

2015 CHIT CHAT - APRIL 14 2015

RAMIFICATIONS OF THE U.S. GEO - POLITICAL PIVOT AND ITS EFFECT ON U.S.-CHINA RELATIONS:

ON THE OPENING PAGE OF 'NOBEL HOUSE', ONE OF THE SEVERAL HISTORICAL FICTION BOOKS AUTHORED BY JAMES CLAVELL IN THE 1970'S AND 80'S ON ASIA, AN INTERNATIONAL FLIGHT IS LANDING AT KAI TAK AIRPORT IN HONG KONG. AS THE PLANE COMES TO A ROUGH STOP – IF YOU REMEMBER KAI TAK --THE RUN WAYS WERE QUITE SHORT AND THE PLANES HAD TO REVERSE THEIR ENGINES THUS CREATING AN INTAKE OF AIR- A MATRONLY ENGLISH WOMEN STARTS TO EXIT THE PLANE AND EXCLAIMS-"WHAT IS THAT SMELL?" A WELL-DRESSED GENTLEMAN SITTING NEXT TO HER SAYS IN ONLY THE WAY AN ENGLISHMAN CAN PROPERLY ANSWER- "WHY MADAM, THAT IS THE SMELL OF MONEY."

I FIRST VISITED CHINA IN 1975, SHORTLY AFTER KISSINGER AND NIXON. I WANT YOU TO DIGEST THE FOLLOWING NUMBERS. IN 1975, CHINA'S EXPORTS TO THE WORLD TOTALED 13.9 BILLION DOLLARS. IN 2013, THE LAST YEAR WE HAVE COMPARABLE FIGURES, CHINAS EXPORTS WERE \$9 TRILLION DOLLARS. THEREFORE, IN 2013 CHINA EXPORTED EVERY FORTY MINUTES WHAT THEY EXPORTED IN THE WHOLE YEAR OF 1975. IT IS ALSO ESTIMATED THAT AT SOME POINT BETWEEN THE YEARS 2040-2045, CHINA AND INDIA WILL EXPORT CLOSE TO 50% OF THE WORLD'S TOTAL GNP. THE LAST TIME TWO COUNTRIES WERE 50% OF THE WORLDS GNP WAS AROUND THE YEAR 1790, RIGHT BEFORE THE INDUSTRIAL REVOLUTION, AND WHO WERE THOSE TWO COUNTRIES-? CHINA AND INDIA!

IN 2011, PRESIDENT OBAMA'S ADMINISTRATION SIGNALLED A MAJOR CHANGE IN ITS FOREIGN POLICY OBJECTIVES. THE ADMINISTRATION USED THE TERM "PIVOT" –THEIR EXPLANATION - A SHIFT IN STRATEGY FROM CONCENTRATION IN THE MIDDLE EAST TO A FOCUS ON THE EAST / SOUTH ASIAN ARENA. IF WE LOOK UP THE WORD PIVOT THE COMMON CONNOTATION IS AN IMMEDIATE CHANGE IN DIRECTION. HOWEVER IN THE REALM OF WORLD'S GEO POLITICS, A PIVOT IS NOT SOMETHING THAT IS GOING TO HAPPEN OVERNIGHT BUT WILL OCCUR OVER A PERIOD OF TIME-SOMETIMES YEARS -AND VERY WELL MAY OVERLAP WITH MORE THAN ONE ADMINISTRATION. BUT REGARDLESS OF THE TIME ISSUE, THE MESSAGE IS CLEAR: THE UNITED STATES RECOGNIZES THAT THE WHOLE OF ASIA, AND NOT JUST NORTH ASIAN GEOGRAPHY, OUR MAIN GEOGRAPHICAL CONCERN FOR THE PAST 75 YEARS IN THAT PART OF THE WORLD, WILL BE THE PRIMARY FOCUS OF OUR FOREIGN POLICY. THERE HAVE BEEN SEVERAL PERCEPTIONS OF THE PRESIDENT'S USAGE OF THE WORD PIVOT. DOES IT MEAN WE ARE INTERESTED IN CONTAINMENT VIA A STRONG SHOWING OF MILITARY MIGHT? THIS THINKING EMANATES

FROM THE HISTORICAL PHILOSOPHY OF ARCH REALISTS, GERMAN CHANCELLOR BISMARCK AND BRITISH PRIME MINISTER DISRAELI, BOTH LATE 19TH CENTURY EUROPEAN LEADERS. THEY SAW POWER RATHER THAN PRINCIPLE AS THE DRIVING FORCE IN INTERNATIONAL AFFAIRS. PRESENT DAY ARCHCONSERVATIVES SIGN OFF ON THIS PRACTICE. OR DOES IT MEAN WE ARE PUSHING FOR PARTNERSHIPS WITHIN THE GEOGRAPHICAL AREA –USING OTHER COUNTRIES AS SURROGATES- A COUNTRY LIKE JAPAN ACTING AS A PARTNER WITH US FOR LEVERAGE AGAINST CHINA? DOES IT MEAN WE REALIZE THAT ECONOMIC GROWTH AND PROSPERITY, WHETHER WE ARE ENGAGED IN THAT PART OF THE WORLD OR NOT WILL BE THE GROWTH ENGINE OVER THE NEXT DECADES, THEREFORE WE BETTER BE PART OF THE GAME? OR IS IT THE THINKING THAT IF WE DO NOT TAKE A MAJOR ROLE IN THE ASIAN SPHERE, WE WILL BE LEFT OUT OF THE “PLAY” THAT IS BOUND TO OCCUR IN THAT REGION? MY GUESS IS ALL OF THE ABOVE ARE LIKELY WITH THE CAVEAT THAT, I BELIEVE THE TREMENDOUS GROWTH PROJECTED BY MOST ECONOMISTS IS THE MAJOR CATALYST FOR OUR “PIVOT.“ THE HAWKS WILL TELL YOU IT IS ABOUT DEFENSIVE CONTAINMENT- THE LEFT WING WILL TELL YOU IT IS ABOUT OUR INTEREST IN FOSTERING THE HUMAN RIGHT ISSUE, AND I WILL TELL YOU THAT IT IS ALL ABOUT A STRONG COMMERCIAL PARTNERSHIP WITH THE MAJOR PLAYERS IN THAT PART OF THE WORLD: CHINA, INDIA AND JAPAN AND THAT IF WE CAN IMPLEMENT CLOSER TIES, WE WILL ACCOMPLISH ALL OF THE ABOVE. I AM A BELIEVER IN FREE TRADE, OPEN SKIES, AND HAVE ALWAYS FELT THAT INCLUSION IS BETTER THAN EXCLUSION. THAT DOES NOT MEAN I AM A PUSHOVER- MANY OF MY ASIAN FRIENDS HAVE TOLD ME I MAKE GOOD USE OF WHAT I CALL A VELVET HAMMER- THEY FEEL THE HIT BUT I LEAVE NO BRUISES!

IN A 30-MINUTE PAPER I THINK IT IS BEST TO NARROW DOWN THE DISCUSSION POINTS. I WILL ADDRESS THE FOLLOWING THREE ISSUES THAT LEAD ME TO BELIEVE THAT THE PIVOT- AND PROSPECTIVE PARTNERSHIPS WILL BE A POSITIVE FOR THE U.S.:

1. A CLOSER ECONOMIC PARTNERSHIPS BETWEEN THE U.S. AND THE ASIAN SPHERE
2. THE POWER OF CHINESE PREMIER XI JINPING AND HIS ASCENSION TO THE CHINESE LEADERSHIP. MY ASSUMPTION IS HIS TERM WILL OVER LAP WITH MORE THAN JUST THE PRESENT ADMINISTRATION.
3. PROSPECTIVE POLITICAL RAMIFICATIONS BASED ON THE PLANNED U.S. PIVOT.

ISSUE # 1. BEGINNING IN THE SECOND CENTURY BC, THE CHINESE WERE PIONEERS IN INTERNATIONAL TRADE. THE SILK ROAD COMES TO MIND, BUT THE CHINESE NEVER CONSIDERED THIS TRADE AS ESSENTIAL TO ITS EXISTENCE BECAUSE CHINESE LEADERSHIP CONSIDERED THE COUNTRY TO BE SELF-SUFFICIENT. SEVERAL OLDER DYNASTIES ACTUALLY

DISCOURAGED FOREIGN TRADE AND WITH GOOD REASON. FROM THE TIME OF THE OPIUM WARS UNTIL THE FOUNDING OF THE PRC IN 1949 VARIOUS WESTERN COUNTRIES AS WELL AS JAPAN, USED MILITARY FORCE TO INITIATE TRADE WITH CHINA SETTING UP FOREIGN PRIVILEGED ENTITIES IN SOME OF THE LARGER COMMERCIAL CITIES. MOST FAMOUS OF THESE FROM THE LATE 1800'S UNTIL WWII, SHANGHAI HAD FOREIGN CONCESSIONS, HOUSING FOREIGN EXPATS, WHICH WERE OFF LIMITS TO LOCAL CHINESE. WITH THE CREATION OF THE PRC IN 1949 MAO TSE TUNG DISCOURAGED ANY KIND OF ECONOMIC RELATIONS FROM OUTSIDE CHINA AND WAS THE CO-AUTHOR OF SEVERAL ECONOMIC SELF SUFFICIENT FIVE-YEAR PLANS THAT THAT NEVER JUMP STARTED ECONOMY. THEN, IN THE LATE 1960'S, THE PARTY LEADERS INSTITUTED THE CULTURAL REVOLUTION THAT NOT ONLY PUT A STOP TO ANY OUTSIDE COMMERCIAL ACTIVITY AND KNOW HOW BUT, IN FACT, ACCENTUATED A DECLINE IN THE CHINESE ECONOMY.

THEN IN 1976 A NEW PROGRESSIVE GOVERNMENT LED BY DENG XIAOPING FOSTERED A MORE PRAGMATIC APPROACH TO ECONOMIC DEVELOPMENT. THE OPENING UP POLICY LED TO THE REORGANIZATION AND DECENTRALIZATION OF FOREIGN TRADE AND THE ADOPTION OF A LEGAL FRAMEWORK THAT WOULD ENCOURAGE FOREIGN ECONOMIC RELATIONS AND RAPID EXPANSION OF TRADE. HAVING GONE TO CHINA IN 1975, JUST AS THESE CHANGES WERE BEING IMPLEMENTED, I CAN ASSURE YOU THEY DID NOT HAPPEN OVER NIGHT.

SO NOW WE ARE HERE IN THE EARLY PART OF THE 21ST CENTURY. THE TWO LARGEST ECONOMIES IN THE WORLD ARE THE U.S. AND CHINA. BUT JUST AS IMPORTANT AS THE TWO COUNTRIES ECONOMIC STRENGTH, THE WHOLE PACIFIC RIM HAS BECOME TOO PROSPEROUS AND TOO COMPLEX FOR THE OCEAN TO BE JUST AMERICA'S LAKE OR CHINA'S. UNDER AMERICAN LEADERSHIP, BUT WITH A MORE MODERN ECONOMIC OUTLOOK FROM THE CHINESE, THE PACIFIC HAS BECOME THE ENGINE ROOM OF WORLD TRADE. SINCE THE 1970'S, DURING THE PERIOD OF MY FIRST TRIPS TO ASIA, INTERNATIONAL TRADE ACROSS THE PACIFIC HAS FAR EXCEEDED THAT OF THE ATLANTIC. I GUESS THE BEST WAY TO THINK OF IT FROM A HISTORICAL ASPECT, IS TO MENTION OR REPEAT A RECENT COMMENT QUOTED FROM THE ECONOMIST WHICH SAID-"THE MEDITERRANEAN IS THE OCEAN OF THE PAST, THE ATLANTIC IS THE OCEAN OF THE PRESENT, AND THE PACIFIC THE OCEAN OF THE FUTURE." THE ASIAN MIDDLE CLASS HAS INCREASED SEVEN FOLD- I REPEAT SEVEN FOLD SINCE THE YEAR 2000. THAT MEANS WORKERS WAGES INCREASED FROM \$20 U.S. A MONTH TO \$200 A MONTH. . IN CONTRAST, LATIN AMERICA IN THE SAME TIME FRAME HAS ONLY DOUBLED. I DON'T LIKE TO RELY ONLY ON NUMBERS BECAUSE I CAN MANIPULATE THEM TO FIT ANY OUTCOME I AM TRYING TO PROVE, BUT I HAVE TO BE REALISTIC AND WILL BUY OFF ON FIGURES THAT SAY THE 21 LARGEST ECONOMIES IN THE

PACIFIC ACCOUNT FOR CLOSE TO 50% OF WORLD TRADE...--- RATHER THAN CREATE TWO WARRING RIVALS, WE SHOULD FOCUS ON CONTINUING TO EXPORT OUR SUCCESSFUL BUSINESS PRACTICES AND ENCOURAGE THE PACIFIC RIM COUNTRIES TO ADAPT THESE INSTITUTIONS. TRADE CAN BE THE CATALYST FOR AMERICA'S COMMITMENT TO THE PACIFIC AND A SIGNAL TO CHINA THAT WE WANT THEM TO JOIN US IN A WIDER SPREAD OF WORLD ORDER. EXPORTING OUR DEMOCRATIC RULES OF COMMERCE TO ASIA WILL ENCOURAGE- FIRST I WAS GOING TO USE THE TERM FORCE, BUT I PREFER 'ENCOURAGE CHINA' TO ADOPT MORE OF OUR ECONOMIC SYSTEMS, THUS SLOWLY BUT SURELY MOVING THEM AWAY FROM HARD LINE COMMUNIST ECONOMIC THEORY.

RARE ACCORD AT SUMMIT"

IN NOVEMBER OF 2014 THE UNITED STATES ALONG WITH SEVERAL ASIAN NATIONS MET IN BEIJING FOR WHAT MANY THOUGHT WOULD BE A NON-HISTORIC MEETING. PRESIDENT OBAMA WAS JUST EMERGING FROM A HUMILIATING MID TERM ELECTION LOSS FOR HIS PARTY AND THE NEWS OF THE DAY AFTER THE ELECTIONS WOULD BE THE SUSPECTED IMPUDENCE OF HIS LAST TWO YEARS IN OFFICE.

ALTHOUGH TIP O'NEIL IS FAMOUS FOR HIS COMMENT "ALL POLITICS IS LOCAL," IN TODAY'S 21ST CENTURY, THE INTERNATIONAL POLITICAL ATMOSPHERE CAN AND DOES SPREAD ACROSS SEVERAL CONTINENTS.

WITH THE MEETING HELD IN BEIJING, ONE WEEK AFTER OUR ELECTION, MANY PUNDITS WERE PROJECTING A DISASTER FOR THE PRESIDENT BUT IN FACT THE OUTCOME SEEMED TO BE A POSITIVE ONE FOR RELATIONS BETWEEN CHINA AND THE U.S. FROM A MILITARY OUTLOOK AND, FOR THE SURPRISE OF ALL SURPRISES, A LANDMARK AGREEMENT ON CARBON EMISSIONS REDUCTIONS. A CLIMATE AGREEMENT BETWEEN THE TWO BIGGEST POLLUTERS IS VIEWED AS ESSENTIAL TO CONCLUDING A NEW GLOBAL ACCORD ON THE OVER ALL ISSUE OF GLOBAL WARMING. IF CHINA AND THE U.S. COULD NOT COME TO SOME SORT OF AGREEMENT, NO MATTER WHAT OTHER COUNTRIES DECIDED TO DO THEIR DECISIONS BECOME ALMOST MEANINGLESS. BUT IT SHOULD HAVE BEEN NO SURPRISE. PRESIDENT XI JINPING IS THE CONSUMMATE POLITICIAN- THE FIRST REAL PRESIDENT OF CHINA SINCE THE DEATH OF DENG XIAO PING, WHO HAS BEEN ABLE TO CONSOLIDATE THE PRESIDENT'S POWER IN ONE MAN. THE ACCORDS REACHED AT THESE MEETINGS WERE THE RESULTS OF WORK DONE OVER A PERIOD OF TIME, SOMETIMES MONTHS, AND HANDLED BY VERY COMPETENT PROFESSIONALS FROM BOTH NATIONS PERSONNEL WHO HAVE WORKED WITH EACH OTHER ON SEVERAL ISSUES OVER THE PAST FEW YEARS. THE WALL STREET JOURNAL EXPRESSED ITS SURPRISE THAT PRESIDENT XI DIDN'T PUT THE SCREWS TO OBAMA COMING OUT OF HIS PARTY'S LOSSES IN THE ELECTION, BUT YOU CAN BE SURE THE CHINESE LEADER IS WEIGHING HIS OWN INTERNAL PROBLEMS

AND THINKING THAT IN SHOWING HE AND THE PRESIDENT ARE “TRYING TO GET ALONG” WOULD ENHANCE HIS STATURE WITHIN HIS PART OF THE WORLD.

THE GIST OF THIS PAPER IS THAT BOTH SIDES ARE VYING FOR COMMERCIAL AND POLITICAL POWER IN THE REGION. THE U.S. AND OBAMA CAME TO THE MEETING WITH A PROPOSED TRANS PACIFIC ECONOMIC PARTNERSHIP OF 12 NATIONS- EXCLUDING CHINA, WITH THE IDEA OF LOWERING TRADE BARRIERS BETWEEN THE TWELVE NATIONS AND ENCOURAGING TRADE THROUGH DIPLOMATIC AS WELL AS ECONOMIC STRATEGIES. THE TWELVE NATION GROUPING WAS FORMED AS A LYNCH PIN TO THE STRATEGIC POLICY OF OUR SHIFT TO ASIA. BOTH CHINA AND THE U.S. WERE JOCKEYING FOR POSITION AND ---WE CAME OUT OF THESE GLOBAL MEETINGS WITH MOST OF WHAT WE WANTED AND WE WERE STILL WEARING OUR SHORTS!!!

ON THE OTHER HAND, PRESIDENT XI WON APPROVAL FROM THE 21 COUNTRIES OF THE ASIA- PACIFIC ECONOMIC COOPERATION FORUM TO STUDY THE CREATION OF A CHINA LED FREE TRADE ZONE. THIS WOULD BE AN ALTERNATIVE TO THE OBAMA THE U.S. SPONSORED 12 -NATIONS TRANS PACIFIC AGREEMENT. THE CHINESE WERE NOT GOING TO LET THE U. S. SUGGESTED POSITIONS OF FREE TRADE WITH THE TPA SIT OUT THERE WITHOUT AT LEAST AN ALTERNATIVE THAT OTHER NATIONS IN THE ASIAN REGION COULD LOOK AT AS A COMPETITOR TO OUR PROPOSED AGREEMENT.

ISSUE TWO: CHINESE LEADERSHIP:

AS MENTIONED EARLIER, PRESIDENT XI IS AN ANOMALY. AN AMBITIOUS LEADER. IN TWO SHORT YEARS HE HAS BEEN ABLE TO CONSOLIDATE HIS POWER WITH A GOAL OF MAKING CHINA A PEER OF THE U.S. IN GLOBAL LEADERSHIP. FROM THE LATE 1970’S THROUGH THE EARLY PART OF THE 21ST. CENTURY, CHINA WAS RULED BY STRONG WILLED CARETAKERS WHOSE PRIMARY GOAL WAS TO PROTECT THE CHINESE COMMUNIST PARTY BUT AT THE SAME TIME CAUTIOUS ABOUT CHINA’S ENTRE INTO THE WORLD MARKETS. BUT THE PARTY’S PROTECTION WAS ALWAYS UPPER MOST IN THEIR THINKING.

THE WHITE HOUSE RECOGNIZES THAT XI JINPING IS GOING TO BE A FORCEFUL LEADER FOR HIS COUNTRY, A ONCE IN A LIFETIME LEADER, AND THE U.S. HAD TO REACT TO HIS PHILOSOPHY. XI HAS CAST HIMSELF AS THE PROTECTOR OF THE COMMUNIST PARTY- THUS MOLLIFYING THE OLDER MEMBERS, BUT BE ASSURED THAT HE IS FOSTERING ECONOMIC REFORM AS WELL AN INTEGRATION WITH THE REST OF THE WORLD. THE DILEMMA HE FACES IS HOW FAR CAN HE PUSH THE CHANGES WITHOUT UPSETTING THE AUTOCRATIC SEGMENT OF HIS PARTY. . . ALONG WITH THIS ECONOMIC DRIVE, XI HAS ALSO SET AS ONE OF HIS TENETS THAT

CHINA WILL BECOME THE CHIEF MILITARY POWER IN THE PACIFIC REGION BY 2049.

SOME PUNDITS LOOK UPON XI ASSENTATION AS A WORRISOME OUTCOME BUT SOME OF US LOOK UPON HIM AS A FRESH THINKING - LEADER WHO CAN DELIVER ON HIS PROMISES WITHOUT HAVING TO LOOK OVER HIS SHOULDER TO SEE WHO IS COMING AFTER HIM FROM WITHIN HIS OWN PARTY AND \ OR MILITARY. HE HAS GONE AFTER PARTY MEMBERS WHO HAVE, OVER THE YEARS, AMASSED GREAT WEALTH FOR THEIR FAMILIES THROUGH GRAFT, BRIBERY, AND CORRUPTION. THIS CRACKDOWN HAS SURPRISED MANY OF THE LIBERAL INTELLECTUALS WHO HAD ASSUMED HE WOULD COZY UP TO THOSE LONG TIME INSIDERS HOPING TO KEEP THEM IN LINE. HE HAS OVERHAULED THE MILITARY FORCING OUT SEVERAL OLD TIMERS, HAS TAKEN CONTROL OF THE PARTY'S MOST IMPORTANT COMMITTEES AND OVERHAULED THE ECONOMIC STRATEGY- THE ENGINE THAT HAS CATAPULTED CHINA INTO ITS PLACE IN THE DEVELOPED WORLD. SO FAR XI HAS BEEN A CATALYST IN TAKING CHINA INTO THE FIRST RANKS OF FOREIGN POLICY SPECIFICALLY AIMED AT COUNTRIES IN CHINA'S GEOGRAPHICAL REGION. THIS MOVE HAS CREATED TENSIONS AMONG HIS NEIGHBORS ESPECIALLY JAPAN, THE PHILIPPINES, AND KOREA. ALONG WITH THESE MUSCULAR MOVES XI HAS ALSO SAID "HE WANTS TO BUILD A NEW GREAT POWER RELATIONSHIP WITH WASHINGTON SO AS TO AVOID A MILITARY CONFLICT WITH WASHINGTON." IN MY OPINION, HE IS HOPING THAT IN BUILDING A POSITIVE RELATIONSHIP WITH THE U.S., WE MIGHT BACK OFF ON OUR INVOLVEMENT IN ASIA THUS ASSURING HIS SUCCESSFUL LEADERSHIP IN THAT PART OF THE WORLD. WITH THAT SAID, HE STILL ESPOUSES THE THEORY THAT SOME OF CHINA'S GEOGRAPHICAL PROBLEMS WITH ITS NEIGHBORS HAVE BEEN CAUSED BY WESTERN IDEAS OF PRO DEMOCRACY – A VEILED COMMENT ABOUT THE PROBLEMS IN HONG KONG. IT ALSO REASSURES THE INSIDER IN THE COMMUNIST PARTY THAT HE WILL NOT ALLOW THE OLD COLONIALISM TO RETURN TO THAT PART OF THE GLOBE.

CORRUPTION IS ENDEMIC WITHIN CHINA'S POLITICAL SYSTEM AS WELL AS IN ITS FINANCIAL SYSTEM: BANKING – CORPORATE GOVERNANCE AND DAY-TO-DAY BUSINESS INTERCOURSE. MR. XI'S ANTI CORRUPTION CAMPAIGN EMANATES FROM HIS POLITICAL AND PERSONAL UPBRINGING. PRIOR TO XI, MOST OF THE CHINESE LEADERS CAME FROM LARGE URBAN AREAS WHERE CORRUPTION AND FAMILY TIES PLAYED THE MOST IMPORTANT PARTS IN GETTING A DEAL DONE. XI'S BACKGROUND AS MAYOR OF A SMALL CITY, AND, I AM TOLD, HIS UNIMPEACHABLE ETHICS, WILL PLAY AN IMPORTANT PART IN HIS DRIVE TO RID THE SYSTEM OF AS MUCH CORRUPTION AS POSSIBLE. IT IS A STUBBORNLY ROOTED SYSTEM THAT WILL TAKE A HALF A GENERATION TO ELIMINATE OR AT LEAST REDUCE, BUT XI HAS ALREADY BEGUN THE CRACKDOWN AND HE HAS TAKEN ON SOME OF THE BIG FISH IN THE COMMUNIST PARTY IN HIS

INITIAL REMOVALS. SUFFICE TO SAY SOME OF THEM WERE POSSIBLE COMPETITORS FOR THE PARTY'S RULE. BUT HE HAS AT LEAST ATTACKED A MAJOR ISSUE WITH WHICH WESTERN INVESTMENT HAS ALWAYS HAD A PRIMARY CONCERN. THE VOTE IS STILL OUT ON HOW EFFECTIVE HE WILL BE. THE WALL STREET JOURNAL LAMENTS THAT HE WILL BE A FAILURE IN THIS FIGHT- THE ECONOMIST TAKES THE OPPOSITE VIEW: XI IS SUCCEEDING IN THIS ENDEAVOR.

XI HAS PUSHED FOR UP AND COMING CHINESE SCHOLARS TO INTEGRATE WESTERN BUSINESS PRACTICES- BUT- FOREIGN IDEAS HAVE TO BE CAREFULLY VETTED. TEXT BOOKS THAT TEACH WESTERN VALUES OFTEN ARE SEEN AS THREATING AND ANY THAT PROMOTE CRITICISM OF THE PARTY ARE STRICTLY FORBIDDEN. PURSUIT OF THE ALMIGHTY DOLLAR OR YUAN IS ACCEPTED SO LONG AS THE POPULACE HAS RESPECT FOR AUTHORITY, HIERARCHY, AND SOCIAL ORDER. OF COURSE, OUR CRITICISM OF THE CHINESE CONTROLS OF ITS EDUCATIONAL SYSTEM LEADS ME TO THINK OF SEVERAL OF OUR OWN GOVERNORS WHO HAVE CUT FUNDS FOR HIGHER EDUCATION, WITH THE UNSPOKEN INTENT THAT OUR PROFESSORS ARE FOSTERING TOO MANY LIBERAL IDEAS. I GUESS PEOPLE WHO LIVE IN GLASS HOUSES SHOULD NOT THROW STONES!

ECONOMIC GAIN CANNOT COME WITHOUT SOME LIBERALIZATION WITHIN THE POLITICAL ENTITY IN CHINA. WITH MUCH OF THE DEVELOPED WORLD ADOPTING RULES OF THE ROAD, CHINA WILL HAVE TO MAKE SOME EFFORT TO CONFORM. A TOUGH BALANCING ACT FOR MR. XI!

ISSUE 3: ASIAN POLITICAL RAMIFICATIONS:

TIP O'NEIL WILL GO DOWN IN HISTORY AS COINING THE PHRASE "ALL POLITICS IS LOCAL." IN ASIA LOCAL MEANS MUCH OF THE PACIFIC OCEAN—TO THE EAST JAPAN AND THE EASTERN EDGE OF RUSSIA- -SOUTH AS FAR AS AUSTRALIA AND NEW ZEALAND AND AS FAR WEST AS INDIA. LET ME REVIEW WITH YOU HOW SPECIFIC MOVEMENTS IN ONE COUNTRY MAY AFFECT THE POLITICAL INTERCOURSE WITH OTHER COUNTRIES IN THIS VAST ARENA. THE DEMONSTRATIONS IN HONG KONG LAST FALL HAD A STRONG INFLUENCE ON THE ELECTIONS IN TAIWAN IN LATE NOVEMBER. FOR THE FIRST TIME IN LITERALLY DECADES, THE DEMOCRATIC PROGRESSIVE PARTY OVERTHREW THE KUOMINTANG OR THE PARTY THAT CHANG KAI -SHEK HAD BROUGHT TO THE TAIWANESE ISLAND IN 1948. THE KMT HAD FOR SEVERAL YEARS BEEN THE PARTY THAT WAS PUSHING FOR CLOSER TIES WITH THE MAINLAND, VIA TRADE AS WELL AS IN EVERY DAY LIFE. CHINA'S BIGGEST FEAR, BY FAR, WITH THE HONG KONG UPRISING WAS NOT HONG KONG ITSELF, BUT HOW OTHER COUNTRIES WOULD INTERPRET THE ABILITY OF PROTESTORS TO CONFRONT THE CHINESE LEADERSHIP ON THE MAIN LAND. AND WITH A

CHANGE IN GOVERNMENT IN THE RECENT TAIWANESE ELECTION, LED BY YOUNG NEW LEADERSHIP, THEIR FEARS WERE WELL FOUNDED .

THE KOREAN PENINSULA OFFERS ANOTHER GLANCE AT EXTERNAL RELATIONSHIPS AFFECTING THE CHINESE LEADERSHIP'S APPROACH TO THEIR SPHERE OF INFLUENCE. FOR YEARS THE CHINESE HAVE OFFERED A SUPPORT SYSTEM TO THE NORTH KOREANS BY PROVIDING EVERYDAY NEEDS SUCH AS FOODSTUFFS AS WELL MONETARY AND SOME MILITARY SUPPORT. AND WE, IN THE WEST HAVE LOOKED POSITIVELY UPON THE CHINESE GOAL PROVIDING THESE BASIC NEEDS BUT AT THE SAME TIME GLAD THAT THE CHINESE ARE KEEPING A WATCHFUL EYE ON THE NORTH KOREAN MILITARY. ALTHOUGH KOREA HAS BEEN DIVIDED SINCE 1945 AND EACH SIDE HAS BEEN AT ODDS MILITARILY SINCE 1950, SOONER OR LATER SOME FORWARD LOOKING LEADERSHIP WILL EVOLVE THAT WILL PUSH FOR A REPROACHMENT –MAYBE NOT A FULL RETURN TO ONE COUNTRY, BUT A MOVE TOWARDS COOPERATION ESPECIALLY WITH THE ECONOMY. THE CHINESE DO NOT WANT TO LOSE THIS QUASI SATELLITE-THEY WANT TO REMAIN IN CONTROL OF THE NORTH AS MUCH AS POSSIBLE. THE IDEA OF UNIFICATION WOULD REDUCE THEIR INFLUENCE AND—OFFER A COMPETITIVE ECONOMIC ENTITY. AND A LESSENING OF CHINESE INFLUENCE CAUSED BY REUNIFICATION DOES NOT STOP AT THE KOREAN PENINSULA'S BOARDER. JAPAN, A MAJOR INVESTOR IN SOUTH KOREA, WHILE AT THE SAME TIME A COMPETITOR OF THE SOUTH KOREANS, WOULD SURELY BE CALLED UPON TO HELP THE INDUSTRIALIZATION OF A COMBINED KOREA. SOME HAVE SAID THAT THE PRESENT JAPANESE GOVERNMENT LED BY SHINZO ABE, A CONSERVATIVE LEADER AND AN UNAPOLOGETIC REVISIONIST FOR JAPAN'S ACTIONS IN WORLD WAR II WILL NEVER BE A MAJOR FORCE IN KOREA, BUT AS WE KNOW POLITICS MAKE STRANGE BED FELLOWS. THE JAPANESE AND THE KOREANS –WITH A COMBINED POPULATION OF NEARLY 300 MILLION WOULD BE A FORMIDABLE ECONOMIC JUGGERNAUT. IF YOU THINK IT WOULD BE AN IMPOSSIBLE MARRIAGE-LET ME TELL YOU THAT AT A LUNCH I HAD IN NEW YORK LAST NOVEMBER – SITTING AT THE NEXT TABLE WERE- CHELSEA CLINTON AND HER HUSBAND AND--- HENRY KISSINGER. THAT MY FRIENDS IS AN IMPOSSIBLE MARRIAGE!

THE WESTERN PROVINCES OF CHINA HIGHLIGHT A SEPARATE POLITICAL PROBLEM FOR CHINESE LEADERSHIP. RELIGIOUSLY MUSLIM-ETHNICALLY A CROSS BETWEEN OCCIDENTAL AND ASIAN, THE MUSLIM POPULATIONS ARE ACUTELY AWARE OF PRESENT DAY MIDDLE EAST AND EUROPEAN MUSLIM UNREST. DID THE OUTCOME OF THE TAIWANESE ELECTIONS AND HONG KONG DISPLAYS OF INDEPENDENCE OPEN THE EYES OF THE CHECHEN POPULATION? OF COURSE! AS THIS PAPER IS BEING WRITTEN, THE ATTENTIVENESS OF THE EUROPEAN UNION TOWARDS UKRAINE AND OTHER EX- SOVIET REPUBLICS WILL HAVE AN

EFFECT ON HOW RUSSIA LOOKS AT ITS RELATIONSHIP WITH CHINA. WILL THE RUSSIANS MOVE CLOSER TO THE XI GOVERNMENT OR WILL THEY DISSOCIATE THEMSELVES FURTHER, HOPING THAT THEY CAN DRAW INTO THEIR SPHERE OF INFLUENCE SOME OF THE WESTERN PROVINCES OF CHINA?

VIET NAM ALSO WILL PLAY AN IMPORTANT PART IN THE CHINESE STRATEGY OF TRYING TO CONTROL THE REGION. HISTORICALLY ENEMY'S, VIET NAM'S COMBINED POPULATION TODAY OF CLOSE TO 100 MILLION- WITH SEVERAL GENERATIONS OF ETHNIC CHINESE LEADING THE ECONOMIC RESURGENCE IN VIET NAM, THE COUNTRY IS POISED TO BE A MAJOR PLAYER BOTH ECONOMICALLY AND POLITICALLY IN ASIA DURING THIS CENTURY, AND THEY WILL BE UNWILLING TO FALL UNDER THE UMBRELLA OF THE GOVERNMENT LOCATED IN BEIJING. ONE OF OUR GREATEST FAILURES IN THE LATE 20TH CENTURY, RESULTING IN THE LOSS OF 58,000 AMERICANS, WAS NOT RECOGNIZING THE HISTORICAL ENMITY THAT EXISTED BETWEEN VIET NAM AND CHINA.

BEIJING'S LEADERSHIP IN THE FINANCIAL SECTOR, BESIDES THE FREE TRADE PACT, WILL PROBABLY INVOLVE THE CREATION OF WHAT THEY CALL 'A SILK ROAD FUND' A FUND OSTENSIBLY CREATED TO HELP OTHER ASIAN NATIONS NURTURE THEIR INFRASTRUCTURE. AT THE SAME TIME, THIS FUND WILL ENHANCE USAGE OF THE CHINESE CURRENCY – THE YUAN – AN ECONOMIC FUNCTION THE CHINESE WILL BE WILLING TO ADVANCE. TODAY THE YUAN IS THE FIFTH OR SIXTH MOST RESPECTED CURRENCY IN THE WORLD MARKET. AN INTERNATIONAL USAGE OF A CURRENCY IS ONE WAY OF SHOWING STRENGTH IN THE WORLD MARKET. I CAN REMEMBER WHEN THE CHINESE WERE WILLING TO TRADE A WAD OF THEIR CURRENCY FOR A PACKAGE OF KENT CIGARETTES, THE CURRENCY OF LOCAL TRADE IN 1975! THE END GAME FOR THE CHINESE IS THE THINKING THAT AT SOME POINT ASIAN NATIONS MAY HAVE TO CHOOSE SIDES AND THEY WOULD LIKE AS MANY OF THESE MARBLES AS POSSIBLE IN THEIR POCKET.

IN A WALL STREET ARTICLE PUBLISHED MID 2013, CHINA'S BEST KNOWN ECONOMIST WU JINLIAN, COMMENTED, "CHINA'S REFORMS ARE A HALF FINISHED BUSINESS." HE HAS LONG ARGUED THAT FAILURE TO COMPLETE THE REFORMS HAS LED TO PERVASIVE CORRUPTION. THIS IN TURN, HAS LED TO ECONOMIC WASTE AND INEFFICIENCY. AS WU STATES, "THE NEXT WAVE OF REFORM NEEDS TO TAKE DIRECT AIM AT THE POLITICAL SYSTEM TO BRING GROWTH AND SUSTAINABILITY ON TRACK." SEVERAL BAY AREA COMPANIES- H.P, APPLE, AND GOOGLE, HAVE RATCHETED BACK INVESTMENT IN CHINA. THE PROTECTION OF INTELLECTUAL PROPERTY IS A PRIMARY TENET OF ANY FOREIGN COMMERCIAL GROWTH. I CAN REMEMBER THE DAYS IN THE 1970'S WHEN COUNTERFEIT LEVI'S WERE BEING IMPORTED INTO THE U .S. WITH THE

NAME SPELLED L_E_V_Y. APPLE NEEDS TO PROTECT THAT ICON FRUIT WITH THE STEM LOGO WITH THE SAME VIGILANCE THAT LEVI DID YEARS AGO.

LET ME RETURN TO THE PROSPECTIVE PARTNERSHIP BETWEEN THE TWO COUNTRIES TAKING INTO ACCOUNT THE NON-ECONOMIC FACTORS THAT WE WILL BE FACED WITH:

IN THE REAL WORLD OF INTERNATIONAL RELATIONSHIPS INCLUDING BUSINESS AND FINANCÉ, THERE ARE RULES OF CIVILITY AND JUSTICE BUT THE REAL ISSUE IS HOW THESE RULES ARE INTERPRETED? WITH WHOSE EYES DO WE VIEW THESE RULES? CAN WE EXPORT WESTERN IDEAS SUCH AS UNENCUMBERED FREE TRADE TO POPULACES WITH DIFFERENT ETHNIC, MORAL AND CULTURAL TRADITIONS AND IS IT RIGHT FOR US TO ASK THESE DIFFERENT CULTURES TO ACCEPT OUR STANDARDS OF CONDUCT? A COROLLARY TO THE FIRST QUESTION IS, DO WE, SOMETIMES, IN THE WORLD OF INTERNATIONAL COMMERCE IMPLEMENT TRADE DISCIPLINES ON NON DEMOCRATIC COUNTRIES IN ORDER TO ENCOURAGE THEM TO BE MORE RIGHTEOUS OR ARE WE RESPONDING TO DOMESTIC POLITICAL PRESSURES, OR ARE WE TRYING TO EXTEND VIRTUE AND HUMAN RIGHTS THROUGH THE MIRROR OF THE FINANCIAL WORLD? MENTIONED EARLIER WE ARE FAMILIAR WITH TIP O'NEIL'S QUOTE' 'ALL POLITICS IS LOCAL.' SAMUEL JOHNSON PRECEDED MR. O'NEIL BY A COUPLE OF CENTURIES WITH HIS QUOTE "VIRTUE IS OFTEN MERELY LOCAL." OVER THE PAST FORTY YEARS I HAVE CONSTRUCTED MY OWN RULES, KNOWN THROUGHOUT THE WORLD AS SCHRAM'S RULES OF ECONOMIC DIPLOMACY- WELL MAYBE NOT THE WORLD!

- MUTUAL RESPECT GOES A LOT FURTHER THAN OPEN HOSTILITY.
- NEGOTIATION IS THE ENGINE OF COMPROMISE.
- NEVER ASK FOR ANYTHING THAT IS NOT PROPERLY DUE
- A VELVET HAMMER CAN ACCOMPLISH MORE THAN A JACKHAMMER-AND MOST IMPORTANT -NEVER BACK THE OPPOSITION INTO A CORNER THAT DOES NOT OFFER AN HONORABLE EXIT.

Close--THE DILEMMA THE U.S. FACES NOW IS HOW TO ENACT THE PIVOT, MAKING SURE IT IS NOT A STICK IN THE EYE OF THE CHINESE LEADERSHIP, BUT AT THE SAME TIME ACCOMPLISHING OUR GOAL OF HOLDING OUR OWN IN A GEOGRAPHICAL AREA WHERE WE ARE NOW THE NUMBER ONE POWER AND WHERE WE WANT TO INCREASE OUR STATURE IN THIS PART OF THE WORLD. FROM THE U.S. SIDE THE WHITE HOUSE FEELS IT IS IMPERATIVE THAT WE AVOID – AS THEY SAY –'INADVERTENT MILITARY ESCALATION' WHICH COULD LEAD TO HAVING AN ACCIDENTAL CIRCUMSTANCE THAT COULD PRECIPITATE A CONFLICT. I AGREE- PUSH FOR ALL OF THE ECONOMIC AND POLITICAL INTERESTS THAT WOULD ENSURE OUR GROWTH AND ACCEPTANCE IN THIS PART OF

THE WORLD, BUT NOT SO FAR AS TO INITIATE AN ARMED CONFLICT - SOMETHING THAT IS ENDEMIC IN OUR RECENT POLITICAL HISTORY, ESPECIALLY IN THAT PART OF THE WORLD.

WITHIN THE PAST MONTH A NEW BIOGRAPHY HAS BEEN PUBLISHED ABOUT BRENT SCOWCROFT TITLED "THE STRATEGIST." GENERAL SCOWCROFT WAS RONALD REAGAN'S NATIONAL SECURITY ADVISOR AND SUBSEQUENTLY SERVED THE SAME ROLE TO PRESIDENT GERALD FORD'S AND THE FIRST PRESIDENT BUSH. SUBSEQUENT NATIONAL SECURITY ADVISORS, ALL THE WAY THROUGH PRESIDENT OBAMA'S TERM, HAVE WANTED TO MODEL THEIR APPROACH TO MIRROR MR. SCOWCROFT. IN 1989, SHORTLY AFTER THE TIANANMEN SQUARE INCIDENT, IN AN UNANNOUNCED VISIT TO CHINA, SCOWCROFT WAS CAUGHT ON CAMERA TOASTING THE CHINESE LEADERSHIP. HE THOUGHT IT WAS LESS IMPORTANT TO PROJECT OUTRAGE, MORE IMPORTANT TO KEEP THE UNITED STATES AND CHINA RELATIONSHIP ON TRACK-ON AN EVEN KEEL. SCOWCROFT COINED THE TERM "GARDENING". IT FOCUSES ON LONG-TERM CHANGE AND SCOWCROFT KNEW THAT THE CHINESE LEADERSHIP WAS ON EDGE BECAUSE OF THE THEN RECENT SQUARE UPRISINGS. HE WAS MORE CONCERNED ABOUT NOT PROVOKING A BACKLASH, WHICH VERY WELL MIGHT HAVE HAPPENED IF HE HAD GUNNED FOR A FIXATION ON HUMAN RIGHTS. SOON AFTER THE SCOWCROFT VISIT, WINSTON LORD, THE THEN MOST RECENT AMBASSADOR TO CHINA CASTIGATED SCOWCROFT ON THE FLOOR OF CONGRESS DENOUNCING HIM AS "SUPINE." AMBASSADOR LORD, IN MY OPINION, HAS NEVER HAD AN EASY TIME RELATING TO ANYONE WHO PLACES CHINA'S IMPORTANCE OVER THAT OF TAIWAN. I GO BACK TO SOME OF MY OWN TENETS IN NEGOTIATION AT THE INTERNATIONAL LEVEL, A DIFFERENCE WITH AMBASSADOR LORD AND IN AGREEMENT WITH BRENT SCOWCROFT: NEVER BACK YOUR ADVERSARY INTO A CORNER- ALWAYS LEAVE SOMETHING ON THE TABLE- AND A VELVET HAMMER ALWAYS WORKS FAR BETTER THAN A SLEDGEHAMMER. NO VISIBLE BRUISES!

POST SCRIPT: I AM SURE THAT THE OBAMA ADMINISTRATION HAD PLANNED ON HAVING THE PIVOT FURTHER DOWN THE ROAD AT THIS POINT THAN WHERE WE ARE TODAY. MY TAKE: THE U.S. HAS BEEN SO INVOLVED IN THE MIDDLE EAST CRISIS OVER THE PAST TWENTY FOUR MONTHS WITH OUR EMPHASIS IN THAT PART OF THE WORLD THAT WE HAVE PUT A HOLD ON OUR MOVEMENT OF RESOURCES TO THE ASIAN SPHERE. I ALSO THINK THE CHINESE ARE ACUTELY AWARE OF OUR DILEMMA IN THE MIDDLE EAST AND USING THOSE CONFLICTS AS A WAY TO STALL THE IMPLEMENTATION OF OUR PIVOT. THEY UNDERSTAND THE MORE ECONOMIC AND POLITICAL POWER WE EXERCISE IN THAT PART OF THE WORLD THE LESS CONTROL THEY MAY HAVE IN THAT REGION. AT

SOME POINT I FEEL WE CANNOT DELAY OUR STRATEGIC PLAN FOR ASIA
BASED ON OTHER FLASH POINTS IN THE WORLD.