCP's human rights abuses. Given this, human rights will retain its presence in U.S. foreign policy agenda, requiring Washington's consistent efforts.

# Environment and Energy Security

*Rebekah Cheng*

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## Abstract

### Key Policy Decisions

Greater cooperation and engagement is necessary and doable in the realm of energy security and environmental concerns, and can be supported by mutually-beneficial competition. This will be made possible through domestic reform in alignment with international commitments, as well as collaborative actions in the bilateral and global spheres. We must recognize that to demonstrate American leadership and authority in energy and environmental policy, the global impetus to mitigate and adapt to climate change must take priority in policymaking.

### Background

As the respective leaders of developed and developing nations, the United States and China have differing views on how to allocate environmental responsibility. This divergence stems from underlying economic competition, differing levels of development, and conflicting domestic interests and core values. Therefore, there is a need to link each other's domestic concerns with broader global concerns to demonstrate a unified necessity for both developed and developing nations to jointly address environmental issues. Recent developments – namely the U.S.-China Joint Announcement on Climate Change in November 2014, reaffirmation of said announcement in September 2015, and the results of the 21<sup>st</sup> Conference of the Parties (COP21) in November 2015 – show a positive trend in bilateral and global environmental cooperation.

### Key Recommendations

- U.S. Domestic
  - Engage in frequent bipartisan dialogue to promote national unity in advance of potentially ratifying the COP21 Paris Agreement in Congress.
- Collaborative
  - Clearly dismiss notions of inevitable conflict, firmly and frequently asserting that the U.S. desires closer, mutually-beneficial relations with China. Affirm the need for multilateral solutions to energy security and environmental concerns.
  - Pursue continued deepening of bilateral, multi-level public and private dialogues.
  - Discuss joint clean technology research and development (R&D) initiatives to assist in reducing reliance on coal and encouraging a smooth transition to smart grids.
  - Press China to clarify and if necessary, amend its laws regarding domestic and foreign nongovernmental organization (NGO) operations for environmental organizations.
  - Encourage transparency and cooperate in sharing environmental data.
  - Encourage mutual adherence to the final draft of the Paris Agreement in advance of the April 22, 2016 signing ceremony.
  - Encourage China to deepen cooperation with the International Energy Agency (IEA).
  - Explore the possibilities of a global carbon market.

## **The Environmental Status Quo**

While the United States and China may clash in other realms, energy security and environmental concerns are areas in which cooperation has already borne fruit and has the potential to continue down this path. Energy security is defined by the IEA as “the uninterrupted availability of energy sources at an affordable price,” and is judged by the indicators of affordable/competitive supply, accessible/available supply, and reliable/uninterruptible supply.<sup>1</sup> It is closely related to energy efficiency and resource management. Environmental concerns include environmental protection, governance, and security. Both areas are inextricably linked to global warming, for it is the unregulated emitting of greenhouse gases (GHG) into the atmosphere that has led to climate change and its secondary consequences.

The U.S. needs to build upon gains made in energy security and environmental policymaking during the last eight years. Presuming that the next administration also values climate change mitigation and prioritizes the international agenda set forth at COP21, what it must come to terms with is the uncomfortable acknowledgment that the United States is not unified in the least regarding energy security and environmental concerns. Domestically, the nation is split along partisan and regional lines. Economic growth has long been linked to carbon emissions, resulting in entrenched, powerful interests such as oil, coal, and natural gas corporations. During President Obama’s tenure, divisive topics included the Keystone XL Pipeline, expansion of shale gas and hydraulic fracking, the Climate Action Plan and subsequent Clean Power Plan.

For the top five emitting countries (China, the U.S., the European Union (EU), India, the Russian Federation, and Japan), most are seeing a gradual leveling-off of CO<sub>2</sub> emissions from fossil-fuel use and cement production (Figure 15). India is the only country with an upward

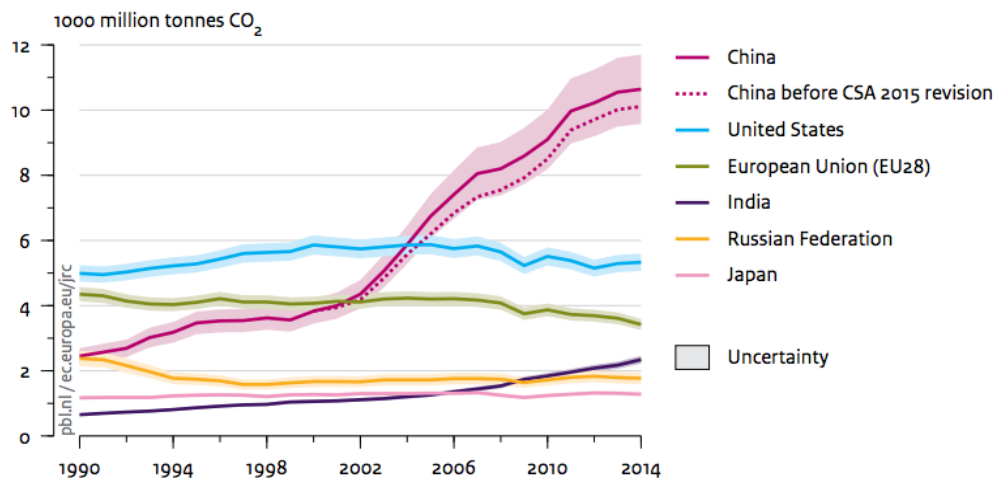
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1. “What is Energy Security?” International Energy Agency, n.d., accessed February 9, 2016, <http://www.iea.org/topics/energysecurity/subtopics/whatisenergysecurity>.

trend. While China’s CO<sub>2</sub> emissions are twice as high as that of the U.S., the reverse is true when concerning CO<sub>2</sub> emissions per capita. The same study reports that the slowdown in China’s emissions marks a structural change in the nature of the Chinese economy as it slowly shifts away from heavy industry to the service sector and diversifies its energy mix.<sup>2</sup>

Surprisingly, despite the visible effects of pollution on urban air quality and water resources, only 18% in China surveyed viewed global climate change as a very serious problem; in comparison, despite the bitter partisan divide, roughly 45% in America responded likewise.<sup>3</sup> Thus, both the United States and China have the burden of unifying their populations behind a sustainable agenda in pursuit of their administration’s broader environmental policy goals.

**CO<sub>2</sub> emissions from fossil-fuel use and cement production in the top 5 emitting countries and the EU**



Source: EDGAR 4.3 (JRC/PBL, 2015) (1970-2012; notably IEA 2014 and NBS 2015); EDGAR 4.3FT2014 (2013-2014): BP 2015; GGFR 2015; USGS 2015; WSA 2015

**Figure 15: CO<sub>2</sub> Emissions from Fossil-Fuel Use and Cement Production in the Top 5 Emitting Countries and the EU.<sup>4</sup>**

2. *Trends in Global CO<sub>2</sub> Emissions: 2015 Report* (The Hague: PBL Netherlands Environmental Assessment Agency, 2015), 5, [http://edgar.jrc.ec.europa.eu/news\\_docs/jrc-2015-trends-in-global-co2-emissions-2015-report-98184.pdf](http://edgar.jrc.ec.europa.eu/news_docs/jrc-2015-trends-in-global-co2-emissions-2015-report-98184.pdf).

3. Bruce Stokes, Richard Wike, and Jill Carle, “Global Concern About Climate Change, Broad Support for Limiting Emissions” (Washington D.C.: Pew Research Center, November 5, 2015), <http://www.pewglobal.org/files/2015/11/Pew-Research-Center-Climate-Change-Report-FINAL-November-5-2015.pdf>.

4. *Trends in Global CO<sub>2</sub> Emissions: 2015 Report*, 11.

## Bilateral

Between Washington and Beijing, many areas for cooperation in both the public and private sectors have already been explored and developed. In November 2014, President Barack Obama and President Xi Jinping released the U.S.-China Joint Announcement on Climate Change and Clean Energy Cooperation, which resulted in a commitment by the U.S. to cut net GHG emissions to 26-28% below 2005 levels by 2025. China committed to achieving peak CO<sub>2</sub> emissions by 2030 with the intention to peak even earlier, and also committed to increasing its non-fossil fuel energy share to “around 20%” by 2030.<sup>5</sup> Both countries also submitted their Intended Nationally Determined Contribution (INDC) to the UNFCCC ahead of COP21 in Paris to affirm their commitments. In September 2015, the two executives released another commitment to “reaffirm their determination to move ahead decisively to implement domestic climate policies, to strengthen bilateral coordination and cooperation, and to promote sustainable development and the transition to green, low-carbon, and climate-resilient economies.”<sup>6</sup>

Many levels of dialogue and cooperation have been key to bilateral partnership in environmental affairs. The U.S.-China Renewable Energy Partnership, U.S.-China Climate Change Working Group in the annual Strategic & Economic Dialogue (S&ED), and U.S.-China Joint Committee on Environmental Cooperation are just a few of the fora in which high-level government officials and their respective agencies work towards mitigating adverse effects of climate change and pursuing joint leadership in energy security for the future through development of clean energy sources. The S&ED in particular has been the key forum in which high-level talks have resulted in concrete partnerships and actionable tasks, ranging from the Smart Grid Big Data Pilot Project and Exchange Program to a more recent pledge to launch cooperation on green ports and vessels. At the most recent Seventh Round S&ED’s strategic

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5. “U.S.-China Joint Presidential Statement on Climate Change,” The White House, Office of the Press Secretary, press release, September 25, 2015, <https://www.whitehouse.gov/the-press-office/2015/09/25/us-china-joint-presidential-statement-climate-change>.

6. Ibid.

track in June 2015, 44 out of 127 outcomes involved either “cooperation on climate change and energy” or “cooperation on environmental protection.”<sup>7</sup> These largely fell in line with the November 2014 Joint Announcement as well as mutual hopes for bilateral cooperation in advance of COP21.

Another concrete outcome of the S&ED has been the success of the U.S.-China Clean Energy Research Center (CERC). In support of this initiative, President Obama and President Xi have pledged a joint \$2 billion in funds from 2016-2020 to support “core development via a governmental and enterprise investment vehicle.”<sup>8</sup> CERC is tasked with the priority of researching and implementing advanced coal technology, clean vehicles, energy efficiency, and a new track on energy and water.<sup>9</sup> The success of LP Amina (a North Carolina-based environmental engineering firm) in first installing a coal-dust separator at Fengtai Power Plant in China’s Anhui Province, then moving on to the broader Chinese market, demonstrates the potential of bilateral public-private partnerships for clean energy. However, the business atmosphere as a whole suffers from a negative impression, with 52% of foreign respondents in a survey by the American Chamber of Commerce in China answering that the air quality issue has caused the organization to experience difficulty in recruiting senior executives to work in China (Figure 16).

Other areas of potential cooperation lie in joint think tanks, NGOs, and foundations, such as the World Resources Institute, World Wildlife Fund, National Resources Defense Council, the Brookings Institution, and the Carnegie Endowment. However, with China’s recent tightening of laws toward domestic and international NGOs, perhaps cooperation will be less feasible in the future, with potentially damning effects on climate change mitigation. In the aforementioned

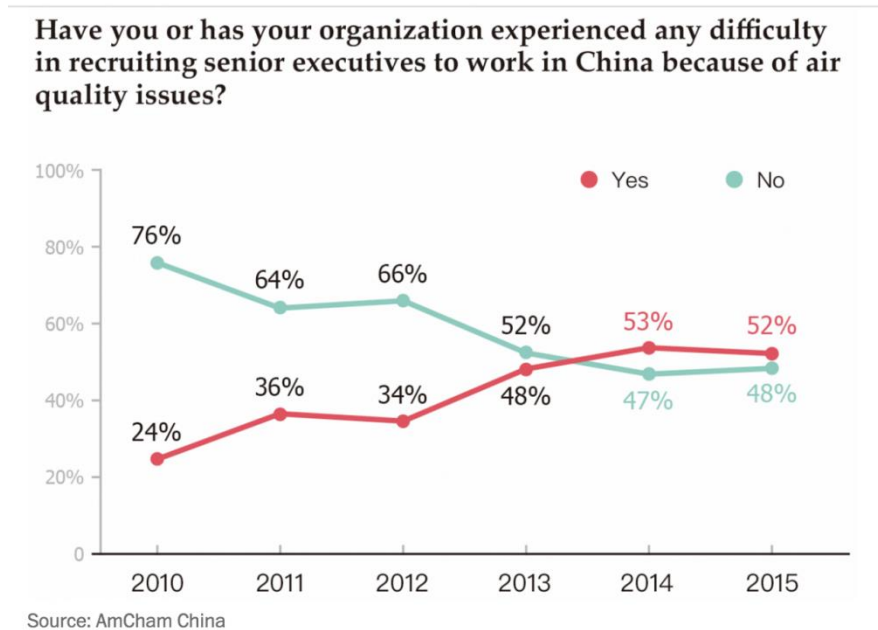
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7. “U.S.-China Strategic & Economic Dialogue Outcomes of the Strategic Track,” U.S. Department of State, June 24, 2015, <http://www.state.gov/r/pa/prs/ps/2015/06/244205.htm>.

8. Xinhua Tang, “China-U.S. Cooperation on Clean Energy and Environmental Protection Drives Sustainable Global Development,” *China Today*, September 28, 2015, [http://www.chinatoday.com.cn/english/columns/2015-09/28/content\\_705342.htm](http://www.chinatoday.com.cn/english/columns/2015-09/28/content_705342.htm).

9. “U.S.-China Strategic & Economic Dialogue Outcomes of the Strategic Track.”

American Chamber of Commerce in China survey, when foreign NGO member organizations were asked how the draft Foreign NGO Management Law would impact their organization, 75% responded that their operations would be limited, with 17% also answering that the law would cause their organization to have to leave China entirely.<sup>10</sup>



**Figure 16: Effects of Air Quality on Recruitment of Executives<sup>11</sup>**

## Regional

China suffers from energy insecurity. To its west, China relies heavily on crude oil from the Middle East, with over half of its total imported crude supply coming from the region. In 2014, China accounted for more than 1/3 of global growth in oil demand.<sup>12</sup> Since at least the early 1970s, the oil market has been volatile. Recent prolonged conflicts in the Middle East

10. Yangjingjing Xu and Simon Denver, “Six Charts that Explain Why U.S. Companies Feel Unwelcome in China,” *The Washington Post*, January 20, 2016,

<https://www.washingtonpost.com/news/worldviews/wp/2016/01/20/six-charts-that-explain-why-u-s-companies-feel-unwelcome-in-china>.

11. Ibid.

12. Owen Daniels and Chris Brown. “China’s Energy Security Achilles Heel: Middle Eastern Oil,” *The Diplomat*, September 8, 2015, <http://thediplomat.com/2015/09/chinas-energy-security-achilles-heel-middle-eastern-oil>.

spearheaded by unpredictable terrorist groups like the Islamic State of Iraq and Syria (ISIS) increase the risk of energy insecurity. *The Diplomat* reports that ISIS seeks to foment sectarian unrest in Saudi Arabia, China's largest supplier of crude oil.<sup>13</sup> If violence were to erupt in Saudi Arabia and result in the government losing control of its oil sector, the global energy supply would immediately be affected and China would certainly feel acute strain from this disruption. Additionally, to its south, China's energy supply routes could be easily interrupted if the Indian Ocean and Southeast Asian waters were controlled by the U.S. or other competitive forces (a situation known as the 'Malacca Dilemma'.)<sup>14</sup>

China is actively seeking to mitigate these scenarios by investing in energy partnerships with nearby Russia and Myanmar. To the north, China's has agreed to a \$400 billion natural gas agreement with Russia to supply its northeastern provinces, called the Power of Siberia.<sup>15</sup> This is just one of several agreements conducted within the last year that have strategic implications for the U.S.; despite our efforts to isolate Russia, China's continued economic relationship with it weakens our position. To the south, a new energy corridor connecting Myanmar's ports to Yunnan Province will supply gas and oil from the Middle East and Africa, avoiding the potential Malacca Dilemma altogether by reducing the need for transport through the Strait. China's naval presence will likely increase in the Bay of Bengal and Indian Ocean, leading to potential clashes with India. Yet, in the short-term, as long as China's reliance on energy imports continues, energy insecurity will remain.

Despite China's other conflicts with its neighbors in the economic, territorial, and security realms, concerning the environment, there is at least a joint recognition of the shared global consequences if nations do not cooperate. Regional organizations such as the North-East

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13. Ibid.

14. Lyle J. Goldstein, *Meeting China Halfway: How to Defuse the Emerging US-China Rivalry* (Washington D.C.: Georgetown University Press. 2015), 115.

15. Gal Luft, "Strategic Implications of China's Energy Policy," *The American Interest* 10, no. 4 (February 3, 2016), <http://www.the-american-interest.com/2015/02/03/strategic-implications-of-chinese-energy-policy>.

Asian Subregional Programme for Environmental Cooperation (NEASPEC) are essential. Since 1993, NEASPEC has brought Northeast Asian nations (China, Japan, the Democratic People's Republic of Korea (DPRK), Mongolia, the Republic of Korea (ROK), and the Russian Federation) together to address the region's environmental challenges through technical assistance, training sessions, workshops, and regional monitoring. The Senior Officials Meeting (SOM) is held annually to review collaborative initiatives and find more areas for cooperation.<sup>16</sup> Regional monitoring is especially valuable for transboundary air pollution monitoring efforts. In April 2015, environment ministers from China, Japan, and the ROK agreed to joint efforts in forecasting and monitoring yellow dust pollution from the Gobi Desert. This was conducted through another forum, the 17th Tripartite Environment Ministers Meeting (TEMM17), held annually to address environmental issues of joint concern in Northeast Asia.<sup>17</sup>

Yet, when reducing yellow dust pollution and other fine-particulate pollution, an element of concern lies in the potential of actually *increasing* global warming through its actualization. Aerosols - ultrafine, fine, or coarse matter present as solid or liquid particles in the atmosphere - have a varied effect on the planet's surface, resulting in competing impacts of warming and cooling.<sup>18</sup> Yellow dust itself is comprised of aerosols of mixed qualities. However, an analysis of East Asian dust conclusively demonstrated that dust from Mongolia and Northern China mixes with industrial pollutants (soot and toxic material) as it spreads throughout East Asia and worldwide. Optical characteristics of East Asian dust layers differ, with those at a lower altitude gathering more toxic, anthropogenic aerosols akin to what is found in industrial smog, such as black carbon, while higher altitude layers comprise of more organic matter (pure dust).<sup>19</sup>

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16. NEASPEC, "About NEASPEC," n.d., accessed February 23, 2016, <http://www.neaspec.org/about-neaspec>.

17. "Korea, China, Japan Step Up Pollution Fight." *The Korea Herald*, May 1, 2015. <http://www.eco-business.com/news/korea-china-japan-step-up-pollution-fight>.

18. Adam Voiland, "Aerosols: Tiny Particles, Big Impact," NASA Earth Observatory, last modified November 2, 2010, <http://earthobservatory.nasa.gov/Features/Aerosols>.

19. Youngmin Noh, Detlef Müller, Sung-kyun Shin, Dongho Shin, and Young J. Kim, "Vertically-Resolved Profiles of Mass Concentrations and Particle Backscatter Coefficients of Asian Dust Plumes Derived from Lidar

Additionally, recent research has demonstrated that transport of Asian-origin anthropogenic aerosols worldwide has contributed to intensified and increasingly unpredictable Pacific storm tracks.<sup>20</sup> Thus, while the reduction of yellow dust in the atmosphere may adversely reduce the cooling capacity of related aerosols, pollutants that cause warming will also be reduced. More research into the capacity of these reductions is necessary for more concrete conclusions.

## Global

By far, the most significant environmental accord in recent years has been the Paris Agreement on Climate Change, signed by 195 countries at the COP21 conference in November 2015. Signees agreed to limit their emissions so that they would keep global warming to below the 2 degree Celsius threshold, with the intent of keeping it to 1.5 degrees Celsius. If the Earth surpasses the 2 degree Celsius threshold, the damage of climate change will be irreversible and may accelerate. Other agreements include a \$100 billion per year (beginning in 2020) climate fund by the developed world to assist developing nations in cutting emissions and adapting to extreme weather.<sup>21</sup> However, American contributions to and leadership in this fund will be tested, as U.S. contributions to the fund requires Congressional approval.

Both nations have reason to support the United Nations (UN) framework for addressing environmental concerns. Efforts are being made by both sides to adhere to the final draft of the Paris deal, including efforts to limit the global increase in temperature to 1.5 degrees Celsius. However, while momentous, the language in the final draft was necessarily vague to accommodate the interests of the wide range of nations present. Island nations at the greatest risk

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Observations of Silicon Dioxide,” *Chemosphere* 143 (2016): 24-31.

20. Yuan Wang, Minghuai Wang, Renyi Zhang, Steven J. Ghan, Yun Lin, Jiayi Hu, Bowen Pan, Misti Levy, Jonathan H. Jiang, and Mario J. Molina, “Assessing the Effects of Anthropogenic Aerosols on Pacific Storm Track Using a Multiscale Global Climate Model.” *Proceedings of the National Academy of Sciences* 111, no. 19 (2014): 6894-6899.

21. Maxim Shrestha, *COP21 and the Paris Agreement: Achievement or Half-Measure?* NTS Bulletin January 2016. (Singapore: S. Rajaratnam School of International Studies, Nanyang Technological University, January 2016), <https://www.rsis.edu.sg/wp-content/uploads/2016/01/NTS-Bulletin-January-2016.pdf>.

of inundation under the current rate of global warming press for strict adherence to the 1.5 degrees Celsius limit, while some developing and developed nations argue for other, more flexible agreements in line with their national development agendas. Unfortunately, this means that the combined INDCs are predicted to still lead to a warming of 2.7 to 3 degrees Celsius.<sup>22</sup>

The root of mutual distrust in energy security and environmental policymaking lies in development discourse, as there is significant disagreement between the U.S. and China regarding the principle of common but differentiated responsibilities. Tension between developed and developing countries, the Global North and the Global South, revolves around conflicting policy goals relating to energy, environment, and the economy. Traditionally, developing countries argue that developed countries should shoulder more of the needed emissions cuts because of historical emissions. Whereas the West, Japan, and the Asian Tiger economies were able to develop in an era before climate change policy and environmental regulations, developing countries have what they consider as the short end of the stick. Developed countries argue that if agreements are to be binding, all countries should be held to the same standard.

The developmental and environmental status quos correspond to different levels of distrust between the two powers, manifesting in an assortment of policies. This current state of affairs involves different gradations of cooperation and competition in taking up the mantle of global leadership. Where aggressive competition and hedging take place, suspicions are aroused and distrust reinforced. Where cooperation and friendly competition under mutually agreed upon and accepted rules ensue, suspicions are fewer. It is with this latter framework in mind that the U.S. and China must lead by example and environmental and energy policy must proceed forward.

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22. Ibid.

## **U.S. Domestic Goals and Strategic Ambitions**

President Obama's Climate Action Plan (2013) had three major goals: reduction in domestic carbon pollution, increased preparation for the effects of climate change (climate change adaptation), and leadership in international efforts to mitigate global climate change.<sup>23</sup> Thus, regarding environmental concerns, Washington's efforts in encouraging China to be a responsible stakeholder is done as a realization of that third goal of international leadership. Despite its standing as a developing country, the U.S. believes that China still needs to demonstrate with its bilateral and multilateral commitments through the UN that it is doing its share to mitigate the adverse effects of climate change.

In the U.S.-China Joint Presidential Statement on Climate Change, President Obama laid out ongoing and future goals for energy and environmental innovations: the Clean Power Plan; planned carbon emission standards; new fuel efficiency standards to be implemented by 2019; differentiated methane emissions standards from landfills in the oil and gas sector; reduced HFC (hydrofluorocarbons) use and emissions; and new building efficiency standards by the end of 2016.<sup>24</sup>

However, while the Obama Administration's efforts are to be lauded, there are limits to the extent of executive action. For comprehensive energy and environmental reform to be conducted, the President will need the backing of Congress and the American people. Unfortunately, this cannot be counted on. The fossil fuel lobby (oil, gas, but decreasingly coal, as it is the dirtiest fossil fuel) in the U.S. has tremendous power and sway over policymaking. In 2003 and 2005, senators voted down the Climate Stewardship Acts (otherwise known as the McCain-Lieberman Acts) along fossil fuel lobby lines.<sup>25</sup> The Acts would have created a mandatory cap-and-trade program to reduce GHG emissions.

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23. *Timeline of Progress Made in President Obama's Climate Action Plan* (Washington D.C.: Environmental and Energy Study Institute, August 2015), [http://www.eesi.org/files/FactSheet\\_Climate\\_Action\\_Plan\\_080515.pdf](http://www.eesi.org/files/FactSheet_Climate_Action_Plan_080515.pdf).

24. "U.S.-China Joint Presidential Statement on Climate Change."

25. Jeffrey D. Sachs. *The Age of Sustainable Development* (New York: Columbia University Press. 2015), 442.

## U.S. Domestic Policy Recommendations

Before the U.S. can purport to be the leader of environmental policymaking, it must lead by example. This begins by investing in greater public education and awareness campaigns regarding climate change and its consequences. The general population needs to understand the necessity of an economic shift from carbon to renewable energy sources and recognize that slow action today leads to magnified consequences tomorrow.

- *Engage in frequent bipartisan dialogue to promote national unity in advance of potentially ratifying the COP21 Paris Agreement in Congress. Work towards the goal of formally acknowledging the linkage of fossil fuel consumption and resultant GHG emissions to global warming and climate change, finally dispelling the arguments of climate deniers. These skeptics and relevant economic interests (such as the fossil fuel lobby) would have reason to join these talks, as they would serve as a platform to demonstrate their willingness to engage in dialogue. Were the American people to see hesitation and a stubborn refusal to participate by these parties, perhaps they would question the legitimacy of said parties. However, the Obama Administration should not feel obligated to submit the Agreement to Congress for ratification if it seems like it will not pass, as there is enough justification to warrant signing the Paris Agreement by executive order. While dissenters have valid concerns regarding the importance of the Congressional process, put simply, this agreement is too important not to be passed and implemented.<sup>26</sup> Simultaneously and/or following this proposed dialogue, efforts should be made to increasingly delink economic growth with carbon emissions, promoting a shift away from entrenched interests in oil and natural gas industries to a pursuit of long-*

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26. Steven Groves, "Paris Climate Promise: A Bad Deal for America," Heritage Foundation, last modified February 2, 2016, <http://www.heritage.org/research/reports/2016/02/paris-climate-promise-a-bad-deal-for-america>.

term energy security in renewable energy sources. This would entail the allocation of increased funding to the EPA and Clean Power Plan through Congressional ratification.

### **Chinese Domestic Goals and Strategic Ambitions**

As outlined by Chinese State Councilor Dai Bingguo in his 2010 speech on China's peaceful development, China's core interests are regime stability, sovereignty & territorial unity, and an environment conducive to "the basic guarantee for sustainable economic and social development of China."<sup>27</sup> China's environmental strategies and goals must be considered in this broader context. Beijing's efforts to reduce air pollution, increase water conservation, invest in renewable and low-carbon energy sources, and cooperate in international agreements are in line with China's core interests, for in providing for a cleaner Chinese future, all three core interests are secured.

In a spring 2015 survey conducted by the Pew Research Center, roughly 76% of respondents in China said air pollution was a big problem. 34% of respondents believed that, along with water pollution, air pollution was only going to get worse in the next five years. In Beijing and Shanghai, residents were even more pessimistic, with 53% responding negatively.<sup>28</sup> As its citizens are choking on PM2.5 particles in its cities and struggling with drought, the CCP is all too aware that its survival hinges on its ability to find comprehensive solutions. This domestic impetus drives all of China's unilateral, bilateral, and multilateral environmental policies. It also explains why China is so hesitant to cede environmental monitoring regulations to international bodies - in doing so, it would lose a measure of domestic sovereignty and potentially national pride.

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27. "Dai Bingguo, Adhere to the Path of Peaceful Development, Dec. 6 2010," USC US-China Institute, December 6, 2010, <http://china.usc.edu/dai-bingguo-%E2%80%9CAdhere-path-peaceful-development%E2%80%9D-dec-6-2010>.

28. Richard Wike and Bridget Parker, "Corruption, Pollution, Inequality Are Top Concerns in China," Pew Research Center, September 24, 2015, <http://www.pewglobal.org/2015/09/24/corruption-pollution-inequality-are-top-concerns-in-china/#chinese-divided-on-whether-many-problems-will-get-better-or-worse>.

If retired PLA colonel Liu Mingfu is to be believed, China has the long-term goal (“The China Dream”) of becoming the leader of a non-hegemonic international order. China seeks to engage in constructive competition and cooperation “without prejudice to the interests of singular parties” and thus, will not seek hegemony like America.<sup>29</sup> President Xi seems to be acting in accordance with this goal. Since taking up the presidency, President Xi has traveled to over 40 countries in 34 months, brokering deals with neighbors near and far and “[putting] China in the vanguard of the fight against climate change.”<sup>30</sup> While China’s simultaneous deals with Russia and Myanmar regarding new oil and gas acquisitions may be antithetical to this statement, China’s actions highlight a more aggressive, yet responsible role in regional and global diplomacy. This contributes to what some in the Chinese media call a “new model major country relationship” between China and the U.S., for as China increases its pursuit of leadership in climate change mitigation with ensured domestic energy security, it puts itself in a position of positive competition with America.<sup>31</sup>

In the Joint U.S.-China Presidential Statement on Climate Change, President Xi listed China’s additional commitments to energy efficiency as: lowering CO<sub>2</sub> emissions per unit of GDP by 60-65% from 2005 levels by 2030; increasing forest stock by 4.5 billion cubic meters; promoting green power dispatch; launching its national emissions trading system in 2017; increasing the share of newly-built green buildings to 50% by 2020; increasing the share of public transport in transportation markets of big- and medium-sized cities to 30% by 2020; finalizing fuel-efficiency standards for heavy-duty vehicles; and controlling HFC-23 emissions

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29. Liu Mingfu, *The China Dream: Great Power Thinking & Strategic Posture in the Post-American Era* (New York: CN Times Book, Inc., 2015), 145.

30. “Xinhua Insight: Xi’s whirlwind diplomacy sweeps China to center stage,” *Xinhua*, January 28, 2016, [http://news.xinhuanet.com/english/2016-01/28/c\\_135054887.htm](http://news.xinhuanet.com/english/2016-01/28/c_135054887.htm).

31. Tang, Xinhua. “China-U.S. Cooperation on Clean Energy and Environmental Protection Drives Sustainable Global Development,” *China Today*, September 28, 2015. [http://www.chinatoday.com.cn/english/columns/2015-09/28/content\\_705342.htm](http://www.chinatoday.com.cn/english/columns/2015-09/28/content_705342.htm).

by 2020.<sup>32</sup> Perhaps most notable is the commitment to promote green power dispatch. This entails removing China's current priority dispatch for coal that protects and even encourages the construction of new coal plants by instating a minimum coal production quota.<sup>33</sup> This existing policy occasionally forces shutdowns of China's otherwise-plentiful wind and solar farms in favor of coal plant operations. Thus, the commitment to green dispatch is essentially a promise to shift the bias away from coal in order to facilitate a comprehensive shift to smart grids. Whether not this actually comes to fruition will be something to watch for in this next decade.

While China differs from the U.S. in that it operates under one-party rule, Beijing also faces the challenge of unifying the country under its environmental agenda. Between January and September 2015, provincial governments approved 155 new coal-fired power plants. If they all operated at capacity, Greenpeace estimates that the annual amount of particle pollution would surpass that of the total produced by cars in Beijing, Shanghai, Tianjin, and Chongqing combined - an astronomical figure.<sup>34</sup> This so-called "coal bubble" represents a disconnect between central and local rule. In March 2015, Beijing delegated the authority to approve environmental impact assessments on new coal projects to provincial governments. However, because the state power tariffs are still under centralized control, despite the oversupply of coal, billions will still be paid out to energy producers.<sup>35</sup> However, in December 2015, the State Council pledged that it would upgrade coal-fired power plants to reduce pollutant discharge by 60% before 2020. Also by 2020, coal-fired power plants that fail to meet new energy-saving standards will be shut down. These new pledges stem from the 2013 Air Pollution Prevention and Control Action Plan.

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32. "U.S.-China Joint Presidential Statement on Climate Change."

33. Michael Goggin, "Analysis on China's Move to "Green Dispatch,"" *Into the Wind: The AWEA Blog* (blog), September 25, 2015, <http://www.aweablog.org/background-on-chinas-move-to-green-dispatch>.

34. Boren, Zachary Davies, "China's Coal Bubble: 155 Coal-Fired Power Plants in the Pipeline Despite Overcapacity," GreenPeace, November 11, 2015, <http://energydesk.greenpeace.org/2015/11/11/chinas-coal-bubble-155-new-overcapacity>.

35. Ibid.

Like the U.S., China must also lead by example in the environmental realm. While smog is a daily reminder that air pollution is already a severe problem agitating the population, public education and awareness campaigns linking air pollution with global warming and climate change need to take place. Specifically, the linkage of yellow dust with anthropogenic aerosols that lead to atmospheric warming must be recognized.

### **Collaborative Recommendations**

Based on the previous assessment of the environmental status quo and areas for domestic improvement, the following are recommendations for future areas of cooperation in energy security and environmental concerns.

#### **Bilateral**

- *Clearly dismiss notions of inevitable conflict, firmly and frequently asserting that the U.S. desires closer, mutually-beneficial relations with China. Affirm the need for multilateral solutions to energy security and environmental concerns.*
- *Pursue continued deepening of bilateral, multi-level public and private dialogues. This can be done with special concern for joint goals of public education/awareness and delinking economic growth from carbon emissions. These dialogues should also be used to promote the inclusion of energy security and environmental concerns at the forefront of the 13th Five-Year Plan. While it is highly likely that this is already being done, China would do well to utilize this opportunity to steel the country for comprehensive reforms. A shift from energy-intensive industry to energy-efficient industry will require a significant reexamination of how regulations are enforced, be it centralized or*

decentralized. The U.S. has the opportunity to use these dialogues to press for Chinese commitment to this end.

- *Discuss joint clean technology R&D initiatives to assist in reducing reliance on coal and encouraging a smooth transition to smart grids.* Given the tense climate regarding cybersecurity and intellectual property, technology transfer is not likely to be a viable area of cooperation presently. As a precursor to perhaps increased technology transfer in the future, seek to build up trust and increase transnational partnerships through existing platforms such as CERC. Additionally, emphasize smart grid development to complement China's shift away from the coal-powered grid. Smart grids integrate information and communications technology into all aspects of electricity generation, delivery, and consumption to minimize environmental impact, improve reliability, reduce costs, and improve efficiency.<sup>36</sup> The growing interest in electric cars in China is a step in the right direction, but because of the nation's continued reliance on coal, it may actually lead to increased carbon emissions by nature of the increase in demand for electricity.<sup>37</sup> The shift away from fossil fuel-reliant grids to smart grids that support the diversification of energy supplies is necessary for other clean technology initiatives to bear fruit.
- *Press China to clarify and if necessary, amend its laws regarding domestic and foreign NGO operations for environmental organizations.* Emphasize the mutual and global benefit of allowing environmental NGOs freedom to operate without fear of state intervention or incursions. Seek assurance that, if the law is to be implemented, domestic and international NGOs will be treated by the same standards.

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36. "Smart Grid Resource Center," Electric Power Research Institute, n.d, accessed February 24, 2016 <http://smartgrid.epri.com>.

37. Jake Spring, "In Coal-Powered China, Electric Car Surge Fuels Fear of Worsening Smog," *Reuters*, January 27, 2016, <http://www.reuters.com/article/us-china-pollution-autos-idUSKCN0V51BH>.

- *Encourage transparency and cooperate in sharing environmental data.* Commend China's leadership in the shift to renewable and low-carbon energy sources and seek joint monitoring of air and water pollution levels.

## Global

- *Encourage mutual adherence to the final draft of the Paris Agreement in advance of the April 22, 2016 signing ceremony.* If the world sees a unified Sino-American front, leading by example despite their differences, international mobilization and realization of the Paris Agreement will be made more likely. While the commitments are voluntary, both China and the U.S. have the potential to make them a reality. The Obama Administration should test the waters for informal Congressional approval of the Paris Agreement before deciding whether to submit it for Congressional ratification or not. While it is ideal that the Paris Agreement have Congressional backing, if it will not, President Obama should be prepared to sign it through executive order. Environmental problems are too obvious to not be addressed, and all countries must pursue the lowest amount of GHG emissions possible in order to secure a brighter future for generations to come.
- *Encourage China to deepen cooperation with the IEA.* While China may not satisfy the IEA's entry requirements as a non-OECD member, as an enhanced engagement country with the OECD, it has informal relations with the IEA. As it is unlikely for China to satisfy the IEA's entry requirements in the near future, the U.S. should encourage China's voluntary adherence to the IEA's energy guidelines and encourage further engagement with the IEA, especially in the areas of energy security and renewable energy development.

- *Explore the possibilities of a global carbon market.* The U.S. and China have both already begun domestic cap-and-trade experiments, and China plans on launching a nationwide carbon market in 2017. Close to 40 nations (China included) and over 20 sub-national jurisdictions (some American states included) are participating in the World Bank's Networked Carbon Markets initiative.<sup>38</sup> Sino-American support of this collaboration of civil society, government, and private actors would propel the initiative forward.

### **Reactions to Policy Recommendations and Moving Forward**

These recommendations are made in the interest of continued, strengthened parallel achievement of international and domestic goals. It is in America's interest for China to see that some of its domestic goals can be achieved or preserved through bilateral, regional, and international cooperation in environmental affairs. For example, in holding China to its proclaimed goal of improving energy efficiency, the U.S. can emphasize the positive effects of a less resource-intensive, less polluting economy, and perhaps more importantly, the increase in national security gained from a reduced reliance on fossil fuel imports. Continuing to assist China in the technological transitions necessary for smart grid integration is therefore an actionable task to this end.<sup>39</sup>

If we press too hard, China will react antagonistically. However, if the U.S. emphasizes parallel, shared-but-autonomous efforts, as well as provides more leeway for China and other developing nations to adjust to climate change, it is extremely likely that China will step up and contribute for both the sake of its domestic stability and betterment of its international standing. The U.S. must demonstrate that it too is serious about climate change mitigation and seek

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38. "Networked Carbon Markets," The World Bank, n.d., accessed February 9, 2016. <http://www.worldbank.org/en/topic/climatechange/brief/globally-networked-carbon-markets>.

39. Nina Hachigian, *Debating China: The U.S.-China Relationship in Ten Conversations* (New York: Oxford University Press. 2014), 115.

cooperation in this regard. It is in China’s best interests to fulfill its domestic and international environmental commitments and hasten the transition to a greener, more sustainable economy. If sea levels rise by 20 feet under the predicted 2 degrees Celsius sea level gain, by 2200, some of the world’s largest megacities will be underwater. Out of the top 10 megacities at risk of inundation are five Chinese cities, including Shanghai and Hong Kong (Figure 17).

Top 20 Megacities Below the Line		
MEGACITY	POPULATION AFFECTED	% OF CURRENT POPULATION
1. Shanghai, China	11,500,000	39%
2. Hong Kong, China	6,200,000	28%
3. Taizhou, China	6,100,000	67%
4. Mumbai, India	5,900,000	27%
5. Calcutta, India	5,800,000	25%
6. Tianjin, China	5,100,000	12%
7. Jakarta, Indonesia	4,900,000	11%
8. Nantong, China	4,700,000	72%
9. Ho Chi Minh City, Vietnam	4,400,000	44%
10. Osaka, Japan	4,100,000	25%
11. Chittagong, Bangladesh	4,000,000	44%
12. Tokyo, Japan	3,800,000	15%
13. Hanoi, Vietnam	3,800,000	30%
14. Huaiyin, China	3,400,000	43%
15. Shantou, China	3,100,000	23%
16. Nam Dinh, Vietnam	3,100,000	74%
17. Jiagmen, China	3,000,000	51%
18. Khulna, Bangladesh	2,900,000	22%
19. Barisal, Bangladesh	2,800,000	40%
20. Lianyungang, China	2,800,000	92%

**Figure 17: Chinese Cities at Risk from Sea Level Rise<sup>40</sup>**

Likewise, it is also in America’s best interests to do its utmost to mitigate the effects of climate change. The U.S. has 17 million people currently living below the 20-foot threshold, primarily in coastal cities. New York City, Virginia Beach, Miami, and New Orleans would be

40. Benjamin Strauss. “How 2°C of Warming Could Reshape the U.S.,” Climate Central, July 9, 2015, <http://www.climatecentral.org/news/how-2C-warming-could-reshapeus-19209>.

the cities most affected by this scenario.<sup>41</sup> Given projections of continued rural to urban population shifts, that number is likely to increase. If the U.S. does not hold itself accountable to the standards set in the Paris Agreement, how can it claim leadership in international efforts to mitigate climate change, or any sort of global leadership for that matter?

It is likely that China will remain on the path of peaceful development and slowly but surely continue its move away from fossil fuels and towards renewable energy sources. The U.S. on the other hand is much more difficult to predict, given political polarization in domestic politics. However, it is certain that if the U.S. fails in its international obligations, it will lose respect in the international order, and almost certainly be eclipsed by China as a new leader, if not in a comprehensive sense, then at least in the environmental realm. In this new era of post-industrial development, the U.S. can choose to either engage in mutually-beneficial competition with China to see who can innovate the best and shift to renewable energy sources the quickest, or the U.S. can lag behind at the expense of its domestic population and – because emissions are not confined to any boundaries – the international community.

Looking ahead, there is much to reform domestically in both China and the U.S. before a low-carbon reality is to be achieved. National unity needs to be encouraged before implementing comprehensive reform in line with each nation's bilateral, regional, and international commitments. The U.S. should also seek to be more active in existing channels of environmental dialogue for joint efforts to advance clean technology and renewable energy. The opportunities for bilateral, regional, and global cooperation in energy security and environmental reform are there; a joint Sino-American effort to delink economic growth from carbon emissions and instead link future growth to renewable energy sources is surely possible. This can and must be a positive-sum gain for the U.S. and China. The world cannot afford for it not to be.

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41. Ibid.

# Conclusion

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This Task Force report has taken a stance on U.S.-China relations that may seem far too welcoming in the eyes of many policymakers. To many Americans, the idea of hedging against Chinese strategic concerns is not particularly revolutionary, but what differentiates the recommendations in this report from previous policy is the promotion of collaborative competition with Chinese industry. Attempting to engage China in a positive manner while still hedging against potential security threats can and should be the backbone of new U.S. foreign policy towards China.

China's military is growing, but not at a rate that would usually draw international attention. Acting now and strengthening political ties to other actors in the region ensures the security of the region for the time being. This entails developing relationships with Southeast and Central Asian nations, as well as reinforcing existing alliances with Taiwan and Japan. In addition, the U.S. must bolster its cybersecurity resources so as to prevent further breaches in a frontier of warfare that is still evolving.

Regarding economics, this report is more optimistic. Although there are many contentious issues still being dealt with today, the negotiations and ratification of the BIT will help foster more goodwill and economic interchange between the U.S. and China. This agreement would be mutually beneficial for both parties, and supporting more of these types of cooperative deals will show the willingness of the U.S. to work hand-in-hand with China in the future.

The special issues of human rights and the environment will require multidisciplinary solutions. Human rights matters in China may not see much drastic change in the near future, but the U.S. can continue to show support to human rights defenders without getting directly

involved. By doing this, the U.S. will show both the advocacy of these movements while avoiding any threat to progress on other fronts of U.S.-China relations. Environmental policy, on the other hand, is an area where the two countries have been and will continue to see continuing agreement and collaboration. Unilateral domestic reform will hopefully beget reciprocation from China, furthering environmental protection efforts in not just these two nations, but others as well.

The U.S. should therefore strive for the best possible developments in U.S.-China relations while simultaneously being prepared for worst-case scenarios. The U.S. should invite China to play, but must be unequivocally clear in setting the rules of the game.

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