



# ICAS BULLETIN

## Institute for China-America Studies

A Bimonthly Survey of Research and Analysis on US-China Relations

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### Publications

#### **State and Market in Contemporary China: Toward the 13<sup>th</sup> Five-Year Plan**

Scott Kennedy (editor)

CSIS, March 2016

This collection of essays reflects the analysis of the participants of CSIS's November 2015 conference of the same name. The authors share a diversity of views on the significance and direction of China's ongoing market reforms. Some doubt that "transition" is the driving logic behind economic decision making in China, while some find meaningful market liberalization to be underway, while others find two patterns of market liberalization depending on whether or not the industries at hand are considered to be strategic. Nicholas Consonery concludes the volume by noting if the new Five Year Plan doesn't show strong commitment to market reforms, it will raise red flags for the global market and be a source of future volatility.

**The Obama Doctrine**

Jeffrey Goldberg

*The Atlantic*, April, 2016

Granting Goldberg unprecedented access, President Barack Obama discussed a wide range of foreign policy issues addressed during his time in office. With regards to China-US relations, Goldberg highlights that the “pivot to Asia” has been a paramount priority for Obama. The President believes that America’s economic future lies in Asia and the challenge posed by China’s rise requires constant attention. Obama describes the relationship between the US and China as “the most critical” challenge to America in the coming decades. When asked about commentators wanting Obama to be more forceful in confronting China—specifically, Hillary Clinton’s assertion that she doesn’t want her “grandchildren to live in a world dominated by the Chinese”—Obama explains that the US has “more to fear from a weakened, threatened China than a successful, rising China.” He does, however, believe that the US has to continue to be firm with China with regards to actions that undermine international interests. Obama points to US operations in the South China Sea as an example of how the US has “been able to mobilize most of Asia to isolate China in ways that have surprised China, frankly, and have very much served our interest in strengthening our alliances.”

**Can China’s Companies Conquer the World? The Overlooked Importance of Corporate Power**

Pankaj Ghemawat and Thomas Hout

*Foreign Affairs*, March/April 2016

The authors of this article examine what they consider to be a critical component of a nation’s economic competitiveness—corporate power—as applied to the issue of China’s rise. They contend that the common narrative that China will soon eclipse the United States as the world’s top economy may be wrong. The authors note that highly successful economies depend on aspects of their businesses themselves, not just macroeconomic conditions. Typical business practices (with some exceptions) in China do not favor innovation or competitiveness in capital goods and high tech products, but simply allow China to follow along and “keep up” with more innovative Western nations. As such, while China’s future may be bright depending on which policies it pursues, its rise to the status of the world’s largest economy is neither imminent nor inevitable.

**China Keeps the Peace: How Peaceful Development Helps and Hinders China**

Matt Ferchen

*Foreign Affairs*, March 8, 2016

While some commentators increasingly think of China’s economic diplomacy in mercantilist terms, Ferchen describes Xi Jinping’s international economic policy as the continuation and even intensification of the “Peaceful Development” strategy. This policy, which envisions a virtuous circle between China’s economic success and international security lies at the heart of China’s new initiatives like the Belt and Road and the AIIB. However, this is not to say that

China's economic diplomacy is unproblematic. Ferchen argues that the economic relationships that China has developed around the world are growing complicated, and will only continue to do so as China's economic growth slows and the commodities boom in many of China's partner countries ends. Nations like Brazil and Nigeria are concerned that China facilitates their own dependency traps, and China's engagement in politically or economically unstable countries has created many difficulties. The article concludes that Chinese policy must reassess some of Peaceful Development's optimistic premises and adapt them to a more complicated world.

### **How China Bucked Western Expectations and What it Means for World Order**

Shivshankar Menon

Brookings Institute, March 10, 2016

Menon draws attention to the fact that China has shattered two important misconceptions held by the West: First, the expectation that as China modernized, it would become increasingly Western. Rather than becoming more Western, however, China's polity and society remain stubbornly Chinese, explains Menon, and the Chinese Communist Party's (CCP) hold on power is stronger than ever. Second, the idea that single-party rule by the Communist Party of China would inevitably give way to demands for Western-style democracy. Many in the West thought that China would be integrated into the Western economic and political order, as Japan was after World War II. Both of these narratives failed to occur, resulting in a sense of unease being felt by the West as its hegemony is challenged. Menon expects China to persevere in its own quest for status and military power, and that this dynamic will only be checked in the event that this quest somehow undermines the Communist Party's legitimacy.

### **The US is Heading toward a Dangerous Showdown with China**

David Ignatius

*Washington Post*, Op-Ed March 15, 2016

Ignatius observes that the situation in the South China Sea is worrisome given the convergence of several factors. The Permanent Court of Arbitration will render a decision on the Philippines' complaint soon, Xi Jinping seems less risk-averse than his predecessors, and Barack Obama, in Ignatius's eyes, "needs to affirm his credibility." Ignatius notes that China's placement of missiles appears to contradict the reassurances Obama received from Xi about not "militarizing" the maritime disputes. Ignatius describes how going forward, the US could be faced with a series of challenges that might demand quick "tit-for-tat" responses, all of which carry with them the risk of escalation. For a US president already dealing with criticism over past "red line" warnings, this could be an unstable situation.

## Events

### **China and the Developing World**

University of Texas Austin, February 24, 2016

This panel discussion addressed different ways in which China is interacting with the developing world, including its Belt and Road policy, its involvement in Africa, and its engagement in development projects globally. Ambassador David Shinn drew attention to Chinese involvement in African development, stating that, with 52% of all Chinese foreign aid heading to Africa, China is building a level of interaction with African countries unmatched by any other nation. Rolland spoke on China's strategy behind the Belt and Road initiative and highlighted the many challenges facing China in the completion of the initiative, namely negative reactions from other states, such as Russia and India, developing infrastructure in unstable regions, and making this a sustainable project. Suisheng Zhao discussed China's wish to become a financial leader, but also pointed out that it does not have the capacity or initiative to challenge Western global leadership. China is still benefiting from the existing world order, especially the security that the US provides to trade routes. In sum, China is not in a position to replace the US as a "global hegemon."

### **The United Kingdom and the Asia-Pacific Region**

Carnegie Endowment for International Peace, March 10, 2016

Stephen Lillie, Asia-Pacific director of the United Kingdom's Foreign & Commonwealth Office, spoke about the UK's "All of Asia" policy. Lillie described the UK's growing engagement in the entire Asia-Pacific region, as opposed to a single country, and rejected the notion that Britain's engagement in the region is limited to commerce; stating that the relationship is strategic, as well as economic. After his address, Lillie faced a number of questions from the audience on a range of topics, including the UK media criticism of Xi Jinping's recent state visit to the UK, Britain's involvement in Hong Kong, the AIIB, and the implications of Britain's potential exit from the EU.

## Commentary

### Sino-US Cooperation Over North Korea Is Now More Important Than Ever Franz-Stefan Gady

China and the United States share the same short-term interests on the Korean Peninsula, perhaps best summarized in Beijing's long-standing policy vis-à-vis North Korea of "no war, no instability, no nukes." (不战、不乱、无核) Neither side is interested in a military solution to ongoing tensions between North and South Korea. Neither party, despite US rhetoric to the contrary, wants to topple the Kim Jong-un regime and see the North descend into chaos amid a succession or unification crisis. And neither Beijing nor Washington desire a nuclear-armed North Korea further fueling tensions in an already volatile region of Asia.

China and the United States continue to disagree on the right tactical approach to achieving these three objectives—the former preferring quiet diplomacy and continuous engagement with Pyongyang, the latter favoring publicly pressuring the regime with sanctions to change its behavior— and both countries also pursue markedly different long-term strategic goals on the Korean Peninsula. However, the Obama administration's policy of "strategic patience" (putting pressure on the regime while calling for North Korea to return to the Six-Party Talks) is a de facto acceptance of the unlikelihood of the reunification of North and South Korea in the near future. As a consequence, there will be no way around Kim Jong-un in the years ahead, and Beijing and Washington will have to find a way to deal with the regime, no matter how distasteful.

Apart from this apparent confluence of Chinese and US interests, there are three reasons why both countries need to cooperate more tightly than ever on managing the ongoing crisis on the Korean Peninsula. First, given the Republic of Korea (ROK) government's uncompromising stance with respect to North Korean provocations, there will be an increased chance of more severe inter-Korean crises occurring over the next two years. (There will be little chance of a Korean-led détente initiative until the end of the presidency of Park Geun-hye in 2018, given the government's current policies.) Second, notwithstanding repeated calls for putting a "military option" back on the table, a large-scale joint US-ROK military operation against North Korea is increasingly becoming less realistic. Third, ongoing tensions on the Korean Peninsula have the potential to undermine trust and increase military competition between China and the United States, a development that is set to detrimentally affect overall Sino-US relations and cannot be in the interest of either party.

Seoul, under the government of Park Geun-hye and after repeated provocations from the North, has abandoned engagement and stepped up its bellicose rhetoric and uncompromising stance against North Korea. Over the last decades, both sides have mastered the game of bringing tensions to the precipice and then pulling back. However, as tensions rise, there is less

and less flexibility in this perennial brinkmanship with both sides in danger of losing control during a future confrontation as martial propaganda and provocations will reach unprecedented heights. In addition, there is little understanding how much control Kim Jong-un genuinely exercises over the military and the party and whether they would stand down in the face of South Korean provocations when given the order by the supreme leader.

Certain South Korean policies have also helped to further fuel tensions. For example, ever since 2010, South Korea has implemented a “disproportional response” theory of deterrence. As John Delury, a professor at Yonsei University, explained in an interview with *The Diplomat*: “Seoul has proclaimed that for every one shot fired by the North, the South will hit back with 3 to 5 times greater force. That principle for deterring the North along the contested maritime border seems to apply to the DMZ [Demilitarized Zone] as well.” This concept of deterrence increases the chance of an escalating spiral of attacks and counter-attacks that could eventually lead to full-scale war.

A military confrontation on the Korean Peninsula has the potential to once more draw in both the United States and China. Beijing is committed to the defense of the North under the 1961 Sino-North Korean Treaty of Friendship, Cooperation and Mutual Assistance, whereas the United States and South Korea have kept a mutual defense treaty since 1953. However, China has repeatedly said that in a conflict provoked by the North, it would not uphold its treaty obligations. (Indeed, according to a US scholar, China has tried to have the clause requiring it to defend North Korea revoked.)

Any type of large-scale military operation on the Korean Peninsula will almost certainly involve large-scale destruction of human life and property. As the commander of US forces in South Korea, General Curtis Scaparrotti recently testified: “Given the size of the forces and the weaponry involved, this would be more akin to the Korean War and World War II—very complex, probably high casualty.” North Korean artillery could shell Seoul with thousands of rounds within the first hour of a full-scale war.

Yet, certain weapon systems could make a confrontation even worse than the Korean War. Next to an arsenal of approximately 700 (potentially nuclear-armed) Soviet-designed short-range ballistic missiles (and an unknown number of intermediate-range and long-range missiles), North Korea also has one of the world’s largest chemical weapons stockpiles including mustard, phosgene, and sarin gas. According to a RAND study cited by the Congressional Research Service, “One ton of the chemical weapon sarin could cause tens of thousands of fatalities.” Pyongyang has also made substantial investments in special operations forces, cyber weapons, and unmanned aerial vehicles to offset the South’s conventional military advantage.

Even short of full-scale war, the tensions on the Korean Peninsula have the potential to derail the Sino-US relationship. For example, China vehemently is opposing the deployment of Terminal High Altitude Area Defense (THAAD) to South Korea. Yet, Pyongyang’s nuclear and

missile tests over the last couple of weeks, finally convinced Seoul to move forward with plans to station the US missile defense system in the South.

China sees the deployment of THAAD as an outright provocation not only designed to thwart North Korea's missiles but also its own military power. "We are firmly opposed to the deployment of the THAAD system on the Korean Peninsula and urge relevant parties to act cautiously. No harm shall be done to China's strategic security interests," China's Foreign Ministry spokesperson said in March 2016.

While Washington and Seoul could have used the potential deployment of THAAD merely as a threat to obtain China's cooperation on imposing tougher UN sanctions on North Korea (something US diplomats have denied), the diplomatic consequences of stationing THAAD in South Korea could hobble the Sino-US strategic relationship and cause China to retaliate in other areas, for example in the South China Sea or in cyberspace, where it feels threatened by US military power. This could further fuel the ongoing US-China arms race in the Asia-Pacific region.

Consequently, given ongoing inter-Korean political dynamics, the disastrous consequences of full-scale war on the Korean Peninsula, and the potential of ongoing inter-Korean crises to disrupt and damage the China-US relationship, it is of vital interest to both Beijing and Washington to craft a more constructive approach towards North Korea, centered around dialogue and persistent diplomatic initiatives and despite a new set of UN sanctions. As John Delury noted in an email exchange with The Diplomat: "Sanctions work best when implemented and more important lifted in the context of negotiation, and a robust diplomatic process backed by political will on both [all] sides." This does not necessarily mean the resumption of Six-Party Talks, but rather quiet backdoor channel diplomacy laying the groundwork for future negotiations.

A diplomatic deal with the United States and South Korea might be useful for Kim Jong-un at this juncture given that it would cement his legitimacy in the upcoming Seventh Korean Workers Party Congress in May 2016. "We should stop fighting the idea of his [Kim Jong-un's] existence, and instead use our leverage inherent in helping him deepen his legitimacy to get things we want," according to Delury. One sign that the United States would be open to such a dialogue, presumably spearheaded by China, is that US Secretary of State John Kerry on February 23<sup>rd</sup> did not outright dismiss the suggestion of Chinese Foreign Minister Wang Yi "to pursue in parallel tracks the denuclearization of the Korean Peninsula and the replacement of the Korean armistice with a peace agreement." For the time being and no matter how unpleasant, Beijing and Washington have a vested interest in stable relations with Pyongyang and the timing might just be right for a concerted Sino-US diplomatic effort. Indeed, it is a political necessity.

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