

International Conference of the Chinese American Scholars Association (CASA), Shanghai, China (Jan 5-7, 2015) www.g-casa.com

US China relations: cooperation, competition, conflict

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Background

The purpose of the paper is to evaluate the dynamics of what is often described as the most complex set of bilateral relations of our time; Underscore the importance of such relations and explore possibilities of improving these relations

A compilation/synthesis paper: Uses available original sources; the originality is in the analysis; Provides the links/resources for more exploration; Uses information both objective and subjective; Uses author's own conclusions

There may be limitations: the paper may not be exhaustive; it uses mostly literature from western sources; also the balance between US and China's viewpoints is rather 'tricky' Caveats: it is rather difficult to deal with such complex issues in a paper. The sources have more information. But the advantage of the paper is that it concentrates on the big picture, the 'forest' rather than the 'trees'; often leaders do not have time to read books and lengthy papers. Reference is provided for more detailed exploration of various aspects of the subject. **The paper challenges the leaders and scholars on both sides to look deeper into the issues and at factors (political, economic and social) which underpin growth or stagnation.**

China

China is a world unto itself. For those in the western world, China has always been a world of mystery. It has a rather complex history. Its recent opening up is quite significant; The 2008 Olympic Games did for China what the 1988 Games did for South Korea i.e. catapult it to the world stage as a major player

Brief History of China

Chinese historical records reach back into the realm of legend, 5,000 years ago. It is impossible to cover even the major events of this ancient culture in a short space, but here are some highlights.

The first non-mythical dynasty to rule China was the Xia (2200- 1700 BCE), founded by Emperor Yu. It was succeeded by the Shang Dynasty (1600-1046 BCE), and then the Zhou Dynasty (1122-256 BCE). Historical records are scanty for these ancient dynastic times.

In 221 BCE, [Qin Shi Huangdi](#) assumed the throne, conquering neighboring city-states, and unifying China. He founded the Qin Dynasty, which lasted only until 206 BCE. Today, he is best-known for his tomb complex in Xian (formerly Chang'an), which houses the incredible army of [terracotta warriors](#).

Qin Shi Huang's inept heir was overthrown by the army of commoner Liu Bang in 207 BCE. Liu then founded the [Han Dynasty](#), which lasted until 220 CE. In the Han era, China expanded west as far as India, opening trade along what would later become the [Silk Road](#).

When the Han Empire collapsed in 220 CE, China was thrown into a period of anarchy and turmoil. For the next four centuries, dozens of kingdoms and fiefdoms competed for power. This era is called the "Three Kingdoms," after the three most powerful of the rival realms (Wei, Shu, and Wu), but that is a gross simplification.

By 589 CE, the Western branch of the Wei kings had accumulated enough wealth and power to defeat their rivals, and unite China once more. The Sui Dynasty was founded by Wei general Yang Jian, and ruled until 618 CE. It built the legal, governmental, and societal framework for the powerful Tang Empire to follow.

The [Tang Dynasty](#) was founded by a general called Li Yuan, who had the Sui emperor assassinated in 618. The Tang ruled from 618 to 907 CE, and Chinese art and culture flourished. At the end of the Tang, China descended into chaos again in the "5 Dynasties and 10 Kingdoms" period.

In 959, a palace guard named Zhao Kuangyin took power and defeated the other small kingdoms. He established the [Song Dynasty](#) (960-1279), known for its intricate bureaucracy and [Confucian](#) learning.

In 1271, the Mongolian ruler [Kublai Khan](#) (grandson of [Genghis](#)) established the [Yuan Dynasty](#) (1271-1368). The Mongols subjugated other ethnic groups including the Han Chinese, and eventually were overthrown by the ethnic-Han Ming.

China flowered again under the [Ming](#) (1368-1644), creating great art and exploring as far as Africa.

The final Chinese dynasty, the [Qing](#), ruled from 1644 to 1911, when the [Last Emperor](#) was overthrown. Power struggles between warlords such as [Sun Yat-Sen](#) touched off the Chinese Civil War. Although the war was interrupted for a decade by the Japanese invasion and [World War II](#), it picked up again once Japan was defeated. [Mao Zedong](#) and the Communist Peoples Liberation Army won the Chinese Civil War, and China became the Peoples' Republic of China in 1949. Chiang Kai Shek, leader of the losing Nationalist forces, fled to [Taiwan](#).

Source: <http://asianhistory.about.com/od/china/p/ChinaProfile.htm>

The Origins of Chinese Civilization: c. 2200 - 221 BC

Xia: c. 2200 - c. 1750 BC

Shang: c. 1750 - c. 1040 BC

Western Zhou: c. 1100 - 771 BC

Eastern Zhou, The Spring & Autumn Period, and the Warring States: 771 - 221 BC

The Early Empire: 221 BC - AD 589

Qin: 221 - 206 BC

Earlier Han, the Wang Man Interregnum, and the Later Han

The Three Kingdoms and the Dynasties of the North and South

The Second Empire: 589 - 1644

Sui: 589 - 618

Tang: 618 - 907

Northern and Southern Song: 960 - 1279

Yuan (Mongol): 1279 - 1368

Ming: 1368 - 1644

The Birth of Modern China: 1644 - present

Qing (Manchu): 1644 - 1911

Republican China: 1911 - 1949

The People's Republic of China: 1949 - present

Bibliography

Source: <http://condensedchina.com/>

Food for thought:

China's political leadership Government

The People's Republic of China is a socialist republic ruled by a single party, the Communist Party of China. Power in the People's Republic is divided between the National People's Congress (NPC), the President, and the State Council. The NPC is the single legislative body, whose members are selected by the Communist Party. The State Council, headed by the Premier, is the administrative branch. The People's Liberation Army also wields considerable political

power. The current President of China and General Secretary of the Communist Party is Xi Jinping. The Premier is Li Keqiang.

How China is ruled

CHANGING CHINA ★
In Depth



Introduction

The Chinese Communist Party has ruled the country since 1949, tolerating no opposition and often dealing brutally with dissent.

The country's most senior decision-making body is the standing committee of the politburo, heading a pyramid of power which tops every village and workplace.

Politburo members have never faced competitive election, making it to the top thanks to their patrons, abilities and survival instincts in a political culture where saying the wrong thing can lead to a life under house-arrest, or worse.

Formally, their power stems from their positions in the politburo. But in China, personal relations count much more than job titles. A leader's influence rests on the loyalties he or she builds with superiors and proteges, often over decades.

That was how Deng Xiaoping remained paramount leader long after resigning all official posts, and it explains why party elders sometimes play a key role in big decisions.

The politburo controls three other important bodies and ensures the party line is upheld.

These are the Military Affairs Commission, which controls the armed forces; the National People's Congress, or parliament; and the State Council, the government's administrative arm.

Click on the boxes in the diagram to read more about how China is ruled.

Source: http://news.bbc.co.uk/2/shared/spl/hi/in_depth/china_politics/government/html/1.stm

Economy

Over the past 25 years, China has had the fastest-growing major economy in the world, with annual growth of more than 10 per cent. Nominally a socialist republic, since the 1970s the PRC has remade its economy into a capitalist powerhouse. Industry and agriculture are the largest sectors, producing more than 60 per cent of China's GDP, and employing over 70 per cent of the work force. China exports \$1.2 billion U.S. in consumer electronics, office machinery, and apparel, as well as some agricultural produce each year.

The per capita GDP is \$2,000. The official poverty rate is 10 per cent.

China's currency is the yuan renminbi. As of March 2014, \$1 US = 6.126 CNY.

Source: <http://asianhistory.about.com/od/china/p/ChinaProfile.htm>

USA

On the other hand, the US is an open book: Much more is known about the US through books, magazines, newspapers, movies; Still US is rather complex in how it deals with other countries; US is part of the western world and is considered the leader thereof

The US is a country founded on principles of democracy and free market economy and related principles and values. As a society keeps on evolving, it may be appropriate to look into how the principles and values are being applied and whether these need to evolve to.

There is no doubt that democracy provides essential principles upon which political parties are created, political campaigns conducted and government representatives elected and government conducts its business.

Most countries of the world are founded on the principles of democracy with mixed economies which consist of a combination of private and public sectors. Freedom is a key factor in the equation, political as well as economical.

Outline of the principles of democracy

Democracy Education—Nine Brief Themes

1. Citizens' Rights

What Rights Do Citizens Have in A Democracy?

Everyone Has Basic Human Rights that the State Cannot Take Away

In a democracy, every citizen has certain basic rights that the state cannot take away from them. These rights are internationally recognized and guaranteed. Everyone has the right to

have their own beliefs, including their religious beliefs, and to say and write what they think. Everyone has the right to seek different sources of information and ideas. Everyone has the right to associate with other people, and to form and join organizations of their own choice, including trade unions. Everyone has the right to assemble and to protest government actions. However, citizens have an obligation to exercise these rights peacefully, with respect for the law and for the rights of others.

2. Federalism

What is the Benefit of a Federal or Decentralized Government?

Federalism Will Benefit All the People by Distributing Power Fairly throughout the Country.

More and more democracies are adopting federalism, or some form of decentralization. According to this principle, each government function should be performed by the lowest level of government that is capable of performing that function effectively. Only the national government can print currency, conduct foreign policy, manage trade and borders, and provide for the nation's defense. However, local matters, such as community services, are best managed by local or provincial government. Local authorities are better able to know and respond to the immediate needs and interests of their citizens. Decentralization promotes national unity by distributing power and resources more fairly around the country, bringing government closer to the people, and allowing local communities some control over their own affairs. Democracy is more stable when power is devolved along geographic lines and not according to ethnic or sectarian divisions.

3. Separation of Powers and Judicial Independence

Why Does Democracy Require the Separation of Powers?

If Political Power is to be Limited and Responsible, the Legislature and Judiciary Must Be Independent of the Executive

In a democracy, the exercise of political power must respect the law, the constitution, and the will of the people, through the decisions of their [elected] legislative representatives. This requires that power be separated so that the head of government and his ministers do not have the power to make the law or to interfere in court cases. In a democracy, the executive branch implements policies and programs, administers the national budget, and conducts national affairs. It may also propose laws, but only the parliament may enact legislation, including the budget. Only the courts can decide the guilt or innocence of individuals charged with a crime, and only the higher courts can determine whether a law or a government action or policy is constitutional.

4. Executive Powers

How is Executive Power Structured in a Democracy?

Government may be headed by either a president or a prime minister. Many democracies now divide executive powers between the two offices.

In presidential democracies, the government is headed by a directly elected president, who is also the ceremonial head of state. In parliamentary democracies, the government is headed by a prime minister and his cabinet, who must enjoy the confidence of parliament, while a president or king acts as the ceremonial head of state. Many newer democracies have chosen an intermediate system. The prime minister and his cabinet are responsible for the day-to-day administration of government through the ministries. But the presidency holds the position of head of state, and has the power to nominate the prime minister, to veto legislation, and to make or approve certain judicial and governmental appointments. By partially dividing executive authority, this intermediate system may help prevent the abuse of power.

5. What is Democracy?

Government authority flows from the people and is based upon their consent.

Democracy is a system of government in which a country's political leaders are chosen by the people in regular, free, and fair elections. In a democracy, people have a choice between different candidates and parties who want the power to govern. The people can criticize and replace their elected leaders and representatives if they do not perform well. The people are sovereign—they are the highest authority—and government is based on the will of the people. Elected representatives at the national and local levels must listen to the people and be responsive to their needs.

6. The Global Spread of Democracy

How Widespread is Democracy in the World?

Today most countries in the world are democracies. Democracy is the only form of government that people around the world view as legitimate.

Thirty years ago, only a quarter of the states of the world were democracies. Since then, democracy has rapidly expanded throughout the world. Today 120 countries—three in every five countries—choose their leaders in free and fair, multiparty elections. And many others are struggling to achieve democracy. People of every religious faith—Islam, Christianity, Buddhism, Hinduism, Judaism, and others—aspire to live in free and democratic societies. Democracy is the only form of government in the world that is widely viewed as morally legitimate. It is the only form of government that is capable of fully satisfying international covenants on civil and political rights.

7. Participation

What is the Role of the Citizen in a Democracy?

Citizens participate in public affairs, with respect for different points of view.

The key role of citizens in a democracy is participation. This takes many forms. Citizens have an obligation to become informed about public issues, to monitor the conduct of their leaders and representatives, and to express their own opinions. Participation also involves voting in elections, debating issues, attending community meetings, becoming involved in private, voluntary organizations, and even protesting. However, political participation in a democracy must be peaceful, respectful of the law, and tolerant of the different views of other groups and individuals.

8. What is the Rule of Law?

Laws and Procedures Apply Fairly and Equally to All Citizens

Democracy is a system of rule by laws, not individuals. In a democracy, the rule of law protects the rights of citizens, maintains order, and limits the power of government. All citizens are equal under the law. No one may be discriminated against on the basis of their race, religion, ethnic group, or gender. No one may be arrested, imprisoned, or exiled arbitrarily. No one may be denied their freedom without a fair and public hearing by an impartial court. No one may be taxed or prosecuted except by a law established in advance. No one is above the law, not even a king or an elected president. The law is fairly, impartially, and consistently enforced, by courts that are independent of the other branches of government.

9. Due Process of Law

What Rights do Citizens Have in the Criminal Justice System?

In a democracy, anyone accused of a crime has the right to a fair, speedy, and public trial.

Just because someone is accused of a crime does not mean that he loses his rights. Anyone arrested is presumed innocent until proven guilty. A person's guilt must be proved in a court of law, through a fair, speedy, and public trial. In a democracy, a person accused of a crime has the right to know the charges against him, to remain silent, to have legal representation, to participate in his defense, and to question witnesses for the prosecution. No person who is acquitted of a crime may be tried again on that charge. No one—under any circumstance—may ever be subjected to torture, or to cruel and inhuman treatment. No one may be imprisoned or have their property seized without legal justification.

Source: <https://web.stanford.edu>

Do we have the definitive systems?

The End of History and the Last Man

(From Wikipedia, the free encyclopedia)

The End of History and the Last Man is a 1992 book by [Francis Fukuyama](#), expanding on his 1989 essay "The End of History?", published in the international affairs journal [The National Interest](#). In the book, Fukuyama argues that the advent of [Western liberal democracy](#) may signal the endpoint of humanity's [sociocultural evolution](#) and the final form of human government.

"What we may be witnessing is not just the end of the [Cold War](#), or the passing of a particular period of post-war history, but the end of history as such: that is, the end point of mankind's ideological evolution and the universalization of Western [liberal democracy](#) as the final form of human government."^[1]

Fukuyama's position contradicts that of [Karl Marx](#), who imagined that antagonistic history would end with [communism](#) displacing [capitalism](#).^[2] Fukuyama himself identifies on some level with Marx, but identifies most strongly with the German philosopher [Hegel](#), by way of [Alexandre Kojève](#). Kojève argued that the progress of history must lead toward the establishment of a "universal and homogenous" state,^[3] most likely incorporating elements of liberal or social democracy; but Kojève's emphasis on the necessarily "post-political" character of such a state (and its citizens) makes such comparisons inadequate, and is irreducible to any mere "triumph" of capitalism.^[4]

Food for thought:

Democratic systems have shortcomings and these need to be looked into and addressed as appropriate. For instance parliamentary democracy may be more effective than presidential democracy, particularly in avoiding the so-called 'gridlock' and 'government shutdown'.

Is American democracy headed to extinction?

By Stein Ringen is an emeritus professor at [Oxford University](#) and the author of "[Nation of Devils: Democratic Leadership and the Problem of Obedience](#)."

Behind dysfunctional government, is democracy itself in decay?

It took only 250 years for democracy to disintegrate in ancient Athens. A wholly new form of government was invented there in which the people ruled themselves. That constitution proved marvelously effective. Athens grew in wealth and capacity, fought off the Persian challenge, established itself as the leading power in the known world and produced treasures of architecture, philosophy and art that bedazzle to this day. But when privilege, corruption and mismanagement took hold, the lights went out.

It would be 2,000 years before democracy was reinvented in the U.S. Constitution, now as representative democracy. Again, government by popular consent proved ingenious. The United States grew into the world's leading power — economically, culturally and militarily. In Europe, democracies overtook authoritarian monarchies and fascist and communist dictatorships. In recent decades, democracy's spread has made the remaining autocracies a minority.

The second democratic experiment is approaching 250 years. It has been as successful as the first. But the lesson from Athens is that success does not breed success. Democracy is not the default. It is a form of government that must be created with determination and that will disintegrate unless nurtured. In the United States and Britain, democracy is disintegrating when it should be nurtured by leadership. If the lights go out in the model democracies, they will not stay on elsewhere.

It's not enough for governments to simply be democratic; they must deliver or decay. In Britain, government is increasingly ineffectual. The constitutional scholar Anthony King has described it as declining from "order" to "mess" in less than 30 years. During 10 years of New Labor rule, that proposition was tested and confirmed. In 1997 a new government was voted in with a mandate and determination to turn the tide on Thatcherite inequality. It was given all the parliamentary power a democratic government could dream of and benefited from 10 years of steady economic growth. But a strong government was defeated by a weak system of governance. It delivered nothing of what it intended and left Britain more unequal than where the previous regime had left off.

The next government, a center-right coalition, has proved itself equally unable. It was supposed to repair damage from the economic crisis but has responded with inaction on the causes of crisis, in a monopolistic financial-services sector, and with a brand of austerity that protects the privileged at the expense of the poor. Again, what has transpired is inability rather than ill will. Both these governments came up against concentrations of economic power that have become politically unmanageable.

Meanwhile, the health of the U.S. system is even worse than it looks. The three branches of government are designed to deliver through checks and balances. But balance has become [gridlock](#), and the United States is not getting the governance it needs. Here, the link between inequality and inability is on sharp display. Power has been sucked out of the constitutional system and usurped by actors such as PACs, think tanks, media and lobbying organizations.

In the age of mega-expensive politics, candidates depend on sponsors to fund permanent campaigns. When money is allowed to transgress from markets, where it belongs, to politics, where it has no business, those who control it gain power to decide who the successful candidates will be — those they wish to fund — and what they can decide once they are in office. Rich supporters get two swings at influencing politics, one as voters and one as donors. Others have only the vote, a power that diminishes as political inflation deflates its value. It is a misunderstanding to think that candidates chase money. It is money that chases candidates.

In Athens, democracy disintegrated when the rich grew super-rich, refused to play by the rules and undermined the established system of government. That is the point that the United States and Britain have reached.

Nearly a century ago, when capitalist democracy was in a crisis not unlike the present one, Supreme Court Justice Louis Brandeis warned: "[We may have democracy, or we may have wealth concentrated in the hands of a few, but we can't have both.](#)" Democracy weathered that storm for two reasons: It is not inequality as such that destroys democracy but the more recent

combination of inequality and transgression. Furthermore, democracy was then able to learn from crisis. The New Deal tempered economic free-for-all, primarily through the 1933 Banking Act, and gave the smallfolk new social securities.

The lesson from Athens is that success breeds complacency. People, notably those in privilege, stopped caring, and democracy was neglected. Six years after the global economic crisis, the signs from the model democracies are that those in privilege are unable to care and that our systems are unable to learn. The crisis started in out-of-control financial services industries in the United States and Britain, but control has not been reasserted. Economic inequality has followed through to political inequality, and democratic government is bereft of power and capacity. Brandeis was not wrong; he was ahead of his time.

Read more: [E.J. Dionne Jr.: Political dysfunction spells trouble for democracies](http://www.washingtonpost.com/opinions/is-american-democracy-headed-to-extinction/2014/03/28/f8084fbe-aa34-11e3-b61e-8051b8b52d06_story.html)

Source: http://www.washingtonpost.com/opinions/is-american-democracy-headed-to-extinction/2014/03/28/f8084fbe-aa34-11e3-b61e-8051b8b52d06_story.html

Food for thought: the market economy

Much is known about the market economy which has proven itself to be a highly successful way to run an economy.

Countries that applied a communist/socialist system have undergone failure of one form or another and have sought to transform themselves into market economies and those which have done so have experienced economic success (China is a case in point).

The negative effects of a centralized bureaucratic socialist system upon human rights cannot be underestimated.

Nonetheless there is a debate going on about the so-called Dismal Science; this debate is possible under a democratic regime where there is freedom of expression.

'Seven Bad Ideas,' by Jeff Madrick

New York Times book review by Prof. Paul Krugman SEPT. 25, 2014

The economics profession has not, to say the least, covered itself in glory these past six years. Hardly any economists predicted the 2008 crisis — and the handful who did tended to be people who also predicted crises that didn't happen. More significant, many and arguably most economists were claiming, right up to the moment of collapse, that nothing like this could even happen.

Furthermore, once crisis struck economists seemed unable to agree on a response. They'd had 75 years since the Great Depression to figure out what to do if something similar happened again, but the profession was utterly divided when the moment of truth arrived.

In "Seven Bad Ideas: How Mainstream Economists Have Damaged America and the World," Jeff Madrick — a contributing editor at Harper's Magazine and a frequent writer on matters

economic — argues that the professional failures since 2008 didn't come out of the blue but were rooted in decades of intellectual malfeasance.

As a practicing and, I'd claim, mainstream economist myself, I'm tempted to quibble. How "mainstream," really, are the bad ideas he attacks? How much of the problem is bad economic ideas per se as opposed to economists who have proved all too ready to drop their own models — in effect, reject their own ideas — when their models conflict with their political leanings? And was it the ideas of economists or the prejudices of politicians that led to so much bad policy?

I'll return to those quibbles later, but Madrick's basic theme is surely right. His bad ideas are definitely out there, have been expressed by plenty of economists, and have indeed done a lot of harm.

So what are the seven bad ideas? Actually, they aren't all that distinct. In particular, bad idea No. 1 — the Invisible Hand — is pretty hard to distinguish from bad idea No. 3, Milton Friedman's case against government intervention, and segues fairly seamlessly into bad idea No. 7, globalization as something that is always good. As an aside, this sometimes makes Madrick's argument more disjointed than I'd like, with key propositions spread across nonconsecutive chapters. But there is an important point here, and Madrick has clarified my own thinking on the subject.

Adam Smith used the phrase "invisible hand" only once in "The Wealth of Nations," and he probably didn't mean to say what most people now think he said. But never mind: Today the phrase is almost always used to mean the proposition that market economies can be trusted to get everything, or almost everything, right without more than marginal government intervention.

Is this belief well grounded in theory and evidence? No. As Madrick makes clear, many economists have, consciously or unconsciously, engaged in a game of bait and switch.

On one side, we have elegant mathematical models showing that under certain conditions an unregulated free-market economy will produce an efficient "general equilibrium," in the sense that nobody could be made better off without making anyone worse off. Yet as Madrick says, these assumed conditions — including the assumption that people "are rational decision makers, and that they have all the price and product information they need" — are manifestly not met in practice. What, then, do the elegant models tell us about the real world?

Well, in a different chapter Madrick recalls Milton Friedman's dictum that economic models should be judged not by the realism of their assumptions but by the accuracy of their predictions. This lets general equilibrium off the hook, sort of. But has the proposition that free markets get it right ever been vetted for predictive accuracy? Of course not. Friedman's own polemics on behalf of free markets consist mainly of "assertions based on how free markets *may* work according to the Invisible Hand," Madrick writes, with hardly any evidence presented that they actually work that way.

In other words, economists arguing for free markets and limited government try to have it both ways: They claim that their doctrine is a deep insight derived from first principles, but dismiss as irrelevant the overwhelming evidence that these assumed principles don't hold in practice.

Matters are even worse when it comes to the performance of financial markets. Here the proposition that markets should get it right — that major speculative bubbles can't happen (bad idea No. 5) — doesn't just depend on conditions that clearly don't hold in practice, but is directly contradicted by evidence on herd behavior and excess volatility. Yet “efficient markets theory” has maintained its academic dominance. Eugene Fama of the University of Chicago, the father of efficient markets, still denies that financial bubbles even exist — and last year he shared a Nobel in economic science.

Still, all of these failings of mainstream economics were obvious long before the 2008 crisis. What has really come as news is the seeming inability of economists to agree on a policy response to mass unemployment. And here is where my quibbles with Madrick get louder.

No. 2 on Madrick's bad idea list is Say's Law, which states that savings are automatically invested, so that there cannot be an overall shortfall in demand. A further implication of Say's Law is that government stimulus can never do any good, because deficit spending by the public sector will always crowd out an equal amount of private spending.

But is this “mainstream economics”? Madrick cites two University of Chicago professors, Casey Mulligan and John Cochrane, who did indeed echo Say's Law when arguing against the Obama stimulus. But these economists were outliers within the profession. Chicago's own business school regularly polls a representative sample of influential economists for their views on policy issues; when it asked whether the Obama stimulus had reduced the unemployment rate, 92 percent of the respondents said that it had. Madrick is able to claim that Say's Law is pervasive in mainstream economics only by lumping it together with a number of other concepts that, correct or not, are actually quite different.

Now, it's true that the relative handful of economists claiming that stimulus can't possibly work, or that slashing government spending is actually expansionary, have a much higher profile than their numbers or their influence within the profession warrants. Why? Partly, the answer is that the news media — especially but not only partisan media like The Wall Street Journal's editorial page — have promoted the views of economists they like for political reasons. Partly, also, it's because politicians listen to economists who tell them what they want to hear. I'm not saying that mainstream economists bear none of the blame; the decades-long retreat from Keynes has undoubtedly allowed old fallacies to make a comeback. But austerity mania has to a large extent spread despite mainstream economics, not because of it.

I'd make a further observation here: Academic economists have much less influence in Europe than they do in America. Yet the policy response to the crisis, while poor on this side of the Atlantic, has been much worse on the other. Politicians don't need bad advice from economists in order to go off the rails.

Such quibbles aside, “Seven Bad Ideas” tells us an important and broadly accurate story about what went wrong. Economists presented as reality an idealized vision of free markets, dressed up in fancy math that gave it a false appearance of rigor. As a result, the world was unprepared when markets went bad. Economic ideas, declared John Maynard Keynes, are “dangerous for good or evil.” And in recent years, sad to say, evil has had the upper hand.

(SEVEN BAD IDEAS: How Mainstream Economists Have Damaged America and the World by Jeff Madrick, 254 pp. Alfred A. Knopf 2014)

Current issues in US China relations

There is mistrust on both sides; the US accuses China of (a) cyber espionage (b) currency manipulation (c) adventurism in the South China Sea (d) human rights violation (e) reckless pursuit of economic growth (f) damage to the environment ...

China’s viewpoint: On a visit to China, Susan Rice (US National Security Adviser) told in China in September 2014, by Yang Jiechi that “countries needed to truly respect each other's core interests and major concerns and constructively manage our differences and sensitive issues”. There is an obvious call to dialogue. The US President is scheduled to visit China in November 2014. According to Chinese media, there is a great urgency for the United States to reaffirm its commitment and sincerity to Beijing by treating it as a true partner

China (the second largest economy in the world after that of the US), being set to surpass that of the US. A 2007 OECD report stated that “if using PPP conversions, China will overtake the United States by 2015” (Source: Chinese Economic Performance in the Long Run By Angus Madison, Organisation for Economic Co-operation and Development. Development Centre, 2007)

The fact is: “China is reemerging as a major power after one hundred and fifty years of being a weak player on the world stage” ... “For two thousand years, until the late nineteenth century when it was overtaken by the United States, China had the largest economy in the world” (Susan L. Shirk)

Over the course of history: The two nations have cooperated and conflicted as well as competed.

Quick review of US China relations

After World War II ended in 1945, the hostility between the Republic of China and the Communist Party of China exploded into open civil war. The Kuomintang (KMT) lost effective control of mainland China in the Chinese Civil War in 1949 and moved to Taiwan. The US supported the ROC and did not recognize the government set up by the Communist Party under Mao Zedong, who created the People’s Republic of China

The US formally recognized China in 1979 which became recognized as a member state at the UN replacing the ROC. However, the US maintained trade relations with the ROC and whenever there were tensions between PRC and ROC which could lead to war between the two entities, the US showed open support for the ROC; relations between the US and PRC tense with suspicion on both sides

Background: ROC

The Republic of China 中華民國 *Zhonghua minguo* (1912-1949) was the official designation of the state that succeeded the last imperial dynasty, the [Qing](#) 清 (1644-1911). The Republic was founded in the hope to establish a modern state able to shake off the image of a decadent and antediluvian form of government and to enter the sphere of the international community. Yet from the beginning the Republic was beset with internal struggles. President Yuan Shikai and others tried reviving the monarchy, while the "true" revolutionary, Sun Yat-sen (Sun Zhongshan 孫中山), was only able to rule over his home province of Guangdong. In the north of China, several groups of warlords contested with each other for power.

While the European states and the USA were engaged in the catastrophe of the Great War (1914-1918), and then in the economic depression of the 1920s, Japan used this power vacuum to gain more and more control over Manchuria.

The political liberation of China from its past failed, but at least, the [May Fourth Movement](#) (*Wusi yundong* 五四運動) contributed to the creation of a modern form of literature, a critical stance towards the fossilized form of [Confucianism](#) (that was seen as the main cause for China's backwardness), and a new national consciousness.

Sun Yat-sen set up his ideology of the "three principles of the people" (*sanmin zhuyi* 三民主義) that envisaged a "tutelage phase" before the introduction of democracy. Accordingly, his party, the Kuo-min-tang (*Guomindang* 國民黨) never considered democracy as a first option. After Sun's death, his political heir Chiang Kai-shek (Jiang Jieshi) 蔣介石 fulfilled Sun's dream of a reunited China, undertook the more or less successful Northern Campaign (*beifa* 北伐), forced the warlords into submission or alliance, and established the "Republican" one-party government in Nanjing. During the so-called Nanking decade (from 1927 to 1937) he refused any reforms and instead ruthlessly suppressed opposition, especially the Communist Party (*Gongchandang* 共產黨) that first agitated in Shanghai, and then in so-called soviets in the province of Jiangxi. The Communists survived several extinction campaigns and in 1936 escaped in the Long March (*changzheng* 長征) that ended in the "liberated zone" in Yan'an 延安, Shaanxi. During the Long March Mao Zedong 毛澤東 had taken over the position of chairman and from then on became the undisputed leader of the Communist Party.

In 1937 the incident at the Marco Polo Bridge 盧溝橋, whether provoked by the Japanese militarists or not, directly led to the second Sino-Japanese war (in China called *Kang Ri zhanzheng* 抗日戰爭 "war of resistance against Japan"). The Japanese occupied the eastern coast and many cities along the main waterways. Atrocities took place in the capital Nanjing in December 1937. The Chiang Kai-shek regime withdrew to Chongqing 重慶 (at that time part of Sichuan province) from where it orchestrated the joint war of the National Army and Communist troops against the Japanese occupants. The Japanese founded the puppet state of Manchuguo in Manchuria and found a collaborator in Wang Jingwei 汪精衛, a former party colleague of Chiang Kai-shek.

In 1945 the Japanese surrendered. The American envoy General George Marshall was unable to reconcile Chiang Kai-shek and the Communists. A bloody civil war erupted in which first the National Army of the Kuo-min-tang prevailed, but from 1947 on the so-called Liberation Army of the Communist Party. On October 1, 1949, Mao Zedong proclaimed the so-called [People's Republic of China](#) 中華人民共和國 (since 1949). Chiang Kai-shek and many of the national elite fled to Taiwan, where the Republic lived on, in the earstwhile hope to reconquer the mainland.

Source: <http://www.chinaknowledge.de/History/Rep/rep.html>

Background on PRC

On October 1, 1949, the People's Republic of China was formally established, with its national capital at Beijing. "The Chinese people have stood up!" declared Mao as he announced the creation of a "people's democratic dictatorship." The people were defined as a coalition of four social classes: the workers, the peasants, the petite bourgeoisie, and the national-capitalists. The four classes were to be led by the CCP, as the vanguard of the working class. At that time the CCP claimed a membership of 4.5 million, of which members of peasant origin accounted for nearly 90 percent. The party was under Mao's chairmanship, and the government was headed by Zhou Enlai (周恩來 1898-1976) as premier of the State Administrative Council (the predecessor of the State Council).

The Soviet Union recognized the People's Republic on October 2, 1949. Earlier in the year, Mao had proclaimed his policy of "leaning to one side" as a commitment to the socialist bloc. In February 1950, after months of hard bargaining, China and the Soviet Union signed the Treaty of Friendship, Alliance, and Mutual Assistance, valid until 1980. The pact also was intended to counter Japan or any power's joining Japan for the purpose of aggression.

For the first time in decades a Chinese government was met with peace, instead of massive military opposition, within its territory. The new leadership was highly disciplined and, having a decade of wartime administrative experience to draw on, was able to embark on a program of national integration and reform. In the first year of Communist administration, moderate social and economic policies were implemented with skill and effectiveness. The leadership realized that the overwhelming and multitudinous task of economic reconstruction and achievement of political and social stability required the goodwill and cooperation of all classes of people. Results were impressive by any standard, and popular support was widespread.

By 1950 international recognition of the Communist government had increased considerably, but it was slowed by China's involvement in the Korean War. In October 1950, sensing a threat to the industrial heartland in northeast China from the advancing United Nations (UN) forces in the Democratic People's Republic of Korea (North Korea), units of the PLA--calling themselves the Chinese People's Volunteers--crossed the YaluJiang (鴨綠江) River into North Korea in response to a North Korean request for aid. Almost simultaneously the PLA forces also marched into Xizang to reassert Chinese sovereignty over a region that had been in effect independent of Chinese rule since the fall of the Qing dynasty in 1911. In 1951 the UN declared China to be an aggressor in Korea and sanctioned a global embargo on the shipment of arms and war materiel to China. This step foreclosed for the time being any possibility that the People's Republic might replace Nationalist China (on Taiwan) as a member of the UN and as a veto-holding member of the UN Security Council.

After China entered the Korean War, the initial moderation in Chinese domestic policies gave way to a massive campaign against the "enemies of the state," actual and potential. These enemies consisted of "war criminals, traitors, bureaucratic capitalists, and counterrevolutionaries." The campaign was combined with party-sponsored trials attended by huge numbers of people. The major targets in this drive were foreigners and Christian missionaries who were branded as United States agents at these mass trials. The 1951-52 drive

against political enemies was accompanied by land reform, which had actually begun under the Agrarian Reform Law of June 28, 1950. The redistribution of land was accelerated, and a class struggle landlords and wealthy peasants was launched. An ideological reform campaign requiring self-criticisms and public confessions by university faculty members, scientists, and other professional workers was given wide publicity. Artists and writers were soon the objects of similar treatment for failing to heed Mao's dictum that culture and literature must reflect the class interest of the working people, led by the CCP. These campaigns were accompanied in 1951 and 1952 by the san fan (三反 or "three anti") and wu fan (五反 or "five anti") movements. The former was directed ostensibly against the evils of "corruption, waste, and bureaucratism"; its real aim was to eliminate incompetent and politically unreliable public officials and to bring about an efficient, disciplined, and responsive bureaucratic system. The wu fan movement aimed at eliminating recalcitrant and corrupt businessmen and industrialists, who were in effect the targets of the CCP's condemnation of "tax evasion, bribery, cheating in government contracts, thefts of economic intelligence, and stealing of state assets." In the course of this campaign the party claimed to have uncovered a well-organized attempt by businessmen and industrialists to corrupt party and government officials. This charge was enlarged into an assault on the bourgeoisie as a whole. The number of people affected by the various punitive or reform campaigns was estimated in the millions.

The period of officially designated "transition to socialism" corresponded to China's First Five-Year Plan (1953-57). The period was characterized by efforts to achieve industrialization, collectivization of agriculture, and political centralization.

The First Five-Year Plan stressed the development of heavy industry on the Soviet model. Soviet economic and technical assistance was expected to play a significant part in the implementation of the plan, and technical agreements were signed with the Soviets in 1953 and 1954. For the purpose of economic planning, the first modern census was taken in 1953; the population of mainland China was shown to be 583 million, a figure far greater than had been anticipated.

Among China's most pressing needs in the early 1950s were food for its burgeoning population, domestic capital for investment, and purchase of Soviet-supplied technology, capital equipment, and military hardware. To satisfy these needs, the government began to collectivize agriculture. Despite internal disagreement as to the speed of collectivization, which at least for the time being was resolved in Mao's favor, preliminary collectivization was 90 percent completed by the end of 1956. In addition, the government nationalized banking, industry, and trade. Private enterprise in mainland China was virtually abolished.

Major political developments included the centralization of party and government administration. Elections were held in 1953 for delegates to the First National People's Congress, China's national legislature, which met in 1954. The congress promulgated the state constitution of 1954 and formally elected Mao chairman (or president) of the People's Republic; it elected Liu Shaoqi (劉少奇 1898-1969) chairman of the Standing Committee of the National People's Congress; and named Zhou Enlai premier of the new State Council.

In the midst of these major governmental changes, and helping to precipitate them, was a power struggle within the CCP leading to the 1954 purge of Political Bureau member Gao Gang (高崗)

and Party Organization Department head Rao Shushi (饒漱石), who were accused of illicitly trying to seize control of the party.

The process of national integration also was characterized by improvements in party organization under the administrative direction of the secretary general of the party Deng Xiaoping (鄧小平 who served concurrently as vice premier of the State Council). There was a marked emphasis on recruiting intellectuals, who by 1956 constituted nearly 12 percent of the party's 10.8 million members. Peasant membership had decreased to 69 percent, while there was an increasing number of "experts", who were needed for the party and governmental infrastructures, in the party ranks.

As part of the effort to encourage the participation of intellectuals in the new regime, in mid-1956 there began an official effort to liberalize the political climate. Cultural and intellectual figures were encouraged to speak their minds on the state of CCP rule and programs. Mao personally took the lead in the movement, which was launched under the classical slogan "Let a hundred flowers bloom, let the hundred schools of thought contend" (百花齊放，百家爭鳴). At first the party's repeated invitation to air constructive views freely and openly was met with caution. By mid-1957, however, the movement unexpectedly mounted, bringing denunciation and criticism against the party in general and the excesses of its cadres in particular. Startled and embarrassed, leaders turned on the critics as "bourgeois rightists" (右派分子) and launched the Anti-Rightist Campaign. The Hundred Flowers Campaign, sometimes called the Double Hundred Campaign (雙百方針), apparently had a sobering effect on the CCP leadership.

Source: <http://www.chaos.umd.edu/history/prc.html>

Rapprochement

In the 1970s US President Nixon turned the situation around by creating a 'rapprochement' despite the fact that PRC continued its communist ideology path; since then trade grew between the two nations

In 1972, U.S. President Richard Nixon traveled to the People's Republic of China (PRC) and met with Mao Zedong, the Chairman of the Central Committee of the Chinese Communist Party, and Zhou Enlai, the PRC Premier. Over the course of this visit, the two governments negotiated the Shanghai Communiqué, an important step toward improving relations between the United States and the PRC after many years of hostility.

Diplomatic estrangement between the two countries went back to the 1940s. After the Chinese civil war ended in 1949, the Communists established the People's Republic of China on the Chinese mainland while many soldiers and officials of the defeated Republic of China (ROC) evacuated to the island of Taiwan. For the 30 years that followed, the United States recognized the Republic of China as the legitimate government of China and had no official diplomatic relations with Communist China.

In the late 1960s and early 1970s, there were indications that the United States and the People's Republic of China were considering rapprochement. The escalating war in Vietnam led U.S. officials to look for ways to improve relations with Communist governments in Asia in the hopes

that such a policy might lessen future conflict, undermine alliances between Communist countries, diplomatically isolate North Vietnam, and increase U.S. leverage against the Soviet Union. Likewise, Sino-Soviet tension contributed to the Chinese leadership's desire for a rapprochement with the United States. Nixon signaled his interest in improved relations by easing the travel and trade restrictions against China that dated from the Korean War in the early 1950s. Although the Sino-U.S. Ambassadorial Talks, which began in 1955 and continued intermittently over the years that followed, had reached a hiatus, the two sides agreed to reopen them in 1969. Of greater significance, Nixon established a secret channel to the PRC's leadership through Pakistani President Yahya Khan. In Nixon's view, Khan was an attractive intermediary since he had good relations with the leaders of both the United States and the PRC, and he also provided a means to circumvent the U.S. Department of State, which Nixon feared might oppose or publicize his initiative.

By late 1970, the pace of rapprochement was accelerating. Through the Pakistani channel, the PRC government expressed interest in high level discussions with the United States aimed at improving relations. Mao likewise told U.S. journalist Edgar Snow that he would be happy to talk with Nixon. In 1971, Nixon removed the last remaining restrictions preventing Americans from traveling to mainland China. Following well-publicized fraternization between U.S. and PRC table tennis players during an international competition in Japan, the PRC issued an invitation in April 1971 for the U.S. ping pong team to play a match in Communist China. In April 1972, the PRC ping pong team visited the United States on a good-will tour. This informal "Ping Pong Diplomacy" provided a public face for more serious diplomatic negotiations.

Henry Kissinger, the Assistant to the President for National Security Affairs, traveled to Beijing twice during 1971 to discuss the conditions under which each side would consider a normalization of relations. The first of these trips was conducted in great secrecy and only revealed to the American public during a dramatic speech by President Nixon. Kissinger's second trip to the PRC, in October 1971, coincided with a vote on Chinese representation in the United Nations. The United States advocated that the United Nations seat delegations from both Communist China and Taiwan. This proposal failed and, instead, the member states of the United Nations voted to seat the PRC delegation in place of the Taiwan delegation. Although the United States unsuccessfully opposed Taiwan's expulsion from the General Assembly, it supported Communist China's entrance and assumption of a seat on the Security Council; this contributed to a major diplomatic triumph for the People's Republic of China.

Nixon travelled to Communist China February 21–28, 1972, becoming the first U.S. President to visit mainland China while in office. Near the end of the trip, the two governments issued the Shanghai Communiqué, in which each articulated its position on a crucial obstacle to normalization, the Taiwan issue. The People's Republic of China affirmed that Taiwan was a part of China, and that it opposed all attempts to create two Chinas, one China and one Taiwan, or an independent Taiwan. The United States declared that it "acknowledges that all Chinese on either side of the Taiwan Strait maintain that there is but one China and that Taiwan is a part of China," and that it did not challenge that position. The United States also noted the importance of finding a peaceful resolution to the Taiwan issue and that it intended to withdraw remaining U.S. troops from Taiwan. Over the course of the talks, Mao and Zhou made clear to Nixon that their country would not normalize relations with the United States as long as Washington continued

formal diplomatic relations with Taiwan; Nixon stated that the United States did not support Taiwanese independence. The principles established in the Shanghai Communiqué provided the basis for the establishment of formal diplomatic relations [Carter normalization milestone] between the two countries in 1979. On a global scale, rapprochement fundamentally altered the context of the Cold War and influenced the subsequent movement towards détente between the United States and the Soviet Union.

Source: <https://history.state.gov/milestones/1969-1976/rapprochement-china>

China opening up

At the end of the Cold War, relations between China and the US intensified with substantial increase of investment by US companies in China which started 'opening up' transforming its economy. In his book on China (see (b) in bibliography) Kissinger talked of "Reagan and the advent of normalcy"

Background

The Third Plenary Session of the 11th Central Committee of the CPC, held in late 1978, saw introduction of Chinese reform and opening-up policies. The process of new policies was from rural reform to urban reform, from reform of economic structure to structures in all aspects, and from internal vitalization to external opening-up. Deng Xiaoping was the major leader and chief architect of Chinese reform and opening-up policies.

Deng Xiaoping initiated the theory of "building socialism with Chinese characteristics", i.e. carrying out construction to realize modernization with economic construction as central task, implementing household contract responsibility system with remuneration linked to output in rural areas, practicing various economic systems of responsibility to prevent people from "eating from same big pot" in urban areas, and establishing a socialist market economy based on public ownership of means of production. At the same time, political systems were also reformed, such as separating functions of the Party and the Government, transferring power to lower levels, simplifying administrative structure and developing a democratic style of work.

Deng Xiaoping advocated combining reform and opening-up, and set up special economic zones (SEZs). In July 1979, the State Council decided to set up the first group of SEZs in Guangdong and Fujian provinces on a trial basis. In 1980s, four SEZs of Shenzhen, Zhuhai, Shantou and Xiamen were formally set up. Over a dozen coastal cities were opened, and open economic regions were established in Yangtze River

Delta, Pearl River Delta, southeast Fujian area and the area around the Bohai Sea. Hainan Island was made a full-fledged province and an SEZs. In January 1984, Deng Xiaoping and other leaders went on an inspection tour of Shenzhen and Zhuhai SEZs. In 1992, Deng inspected Wuchang, Shenzhen, Zhuhai and Shanghai, and issued instructions, emphasizing boldness in reform and opening-up tasks, telling people to grasp opportunities, taking economic development as key to progress. Deng emphasized that "science and technology are the first productive forces", and urged more respect for knowledge and talented people. He also noted the need to develop education and strengthen construction of socialist spiritual civilization. As for Hong Kong and Macao issue, Deng initiated the principle of "one country, two systems" to realize the reunification of the country. This principle underlay the successful reunion of Hong Kong and Macao with motherland. After more than 20 years of reform and opening-up, China has made enormous achievements in economic, political, cultural and social construction. As a result, Chinese comprehensive national power and people's living standards have increased greatly.

Source:

http://www.heavenlyfoods.org/ChineseHistory/Contemporary_Period/Deng%20Xiaoping%20and%20the%20Reform%20and%20Opening-up%20Policy.aspx

Tension anew

The US imports from China grew significantly and so the trade balance in favor of China. The US felt that one of the factors was currency manipulation by China making Chinese products highly competitive.

Background: China: currency policy explained

1. The Chinese currency, or renminbi (RMB) has been a contentious issue for the past several years. What is the root of the conflict for the United States and other countries?

The root of the conflict for the United States—and other countries—is complaints that China keeps the value of the RMB artificially low, boosting its exports and trade surplus at the expense of trading partners. Although the U.S. Treasury has repeatedly stopped short of labeling China a "currency manipulator" in its twice-yearly reports to Congress, it has consistently pressured China to allow the RMB to appreciate at a faster pace, and to let the currency fluctuate more freely in line with market forces. The International Monetary Fund, the World Bank and many economists have also argued for faster appreciation and a more flexible exchange rate policy. Partly in response to these pressures, but more because of domestic considerations, China has allowed the RMB to rise by about 25% against the U.S. dollar since mid-2005. Yet the pace of appreciation remains agonizingly slow for the U.S. and other countries in Europe and Latin America whose manufacturing sectors face increasing competition from low-priced Chinese goods.

2. What impact does exchange rate control have on the economy?

According to foreign observers, consistent intervention by China to keep its exchange rate substantially below the level the market would set is a price distortion that prevents international markets from functioning as well as they could. This price distortion also affects China's own economy, by encouraging large-scale investment in export manufacturing, and discouraging investment in the domestic consumer market. Thus, it is in the interest both of China itself and the international economy as a whole for China to allow its exchange rate to rise more rapidly. However, Chinese policy makers do not agree with this view, and believe the managed exchange rate is broadly beneficial for economic development.

3. What is the Chinese view of their policies toward exchange rate control?

Chinese officials see the exchange rate—and prices and market mechanisms in general—as tools in a broader development strategy. The goal of this development strategy is not to create a market economy but to make China a rich and powerful modern country. Market mechanisms are simply means, not ends in themselves. Chinese leaders observe that all countries that have raised themselves from poverty to wealth in the industrial era, without exception, have done so through export-led growth. Thus, they manage the exchange rate to broadly favor exports, just as they manage other markets and prices in the domestic economy in order to meet development objectives such as the creation of basic industries and infrastructure.

Since they perceive that an export-led strategy is the only proven route to rich-country status, they view with profound suspicion arguments that rapid currency appreciation and markedly slower export growth are “in China's interest.” And because China is an independent geopolitical power, it is fully able to resist international pressure to change its exchange rate policy.

4. What are some misconceptions about China's large-scale reserve holdings and investments in U.S. Treasury Bonds, specifically the idea that China is “America's banker?”

Because China's central bank is the single biggest foreign holder of U.S. government debt, it is often said that China is “America's banker,” and that, if it wanted to, it could undermine the U.S. economy by selling all of its dollar holdings, thereby causing a collapse of the U.S. dollar and perhaps the U.S. economy. These fears are misguided. China is not in any practical sense “America's banker.” China holds just 8% of outstanding US Treasury debt; American individuals and institutions hold 69%. China holds just 1% of all US financial assets (including corporate bonds and equities); US investors hold 87%. Chinese commercial banks lend almost nothing to American firms and consumers – the large majority of that finance comes from American banks. America's banker is America, not China.

It is more apt to think of China as a depositor at the “Bank of the United States:” its treasury bond holdings are super-safe, liquid holdings that can be easily redeemed at short notice, just like bank deposits. Far from holding the United States hostage, China is a hostage of the United States, since it has little ability to move those deposits elsewhere (no other bank in the world is big enough).

5. What are the implications for U.S. policy and how should policymakers react?

China's exchange-rate policy is deeply linked to long-term development goals and there is very little that the United States, or any other outside actor, can do to influence this policy. Also, the same suspicion of market forces that leads Beijing to pursue an export-led growth policy generating large foreign reserve holdings also means that Beijing is unlikely to be willing to permit the financial market opening required to make the RMB a serious rival to the dollar as an international reserve currency.

In substantive terms, there is little to be gained from high-profile pressure on China to accelerate the pace of RMB appreciation, since the United States possesses no leverage which can be plausibly brought to bear. U.S. policy should therefore de-emphasize the exchange rate, and instead focus on keeping the pressure on China to maintain and expand market access for American firms in the domestic Chinese market, which in principle is provided for under the terms of China's accession to the World Trade Organization.

(by [Arthur R. Kroeber](#), Nonresident Senior Fellow, [Foreign Policy](#), [Brookings-Tsinghua Center](#))

Source: <http://www.brookings.edu/blogs/up-front/posts/2011/09/07-china-currency-kroeber>

China has been using its surplus to buy a significant amount of US financial instruments: China investment in the US has also been growing quite significantly

On the security front China is suspicious of the US. China has mixed feeling regarding the so-called US pivot policy in Asia which according to China is aimed at 'containing it'

China's rise and Asian tensions send U.S. relations into downward spiral



Source:

http://www.washingtonpost.com/world/asia_pacific/chinas-rise-and-asian-tensions-send-us-relations-into-downward-spiral/2014/07/07/f371cfaa-d5cd-4dd2-925c-246c099f04ed_story.html

On the other hand, US is suspicious of China. Defense Secretary Hagel made a statement in September 2014 to the effect that China was pursuing a military technology strategy worthy of attention.

Some in the US have been critical of China's development policy in particular its aggressive policy of large scale borrowing to build up its infrastructure and its economy often disregarding human factors as well as ecological considerations

There is a contest for supremacy going on cogently described by Aaron L. Friedberg in his book entitled "China, America and the struggle for mastery in Asia". He talks of "Rivalry"; of the US

going “From containment to alignment” and the Obama policy of “Congagement” (pushing for both containment and engagement)

The author of this paper contends that in order to improve US China relations, it may be appropriate to look at how US Japan relations improved over the years. To make a long story short, they went from bitter enemies to best friends over a few decades. First the sour note: Japan military operations over Hawaii. The US retaliated by bombing Hiroshima and Nagasaki. However after end of war, US helped Japan reconstruct both the country and its economy.

Japan learned from US example of world business expansionism, product manufacturing including quality control. Japan developed its own business model from which during the economic lows of the US in the 80s US companies learned, particularly in business strategy formulation.

There were setbacks as well for example Japan made the mistake of entering the US too visibly. The trade and investment advantage of Japan created resentment in the US.

It was necessary to make specific efforts to Improve US Japan relations. The author served as a member of a team gathered by Global Consultants who worked with high level officials of MITI and LDP leading to the establishment of foreign access zones in Japan and thus an opening up of Japan to foreign products and investments including those of the US.

What are the key ingredients to Improving US Japan relations: first, cross investment; in effect the two nations became partners so closely linked that they will never go to war; the two business cultures have similarities and also differences; both countries apply the principle of mutual respect. Japan economy grew to become number two in the world

Improving US China relations: The November 2014 visit of President Obama to China is absolutely crucial, centering on confidence building measures and the fact that partners have agreements and also differences

Improving US China relations: realism is a key principle. US often criticizes China for its ideology; the fact is that China has an open economy and is developing its own shade of capitalism albeit ‘state’; Practically all countries with one exception follow the mixed economy model with the co-existence of private and public sectors

Debate: State capitalism (The Economist)

The current crisis in liberal capitalism has coincided with the rise of a vigorous alternative system, state capitalism, in which the government offers support to "national champions" but also lists these champions on the stockmarket and subjects them to global competition.

State capitalists argue that the system is proving remarkably successful. China has grown at almost 10% for the past 30 years. State-capitalist companies such as China Telecom have come

from nowhere to become mighty global companies. You really can have the best of both worlds.

State capitalism's critics reply that the system is riven with problems. State-capitalist companies are not only less efficient than their private competitors. They are also using cheap capital and political favouritism to crowd out the entrepreneurs that are the real drivers of growth. State capitalism inevitably degenerates into crony capitalism as powerful politicians extend their control over the economy.

Have China and other emerging powers really discovered a new formula for growth? Or is state capitalism a disaster in the making? Is state capitalism really a new system that combines the discipline of the market with intelligent state guidance? Or is it just a new name for the old policy of picking winners and playing favourites? Can state capitalism remain successful as economies mature? Or is it incompatible with innovation and creativity? These issues will be at the heart of politics in much of the emerging world in the coming years.

Source: <http://www.economist.com/debate/overview/221>

Political leadership

Lee Kwan Yew has shown in Singapore that strong political leadership can be a plus. It is possible to have an open economy with strong political leadership.

Background: Lee Kwan Yew on political leadership

'History', observes Adorno, 'is the unity of continuity and discontinuity'. Even a basic awareness to this reality should be enough to prevent anyone – especially the new sojourner into the realm of political science – from making coarse comparisons between past and present. And yet, sometimes the picture is so compelling, so painfully clear, that it simply cannot be ignored. Faced with it, all one can do is carefully explore the contours of the ancient and the new, hoping to retain enough responsibility to open his eyes to the differences when they manifest themselves.

This is what the current paper sets out to do. Though hundreds of years and thousands of miles stand between 16th century Italy and 20th century Singapore, between the writings of Niccolò Machiavelli and the statecraft of Lee Kuan Yew, the similarities are extraordinary. This paper will argue that the political views and actions of Singapore's ruling elite – more precisely, those of the country's 'founding father' Lee Kuan Yew – can be powerfully interpreted through an application of Machiavellian principles. This interpretation takes place on two levels. First, the political actions of Singapore's ruling People's Action Party (PAP) can be shown to consistently reflect Machiavelli's prescriptions for maintaining an authoritarian regime, diffusing discontent and crushing opposition. Singapore is a country where human rights have come to be seen as nonessential in the race towards national economic excellence. Riding on the wave of modernity and capitalism, the government provides its citizens with welfare at the cost of chaining their lives and minds. The opposition has been reduced to dust by political imprisonment, structural control of the election process, and governmental defamation lawsuits that turn any utterance against the authorities into an act of political suicide. Subduing the population to a comfortable life of self-censorship, Lee and his aides can be seen as devout disciples of the Florentine.

But the comparison goes deeper than that. It can be argued that Lee's leading ideology of 'Asian values' – which underlies the PAP's policies – is a form of Machiavellian Virtù, seen as creating a healthy and dynamic community which can grow and prosper. Just as Machiavelli, in Isaiah

Berlin's view (1972:288-9), set Roman Virtue in opposition to his contemporary Christian morality – thus Lee can be seen as having chosen Asian values for Singapore as an alternative to the West's liberal democracy. Lee himself, in this sense, can be seen as assuming the role of the Machiavellian 'lawgiver', anointed by his virtuous character to overcome Fortune and the difficulties imposed by her blind whim. Also of note in this context is Lee's selective use of the Confucian religion to justify his worldview.

Source: <http://www.singapore-window.org/sw00/000614ug.htm>

China faces daunting internal challenges

China is a huge country with different ethnic groups; there is disparity in wealth with an urban-rural divide. Tibet remains an issue. Efforts have to be made to improve Mainland and Taiwan relations. Mainland Hong Kong relations also need attention.

China's good neighbor policy

"Over the 80s/90s China developed a coherent, integrated and omni directional Asia regional policy, consisting of improved ties with all the countries surrounding it" (Susan L. Shirk). However recent tensions with countries over the South China Sea (Philippines and Vietnam) have lurked. Relations with Japan has also been tense.

Background: Tensions in the South China Sea

Territorial spats over the waters and islands of the South China Sea have roiled relations between China and countries like Philippines, Vietnam, Taiwan, Malaysia, and Brunei in recent years, and tensions continue to escalate in the wake of U.S. President Barack Obama's announced ["pivot" of focus to the region](#). A handful of islands comprise the epicenter of the territorial dispute, making up an area known as the "cow's tongue" that spans roughly the entire South China Sea. The region is home to a wealth of natural resources, fisheries, trade routes, and military bases, all of which are at stake in the increasingly frequent diplomatic standoffs. China's blanket claims to sovereignty across the region and its strong resistance to handling disputes in an international arena have mired attempts at resolving the crises and intensified nationalist postures in all countries involved, particularly Vietnam and the Philippines. Experts say the potential for an escalated conflict in the South China Sea—while seemingly distant for now—presents an ongoing crisis for the region, as well as for U.S. interests in the area.

What territories are involved and disputed?

The South China Sea comprises a stretch of roughly 1.4 million square miles in the Pacific Ocean that encompasses an area from the Singapore and Malacca Straits to the Strait of Taiwan, spanning west of the Philippines, north of Indonesia, and east of Vietnam. The South China Sea islands number in the hundreds, although the largest and most contentious territories include the Spratly Islands, Paracel Islands, Pratas Islands, Macclesfield Bank, and Scarborough Shoal, to which all of the six major Southeast Asian nations lay various claims. The islands are mostly uninhabited and have never had an indigenous population, making the issue of historical sovereignty a thorny one to resolve.

The disputes aren't limited to land, however; each country has an [Exclusive Economic Zone](#) (EEZ), prescribed by the 1982 United Nations Convention on the Law of the Sea (UNCLOS), over which it has special rights to marine resources and energy exploration and production. An EEZ spans outward 200 nautical miles from the coast of the each state's territorial sea, and may include the continental shelf beyond the 200-mile limit. These zones come into play during disputes over sea territory, as displayed in China's December 2012 [spat with Vietnam](#) over oil and fishing activity in the waters near the Paracel Islands.

What is the 9-Dash Line?

The 9-Dash line is a controversial demarcation line used by China for its [claim to territories](#) and waters in the South China Sea, most notably over the Scarborough Shoal and the Paracel and Spratly Islands—the two most important disputed island groups. The line, which is contested by the Philippines, Brunei, Malaysia, Taiwan, and Vietnam, encompasses virtually the entire South China Sea region and caused immediate controversy when China submitted a map to the [UN in 2009](#) that included the demarcation. Beijing's [issuance of a new passport](#) in late 2012 containing a map of the disputed region based on the line drew fresh international criticism and backlash.

ASEAN countries have [contested this boundary](#), but China has insisted on the historical legitimacy of the line based on survey expeditions, fishing activities, and naval patrols dating as far back as the fifteenth century, putting it at odds with the boundaries UNCLOS has enforced for the region since 1994.

What resources are at play in the region?

The immediate source of conflict in the region is competition over resources, said [David Rosenberg](#), professor of political science at Middlebury College. There are roughly half a billion people who live within 100 miles of the South China Sea coastline, and the volume of shipping through its waters has skyrocketed as China and ASEAN nations increase international trade and oil imports. The [need for resources](#), especially hydrocarbons and fisheries, also has intensified economic competition in the region, particularly given the rapid coastal urbanization of China. "Behind it all, it's essentially the industrial revolution of Asia," Rosenberg said. "And the South China Sea has become the hub of that."

According to the World Bank, the South China Sea holds [proven oil reserves](#) of at least seven billion barrels and an estimated 900 trillion cubic feet of natural gas, which offer tremendous economic opportunity for smaller nations like Malaysia, the Philippines, and Vietnam, and energy security for China's large, growing economy. In December 2012, China's National Energy Administration named the disputed waters as the [main offshore site](#) for natural gas production, and a major Chinese energy company has already begun drilling in deep water off the southern coast. Competitive tensions escalated when India's state-run Oil and Natural Gas Corp announced it had [partnered with PetroVietnam](#) for developing oil in the disputed waters. In June 2011, Vietnam accused a Chinese fishing boat of [cutting cables](#) from an oil exploration vessel inside its EEZ. Hostilities resurfaced in May 2014, when Chinese vessels fired water cannons at a Vietnamese flotilla that allegedly approached a large Chinese drilling rig near the Paracel Islands. The row affected Vietnam's [stock markets](#), which plunged after the incident.

Smaller-scale fishing incidents have instead become the hub of maritime confrontation as declining fish stocks have driven fishermen farther into disputed areas to search for supply, as well as highly profitable illegal species. In the most recent clash, the Philippines' [naval forces intercepted](#) eight Chinese fishing vessels in the Scarborough Shoal in April 2012, finding what they viewed as illegally fished marine life on board. The attempted arrest of the poachers led to a two-month standoff between the two countries.

Annual fishing bans and arrests of fishermen are a convenient proxy for sovereignty claims since they can be presented as legitimate attempts to enforce marine resources protection, according to [a report](#) by the International Crisis Group. "This is an issue that doesn't make big headlines, but 1.5 billion people live there and rely heavily on fisheries for food and jobs," Rosenberg said. "That's where most of the conflict goes on, and most of these have been dealt with on a routine conflict management basis."

How does the dispute affect trade routes in the sea?

As much as 50 percent of [global oil tanker shipments](#) pass through the South China Sea, which sees three times more tanker traffic than the Suez Canal and more than five times that of the Panama Canal, making the waters one of the world's busiest international sea lanes. More than half of the world's top ten shipping ports are also located in and around the South China Sea, according to the International Association of Ports and Harbors. As intra-ASEAN trade has markedly increased—from 29 percent of total ASEAN trade in 1980 to 41 percent in 2009—maintaining freedom of navigation has become of paramount importance for the region.

"This is a very important issue, and has become the main concern of Japan, the United States and even right now the European Union," said Dr. Yann-Huei Song, a fellow at Academia Sinica in Taiwan. However, Yann-Huei says China is unlikely to instigate an interruption in traffic because its business, exploration, and importation rely entirely on freedom of navigation as well. Experts argue that the [mutual benefits](#) [PDF] from regional economic integration provide an extremely compelling incentive for cooperation on resources, conservation, and security movements, according to a *Harvard Quarterly* paper.

What are the military stakes?

The region has also seen increased militarization in response to China's burgeoning power, raising the stakes of a potential armed conflict and making disputes more difficult to resolve. Vietnam and Malaysia have led regional military buildups and increased arms trade with countries like Russia and India, while the Philippines doubled its defense budget in 2011 and pledged five-year [joint military exercises](#) with the United States. The Philippines also embarked on a modernization program costing roughly \$1 billion that will rely heavily on U.S. sales of cutters and potentially fighter jets.

"Behind it all, it's essentially the industrial revolution of Asia. And the South China Sea has become the hub of that." —David Rosenberg, Middlebury College

Ships are commonly involved in naval disputes, as exhibited in the Scarborough Shoal incident in April when the Philippines said its largest warship—acquired from the United States—had [a standoff](#) with Chinese surveillance vessels after the ship attempted to arrest Chinese fishermen but was blocked by the surveillance craft. The involvement of the navy made political compromise more difficult, says the ICG.

"There's nothing like NATO in Asia, and that's what's worrisome," Rosenberg said. "Unlike the United States and EU, which are engaged in other regions of the world, the Southeast Asian countries are compelled to spend more protecting their most immediate interests. It's not the Cold War by any means, but they're still not very open with each other about military modernization."

What is being done to resolve the disputes?

One of the largest impediments to a resolution is China's insistence on conducting most of its [diplomacy on a bilateral basis](#), wrote CFR's Stewart Patrick. Nationalism has also fueled many of these stalemates. International tribunals, like the International Tribunal for the Law of the Sea, are available, but nations use it selectively in light of the potential domestic political ramifications of appearing conciliatory. China also has repeatedly [rejected the mechanisms](#) for arbitration provided by the UN.

A July 2012 ASEAN summit attempted to address ways to mitigate the conflict but ended without producing [a communiqué](#), which some experts say highlights the difficulties of multilateral approaches in the region. ASEAN's [six-point statement](#) in July made no reference to specific incidents, and only outlined [an agreement](#) to draft and implement a regional code of conduct, respect international law, and exercise self-restraint. CFR's Joshua Kurlantzick said [in August 2012](#) that while ASEAN was an appropriate venue to mediate this dispute, the organization still has not yet found its footing in transitioning to a "more forceful, integrated organization that can provide leadership." In a November 2012 IIGG working paper, Kurlantzick looked at how ASEAN could [strengthen its role in the region](#) to meet challenges such as the South China Sea.

Consequently, joint management of resources has been [widely proposed by experts](#) as the best way to ease current tensions, according to the ICG. China and Vietnam have managed to cooperate on a [common fishery zone](#) in the Tonkin Gulf, where the two countries have delineated claims and regulated fishing. However, oil development has remained a highly contentious issue, as both Vietnam and the Philippines have gone ahead with [gas exploration projects](#) [PDF] with foreign companies in disputed areas.

What does this mean for the United States' pivot to Asia?

The U.S. pivot to the area, coupled with the region's myriad conflicts, raises concerns about the future of U.S. interests in Southeast Asia. The Obama administration has not only worked to strengthen ties with ASEAN, but has also forged tighter relations with individual countries like Myanmar, where it has developed a new focus and strategy of engagement. The United States has also ramped up security cooperation with Vietnam, while Malaysia and Singapore have also signaled desire for increased security cooperation.

A 2012 [Johns Hopkins paper](#) notes that Southeast Asia has transformed in the last two decades to an area where Chinese power and strategic ambition confront an established U.S. military presence, and where a Chinese perception of the status of the South China Sea is [fundamentally at odds](#) with a long-settled consensus among major maritime states.

Experts say that the United States faces a dilemma and tough balancing act in the region, as some countries in ASEAN would like it to play a [more forceful role](#) to counter what they see as a greater Chinese assertiveness, while others want to see less U.S. involvement. The priority on all sides should be to avoid military conflict, according to Bonnie Glaser of the Center for Strategic and International Studies in this [Contingency Planning Memorandum](#); even as China spars with its Southeast Asian neighbors, it is becoming the largest trading partner and one of the biggest direct investors of most Southeast Asian states since an ASEAN-China free trade area came into effect.

Source: <http://www.cfr.org/china/south-china-sea-tensions/p29790>

On its path to globalization, China has been following a new style of 'soft' cooperation developing agreements with Russia, Australia, Mongolia; India; Spain; several countries in Africa and several countries in Latin America.

Japan-China relations: PM Abe overture to China (Sep 2014) is an indication of cooperation between the two nations.

History has shown that cooperation, competition, conflict can be positive if properly managed (Kissinger)

Importance of dialogue: US and China Discuss Avoiding Military Incidents (Sep 2014 news)

A picture is worth a thousand words: September 2014 Rice and Xi Jin Ping



On the technological front it is worth noting that China has taken the lead of supercomputers in the world

1. Tianhe-2 (China)
2. Titan (US)
3. Sequoia (US)
4. K Computer (Japan)
5. Mira (US)
6. Piz Daint (Switzerland)
7. Stampede (US)
8. Juqueen (Germany)
9. Vulcan (US)
10. SuperMuc (Germany)

However, the US is already hard at work in building two new supercomputers which will be the top in the world. Also, the US has the largest number of supercomputers in use in the world far ahead of any other country in the world.

When it comes to economic growth: size matters: **US economic growth was itself spurred by the size of its own market with add-ons from world markets.**

China itself has a super size market and thus its growth potential is enormous. However GDP per capita is very low and the development of its internal market is a challenge which will require a long term effort. A dynamic export-policy is thus important for China. China also follows a strategic import policy, for example stockpiling of fossil fuel which world market price is low.

Will BRICS give an added advantage to China? Most likely

Background: BRIC

BRICS establish \$100bn bank and currency pool to cut out Western dominance

Published time: July 15, 2014 18:14

Edited time: July 16, 2014 12:54

BRICS, Banking, Big deal, Currencies, Economy, Russia and the global economy

The group of emerging economies signed the long-anticipated document to create the \$100 bn BRICS Development Bank and a reserve currency pool worth over another \$100 bn. Both will counter the influence of Western-based lending institutions and the dollar. The new bank will provide money for infrastructure and development projects in BRICS countries, and unlike the IMF or World Bank, each nation has equal say, regardless of GDP size. Each BRICS member is expected to put an equal share into establishing the startup capital of \$50 billion with a goal to reach \$100 billion. The **BRICS bank** will be headquartered in **Shanghai**, India will preside as president the first year, and Russia will be the chairman of the representatives.

"BRICS Bank will be one of the major multilateral development finance institutions in this world," Russian President Vladimir Putin said on Tuesday at the 6th BRICS summit in Fortaleza, Brazil.

The big launch of the BRICS bank is seen as a first step to break the dominance of the US dollar in global trade, as well as dollar-backed institutions such as the International Monetary Fund (IMF) and the World Bank, both US-based institutions BRICS countries have little influence within.

"In terms of escalating international competition the task of activating the trade and investment cooperation between BRICS member states becomes important," Putin said. Russia, Brazil, India, China and South Africa account for 11 percent of global capital investment, and trade turnover almost doubled in the last 5 years, the president reminded. Each country will send either their finance minister or Central Bank chair to the bank's representative board. Membership may not just be limited to just BRICS nations, either. Future members could include countries in other emerging markets blocs, such as Mexico, Indonesia, or **Argentina**, once it sorts out its debt burden. BRICS represents 42 percent of

the world's population and roughly 20 percent of the world's economy based on GDP, and 30 percent of the world's GDP based on PPP, a more accurate reading of the real economy. Total trade between the countries is \$6.14 trillion, or nearly 17 percent of the world's total. The \$100 billion crisis lending fund, called the Contingent Reserve Arrangement (CRA), was also established. China will contribute the lion's share, about \$41 billion, Russia, Brazil and India will chip in \$18 billion, and South Africa, the newest member of the economic bloc, will contribute \$5 billion. The idea is that the creation of the bank will lessen dependence on the West and create a more multi-polar world, at least financially.

"This mechanism creates the foundation for an effective protection of our national economies from a crisis in financial markets," Russian President Vladimir Putin said.

The group has already created the BRICS **Stock Alliance** an initiative to cross list derivatives to smooth the path for international investors interested in emerging markets.

Russia has also proposed the countries come together under an **energy alliance** that will include a fuel reserve, as well as an institute for energy policy

"We propose the establishment of the Energy Association of BRICS. Under this 'umbrella', a Fuel Reserve Bank and BRICS Energy Policy Institute could be set up," Putin said.

Documents on cooperation between BRICS export credit agencies and an agreement of cooperation on innovation were also inked. Bringing emerging economies closer has become vital at a time when the world is gutted by the financial crisis and BRICS countries can't remain above international problems, said Brazil's President Dilma Rousseff. She cautioned the world not to see BRICS deals as a desire to dominate.

"We want justice and equal rights," she said.

"The IMF should urgently revise distribution of voting rights to reflect the importance of emerging economies globally," Rousseff said.

Source: <http://rt.com/business/173008-brics-bank-currency-pool/>



Brazil · Russia · India · China · South Africa



Population
2.998 bn

41.6% Share of world's total

GDP
\$15.8 tn

19.8% Share of world's total

Exports Imports
\$3.19 tn + \$2.95 tn

Total trade
= \$6.14 tn

16.9% Share of world's total

The group of BRICS emerging economies that includes

Challenges facing the US

To keep on growing the US has to deal with its own challenges: aging infrastructure; saturated markets; less competitive in manufacturing except for some high tech products; debt burden of the public sector; individuals and families over extended in credit; the specter of the 2008 financial crisis.

It is important to note that most Asian countries were not affected by the financial crisis of 2008.

US and EU

The two economies are closely interlinked: useful partnership: they cooperate, they compete, they conflict.

Is Asia becoming the new center of gravity of the world?

The following are key factors to consider: ASEAN has been following a smart growth strategy; Japan has gone through ups and downs but will emerge up; India's growth is impressive; China's growth is amazing; Taiwan has become a technological giant and South Korea's growth is impressive as well.

Improving US China relations

The November 2014 visit of President Obama to China absolutely crucial (APEC Meeting)

Need for confidence building measures

Partners have agreements and also differences

Opportunity for much needed dialogue

Factors affecting US China relations

- Realism on both sides

- Economic system: China has made efforts to open its economy adopting the so-called 'state capitalism'; most countries of the world have a so-called mixed economy with varying size and role of the public sector

- China's political/government system: key role of the communist party

- China has to face many challenges

- China is a huge country with different ethnic groups

- Disparity in wealth; the urban-rural challenge

- Tibet

- Taiwan

- Hong Kong

Dealing with challenges

All countries have challenges of some sort to deal with; what's important is to have legal and political mechanisms to deal with these and resolve them openly and fairly; it helps if people have their say; repression is not an easy way out

Author's thoughts

Democracy is great without any doubt; most of the countries of the world have democratic regimes; democratic system of government can have temporary setbacks (e.g. gridlock; shutdown) which should be addressed and resolved
Empirically economic socialism communism has failed
Political socialism/communism based on authoritarianism has serious limitations
The correlation of strong leadership and strategic decision making warrants attention; Is Lee Kwan Yew's leadership in Singapore a special case?

China's good neighbor policy vs expansionism

"Over the 80s/90s China developed a coherent, integrated and omni directional Asia regional policy, consisting of improved ties with all the countries surrounding it" (Susan L. Shirk)
Recent tensions with countries over the South China Sea (Philippines and Vietnam) inc Japan

APEC 2014 and follow up

China fostering regional cooperation including the establishment of a free trade zone; are the countries in the region going along? US has a counter proposal
Possible dialogue to develop one all encompassing formula (win-win instead of zero-sum)

China's new 'soft' style cooperation for globalization is remarkable

Agreements with:
Australia
Russia
Mongolia
India
Spain
Several African countries
Several Latin America countries

Improvement in Japan-China relations

PM Abe overture to China (Sep 2014)
High level meeting at the presidential level enhancing dialogue between the two nations (Nov 2014)

Cooperation, competition, conflict
Can be positive if properly managed (Kissinger)

China and hi-tech sector

China is no longer just known for its products at low cost
China has gone hi-tech

Competition in the supercomputer world

1. Tianhe-2 (China)
2. Titan (US)
3. Sequoia (US)
4. K Computer (Japan)
5. Mira (US)
6. Piz Daint (Switzerland)
7. Stampede (US)
8. Juqueen (Germany)
9. Vulcan (US)
10. SuperMuc (Germany)

Competition fosters progress

US involved in building two new fastest supercomputer in the world

US still way ahead in the total number of supercomputers

Competition in the PC world

Lenovo jumped ahead of HP

Pendulum can swing any time

On the other hand

When it comes to tablets, smart phones and phablets (both hardware and software) US companies are way ahead

Competition and cooperation in the eCommerce world

Ali Baba became a giant with the help of the US

Ali Baba issued IPO in the US and now issuing bonds in US financial markets

Economic growth: size matters

US economic growth spurred by the size of its own market with add-ons from world markets

China has a super size market and thus its growth potential is enormous, however developing its own internal market is challenging (very low GDP/per capita) requiring long term effort; it would help to empower civil society to grow and prosper

Socio-political growth matters

China working on gaining outside markets not just for its exports but also for strategic import of raw materials

US has its own challenges

Aging infrastructure

Saturated markets

Less competitive in manufacturing except for some high tech products

Debt of the public sector

Are individuals and families over extended in credit?

Financial crisis of 2008 and ensuing economic recession

Tax inversion

However US bouncing back

The US has a track record of resilience and tremendous creativity in both public and private sectors and can deal with its challenges; US is already bouncing back (economic growth rate, reduction in unemployment)

US and EU

Useful partnership: they cooperate, they compete, they conflict
An interesting model for US and China to look at

Global shift: Asia as new center of gravity?

ASEAN smart growth strategy
Japan will come out of recession
India growth
China growth
Taiwan=technological giant
South Korea growth

China US at APEC

Did China miss an opportunity during Obama's visit to Beijing (APEC 2014)? Prof. Shi Yinhong states that "Xi does not want to give Obama any big gift, because he knows Obama can't give anything back" International New York Times, Nov 9, 2014
The fact is (empirically)
US Presidents in their last years in office seek to build up their legacy
Enhanced China US dialogue can be mutually beneficial
Policy of mutual respect

Conclusion 1

Susan L. Shirk: "I believe that China's leaders sincerely desire for China to rise peacefully, without provoking conflict with the United States or other countries"
Finesse of Xi Jinping's leadership (Dale Carnegie's approach?)

Conclusion 2

Realpolitik policy formally introduced to the Richard Nixon White House by Henry Kissinger, i.e. dealing with other powerful nations in a practical manner rather than on the basis of political doctrine
This principle is perhaps even more relevant in the 21st century

Conclusions 3, 4, 5

There is more to gain by peaceful cooperation: win-win, rather than zero-sum

Climate change diplomacy: US and China agree to work together and provide leadership

“Metaphor meets reality: US and China are clearing the air” Elizabeth Cobbs Hoffman*, Nov 17, 2014

*author of ‘American Umpire’

Resources to further explore the subject

Friedberg, Aaron I: A Contest for Supremacy: China, America and the struggle for mastery in Asia (W. W. Norton & Company, 2011)

Kissinger, Henry: On China (Penguin Books, 2012)

Shambaugh, David: China goes global: the partial power (Oxford University Press, 2013)

Shirk, Susan L: China: fragile superpower (Oxford University Press, 2008)

Starr, John Bryan: Understanding China (Hill and Wang, 2010)

Appendix 1: The future of US China relations

Testimony: Daniel R. Russel, Assistant Secretary, Bureau of East Asian and Pacific Affairs

Testimony Before the Senate Foreign Relations Committee, Washington, DC June 25, 2014

Introduction

Chairman Menendez, Ranking Member Corker, Members of the Committee, thank you for the opportunity to testify today on U.S.-China relations. It is also a great honor to be participating in today's hearing with one of our nation's most accomplished diplomats, Ambassador Stapleton Roy – a friend, former colleague, and one of the foremost experts on U.S.-China relations. Ambassador Roy's contributions to the U.S.-China relationship have been invaluable, and I look forward to hearing his insights.

I would also like to take this opportunity to thank you, Mr. Chairman, for your leadership and to acknowledge this Committee's contributions to the rich bipartisan tradition of engaging China. I have found it extremely valuable to work closely with the Committee's Members, and in particular with the Asia Sub-committee, in advancing U.S. interests vis-à-vis China and the Asia-Pacific region as a whole.

Overall Bilateral Relations

This year marks the 35th anniversary of the establishment of official diplomatic relations between the United States and China. We have made remarkable progress since the era of back-channel messaging and secret trips. The scope of today's U.S.-China relationship was unimaginable when President Nixon made his historic visit in 1972 to China.

Yet there is still enormous potential for progress in the U.S.-China relationship. Progress that will yield benefits to the citizens of both countries, our neighbors, and the world. To realize this progress and these benefits, we seek to ensure that the relationship is not defined by strategic rivalry, but by fair and healthy competition, by practical cooperation on priority issues, and by constructive management of our differences and disagreements. Where interests overlap, we will seek to expand cooperation with China. These areas include economic prosperity, a denuclearized Korean Peninsula, peaceful resolution of the Iranian nuclear issue, and a reduction in the emission of greenhouse gases. Where they diverge – and we have significant and well-known areas of disagreement – we will work to ensure that our differences are constructively managed.

Mr. Chairman, there are those who argue that cold war-like rivalry is inevitable and that the United States and China are condemned to a zero-sum struggle for supremacy, if not conflict. I reject such mechanistic thinking. As anyone who has served in government

can tell you, this deterministic analysis overlooks the role of leaders who have the ability to set policy and to shape relationships. It gives short shrift to the fact that our two economies are becoming increasingly intertwined, which increases each side's stake in the success of the other. It undervalues the fact that leaders in Washington and Beijing are fully cognizant of the risk of unintended strategic rivalry between an emerging power and an established power and have agreed to take deliberate actions to prevent such an outcome. And it ignores the reality of the past 35 years – that, in spite of our differences, U.S.-China relations have steadily grown deeper and stronger – and in doing so, we have built a very resilient relationship.

We view China's economic growth as complementary to the region's prosperity, and China's expanded role in the region can be complementary to the sustained U.S. strategic engagement in the Asia-Pacific. We and our partners in the region want China's rise to contribute to the stability and continued development of the region. As President Obama and Secretary Kerry have made very clear, we do not seek to contain China; to the contrary, we welcome the emergence of a stable, peaceful, and prosperous China. We believe all countries, and particularly emerging powers like China, should recognize the self-benefit of upholding basic rules and norms on which the international system is built; these are rules and norms which China has participated in formulating and shaping, and they are rules and norms that it continues to benefit from. In this context, we are encouraging China to exercise restraint in dealing with its neighbors and show respect for universal values and international law both at home and abroad.

A key element of our approach to the Asia-Pacific region, often called the rebalance, is strengthening America's alliances and partnerships in the region. This contributes directly to the stable security environment that has underpinned the region's – and China's – dramatic economic growth and development.

A second element is working to build up regional institutions in order to uphold the international rules-based system and create platforms for the countries and leaders to work on priority strategic, economic, and other issues. These institutions help develop habits of cooperation and promote respect for the interests of all parties.

A third key element has been expanding and deepening our relationships with important emerging countries such as China, including through regular and high-level dialogue.

In just two weeks, our countries will hold the sixth round of the U.S.-China Strategic and Economic Dialogue – the "S&ED" – in Beijing. This annual dialogue is unique in its level and scope. It is led on the U.S. side by Secretaries Kerry and Lew and brings a number of Cabinet-level and other senior U.S. government officials together with their Chinese counterparts to work on the major issues facing us. The breadth of the agenda in the two tracks – strategic and economic – reflects the breadth of modern U.S.-China relations. The S&ED is an important vehicle for making progress in the pursuit of a cooperative and constructive relationship; for building a "new model" that disproves the thesis that the United States and China are somehow destined for strategic rivalry and confrontation.

The S&ED is an important forum for the United States and China to take stock of and set goals for the bilateral relationship, to review regional and international developments and explain our respective policies, to coordinate and seek practical areas of cooperation on important issues of mutual interest, and to constructively manage areas of difference through candid, high-level discussions.

Let me preview of some of the topics for upcoming discussions at this year's S&ED:

- We will exchange views and explore prospects for progress on regional challenges, including Sudan, Afghanistan, Iran, North Korea, Ukraine, Iraq, and maritime disputes in the South and East China Seas;
- The world's two largest economies will work on strengthening the global economic recovery;
- The world's two biggest energy consumers and carbon emitters will work on combating climate change, and expand cooperation on clean energy;

- We will discuss global challenges ranging from cyber security to counterterrorism to wildlife trafficking, and the United States will raise our concerns over human rights;
- Secretary Kerry will co-chair the annual U.S.-China High-Level Consultation on People-to-People Exchange, which supports exchange programs that build the foundation for mutual understanding and trust;
- And Deputy Secretary of State Bill Burns and his Chinese counterpart will hold the U.S.-China Strategic Security Dialogue (SSD), our highest-ranking joint civilian-military exchange with China, where we will conduct frank discussions on some of the most sensitive strategic issues in the relationship.

The S&ED and our numerous other dialogues and official exchanges with the Chinese each year reflect the importance we attach to managing this relationship. This level and pace of engagement show the commitment of both sides to producing tangible benefits for our two peoples, the Asia-Pacific region, and the global community.

The United States and China have a vital stake in each other's success. That is why we maintain an intensive schedule of engagement; President Obama and President Xi met in Sunnylands, California, a year ago and have met twice more since then. The President plans to visit Beijing in November when China hosts APEC. Secretary Kerry, as well as numerous Cabinet and sub-Cabinet officials, have visited China already in 2014 and have met with Chinese counterparts in the United States or at international fora.

We work with China in virtually all important international arenas, including the UN, the G20, the East Asia Summit, and APEC where we are cooperating closely on regulatory transparency, supply chain efficiencies, promoting clean and renewable energy, cross-border education, and combatting corruption and bribery. Our relationship touches on nearly every regional and global issue, and, as such, requires sustained, high-level attention. Moreover, few of these issues can be effectively addressed if China and the United States do not cooperate.

Economic Relations

Economic issues play a central role in the U.S.-China relationship. China's economic success has added to our growth and increased the purchasing power of consumers in the United States. Our two-way trade has almost quadrupled since China joined the WTO in late 2001. While the long-standing imbalance in that trade remains troubling, China is now one of the fastest growing U.S. export markets. In fact, U.S. exports to China grew by more than 90 percent between 2007 and 2013. In our bilateral engagements, we are encouraging economic reforms within China to ensure not only that its economic behavior is sustainable on its own terms, but that it contributes to strong, sustainable and balanced growth of the global economy. This includes re-orienting its economy away from a development model reliant on exports and credit-fueled investment in real estate and infrastructure to one that increases consumer spending and contributes to global demand. Central to this goal has been urging China to move toward a market-determined exchange rate. We are also addressing sources of friction in our bilateral relationship by pressing China to change a range of discriminatory policies and practices that harm U.S. companies and workers and that undermine incentives to innovate. These include subsidies that tilt the competitive playing field in favor of Chinese national champions, policies that pressure companies to hand over intellectual property as a condition for access to the Chinese market, and export credits that unfairly advantage Chinese companies in third markets. U.S. businesses have investments totaling over \$50 billion. And from 2012 to 2013, Chinese direct investment flows into the United States more than doubled, according to private sector figures, and now contribute to thousands of jobs here. Our ongoing bilateral investment treaty negotiations hold the potential for even more mutually beneficial economic ties.

Even as we increase trade and investment, we will continue insisting on tangible progress in other economic areas that matter to the United States. These include:

- China continuing to move toward a market-determined exchange rate;

- negotiating a Bilateral Investment Treaty;
- increasing access to Chinese markets for U.S. businesses;
- developing a more transparent regulatory regime;
- ending industrial policies that favor state-owned enterprises and national champions and seek to disadvantage foreign companies and their products;
- ending forced technology transfer; and
- addressing U.S. concerns over the theft of intellectual property and trade secrets, including government-sponsored, cyber-enabled theft for the purpose of giving Chinese companies a competitive advantage.

We will also continue to encourage greater Chinese integration into the rules-based international economic and trading system, in order to create a level playing field

for domestic and foreign companies operating in its and other markets. Over the last few months, China's leaders have announced plans for sweeping reforms that, if realized, could go a long way in moving China's economy toward market principles. We are encouraged that these announced reforms would potentially give the market a greater role in the economy, and we are keenly interested to see such reforms put into practice. I believe we can do much to work with China as it transitions to a consumption-driven, market-oriented growth model that would benefit both our economies.

Military-to-Military Relations

On the military side of the U.S.-China relationship, we are committed to building a sustained and substantive military-to-military relationship that focuses on identifying concrete, practical areas of cooperation and reducing risk. This includes not only deepening the use of institutionalized dialogue mechanisms, including senior defense participation at the SSD and S&ED, but also inviting the Chinese to join regional cooperative exercises and expanding talks with the Chinese military about operational safety in the region. For the first time this year, China will participate in RIMPAC June 26-August 1 in Hawaii.

We also aim to continue high-level exchanges between our militaries. Recent exchanges have included visits to China by Secretary Hagel in April and General Odierno in February, and a visit to the United States by Chief of the General Staff General Fang Fenghui in May.

At the same time, we will continue to carefully monitor China's military developments and encourage China to exhibit greater transparency with respect to its military spending and modernization. This will help countries better understand the motivations of the People's Liberation Army. We continue to encourage China to use its military capabilities in a manner conducive to the maintenance of peace and stability in the Asia-Pacific region.

Global and Regional Issues

As the largest energy consumers, greenhouse gas emitters, and renewable energy producers, the United States and China share common interests, challenges and responsibilities. These are issues that relate directly to our economic and national security. Cooperation on climate change, energy, and environmental protection is more critical than ever and is an important area of focus in the U.S.-China bilateral relationship.

Through broad dialogues such as the Ten-Year Framework for Energy and Environment Cooperation and the S&ED, over the last year we have been able to produce new and expanded commitments to cooperation on climate change, energy, and the environment. During Secretary Kerry's February trip to Beijing, he announced implementation plans for each of the five initiatives under the Climate Change Working Group as well as a new enhanced policy dialogue on domestic and international policies to address climate change that will be held on the margins of the upcoming S&ED.

China is a vital partner on some of the world's most pressing proliferation challenges, including the DPRK and Iran. The United States and China agree on the importance and urgency of achieving a denuclearized, stable, and prosperous Korean Peninsula. While differences remain between us on some of the tactics, we coordinate closely and consult intensively on how to advance these shared goals. The result has been a tightened web of sanctions targeting North Korea's nuclear, ballistic missile, and proliferation efforts. China has also strengthened its own sanctions enforcement, which we welcome, though it could do more to prevent North Korea from engaging in proliferation activities. Indeed, North Korea remains in flagrant violation of the UN Security Council resolutions that the United States and China approved and support. So we are urging China to make greater use of its unique leverage with the DPRK to produce concrete signs that the DPRK leader has come to the realization that his only viable path forward is denuclearization.

On Iran, the United States and China share the goal of preventing Iran from acquiring a nuclear weapon and are working together within the P5+1 negotiations with Iran toward that goal. Through our frequent and high-level engagement, we will continue to press China to honor its commitments, in particular those related to its imports of Iranian oil and enforcement of UN sanctions, in furtherance of reaching a comprehensive and long-term solution to the Iran nuclear issue.

Managing Differences

In the Asia-Pacific region, Beijing's neighbors are understandably alarmed by China's increasingly coercive efforts to assert and enforce its claims in the South China and East China Seas. A pattern of unilateral Chinese actions in sensitive and disputed areas is raising tensions and damaging China's international standing. Moreover, some of China's actions are directed at U.S. treaty allies. The United States has important interests at stake in these seas: freedom of navigation and overflight, unimpeded lawful commerce, respect for international law, and the peaceful management of disputes. We apply the same principles to the behavior of all claimants involved, not only to China. China – as a strong and rising power – should hold itself to a high standard of behavior; to willfully disregard diplomatic and other peaceful ways of dealing with disagreements and disputes in favor of economic or physical coercion is destabilizing and dangerous.

The United States does not take sides on the sovereignty questions underlying the territorial disputes in the South and East China Seas, but we have an interest in the behavior of states in their management or resolution of these disputes. We want countries, including China, to manage or settle claims through peaceful, diplomatic means. For example, the Philippines and Indonesia have just done so in connection with their EEZ boundary. Disputes can also be addressed through third-party dispute resolution processes. Where parties' rights under treaties may be affected, some treaties provide for third-party dispute settlement, as is the case of the Law of the Sea Convention, an avenue pursued by the Philippines in an arbitration with China currently being considered by an Arbitral Tribunal constituted under that treaty. The United States and the international community oppose the use or the threat of force to try to advance a claim, and view such actions as having no effect in strengthening the legitimacy of China's claims. These issues should be decided on the basis of the merits of China's and other claimants' legal claims and adherence to international law and norms, not the strength of their militaries and law enforcement ships or the size of their economies.

Another area where we believe China's actions run counter to important universal principles is the worsening human rights situation in China. Just this month, China conducted a harsh crackdown on commemorations of the 25th anniversary of Tiananmen Square. China's actions included the detention, harassment and arrests of journalists, lawyers, and activists. Top U.S. officials raise our concerns with Chinese leaders on a regular basis, and, as we have in every previous round, Secretary Kerry plans to raise human rights at this year's S&ED. We express concern about the Chinese government's censorship of the media and Internet. We push for the release of all political prisoners, including but not limited to prominent figures like Liu Xiaobo. We urge China to address the policies in Tibetan areas that threaten the distinct religious, cultural, and linguistic identity of the Tibetan people. Instability and violence are on the increase in the Xinjiang Uighur Autonomous Region. As we unequivocally condemn the acts of terrorism and violence, we also urge China to take steps to reduce tensions and reform counterproductive policies that stoke discontent and restrict peaceful expression and religious freedom.

Conclusion

Clearly, a wide-ranging and complex relationship such as ours with China comes with challenges. Some degree of friction is inevitable. But an essential tool for managing and resolving differences is open and extensive communications between our two countries – at senior and working levels of government, military to military, through local governments and organizations, between our business communities, and at the grassroots level.

We are now reflecting on the considerable progress attained in 35 years of bilateral relations. One key lesson is that to ensure that our relationship grows and matures, we need to build up the links among our two peoples. People-to-people exchanges are essential to enhancing mutual understanding and furthering U.S. strategic and economic goals. To that end, the United States in 2013 received 1.8 million Chinese visitors who collectively spent \$9.8 billion on goods and services in our economy. Our State Department personnel work hard to facilitate growing Chinese demand for international travel by maintaining average visa wait-times under five days over the past two years.

Education also plays an important role fostering mutual understanding. In 2013, we had 235,000 students from China studying in the United States, more than from any other country, and the United States aspires to increase the number of American students studying in China and learning Mandarin through the 100,000 Strong Initiative. In March, PRC First Lady Peng Liyuan welcomed First Lady Michelle Obama to China where together they met with U.S. and Chinese students and faculty and promoted the value of study abroad and educational exchange.

We are also working with groups like the Sister Cities International and the U.S.-China Governors Forum. These programs help by encouraging and supporting cities and states to deepen their cultural or commercial ties with Chinese counterparts. In the last year alone, we have supported numerous visits of governors and state delegations and helped them to find opportunities to deepen their involvement and links to China.

The Department works closely with the United States Chamber of Commerce, AmCham China, the U.S.-China Business Council, and other business groups to support key priorities for U.S. companies doing business in China and to promote - greater Chinese investment in the United States. In partnership and consultation with those organizations, we have encouraged the Chinese government to eliminate investment restrictions, strengthen IPR protection, increase regulatory transparency, and establish a level playing field for all companies in China.

In conclusion, let me paraphrase what President Obama said earlier this year when he met with Chinese President Xi at the Nuclear Security Summit in The Hague. The U.S.-China relationship has made great strides over these past several decades, and both sides are committed to building a new model of relations between our countries defined by expanded cooperation and constructive management of differences.

Mr. Chairman, I thank you for the opportunity to appear before you today to discuss U.S.-China relations. I look forward to answering any questions you and others from the Committee may have.

Source: <http://www.state.gov/p/eap/rls/rm/2014/06/228415.htm>

Appendix 2: Getting real about China (Wesley Clark Oct 10, 2014)

Wesley Clark: To Manage China, Fix America First



Credit Golden Cosmos

[China](#)'s harsh suppression of political dissent, from Hong Kong to Xinjiang, and its close ties to Russia, Iran and North Korea, have finally laid to rest the dream many Western leaders have had since the 1990s: that "constructive engagement" would eventually, inevitably lead to more openness and democracy.

Instead, the opposite has occurred: China is more confident, more assertive, and also more closed. Thirty-five years after Deng Xiaoping freed up the economy, the Communist Party is using material prosperity and nationalist ideology to maintain its legitimacy in the face of the wrenching social tensions. It has rejected both the move toward democracy and the acceptance of human and civil rights that Americans had hoped would emerge from China's astonishing economic rise. Even more worrisome, China's foreign policy relies on keenly calculated self-interest, at the expense of the international institutions, standards and obligations the United States has sought to champion. It increasingly views the United States as a rival and potential adversary.

Photo



A People's Liberation Army officer practiced conducting the military band before the opening of the 12th National People's Congress, on March 5 in Beijing. Credit Wang Zhao/Agence France-Presse — Getty Images

What went wrong?

In the late 1970s, when the United States and China fully normalized relations, Beijing sought a strategic partnership with Washington, to deter a perceived Soviet threat. By the late 1980s, China was unconcerned about the Soviets, though willing to listen and learn from the United States military. The Chinese were especially impressed by our prowess in the 1991 Persian Gulf war. All the while, China built its agricultural, industrial and technological strength; military modernization was a second-tier priority. As late as 2005, China's admiration for the United States — and awareness of its own rising power — were such that a young, well-connected Communist Party leader told me, "China knows that you and Britain were best friends, and Britain gave you leadership of the world; China wants to be America's best friend, so you will give us leadership of the world."

If there was a turning point in China's assessment of America, it could be found in the financial crisis of 2008 and its aftermath. While still respectful of our military might, China began to see the United States as a failing system, with a debt-saddled economy and a dysfunctional government, vulnerable to being replaced as the world's leader. In 2011, a well-placed Chinese

associate told me that the country's new leadership intended to dominate the South China Sea; that its regional rivals, like Vietnam, would bow to its ambitions or "be taught a lesson"; and that if the United States interfered, our assets would be targeted.

By 2013, this associate's warnings had become even more ominous: "We can see your stealth aircraft"; "we have our own GPS and can shoot down yours"; "we know your technologies from all your companies and from NASA, because Chinese scientists work these for you"; "you will not have any military relations with the Philippines unless we allow it, because China provides them \$3.5 billion per month in remittances through Hong Kong"; "Chinese shipyards are working 24 hours a day, seven days a week"; "more than 30 ships were launched between October 2012 and April 2013"; "by 2019 China will have four aircraft carriers deployed."

China doesn't seek conflict — it can achieve most of its goals by adroitly combining traditional diplomacy with its vast economic power. But neither will it avoid conflict. It has in the past used its military "pre-emptively" rather than defensively. A danger is that an ascendant China seeking recognition of its power and rights, will, whether deliberately or through miscalculation, spark conflict.

But the deeper strategic problem for America is China's more fundamental challenge to the global architecture of trade, law and peaceful resolution of disputes that the United States and its allies created after World War II. China's strategic rise — patient, nuanced and farsighted — threatens all of this. Just as the United States has sought the worldwide adoption of democratic values and American norms for international behavior, China will seek structures and relationships that support Communist Party rule at home, and its policy that countries should not intervene in one another's affairs.

The ascendancy of naked and direct self-interest as an organizing principle would mean a fundamental weakening of Western institutions and values, including the rule of law. This would be a step backward, toward 19th-century ideas of the balance of power and spheres of influence. The question, as Henry A. Kissinger has framed it, is "whether China can work with us to create an international structure in which, perhaps for the first time in history, a rising state has been incorporated into an international system and strengthened peace and progress."

In analyzing China, the United States must look beyond historical parallels. In scale, China's economic growth, and the challenge it presents, is vastly greater than that of Japan in the 1980s. A century ago, Germany was an ascending power willing to wage war, but it never had the population or industrial capacity of the United States, or, until the 1930s, the leadership of a single political party, above the rule of law. Nor is China like the Soviet Union, economically isolated from the larger world. There is no historical precedent.

For over two decades, the American strategy toward China has balanced between "engagement" and "containment," a version of American policy toward the Soviet Union during the Cold War. The Obama administration's "pivot" to Asia, announced in late 2011, was perceived as being directed against China, a shift toward containment. The United States has not only shifted forces but also updated defense treaties as part of this pivot. The United States is negotiating the Trans-

Pacific Partnership, an effort to create a large free-trade zone encompassing 11 other countries, but not China.

As China presses its territorial claims on the South China Sea and East China Sea more forcefully — including even a claim, in some quarters, of jurisdiction over Okinawa, where American forces are based — the United States is being drawn into regional controversies. In the past few years we have found ourselves courted by Japan, South Korea, Vietnam, the Philippines and other countries in the region, which are anxious for reassurance and support against China's new assertiveness, but also wary of provoking it. It will be in China's interest to force us progressively to choose, on issue after issue, between China and the interests of our allies in the region.

The United States will emphasize multilateral forums for resolving disputes through international law, and fulfill our commitments to allies. China, in contrast, views this international order and these formalized obligations as being heavily tilted against it.

Recent Comments

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We should be under no illusions about the difficult road ahead. China operates on a long-term vision, driven by its own interests. By some estimates, China's [gross domestic product](#) could surpass that of the United States sometime in the next decade. By then, Chinese military strength — including aircraft carriers, land-based aviation, submarines, and ballistic missile technologies, all of which could be directed against American aircraft carriers in the East and South China Seas — will be formidable. Even without any military confrontation, the balance of power in the western Pacific will shape the Chinese predisposition to push, threaten or compromise.

The Chinese must understand that their expanding military capabilities have consequences. For example, the United States must not rule out the need to strengthen its ballistic missile defense system, as China rattles its intercontinental ballistic missile capabilities. We should be very candid in explaining this to the Chinese. China is closely observing events in Ukraine, and what our statements and actions there may mean for Asia. We must help China understand that a closer, more assertive alignment with Russia will only provoke the United States and our allies.

The pivot to Asia makes sense, but must not come at the expense of our obligations to our allies in Europe and elsewhere. Even more important, America must work to persuade China that its interests lie not in narrow self-aggrandizement, like expanding its territorial reach, but in assuming shared responsibility for global leadership, commensurate with its wealth and power. The institutions of global governance — the United Nations, the International Monetary Fund, the World Bank and the like — have not been perfect, but they remain the best framework for securing peace and prosperity around the world. A China that turns its back on these institutions will find itself isolated and defensive, no matter how great its economic and military might.

While Americans should hope that China embraces democracy and human rights in the long term, in the short run, we must accept that China has a right to its own system of government and its own standards for political legitimacy and social justice. The United States should insist that China, like every other member of the United Nations, abide by the Universal Declaration of Human Rights. We must help China see a distinction between its principle of “noninterference in internal matters of other states” and respect for basic human rights and dignity. (For our part, we must also demonstrate our own acceptance of the responsibilities of global leadership by, for example, joining the International Criminal Court and the United Nations Convention on the [Law of the Sea](#).) But we cannot assume that political development in China will happen as quickly as Americans would like.

The view, increasingly prevalent in China, that it will inevitably replace the United States as the world’s leading power is far from assured. Our natural resources, the rule of law, our entrepreneurial culture, and our vast head start in higher education and science are strong factors in our favor. People from all over the world want to live and work in the United States — including wealthy Chinese. They seek the protection of our laws and the individual freedoms they find here. China does not provide these attractions.

If we are to retain our global leadership, and be a constructive, countervailing force as China rises, America needs a long-term strategic vision of our own: a strong, growing economy built on a foundation of energy independence; a vibrant, effective democracy; assertive, patient diplomacy backed by supportive allies; and a military capable of standing toe to toe with China in a crisis. With these pieces in place, we can succeed in helping China assume its rightful place as a global leader, and perhaps an equal of the United States, in a manner that promotes global prosperity and stability. Perhaps then China’s leaders will feel secure enough to grant real democracy to its people. But it will be a long journey.

Wesley K. Clark is a retired United States Army general, a former NATO supreme Allied commander in Europe and a [consultant](#). He is the author, most recently, of “Don’t Wait for the Next War: A Strategy for American Growth and Global Leadership,” from which this essay is adapted.

Source: <http://www.nytimes.com/2014/10/11/opinion/sunday/getting-real-about-china.html>