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US-China Transpacific Foundation

&

Chinese People's Institute of Foreign Affairs

Congressional Staff Delegation to China

August 13-22, 2019





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To: Delegation Members
From: Martin B. Gold and Allegra Han
Date: July 16, 2019
Re: Trip to China

What follows are materials that should be helpful to you as you think about our forthcoming trip to China. The book covers an abundance of papers. You may not have time to read them all. The lengthy ones are, however, noteworthy. Three of them appear in the "Preface" section.

- There is a valuable overview chapter from Dr. Henry Kissinger's book, On China.
- There is a piece by former Australian Prime Minister Kevin Rudd. He is a noted Sinologist.
- There is a set of five articles, which appeared in the New York Times, and which are especially insightful on China's transformation into a present day colossus.

Finally, there is a Reuters series that outlines important national security considerations. It appears in the "Military" section.

The briefing book has the following structure:

1. Itinerary and city information.

2. Prefatory documents that outline useful information about Chinese history, culture and governmental structure.

3. Documents that shed light on the historical framework and development of U.S.-China relations. It is difficult to argue that there is a more important bilateral relationship anywhere.

4. Articles on economic issues, including the Belt and Road Initiative.

5. Articles more specifically related to intellectual property, which is an important component of the trade war.

6. Materials pertinent to the Made in China 2025 policy.

7. Articles on China's military, including an in-depth series by Reuters.

8. Several matters of topical interest on China society.

9. Materials concerning the trade war.

US-China relations are in substantial flux. If anything major happens over the next few weeks, we will augment these materials.

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Itinerary of Congressional Staff Trip 20190813-20190822

Date/Time	Day	Location	Time Period	Time	Activity Type	Activities
13-Aug	Tuesday	Washington DC			Flight	Departure
14-Aug	Wednesday	DC—BJ	CA818, ETA 18:25		Flight	Arrival in Beijing
15-Aug	Thursday	Beijing	Morning	08:30-09:30	Official Visit	Briefing at American Embassy
			Afternoon	10:00-12:00	Official Visit	Visit the Department of North American and Oceanian Affairs
		BJ-Guiyang(Guizhou)	MF1193	15:10-18:10	Flight	Fly to Guiyang
16-Aug	Friday	Guiyang	Morning	08:30-09:30	Official Visit	Visit Guizhou Provincial Government/ Guiyang Municipal Government
				10:00-11:30	Official Visit	Visit People's Congress of Guiyang City
			Afternoon	13:30-15:00	Official Visit	Visit Guiyang City CPPCC
				15:30-17:00	Institutional Visit	Visit Guizhou-Cloud Big Data Industry Development Co., Ltd.
			Evening	18:00-19:30	Cultural Visit	Visit Jiaxiu Pavilion (Miao Nationality Farmhouse Dinner)
17-Aug	Saturday	Guiyang	Morning	10:00-11:30	Bus	Departure for Huangguoshu Waterfall
			Afternoon	13:00-16:00	Cultural Visit	Visit Huangguoshu Waterfall
			D8586, 19:40 - 20:35	19:40 - 20:35	HSR	HSR to Zunyi
18-Aug	Sunday	Zunyi	Morning	09:30-11:30	Bus	Departure for ChiShui DanXia
			Afternoon	14:30-16:30	Cultural Visit	Visit ChiShui DanXia
19-Aug	Monday	Zunyi	Morning	08:30-09:30	Official Visit	Visit the People's Congress of Zunyi City
				10:00-11:30	Cultural Visit	Visit Zunyi Meeting Site
			Afternoon	13:00-14:30	Institutional Visit	Visit Guizhou Aerospace Precision Products Co.,Ltd
			CA1495, 17:55-21:05	17:55-21:05	Flight	Fly to BJ
20-Aug	Tuesday	Beijing	Morning	08:30-10:30	Institutional Visit	Visit National School of Development at Peking University
				11:00-11:30	Cultural Visit	Visit Peking University and the Red Building
			Afternoon	14:00-16:30	Educational Exchange	Visit Education First English Training Center
			Evening	18:00-19:00	Official Visit	Attend CPIFA Banquet
21-Aug	Wednesday	Beijing	Morning	09:30-11:30	Cultural Visit	Visit Great Wall
			Afternoon	14:30-16:30	Cultural Visit	Visit the Forbidden City and Tiananmen Square
				17:00-19:00	Cultural Visit	Visit Wangfujing Street (Roasted Peking Duck Dinner)
22-Aug	Thursday	Beijing—DC	CA817, ETD12:45		Flight	Departure

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Beijing

From Wikipedia, the free encyclopedia



Beijing, sometimes romanized as **Peking**,[6] is the capital of the People's Republic of China and one of the most populous cities in the world. The population as of 2013 was 21,150,000. The city proper is the 3rd largest in the world.[7] The metropolis, located in northern China, is governed as a direct-controlled municipality under the national government, with 14 urban and suburban districts and two rural counties.[8] Beijing Municipality is surrounded by Hebei Province with the exception of neighboring Tianjin Municipality to the southeast.[9]

Beijing is the second largest Chinese city by urban population after Shanghai and is the nation's political, cultural, and educational center.[10] It is home to the headquarters of most of China's largest state-owned companies, and is a major hub for the national highway, expressway,railway, and high-speed rail networks. The Beijing Capital International Airport is the second busiest in the world by passenger traffic.[11]

The city's history dates back three millennia. As the last of the Four Great Ancient Capitals of China, Beijing has been the political center of the country for much of the past eight centuries.[12] The city is renowned for its opulent palaces, temples, parks and gardens, tombs, walls and gates,[13] and its art treasures and universities have made it a center of culture and art in China.[13] *Encyclopædia Britannica* notes that "few cities in the world have served for so long as the political headquarters

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and cultural centre of an area as immense as China."[14] Beijing has seven UNESCO World Heritage Sites – the Forbidden City, Temple of Heaven, Summer Palace, Ming Tombs, Zhoukoudian, Great Wall, and the Grand Canal.[15]

History

The earliest traces of human habitation in the Beijing municipality were found in the caves of Dragon Bone Hill near the village of Zhoukoudian in Fangshan District, where Peking Man lived. *Homo erectus* fossils from the caves date to 230,000 to 250,000 years ago. Paleolithic *Homo sapiens* also lived there more recently, about 27,000 years ago.[21] Archaeologists have found neolithic settlements throughout the municipality, including in Wangfujing, located in downtown Beijing.

By the 15th century, Beijing had essentially taken its current shape. It is generally believed that Beijing was the largest city in the world for most of the 15th, 16th, 17th, and 18th centuries.[35] The first known church was constructed by Catholics in 1652 at the former site of Matteo Ricci's chapel; the modern Nantang Cathedral was later built upon the same site.[36]

During the Second Opium War, Anglo-French forces captured the city, looting and burning the Old Summer Palace in 1860. Under the Convention of Peking ending that war, Western powers for the first time secured the right to establish permanent diplomatic presences within the city. In 1900, the attempt by the "Boxers" to eradicate this presence, as well as Chinese Christian converts, led to Beijing's reoccupation by foreign powers.[39] During the fighting, several important structures were destroyed, including the Hanlin Academy and the (new) Summer Palace.

Republic

The fomenters of the Xinhai Revolution of 1911 sought to replace Qing rule with a republic and leaders likeSun Yat-sen originally intended to return the capital to Nanjing. After the Qing general Yuan Shikai forced the abdication of the last Qing emperor and ensured the success of the revolution, the revolutionaries accepted him as president of the new Republic of China. Yuan maintained his capital at Beijing and quickly consolidated power, declaring himself emperor in 1915. His death less than a year later[40] left China under the control of the warlords commanding the regional armies. Following the success of theNationalists' Northern Expedition, the capital was formally removed to Nanjing in 1928. On 28 June the same year, Beijing's name was returned to Beiping (written at the time as "Peiping").[10][41]

During the Second Sino-Japanese War,[10] Beiping fell to Japan on 29 July 1937[42] and was made the seat of the Provisional Government of the Republic of China, a puppet state that ruled the ethnic-

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Chinese portions of Japanese-occupied northern China.[43] This government was later merged into the larger Wang Jingwei government based in Nanjing.[44]

People's Republic

In the final phases of the Chinese Civil War, the People's Liberation Army seized control of the city peacefully on 31 January 1949 in the course of the Pingjin Campaign. On 1 October that year, Mao Zedong announced the creation of the People's Republic of China from atop Tian'anmen. He restored the name of the city, as the new capital, to Beijing,[45] a decision that had been reached by the Chinese People's Political Consultative Conference just a few days earlier.

In the 1950s, the city began to expand beyond the old walled city and its surrounding neighborhoods, with heavy industries in the west and residential neighborhoods in the north. Many areas of the Beijing city wall were torn down in the 1960s to make way for the construction of the Beijing Subwayand the 2nd Ring Road.

During the Cultural Revolution from 1966 to 1976, the Red Guard movement began in Beijing and the city's government fell victim to one of the first purges. By the fall of 1966, all city schools were shut down and over a million Red Guards from across the country gathered in Beijing for eight rallies in Tian'anmen Square with Mao.[46] In April 1976, a large public gathering of Beijing residents against the Gang of Four and the Cultural Revolution in Tiananmen Square was forcefully suppressed. In October 1976, the Gang was arrested in Zhongnanhai and the Cultural Revolution came to an end. In December 1978, the Third Plenum of the 11th Party Congress in Beijing under the leadership of Deng Xiaoping reversed the verdicts against victims of the Cultural Revolution and instituted the "policy of reform and opening up."

Since the early 1980s, the urban area of Beijing has expanded greatly with the completion of the 2nd Ring Road in 1981 and the subsequent addition of the 3rd, 4th, 5th and 6th Ring Roads.[47][48] According to one 2005 newspaper report, the size of newly developed Beijing was one-and-a-half times larger than before.[49] Wangfujing and Xidan have developed into flourishing shopping districts,[50] while Zhongguancun has become a major center of electronics in China.[51] In recent years, the expansion of Beijing has also brought to the forefront some problems of urbanization, such as heavy traffic, poor air quality, the loss of historic neighborhoods, and a significant influx of migrant workers from less-developed rural areas of the country.[52] Beijing has also been the location of many significant events in recent Chinese history, principally the Tiananmen Square protests of 1989[53] and the2008 Summer Olympics. This city was awarded to host the 2015 World Championships in Athletics.[54]

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Economy

Wangfujing Street is one of the busiest shopping streets in Beijing with nearly 100,000 visitors daily (August 2008). The sale of consumer goods both retail and wholesale accounted for about ⅛ of Beijing's economic output in 2013.[85]

Beijing's economy ranks among the most developed and prosperous in China. In 2013, the municipality's nominal gross domestic product (GDP) wasCN¥1.95 trillion (US$314 billion), about 3.43% of the country's total output, and ranked 13th among province-level administrative units.[86] Per capita GDP, at CN¥93,213 (US$15,051) in nominal terms and Int$21,948 at purchasing power parity, was 2.2 times the national average and rankedsecond among province-level administrative units.[87] The economy tripled in size from 2004 to 2012,[88] and grew at an annual rate of 7.7% in 2013.[85]

Due to the concentration of state owned enterprises in the national capital, Beijing in 2013 had more Fortune Global 500 Company headquarters than any other city in the world.[88] The city also ranked No. 4 in the number of billionaire residents after Moscow, New York and Hong Kong.[88] In 2012,PricewaterhouseCoopers rated Beijing's overall economic influence as No. 1 in China.[89]

Demographics

In 2013, Beijing had a total population of 21.148 million within the municipality, of which 18.251 million resided in urban districts or suburban townships and 2.897 million lived in rural villages.[85] Within China, the city ranked second in urban population after Shanghai and the third in municipal population after Shanghai and Chongqing. Beijing also ranks among the most populous cities in the world, a distinction the city has held for much of the past 800 years, especially during the 15th to early 19th centuries when it was the largest city in the world.

About 13 million of the city's residents in 2013 had local *hukou* permits, which entitles them to permanent residence in Beijing.[85] The remaining 8 million residents had *hukou* permits elsewhere and were not eligible to receive some social benefits provided by the Beijing municipal government.[85]

The population increased in 2013 by 455,000 or about 7% from the previous year and continued a decade-long trend of rapid growth.[85] The total population in 2004 was 14.213 million.[99] The population gains are driven largely by migration. The population's rate of natural increase in 2013 was a mere 0.441%, based on a birth rate of 8.93 and a mortality rate of 4.52.[85] The gender balance was 51.6% males and 48.4% females.[85]

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Working age people account for nearly 80% of the population. Compared to 2004, residents age 0–14 as a proportion of the population dropped from 9.96% to 9.5% in 2013 and residents over the age of 65 declined from 11.12% to 9.2%.[85][99]

According to the 2010 census, nearly 96% of Beijing's population are ethnic Han Chinese.[100] Of the 800,000 ethnic minorities living in the capital, Manchu(336,000), Hui (249,000), Korean (77,000), Mongol (37,000) and Tujia (24,000) constitute the five largest groups.[101] In addition, there were 8,045 Hong Kong residents, 500 Macau residents, and 7,772 Taiwan residents along with 91,128 registered foreigners living in Beijing.[100] A study by the Beijing Academy of Sciences estimates that in 2010 there were on average 200,000 foreigners living in Beijing on any given day, including students, business travelers and tourists, who are not counted as registered residents.[102]

From 2000 to 2010, the percentage of city residents with at least some college education nearly doubled from 16.8% to 31.5%.[100] About 22.2% have some high school education and 31% had reached middle school.[100]

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Guiyang

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Guiyang is the capital of Guizhou province of Southwest China. It is located in the center of the province, situated on the east of the Yunnan–Guizhou Plateau, and on the north bank of the Nanming River, a branch of the Wu River. The city has an elevation of about 1,100 meters (3,600 ft). It has an area of 8,034 square kilometers (3,102 sq mi).[1] At the 2010 census, its population was 4,324,561, out of whom 3,037,159 lived in the 7 urban districts.[2]

A city with humid subtropical climate, Guiyang is surrounded by mountains and forest. The area, inhabited since at least the Spring and Autumn period, formally became the capital of the surrounding province in 1413, during the Yuan dynasty. The city is home to a large Miao and Bouyeiethnic minority population. Guiyang has a diversified economy, traditionally a center for aluminum production, phosphate mining, and optical instrument manufacturing; however, following reforms, the majority of the city's economic output in the services sector. Since 2015, it has seen targeted investments into big data and quickly emerged as a local innovation hub.

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History

The valley approximating present-day Guiyang has been inhabited since the Spring and Autumn period. Guiyang was a 7th-century military outpost under the Sui and Tang, when the area around it was known as Juzhou (矩州).[3] It grew into a city named Shunyuan (顺元) under the Mongolian Yuandynasty sometime between their 1279 southwestern campaigns and 1283. By the time Guizhoubecame a full province in 1413, its capital at Guiyang was also known as Guizhou.[4] It became a prefectural seat under the Mingand Qing.[5] Guiyang grew rapidly during the development of the southwest that occurred after the Japanese invasion of China during World War II. It has also grown rapidly since Deng Xiaoping's economic reformsreached it in the 1990s.

Economy

Guiyang is the economic and commercial hub of Guizhou Province. In 2017, GDP for the Guiyang region totaled 353.8 billion yuan, with per capita GDP of 74,493 yuan ($10,720); the local economy is growing at the approximate pace of 10% per year.[11] The city is also a large center for retail and wholesale commercial activities with operations of major domestic and international general retailers such as Wal-Mart, Carrefour, RT-Mart, Beijing Hualian, Parkson, and Xingli Group (星力集团) as well as consumer electronics and appliance sellers Gome and Suning. Wholesale operations include large regional produce, furniture, and industrial and construction machinery depots. Wal-Mart's southwest China regional vegetable and produce distribution center is located in Guiyang. Foreign brands have penetrated Guiyang rapidly, including McDonald's, Burger King, H&M, and Starbucks. Most of the time, they are located near the various shopping centers. The largest shopping centers are Hunter city plaza (亨特城市广场), Huaguoyuan Shopping Center (花果园购物中心), and Nanguohuajing (南国花锦).

Hydro-electric power generators are located along the city's main rivers including the Wu River. By 2007, the city's hydro electric plants supplied over 70 percent of the city's electricity. Coal is mined in the locality of Guiyang and Anshun, and there are large thermal generating plants at Guiyang and Duyun, supplying electricity for a portion of the city's industry. A large iron and steel plant came into production in Guiyang in 1960, supplying the local machinery-manufacturing industry.

Guiyang has a sizable domestic pharmaceuticals industry, producing traditional Chinese as well as Western medicines. Guiyang has also completed the first stage of city-wide free WiFi.[12]

In 2016, Guiyang was named as the Best-Performing City in China by the Milken Institute owing to the city's "growth in jobs, wages, gross domestic product (GDP)."[13] Guizhou Province saw the third-

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fastest growth among China's 31 regional districts in the first half of the year, growing by 10.5 percent.[14] This growth is attributed to Guiyang's investments in computing and big data.[14] Due to tax incentives and state support, multinational corporations such as Foxconn, Microsoft, Huawei, Hyundai Motor, Tencent, Qualcomm and Alibaba have opened offices in Guiyang.[15]

Culture

Language[edit]

The people of Guiyang speak a variety of Southwestern Mandarin. It differs from common Mandarin for the retroflex sounds it lacks. Compared to Mandarin which has five tones (four in addition to a non-stressed tone), Guiyang's local language only has three tones. Many old characters from ancient China are still used within Guiyang's language, which sound like Korean or Japanese. For example, "去" (to go) is pronounced as "ke", fourth tone, instead of the Mandarin pronunciation "qù".

Cuisine[edit]

Provinces in China are known for the different specialities they offer, and Guiyang is most known for its spicy food as well as the following dishes:

- **Gaoba porridge** (糕粑稀饭; *Gāobāxīfàn*), a sweet dessert.
- **Fish in sour soup** (酸汤鱼; *Suāntāngyú*), a Miao dish with roasted fish and various vegetables.
- **Huangba** (黄粑; *Huángbā*), a sweet wrap made of rice that can be steamed or fried
- **Huaxi Vermicelli** (花溪牛肉粉; *Huāxī Niúròufěn*), a dish that consists of beef vermicelli, that is frequently eaten as a breakfast in Guiyang.
- **Siwawa** (丝娃娃; *Sīwáwa*), a Vegetarian dish with different kinds of vegetables accompanied with wraps.
- **Ice jelly with sesame seeds and peanuts** (冰粉; *Bīngfěn*), usually eaten in summer, with Si Wawa or barbecue
- **Intestines and blood noodles** (肠旺面; *Chángwàngmiàn*), made up with pig's intestines and pig's blood.
- **Qingyan's pig's feet** (青岩猪脚; *Qīngyán Zhūjiǎo*), mostly found in the old town of Qingyan, pig's feet symbolize good luck.

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Tourism [edit]

Being the capital of Guizhou, a very old and traditional province of China, Guiyang is shaped by its history, and still possesses many historical sites that attract many tourists:

- **The Jiaxiu Pavilion** (甲秀楼; *Jiǎxiù Lóu*): The Jiaxiu Pavilion is located in the southern tip of the Guiyang Nanming River, which is the city's emblem and its symbol. It was built during the Ming Dynasty and has more than 400 years of history.
- **Qingyan Ancient Town** (青岩古镇; *Qīyán Gǔzhèn*): Qingyan Ancient Town is located in the southern tip of Guiyang. It was originally built in the year 1378, during the Ming Dynasty. It is known its beautiful Chinese ancient architecture.
- **Xifeng Concentration Camp** (息烽集中营; *Xīfēng Jízhōngyín*): Xifeng Concentration Camp was the largest, highest-level prison of all the prisons set up by the Military commission of the KMT government during the Second Sino-Japanese War in 1937, and it was added by the state council to the list of major historical and cultural sites under state protection, in 1988.
- **Confucian Center** (孔学堂; *Kǒngxuétáng*): the Confucian center is a non-public and educational organization affiliated with the Ministry of Education of the People's Republic of China. The Confucius Institute promotes and teaches Chinese culture and language around the world. The Confucian Temple, in the center of Qufu city, was built in 478 BC.
- **Xifeng Hot Spring** (息烽温泉; *Xīfēng Wēnquán*): Xifeng Hot Spring is located in the northeast of Xifeng County. The hot spring is surrounded by many mountains, upon which rich slopes grow a profusion of pines, firs, bamboos and other plants. This beautiful place has offered its advantages for sanatoriums, hospitals and villas.
- **Qianling Park** (黔灵公园; *Qiánlín Gōngyuán*): Qianling Park, in the northwest part of Guiyang, takes its name from Mount Qianling, which is known as southern Guizhou's most majestic mountain. The park is covered with thick vegetation and old trees, with more than 1,500 types of flowers and trees, and at least 1,000 types of Medicinal herbs. The Hongfu Temple, built towards the end of the Ming dynasty and the beginning of the Qing Dynasty, is one of Guizhou's most famous temples.
- **Huaxi National Wetland Park** (花溪湿地公园; *Huāxī Shīdì Gōngyuán*): Guiyang Huaxi national urban wetland Park is located in the north of downtown Guiyang's Huaxi district. It is one of the only urban Wetlands in the country. On the environmental aspect, it belongs to a subtropical humid climate of the plateau kanst hilly region, based on Karst landform

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characteristics of the urban wetland park, its unique geographical location and geological structure form a rich variety of landscapes resources.

Nightlife [edit]

Pubs & Bars

Most of the young people in Guiyang go out in the evening, after 10 pm. Their major activity is to go to bars, where they often indulge in drinking. The most dynamic street in Guiyang is Qianling Donglu (黔灵东路), ironically baptized Drinking Street, for the diversity and great numbers of pubs and bars that. In the province where Moutai comes from, an internationally well-known liquor, drinking tends to be a tradition. In Guiyang, beers are poured in small cups, and games – with dice or cards - are often necessary in order to drink.

Night markets

When the night comes, street food flourishes everywhere in Guiyang, with its barbecue, grills and roasts. In Shaanxi Lu (陕西路), one can find mutton chops, baked snail, roast chicken. On Bo'ai Lu (博爱路) mutton patties, beef pounder, glutinous rice, noodle rice, combine western and eastern food. On Xiaoshizi (小十字), the crispy fried duck.

Night gaming traditions

At night, the elderly usually prefer to indulge in outdoor games, games that are often quite ancient: Mahjong: a game made of bamboo, bone or plastics, each mahjone set consisting 136 tiles (about more than 3000 years old). Spinning top: A game mostly played by old men in public squares, that consists in whipping, with a cable, a kind of spinning top. Square dancing: middle aged and elderly people dance in the square to relax or exercise.

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Zunyi

From Wikipedia, the free encyclopedia



Zunyi (simplified Chinese: 遵义; traditional Chinese: 遵義; pinyin: *Zūnyì*) is a prefecture-level city in northern Guizhou province, People's Republic of China, situated between the provincial capital Guiyang to the south and Chongqing to the north, also bordering Sichuan to the northwest. Along with Guiyang and Liupanshui, it is one of the most important cities of the province. The built-up (or metro) area made of three urban districts of the city, Huichuan, Honghuagang, and Bozhou, had a population of 1,095,189 people; and the whole prefecture, including 14 county-level administration area as a whole, has a population of 6,127,009 at the 2010 census.

History

Zunyi is known for being the location where Mao Zedong was first elected to the leadership of the Communist Party of China during the Long March. And Zunyi is also a city boasting the farmhouse meeting—Zunyi Meeting in 1935. After this famous Zunyi Conference, Mao Zedong and other two leaders formed a group to control the procedure of the Long March. Chinese tourists come to take photographs in the meeting hall where this historic election took place. This historical meeting hall once belonged to a local warlord and after being occupied by the Red Army served as the temporary headquarters.

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Economy

Zunyi is the economic and commercial hub of the North Guizhou Province. The GDP of the city accounts for one quarter of the whole province among its 9 prefecture-level divisions.

Culture

Being known as the "home of culture" of Guizhou province, Zunyi, or the North-Guizhou area, is the education and Economics centre of the province.

Institutions of higher learning [edit]

- Zunyi Medical College (遵义 医学院 Zūn-yì yī-xué-yuàn) http://www.zmc.gz.cn/

Zunyi Medical College (ZMC), located in historical city of Zunyi, was the former Dalian Medical College which was founded in 1947. The College was moved from Dalian to Zunyi and renamed Zunyi Medical College with the approval of the State Council in 1969. After 60 years development, ZMC has grown into a comprehensive medical college with many disciplines.

ZMC has 19 undergraduate programs and 17 postgraduate programs. 52 branches of the college are qualified to recruit postgraduate students from all over the country, including Hong Kong, Macao, Taiwan and it can also provide master's degrees for students who have the same educational level as school graduates . Also the college is authorized to award the master's degrees to postgraduate students of clinical medicine and stomatology.

ZMC has 4 key provincial disciplines namely the Pharmacology discipline, the molecular biology discipline (immunology, biochemistry), the internal medicine discipline and the oral cavity clinical medicine discipline and two provincial key laboratories-Guizhou Province Cellular Engineering Key Laboratory and the Guizhou Province Fundamental Pharmacology Laboratory.

ZMC mainly consists of 5 teaching sectors, 9 departments, 89 teaching research sections, 42 laboratories, 21 research sections and 2 central laboratories. Also it has an independent institute - Medicine and Technical Institute of ZMC. The library of ZMC has a collection of 820,000 volumes, which is managed by advanced microcomputer system for the convenient data searches, and exchange data with over 600 colleges and universities all over the country. The college also has 7 affiliated hospitals.

Zunyi Medical College has a stronger rank of staff 2,000 currently, more than 550 professors and associate professors, 660 lecturers. The college also owns more than 250 teachers, who have got either doctor's degrees or master's degrees . They are the academic backbones of the college. 9 of

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them are among the list of the cross-century talents foster program and are regarded as the provincial outstanding experts. And 30 teachers enjoy national or provincial government special allowance. There is a teaching team which is composed of the scholars study abroad, doctors and masters and professors of young talents.

The motto of ZMC is: cherishing virtues and studying hard; looking for the truth and being practical.

Another college-level institution of Zunyi is Zunyi Normal College(遵义师范学院

). http://www.zync.edu.cn/

Culture of food and liquor [edit]

Zunyi is known for being a place where Chinese leaders, including Deng Xiaoping, visited to enjoy its fiery hot local cuisine, including yangrou fen (spicy hot rice noodle soup with lamb and bean curd).

This is made with Lai fen, a kind of thick wide round rice noodle that is made locally (at a factory in the town of Gaoping), and is difficult to find elsewhere.

The rice liquor Maotai (Moutai) is produced in the town of Maotai in Renhuai. Another well-known local liquor is Dongjiu. The local beer Gaoyuan is quite delicious.

Liu Er Ma Mi Pi (刘二妈米皮 Liú èr mā mǐ pí): This snacking dish made with thick flat rice noodles is eaten by locals frequently as a light meal or to tide off hunger. The red oil sauce makes liberal use of Sichuan pepper giving it a distinctive numbing quality on the tongue. It also leaves a peculiar tickle in the back of the throat making it worth a try. Aside from the red oil sauce, it contains a few scraps of meat and preserved vegetables.

Yang Rou Fen (羊肉粉 yáng-ròu fěn): Unlike its Guiyang cousin, this rice noodle dish is made using strips of mutton. Owing to the tastes of locals, yangroufen only comes available in a spicy broth. Addition of extra chilis during the cooking process is optional and you will be asked whether you want it or not. Yangroufen is rich and filling and often eaten for breakfast in Zunyi. Many shops remain open 24 hours making it a popular midnight snack as well. Pickled cabbage and radishes are available in the large glass urns in every shop - just help yourself. This dish is representative of Zunyi people who have a love affair with mutton.

NOTE: Mutton in China - the character 羊 (yáng) means both sheep and goat in Chinese. As a result, 羊肉 (yáng-ròu) is usually translated as mutton. Most often in Guizhou at least, mutton refers to the meat of the 山羊 (shān-yáng) which is a shaggy mountain goat raised for its hair and meat in the hills of the province.

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Dou Hua Mian (豆花面 dòuhuā miàn): douhuamian literally means "Bean Flower Noodles." It consists of Douhua which is a type of semi-firm tofu served in a semi-clear soup, long flat wheat noodles and a separate bowl containing preserved meat, spices, oil, soy, vinegar and fresh mint leaves. To eat as the locals do, place the bowl with the noodles and tofu behind the smaller dipping bowl. Pull out some douhua or noodles, dip them liberally in the sauce and then consume. At the end of the meal, finish off the solids in the dip and drink the soup from the douhua.

It is said that the local mountain water accounts for the quality of these locally brewed beverages, although pollution currently threatens the water of the Chishui River, from which Maotai is made.[3]

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History of China

The Singularity of China – Henry Kissinger
May 2011

Henry Kissinger On China

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CHAPTER 1

The Singularity of China

SOCIETIES AND NATIONS tend to think of themselves as eternal. They also cherish a tale of their origin. A special feature of Chinese civilization is that it seems to have no beginning. It appears in history less as a conventional nation-state than a permanent natural phenomenon. In the tale of the Yellow Emperor, revered by many Chinese as the legendary founding ruler, China seems already to exist. When the Yellow Emperor appears in myth, Chinese civilization has fallen into chaos. Competing princes harass each other and the people, yet an enfeebled ruler fails to maintain order. Levying an army, the new hero pacifies the realm and is acclaimed as emperor.[1]

The Yellow Emperor has gone down in history as a founding hero; yet in the founding myth, he is reestablishing, not creating, an empire. China predated him; it strides into the historical consciousness as an established state requiring only restoration, not creation. This paradox of Chinese history recurs with the ancient sage Confucius: again, he is seen as the "founder" of a culture although he stressed that he had invented nothing, that he was merely trying to reinvigorate the principles of harmony which had once existed in the golden age but had been lost in Confucius's own era of political chaos.

Reflecting on the paradox of China's origins, the nineteenth-century missionary and traveler, the Abbé Régis-Evariste Huc, observed:

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> Chinese civilization originates in an antiquity so remote that we vainly endeavor to discover its commencement. There are no traces of the state of infancy among this people. This is a very peculiar fact respecting China. We are accustomed in the history of nations to find some well-defined point of departure, and the historic documents, traditions, and monuments that remain to us generally permit us to follow, almost step by step, the progress of civilization, to be present at its birth, to watch its development, its onward march, and in many cases, its subsequent decay and fall. But it is not thus with the Chinese. They seem to have been always living in the same stage of advancement as in the present day; and the data of antiquity are such as to confirm that opinion.[2]

When Chinese written characters first evolved, during the Shang Dynasty in the second millennium B.C., ancient Egypt was at the height of its glory. The great city-states of classical Greece had not yet emerged, and Rome was millennia away. Yet the direct descendant of the Shang writing system is still used by well over a billion people today. Chinese today can understand inscriptions written in the age of Confucius; contemporary Chinese books and conversations are enriched by centuries-old aphorisms citing ancient battles and court intrigues.

At the same time, Chinese history featured many periods of civil war, interregnum, and chaos. After each collapse, the Chinese state reconstituted itself as if by some immutable law of nature. At each stage, a new uniting figure emerged, following essentially the precedent of the Yellow Emperor, to subdue his rivals and reunify China (and sometimes enlarge its bounds). The famous opening of *The Romance of the Three Kingdoms*, a fourteenth-century epic novel treasured by centuries of Chinese (including Mao, who is said to have pored over it almost obsessively in his youth), evokes this continuous rhythm: "The empire, long divided, must unite; long united, must divide. Thus it has

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ever been."[3] Each period of disunity was viewed as an aberration. Each new dynasty reached back to the previous dynasty's principles of governance in order to reestablish continuity. The fundamental precepts of Chinese culture endured, tested by the strain of periodic calamity.

Before the seminal event of Chinese unification in 221 B.C., there had been a millennium of dynastic rule that gradually disintegrated as the feudal subdivisions evolved from autonomy to independence. The culmination was two and a half centuries of turmoil recorded in history as the Warring States period (475–221 B.C.). Its European equivalent would be the interregnum between the Treaty of Westphalia in 1648 and the end of the Second World War, when a multiplicity of European states was struggling for preeminence within the framework of the balance of power. After 221 B.C., China maintained the ideal of empire and unity but followed the practice of fracturing, then reuniting, in cycles sometimes lasting several hundred years.

When the state fractured, wars between the various components were fought savagely. Mao once claimed that the population of China declined from fifty million to ten million during the so-called Three Kingdoms period (A.D. 220–80),[4] and the conflict among the contending groups between the two world wars of the twentieth century was extremely bloody as well.

At its ultimate extent, the Chinese cultural sphere stretched over a continental area much larger than any European state, indeed about the size of continental Europe. Chinese language and culture, and the Emperor's political writ, expanded to every known terrain: from the steppelands and pine forests in the north shading into Siberia, to the tropical jungles and terraced rice farms in the south; from the east coast with its canals, ports, and fishing villages, to the stark deserts of Central Asia and the ice-capped peaks of the Himalayan frontier. The extent and variety of this territory bolstered the sense that China was a world unto itself. It supported a conception of the Emperor as a figure of universal consequence, presiding over *tian xia*, or "All Under Heaven."

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The Era of Chinese Preeminence

Through many millennia of Chinese civilization, China was never obliged to deal with other countries or civilizations that were comparable to it in scale and sophistication. India was known to the Chinese, as Mao later noted, but for much of history it was divided into separate kingdoms. The two civilizations exchanged goods and Buddhist influences along the Silk Road but were elsewhere walled off from casual contact by the almost impenetrable Himalayas and the Tibetan Plateau. The massive and forbidding deserts of Central Asia separated China from the Near Eastern cultures of Persia and Babylonia and even more from the Roman Empire. Trade caravans undertook intermittent journeys, but China as a society did not engage societies of comparable scale and achievement. Though China and Japan shared a number of core cultural and political institutions, neither was prepared to recognize the other's superiority; their solution was to curtail contact for centuries at a time. Europe was even further away in what the Chinese considered the Western Oceans, by definition inaccessible to Chinese culture and pitiably incapable of acquiring it—as the Emperor told a British envoy in 1793.

The territorial claims of the Chinese Empire stopped at the water's edge. As early as the Song Dynasty (960–1279), China led the world in nautical technology; its fleets could have carried the empire into an era of conquest and exploration.[5] Yet China acquired no overseas colonies and showed relatively little interest in the countries beyond its coast. It developed no rationale for venturing abroad to convert the barbarians to Confucian principles or Buddhist virtues. When the conquering Mongols commandeered the Song fleet and its experienced captains, they mounted two attempted invasions of Japan. Both were turned back by inclement weather—the *kamikaze* (or "Divine Wind") of Japanese lore.[6] Yet when the Mongol Dynasty collapsed, the expeditions, though technically feasible, were never again attempted. No Chinese

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leader ever articulated a rationale for why China would want to control the Japanese archipelago.

But in the early years of the Ming Dynasty, between 1405 and 1433, China launched one of history's most remarkable and mysterious naval enterprises: Admiral Zheng He set out in fleets of technologically unparalleled "treasure ships" to destinations as far as Java, India, the Horn of Africa, and the Strait of Hormuz. At the time of Zheng's voyages, the European age of exploration had not yet begun. China's fleet possessed what would have seemed an unbridgeable technological advantage: in the size, sophistication, and number of its vessels, it dwarfed the Spanish Armada (which was still 150 years away).

Historians still debate the actual purpose of these missions. Zheng He was a singular figure in the age of exploration: a Chinese Muslim eunuch conscripted into imperial service as a child, he fits no obvious historical precedent. At each stop on his journeys, he formally proclaimed the magnificence of China's new Emperor, bestowed lavish gifts on the rulers he encountered, and invited them to travel in person or send envoys to China. There, they were to acknowledge their place in the Sinocentric world order by performing the ritual "kowtow" to acknowledge the Emperor's superiority. Yet beyond declaring China's greatness and issuing invitations to portentous ritual, Zheng He displayed no territorial ambition. He brought back only gifts, or "tribute"; he claimed no colonies or resources for China beyond the metaphysical bounty of extending the limits of All Under Heaven. At most he can be said to have created favorable conditions for Chinese merchants, through a kind of early exercise of Chinese "soft power."[7]

Zheng He's expeditions stopped abruptly in 1433, coincident with the recurrence of threats along China's northern land frontier. The next Emperor ordered the fleet dismantled and the records of Zheng He's voyages destroyed. The expeditions were never repeated. Though Chinese traders continued to ply the routes Zheng He sailed, China's naval abilities faded—so much so that the Ming rulers' response to the

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subsequent menace of piracy off China's southeast coast was to attempt a forced migration of the coastal population ten miles inland. China's naval history was thus a hinge that failed to swing: technically capable of dominance, China retired voluntarily from the field of naval exploration just as Western interest was beginning to take hold.

China's splendid isolation nurtured a particular Chinese self-perception. Chinese elites grew accustomed to the notion that China was unique—not just "a great civilization" among others, but civilization itself. A British translator wrote in 1850:

> An intelligent European, accustomed to reflect on the state of a number of countries enjoying a variety of different advantages, and laboring each under peculiar disadvantages, could, by a few well directed questions, and from very little data, form a tolerably correct notion of the state of a people hitherto unknown to him; but it would be a great error to suppose that this is the case with the Chinese. Their exclusion of foreigners and confinement to their own country has, by depriving them of all opportunities of making comparisons, sadly circumscribed their ideas; they are thus totally unable to free themselves from the dominion of association, and judge everything by rules of purely Chinese convention.[8]

China knew, of course, of different societies around its periphery in Korea, Vietnam, Thailand, Burma; but in the Chinese perception, China was considered the center of the world, the "Middle Kingdom," and other societies were assessed as gradations from it. As the Chinese saw it, a host of lesser states that imbibed Chinese culture and paid tribute to China's greatness constituted the natural order of the universe. The borders between China and the surrounding peoples were not so much political and territorial demarcations as cultural differentiations. The outward radiance of Chinese culture throughout East

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Asia led the American political scientist Lucian Pye to comment famously that, in the modern age, China remains a "civilization pretending to be a nation-state."[9]

The pretensions underlying this traditional Chinese world order endured well into the modern era. As late as 1863, China's Emperor (himself a member of a "foreign" Manchu Dynasty that had conquered China two centuries earlier) dispatched a letter informing Abraham Lincoln of China's commitment to good relations with the United States. The Emperor based his communication on the grandiloquent assurance that, "[h]aving, with reverence, received the commission from Heaven to rule the universe, we regard both the middle empire [China] and the outside countries as constituting one family, without any distinction."[10] When the letter was dispatched, China had already lost two wars with the Western powers, which were busy staking out spheres of interest in Chinese territory. The Emperor seems to have treated these catastrophes as similar to other barbarian invasions that were overcome, in the end, by China's endurance and superior culture.

For most of history, there was, in fact, nothing particularly fanciful about Chinese claims. With each generation, the Han Chinese had expanded from their original base in the Yellow River valley, gradually drawing neighboring societies into various stages of approximation of Chinese patterns. Chinese scientific and technological achievements equaled, and frequently outstripped, those of their Western European, Indian, and Arab counterparts.[11]

Not only was the scale of China traditionally far beyond that of the European states in population and in territory; until the Industrial Revolution, China was far richer. United by a vast system of canals connecting the great rivers and population centers, China was for centuries the world's most productive economy and most populous trading area.[12] But since it was largely self-sufficient, other regions had only peripheral comprehension of its vastness and its wealth. In fact, China produced a greater share of total world GDP than any Western society

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in eighteen of the last twenty centuries. As late as 1820, it produced over 30 percent of world GDP—an amount exceeding the GDP of Western Europe, Eastern Europe, and the United States combined.[13]

Western observers encountering China in the early modern era were stunned by its vitality and material prosperity. Writing in 1736, the French Jesuit Jean-Baptiste Du Halde summed up the awestruck reactions of Western visitors to China:

> The riches peculiar to each province, and the facility of conveying merchandise, by means of rivers and canals, have rendered the domestic trade of the empire always very flourishing. . . . The inland trade of China is so great that the commerce of all Europe is not to be compared therewith; the provinces being like so many kingdoms, which communicate to each other their respective productions.[14]

Thirty years later, the French political economist François Quesnay went even further:

> [N]o one can deny that this state is the most beautiful in the world, the most densely populated, and the most flourishing kingdom known. Such an empire as that of China is equal to what all Europe would be if the latter were united under a single sovereign.[15]

China traded with foreigners and occasionally adopted ideas and inventions from abroad. But more often the Chinese believed that the most valuable possessions and intellectual achievements were to be found within China. Trade with China was so prized that it was with only partial exaggeration that Chinese elites described it not as ordinary economic exchange but as "tribute" to China's superiority.

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Confucianism

Almost all empires were created by force, but none can be sustained by it. Universal rule, to last, needs to translate force into obligation. Otherwise, the energies of the rulers will be exhausted in maintaining their dominance at the expense of their ability to shape the future, which is the ultimate task of statesmanship. Empires persist if repression gives way to consensus.

So it was with China. The methods by which it was unified, and periodically overturned and reunified again, were occasionally brutal. Chinese history witnessed its share of sanguinary rebellions and dynastic tyrants. Yet China owed its millennial survival far less to the punishments meted out by its Emperors than to the community of values fostered among its population and its government of scholar-officials.

Not the least exceptional aspect of Chinese culture is that these values were essentially secular in nature. At the time when Buddhism appeared in Indian culture stressing contemplation and inner peace, and monotheism was proclaimed by the Jewish—and, later, Christian and Islamic—prophets with an evocation of a life after death, China produced no religious themes in the Western sense at all. The Chinese never generated a myth of cosmic creation. Their universe was created by the Chinese themselves, whose values, even when declared of universal applicability, were conceived of as Chinese in origin.

The predominant values of Chinese society were derived from the prescriptions of an ancient philosopher known to posterity as Kong Fu-zi (or "Confucius" in the Latinized version). Confucius (551–479 B.C.) lived at the end of the so-called Spring and Autumn period (770–476 B.C.), a time of political upheaval that led to the brutal struggles of the Warring States period (475–221 B.C.). The ruling House of Zhou was in decline, unable to exert its authority over rebellious princes competing for political power. Greed and violence went unchecked. All Under Heaven was again in disarray.

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Like Machiavelli, Confucius was an itinerant in his country, hoping to be retained as an advisor to one of the princes then contending for survival. But unlike Machiavelli, Confucius was concerned more with the cultivation of social harmony than with the machinations of power. His themes were the principles of compassionate rule, the performance of correct rituals, and the inculcation of filial piety. Perhaps because he offered his prospective employers no short-term route to wealth or power, Confucius died without achieving his goal: he never found a prince to implement his maxims, and China continued its slide toward political collapse and war.[16]

But Confucius's teachings, recorded by his disciples, survived. When the bloodletting ended and China again stood unified, the Han Dynasty (206 B.C.–A.D. 220) adopted Confucian thought as an official state philosophy. Compiled into a central collection of Confucius's sayings (the *Analects*) and subsequent books of learned commentary, the Confucian canon would evolve into something akin to China's Bible and its Constitution combined. Expertise in these texts became the central qualification for service in China's imperial bureaucracy—a priesthood of literary scholar-officials selected by nationwide competitive examinations and charged with maintaining harmony in the Emperor's vast realms.

Confucius's answer to the chaos of his era was the "Way" of the just and harmonious society, which, he taught, had once been realized before—in a distant Chinese golden age. Mankind's central spiritual task was to re-create this proper order already on the verge of being lost. Spiritual fulfillment was a task not so much of revelation or liberation but patient recovery of forgotten principles of self-restraint. The goal was rectification, not progress.[17] Learning was the key to advancement in a Confucian society. Thus Confucius taught that

> [l]ove of kindness, without a love to learn, finds itself obscured by foolishness. Love of knowledge, without a love to learn,

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> finds itself obscured by loose speculation. Love of honesty, without a love to learn, finds itself obscured by harmful candour. Love of straightforwardness, without a love to learn, finds itself obscured by misdirected judgment. Love of daring, without a love to learn, finds itself obscured by insubordination. And love for strength of character, without a love to learn, finds itself obscured by intractability.[18]

Confucius preached a hierarchical social creed: the fundamental duty was to "Know thy place." To its adherents the Confucian order offered the inspiration of service in pursuit of a greater harmony. Unlike the prophets of monotheistic religions, Confucius preached no teleology of history pointing mankind to personal redemption. His philosophy sought the redemption of the state through righteous individual behavior. Oriented toward this world, his thinking affirmed a code of social conduct, not a roadmap to the afterlife.

At the pinnacle of the Chinese order stood the Emperor, a figure with no parallels in the Western experience. He combined the spiritual as well as the secular claims of the social order. The Chinese Emperor was both a political ruler and a metaphysical concept. In his political role, the Emperor was conceived as mankind's supreme sovereign—the Emperor of Humanity, standing atop a world political hierarchy that mirrored China's hierarchical Confucian social structure. Chinese protocol insisted on recognizing his overlordship via the kowtow—the act of complete prostration, with the forehead touching the ground three times on each prostration.

The Emperor's second, metaphysical, role was his status as the "Son of Heaven," the symbolic intermediary between Heaven, Earth, and humanity. This role also implied moral obligation on the Emperor's part. Through humane conduct, performance of correct rituals, and occasional stern punishments, the Emperor was perceived as the linchpin of the "Great Harmony" of all things great and small. If the

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Emperor strayed from the path of virtue, All Under Heaven would fall into chaos. Even natural catastrophes might signify that disharmony had beset the universe. The existing dynasty would be seen to have lost the "Mandate of Heaven" by which it possessed the right to govern: rebellions would break out, and a new dynasty would restore the Great Harmony of the universe.[19]

Concepts of International Relations: Impartiality or Equality?

Just as there are no great cathedrals in China, there are no Blenheim Palaces. Aristocratic political grandees like the Duke of Marlborough, who built Blenheim, did not come into being. Europe entered the modern age a welter of political diversity—independent princes and dukes and counts, cities that governed themselves, the Roman Catholic Church, which claimed an authority outside of state purview, and Protestant groups, which aspired to building their own self-governing civil societies. By contrast, when it entered the modern period, China had for well over one thousand years a fully formed imperial bureaucracy recruited by competitive examination, permeating and regulating all aspects of the economy and society.

The Chinese approach to world order was thus vastly different from the system that took hold in the West. The modern Western conception of international relations emerged in the sixteenth and seventeenth centuries, when the medieval structure of Europe dissolved into a group of states of approximately equal strength, and the Catholic Church split into various denominations. Balance-of-power diplomacy was less a choice than an inevitability. No state was strong enough to impose its will; no religion retained sufficient authority to sustain universality. The concept of sovereignty and the legal equality of states became the basis of international law and diplomacy.

China, by contrast, was never engaged in sustained contact with

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another country on the basis of equality for the simple reason that it never encountered societies of comparable culture or magnitude. That the Chinese Empire should tower over its geographical sphere was taken virtually as a law of nature, an expression of the Mandate of Heaven. For Chinese Emperors, the mandate did not necessarily imply an adversarial relationship with neighboring peoples; preferably it did not. Like the United States, China thought of itself as playing a special role. But it never espoused the American notion of universalism to spread its values around the world. It confined itself to controlling the barbarians immediately at its doorstep. It strove for tributary states like Korea to recognize China's special status, and in return, it conferred benefits such as trading rights. As for the remote barbarians such as Europeans, about whom they knew little, the Chinese maintained a friendly, if condescending, aloofness. They had little interest in converting them to Chinese ways. The founding Emperor of the Ming Dynasty expressed this view in 1372: "Countries of the western ocean are rightly called distant regions. They come [to us] across the seas. And it is difficult for them to calculate the year and month [of arrival]. Regardless of their numbers, we treat them [on the principle of] 'those who come modestly are sent off generously.'"[20]

The Chinese Emperors felt it was impractical to contemplate influencing countries that nature had given the misfortune of locating at such a great distance from China. In the Chinese version of exceptionalism, China did not export its ideas but let others come to seek them. Neighboring peoples, the Chinese believed, benefited from contact with China and civilization so long as they acknowledged the suzerainty of the Chinese government. Those who did not were barbarian. Subservience to the Emperor and observance of imperial rituals was the core of culture.[21] When the empire was strong, this cultural sphere expanded: All Under Heaven was a multinational entity comprising the ethnic Han Chinese majority and numerous non-Han Chinese ethnic groups.

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In official Chinese records, foreign envoys did not come to the imperial court to engage in negotiations or affairs of state; they "came to be transformed" by the Emperor's civilizing influence. The Emperor did not hold "summit meetings" with other heads of state; instead, audiences with him represented the "tender cherishing of men from afar," who brought tribute to recognize his overlordship. When the Chinese court deigned to send envoys abroad, they were not diplomats, but "Heavenly Envoys" from the Celestial Court.

The organization of the Chinese government reflected the hierarchical approach to world order. China handled ties with tribute-paying states such as Korea, Thailand, and Vietnam through the Ministry of Rituals, implying that diplomacy with these peoples was but one aspect of the larger metaphysical task of administering the Great Harmony. With less Sinicized mounted tribes to the north and west, China came to rely on a "Court of Dependencies," analogous to a colonial office, whose mission was to invest vassal princes with titles and maintain peace on the frontier.[22]

Only under the pressure of Western incursions in the nineteenth century did China establish something analogous to a foreign ministry to manage diplomacy as an independent function of government, in 1861 after the defeat in two wars with the Western powers. It was considered a temporary necessity, to be abolished once the immediate crisis subsided. The new ministry was deliberately located in an old and undistinguished building previously used by the Department of Iron Coins, to convey, in the words of the leading Qing Dynasty statesman, Prince Gong, "the hidden meaning that it cannot have a standing equal to that of other traditional government offices, thus preserving the distinction between China and foreign countries."[23]

European-style ideas of interstate politics and diplomacy were not unknown in the Chinese experience; rather, they existed as a kind of countertradition taking place within China in times of disunity. But as

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if by some unwritten law, these periods of division ended with the reunification of All Under Heaven, and the reassertion of Chinese centrality by a new dynasty.

In its imperial role, China offered surrounding foreign peoples impartiality, not equality: it would treat them humanely and compassionately in proportion to their attainment of Chinese culture and their observance of rituals connoting submission to China.

What was most remarkable about the Chinese approach to international affairs was less its monumental formal pretensions than its underlying strategic acumen and longevity. For during most of Chinese history, the numerous "lesser" peoples along China's long and shifting frontiers were often better armed and more mobile than the Chinese. To China's north and west were seminomadic peoples—the Manchus, Mongols, Uighurs, Tibetans, and eventually the expansionist Russian Empire—whose mounted cavalry could launch raids across its extended frontiers on China's agricultural heartland with relative impunity. Retaliatory expeditions faced inhospitable terrain and extended supply lines. To China's south and east were peoples who, though nominally subordinate in the Chinese cosmology, possessed significant martial traditions and national identities. The most tenacious of them, the Vietnamese, had fiercely resisted Chinese claims of superiority and could claim to have bested China in battle.

China was in no position to conquer all of its neighbors. Its population consisted mainly of farmers bound to their ancestral plots. Its mandarin elite earned their positions not through displays of martial valor but by way of mastery of the Confucian classics and refined arts such as calligraphy and poetry. Individually, neighboring peoples could pose formidable threats; with any degree of unity, they would be overwhelming. The historian Owen Lattimore wrote, "Barbarian invasion therefore hung over China as a permanent threat. . . . Any barbarian nation that could guard its own rear and flanks against the other

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barbarians could set out confidently to invade China."[24] China's vaunted centrality and material wealth would turn on itself and into an invitation for invasion from all sides.

The Great Wall, so prominent in Western iconography of China, was a reflection of this basic vulnerability, though rarely a successful solution to it. Instead, Chinese statesmen relied on a rich array of diplomatic and economic instruments to draw potentially hostile foreigners into relationships the Chinese could manage. The highest aspiration was less to conquer (though China occasionally mounted major military campaigns) than to deter invasion and prevent the formation of barbarian coalitions.

Through trade incentives and skillful use of political theater, China coaxed neighboring peoples into observing the norms of Chinese centrality while projecting an image of awesome majesty to deter potential invaders from testing China's strength. Its goal was not to conquer and subjugate the barbarians but to "rule [them] with a loose rein" (*ji mi*). For those who would not obey, China would exploit divisions among them, famously "using barbarians to check barbarians" and, when necessary, "using barbarians to attack barbarians."[25] For as a Ming Dynasty official wrote of the potentially threatening tribes on China's northeastern frontier:

> [I]f the tribes are divided among themselves they [will remain] weak and [it will be] easy to hold them in subjection; if the tribes are separated they shun each other and readily obey. We favor one or other [of their chieftains] and permit them to fight each other. This is a principle of political action which asserts: "Wars between the 'barbarians' are auspicious for China."[26]

The goal of this system was essentially defensive: to prevent the formation of coalitions on China's borders. The principles of barbarian management became so ingrained in Chinese official thought that

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when the European "barbarians" arrived on China's shores in force in the nineteenth century, Chinese officials described their challenge with the same phrases used by their dynastic predecessors: they would "use barbarians against barbarians" until they could be soothed and subdued. And they applied a traditional strategy to answer the initial British attack. They invited other European countries in for the purpose of first stimulating and then manipulating their rivalry.

In pursuit of these aims, the Chinese court was remarkably pragmatic about the means it employed. The Chinese bribed the barbarians, or used Han demographic superiority to dilute them; when defeated, they submitted to them, as in the beginning of the Yuan and Qing Dynasties, as a prelude to Sinicizing them. The Chinese court regularly practiced what in other contexts would be considered appeasement, albeit through an elaborate filter of protocol that allowed the Chinese elites to claim it was an assertion of benevolent superiority. Thus a Han Dynasty minister described the "five baits" with which he proposed to manage the mounted Xiongnu tribes to China's northwestern frontier:

> To give them . . . elaborate clothes and carriages in order to corrupt their eyes; to give them fine food in order to corrupt their mouth; to give them music and women in order to corrupt their ears; to provide them with lofty buildings, granaries and slaves in order to corrupt their stomach . . . and, as for those who come to surrender, the emperor [should] show them favor by honoring them with an imperial reception party in which the emperor should personally serve them wine and food so as to corrupt their mind. These are what may be called the five baits.[27]

In periods of strength, the diplomacy of the Middle Kingdom was an ideological rationalization for imperial power. During periods of

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decline, it served to mask weakness and helped China manipulate contending forces.

In comparison to more recent regional contenders for power, China was a satisfied empire with limited territorial ambition. As a scholar during the Han Dynasty (A.D. 25–220) put it, "the emperor does not govern the barbarians. Those who come to him will not be rejected, and those who leave will not be pursued."[28] The objective was a compliant, divided periphery, rather than one directly under Chinese control.

The most remarkable expression of China's fundamental pragmatism was its reaction to conquerors. When foreign dynasts prevailed in battle, the Chinese bureaucratic elite would offer their services and appeal to their conquerors on the premise that so vast and unique a land as they had just overrun could be ruled only by use of Chinese methods, Chinese language, and the existing Chinese bureaucracy. With each generation, the conquerors would find themselves increasingly assimilated into the order they had sought to dominate. Eventually their own home territories—the launching points for their invasions—would come to be regarded as part of China itself. They would find themselves pursuing traditional Chinese national interests, with the project of conquest effectively turned on its head.[29]

Chinese *Realpolitik* and Sun Tzu's *Art of War*

The Chinese have been shrewd practitioners of *Realpolitik* and students of a strategic doctrine distinctly different from the strategy and diplomacy that found favor in the West. A turbulent history has taught Chinese leaders that not every problem has a solution and that too great an emphasis on total mastery over specific events could upset the harmony of the universe. There were too many potential enemies for the empire ever to live in total security. If China's fate was relative security, it also implied relative insecurity—the need to learn the grammar of over a dozen neighboring states with significantly different histories

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and aspirations. Rarely did Chinese statesmen risk the outcome of a conflict on a single all-or-nothing clash; elaborate multiyear maneuvers were closer to their style. Where the Western tradition prized the decisive clash of forces emphasizing feats of heroism, the Chinese ideal stressed subtlety, indirection, and the patient accumulation of relative advantage.

This contrast is reflected in the respective intellectual games favored by each civilization. China's most enduring game is *wei qi* (pronounced roughly "way chee," and often known in the West by a variation of its Japanese name, *go*). *Wei qi* translates as "a game of surrounding pieces"; it implies a concept of strategic encirclement. The board, a grid of nineteen-by-nineteen lines, begins empty. Each player has 180 pieces, or stones, at his disposal, each of equal value with the others. The players take turns placing stones at any point on the board, building up positions of strength while working to encircle and capture the opponent's stones. Multiple contests take place simultaneously in different regions of the board. The balance of forces shifts incrementally with each move, as the players implement strategic plans and react to each other's initiatives. At the end of a well-played game, the board is filled by partially interlocking areas of strength. The margin of advantage is often slim, and to the untrained eye, the identity of the winner is not always immediately obvious.[30]

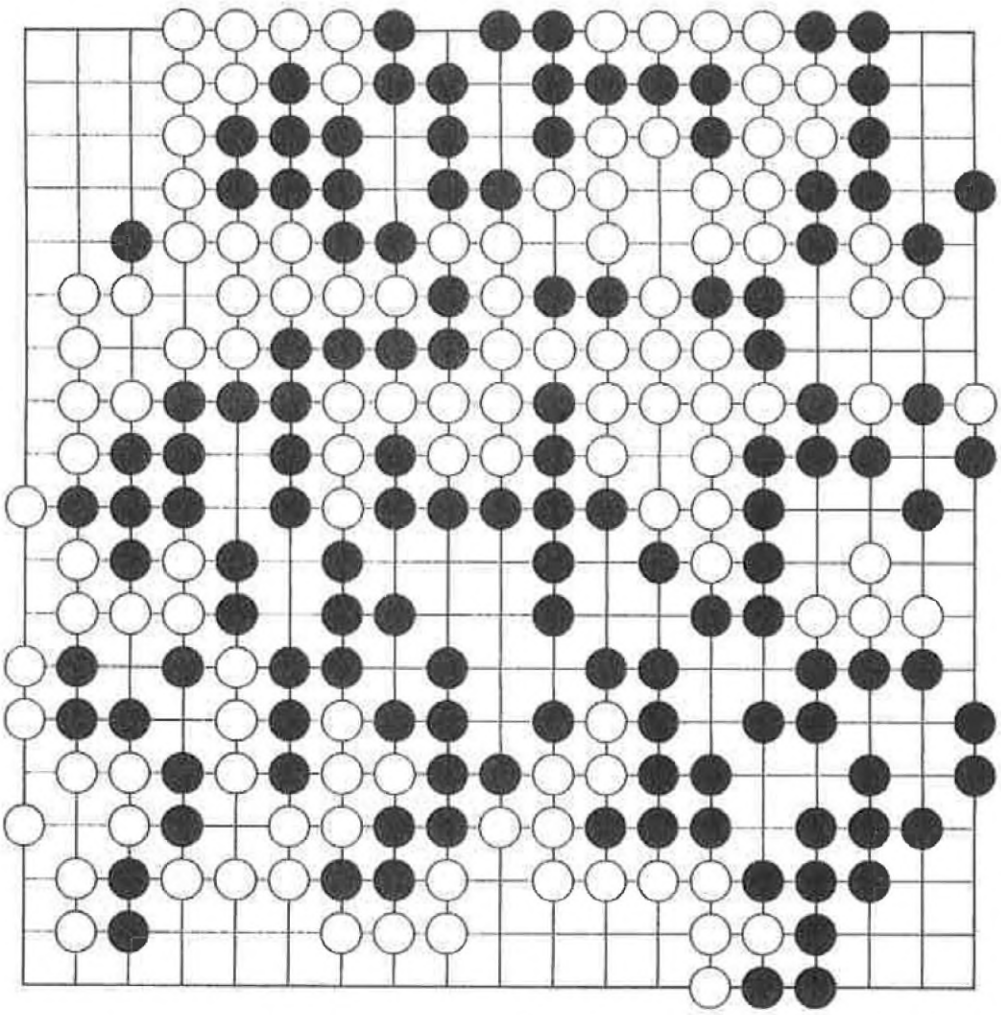
Chess, on the other hand, is about total victory. The purpose of the game is checkmate, to put the opposing king into a position where he cannot move without being destroyed. The vast majority of games end in total victory achieved by attrition or, more rarely, a dramatic, skillful maneuver. The only other possible outcome is a draw, meaning the abandonment of the hope for victory by both parties.

If chess is about the decisive battle, *wei qi* is about the protracted campaign. The chess player aims for total victory. The *wei qi* player seeks relative advantage. In chess, the player always has the capability of the adversary in front of him; all the pieces are always fully deployed.

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THE OUTCOME OF A *WEI QI* GAME BETWEEN TWO EXPERT PLAYERS. BLACK HAS WON BY A SLIGHT MARGIN.

Source: David Lai, "Learning from the Stones: A Go Approach to Mastering China's Strategic Concept, Shi" (Carlisle, PA: U.S. Army War College Strategic Studies Institute, 2004).

The *wei qi* player needs to assess not only the pieces on the board but the reinforcements the adversary is in a position to deploy. Chess teaches the Clausewitzian concepts of "center of gravity" and the "decisive point"—the game usually beginning as a struggle for the center of the board. *Wei qi* teaches the art of strategic encirclement. Where the skillful chess player aims to eliminate his opponent's pieces in a series of head-on clashes, a talented *wei qi* player moves into "empty" spaces on the board, gradually mitigating the strategic potential of his oppo-

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nent's pieces. Chess produces single-mindedness; *wei qi* generates strategic flexibility.

A similar contrast exists in the case of China's distinctive military theory. Its foundations were laid during a period of upheaval, when ruthless struggles between rival kingdoms decimated China's population. Reacting to this slaughter (and seeking to emerge victorious from it), Chinese thinkers developed strategic thought that placed a premium on victory through psychological advantage and preached the avoidance of direct conflict.

The seminal figure in this tradition is known to history as Sun Tzu (or "Master Sun"), author of the famed treatise *The Art of War*. Intriguingly, no one is sure exactly who he was. Since ancient times, scholars have debated the identity of *The Art of War*'s author and the date of its composition. The book presents itself as a collection of sayings by one Sun Wu, a general and wandering military advisor from the Spring and Autumn period of Chinese history (770–476 B.C.), as recorded by his disciples. Some Chinese and later Western scholars have questioned whether such a Master Sun existed or, if he did, whether he was in fact responsible for *The Art of War*'s contents.[3]

Well over two thousand years after its composition, this volume of epigrammatic observations on strategy, diplomacy, and war—written in classical Chinese, halfway between poetry and prose—remains a central text of military thought. Its maxims found vivid expression in the twentieth-century Chinese civil war at the hands of Sun Tzu's student Mao Zedong, and in the Vietnam wars, as Ho Chi Minh and Vo Nguyen Giap employed Sun Tzu's principles of indirect attack and psychological combat against France and then the United States. (Sun Tzu has also achieved a second career of sorts in the West, with popular editions of *The Art of War* recasting him as a modern business management guru.) Even today Sun Tzu's text reads with a degree of immediacy and insight that places him among the ranks of the world's foremost strategic thinkers. One could argue that the disregard of his

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A ruler
Must never
Mobilize his men
Out of anger;
A general must never
Engage [in] battle
Out of spite . . .

Anger
Can turn to
Pleasure;
Spite
Can turn to
Joy.
But a nation destroyed
Cannot be
Put back together again;
A dead man
Cannot be
Brought back to life.

So the enlightened ruler
Is prudent;
The effective general
Is cautious.
This is the Way
To keep a nation
At peace
And an army
Intact.[33]

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What should a statesman be prudent about? For Sun Tzu, victory is not simply the triumph of armed forces. Instead, it is the achievement of the ultimate political objectives that the military clash was intended to secure. Far better than challenging the enemy on the field of battle is undermining an enemy's morale or maneuvering him into an unfavorable position from which escape is impossible. Because war is a desperate and complex enterprise, self-knowledge is crucial. Strategy resolves itself into a psychological contest:

Ultimate excellence lies
Not in winning
Every battle
But in defeating the enemy
Without ever fighting.
The highest form of warfare
Is to attack [the enemy's]
Strategy itself;
The next,
To attack [his]
Alliances.
The next,
To attack
Armies;
The lowest form of war is
To attack
Cities.
Siege warfare
Is a last resort . . .

The Skillful Strategist
Defeats the enemy
Without doing battle,

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Captures the city
Without laying siege,
Overthrows the enemy state
Without protracted war.[34]

Ideally, the commander would achieve a position of such dominance that he could avoid battle entirely. Or else he would use arms to deliver a coup de grâce after extensive analysis and logistical, diplomatic, and psychological preparation. Thus Sun Tzu's counsel that

The victorious army
Is victorious first
And seeks battle later;
The defeated army
Does battle first
And seeks victory later.[35]

Because attacks on an opponent's strategy and his alliances involve psychology and perception, Sun Tzu places considerable emphasis on the use of subterfuge and misinformation. "When able," he counseled,

Feign inability;
When deploying troops,
Appear not to be.
When near,
Appear far;
When far,
Appear near.[36]

To the commander following Sun Tzu's precepts, a victory achieved indirectly through deception or manipulation is more humane (and surely more economical) than a triumph by superior force. *The Art of*

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War advises the commander to induce his opponent into accomplishing the commander's own aims or force him into a position so impossible that he opts to surrender his army or state unharmed.

Perhaps Sun Tzu's most important insight was that in a military or strategic contest, everything is relevant and connected: weather, terrain, diplomacy, the reports of spies and double agents, supplies and logistics, the balance of forces, historic perceptions, the intangibles of surprise and morale. Each factor influences the others, giving rise to subtle shifts in momentum and relative advantage. There are no isolated events.

Hence the task of a strategist is less to analyze a particular situation than to determine its relationship to the context in which it occurs. No particular constellation is ever static; any pattern is temporary and in essence evolving. The strategist must capture the direction of that evolution and make it serve his ends. Sun Tzu uses the word *"shi"* for that quality, a concept with no direct Western counterpart.[37] In the military context, *shi* connotes the strategic trend and "potential energy" of a developing situation, "the power inherent in the particular arrangement of elements and . . . its developmental tendency."[38] In *The Art of War,* the word connotes the ever-changing configuration of forces as well as their general trend.

To Sun Tzu, the strategist mastering *shi* is akin to water flowing downhill, automatically finding the swiftest and easiest course. A successful commander waits before charging headlong into battle. He shies away from an enemy's strength; he spends his time observing and cultivating changes in the strategic landscape. He studies the enemy's preparations and his morale, husbands resources and defines them carefully, and plays on his opponent's psychological weaknesses—until at last he perceives the opportune moment to strike the enemy at his weakest point. He then deploys his resources swiftly and suddenly, rushing "downhill" along the path of least resistance, in an assertion of superiority that careful timing and preparation have rendered a fait accompli.[39] *The Art of War* articulates a doctrine less of territorial

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conquest than of psychological dominance; it was the way the North Vietnamese fought America (though Hanoi usually translated its psychological gains into actual territorial conquests as well).

In general, Chinese statesmanship exhibits a tendency to view the entire strategic landscape as part of a single whole: good and evil, near and far, strength and weakness, past and future all interrelated. In contrast to the Western approach of treating history as a process of modernity achieving a series of absolute victories over evil and backwardness, the traditional Chinese view of history emphasized a cyclical process of decay and rectification, in which nature and the world can be understood but not completely mastered. The best that can be accomplished is to grow into harmony with it. Strategy and statecraft become means of "combative coexistence" with opponents. The goal is to maneuver them into weakness while building up one's own *shi*, or strategic position.[40]

This "maneuvering" approach is, of course, the ideal and not always the reality. Throughout their history, the Chinese have had their share of "unsubtle" and brutal conflicts, both at home and occasionally abroad. Once these conflicts erupted, such as during the unification of China under the Qin Dynasty, the clashes of the Three Kingdoms period, the quelling of the Taiping Rebellion, and the twentieth-century civil war, China was subjected to wholesale loss of life on a level comparable to the European world wars. The bloodiest conflicts occurred as a result of the breakdown of the internal Chinese system—in other words, as an aspect of internal adjustments of a state for which domestic stability and protection against looming foreign invasion are equal concerns.

For China's classical sages, the world could never be conquered; wise rulers could hope only to harmonize with its trends. There was no New World to populate, no redemption awaiting mankind on distant shores. The promised land was China, and the Chinese were already there. The blessings of the Middle Kingdom's culture might

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theoretically be extended, by China's superior example, to the foreigners on the empire's periphery. But there was no glory to be found in venturing across the seas to convert "heathens" to Chinese ways; the customs of the Celestial Dynasty were plainly beyond the attainment of the far barbarians.

This may be the deeper meaning of China's abandonment of its naval tradition. Lecturing in the 1820s on his philosophy of history, the German philosopher Hegel described the Chinese tendency to see the huge Pacific Ocean to their east as a barren waste. He noted that China, by and large, did not venture to the seas and instead depended on its great landmass. The land imposed "an infinite multitude of dependencies," whereas the sea propelled people "beyond these limited circles of thought and action": "This stretching out of the sea beyond the limitations of the land, is wanting to the splendid political edifices of Asiatic States, although they themselves border on the sea—as for example, China. For them the sea is only the limit, the ceasing of the land; they have no positive relations to it." The West had set sail to spread its trade and values throughout the world. In this respect, Hegel argued, landbound China—which in fact had once been the world's greatest naval power—was "severed from the general historical development."[41]

With these distinctive traditions and millennial habits of superiority, China entered the modern age a singular kind of empire: a state claiming universal relevance for its culture and institutions but making few efforts to proselytize; the wealthiest country in the world but one that was indifferent to foreign trade and technological innovation; a culture of cosmopolitanism overseen by a political elite oblivious to the onset of the Western age of exploration; and a political unit of unparalleled geographic extent that was unaware of the technological and historical currents that would soon threaten its existence.

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UNDERSTANDING CHINA'S RISE UNDER XI JINPING

THE HONOURABLE KEVIN RUDD

26TH PRIME MINISTER OF AUSTRALIA

PRESIDENT OF THE ASIA SOCIETY POLICY INSTITUTE

ADDRESS TO CADETS

UNITED STATES MILITARY ACADEMY, WEST POINT

MONDAY 5 MARCH 2018

Next week marks the 216th anniversary of the founding of the West Point Military Academy. Its founding came less than 20 years after the defeat of the British at Yorktown in 1781. It followed the decision by President Thomas Jefferson to establish the United States Military Academy just after his inauguration in 1801. Indeed the United States continental army first occupied this place on 27 January 1778, barely two years into the Revolutionary War, when things were not proceeding all that well against the British in that great conflagration. So you have been here at West Point since virtually the first birth-pangs of this great Republic.

Over the span of history, this nation has grown from thirteen fissiparous colonies to become the most powerful nation on earth. And while the challenges have been many, you have preserved the flame of liberal democracy throughout the nation's rise.

When this nation was being born, China was at its height. In 1799, the Qianlong Emperor died, having reigned for over 60 years. His grandfather, the Kangxi Emperor, had reigned for 61 years until 1722. Between both their reigns, the territorial expanse of the Chinese Empire virtually doubled, occupying some 10 per cent of the world's land area, 30 percent of the world's population, and 32 percent of the world's economy.

Although the United States sought to establish consular relations with China in 1784, this was rebuffed by Qianlong's court, delaying the establishment of diplomatic relations until 1844 with the Treat of Wangxia. By this stage, China had already suffered its first major defeat at the hands of the British during the First Opium War. The second defeat would follow less than 20 years

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later at the hands of the British and the French. And so began China's "Century of National Humiliation" until the birth of the People's Republic in 1949.

As for Australia, proudly an ally of the United States since we first fought together in the trenches in 1918, our short history, at least as a settler society, has been considerably more recent than either China or the US—although our indigenous peoples, Aboriginal Australians, are the oldest continuing cultures on earth, going back 60,000 years. Because Washington's continental army prevailed at Yorktown in 1781, not only did Britain lose these colonies, it also lost its convict dumping ground at Savannah Georgia. Back in the British Admiralty, after the Treaty of Paris in 1783, they dusted off the navigation charts of James Cook taken some 13 years before, and in 1788 established a convict colony and the first European settlement in what we now call Sydney, Australia.

China, because of its proximity and size, has loomed large in the Australian national imagination ever since. Just as it now looms large in the global imagination. Not least because China's new leadership, under Xi Jinping, as of the very day he first came to power as General Secretary of the Chinese Communist Party five years ago, claimed that China's national mission was now one of "national renaissance" (guojia fuxing).

Xi Jinping, in rallying his party to a future vision for his country, looks deeply to China's history as a source of national inspiration. China's national pride at the historical achievements of the great dynasties of the Qing, Ming, Song, Tang, and the Han is palpable. The Chinese political leadership harness their national past selectively, always carefully using rose-coloured glasses, omitting those chapters which may be more problematic for China's current national narrative. But then again, China's leaders are no more guilty of this than other countries.

Nonetheless, for those who are professionally charged with interpreting China's future, as you are in this great military academy, it means that we must also take time to understand China's past. To understand how China perceives the world around it. And to understand how it now perceives its own national destiny in the turbulent world of the 21st century.

It is one of the reasons why after more than 40 years of studying Chinese language, history, politics, economics, and culture, I have embarked on a fresh research project at Oxford

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University, seeking to define Xi Jinping's worldview. This is not a static process. This is a dynamic process. China is as much deeply marked by its past, as it is being reshaped by the unprecedented torrent of economic, social, cultural, and technological forces that are washing over its future.

Over the last 40 years I have engaged China as a student, bureaucrat, diplomat, member of parliament, foreign minister, and prime minister. And now as the President of an American think tank, part of a venerable institution, the Asia Society, which has been engaging China since the earliest days of the People's Republic in 1956. Understanding China is a lifelong journey.

For those of you who would become the next generation of American military leaders, it must be your lifelong journey as well. I argue that there will be no more important part of your professional skill-craft than to understand how Chinese leaders think, how they perceive the world, and how the world should most productively engage them. That applies also to your country's future political leadership, corporate leadership, and every branch of its military. So I encourage you in your mission.

DEFINING XI JINPING'S CHINA

Xi's Political Authority

The beginning of wisdom in understanding China's view of the world is to understand China's view of the future of its own country—its politics, its economics, its society. Xi Jinping lies at the apex of the Chinese political system. But his influence now permeates every level. Five years ago, I wrote that Xi would be China's most powerful leader since Deng. I was wrong. He's now China's most powerful leader since Mao. We see this at multiple levels. The anti-corruption campaign he's wielded across the Party has not only helped him "clean up" the country's almost industrial levels of corruption. It has also afforded the additional benefit of "cleaning up" all of Xi Jinping's political opponents on the way through. It's a formidable list:

- Bo Xilai, Politburo member and Party Secretary of Chongqing;
- Zhou Yongkang, Politburo Standing Committee member and head of the internal security apparatus;
- Xu Caihou, Vice Chairman of the Central Military Commission;
- Guo Boxiong, Vice Chairman of the Central Military Commission;

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- Ling Jihua, former Chief of the General Office of the CPC and Chief of Staff to Hu Jintao;
- Sun Zhengcai, Politburo member and another Party Secretary from Chongqing;
- And just prior to the 19th Party Congress, General Fang Fenghui, Chief of the Joint Staffs, and General Zhang Yang, Director of the PLA Political Work Department, who recently committed suicide.

None of this is for the faint-hearted. It says much about the inherent nature of a Chinese political system which has rarely managed leadership transitions smoothly. But it also points to the political skill-craft of Xi Jinping himself.

Xi Jinping is no political neophyte. He has grown up in Chinese party politics as conducted at the highest levels. Through his father, Xi Zhongxun, he has been on both the winning side and the losing side of the many bloody battles that have been fought within the Chinese Communist Party since the days of the Cultural Revolution half a century ago.

There is little that Xi Jinping hasn't seen with his own eyes on the deepest internal workings of the Party. He has been through a "masterclass" of not only how to survive it, but also on how to prevail within it. For these reasons, he has proven himself to be the most formidable politician of his age. He has succeeded in pre-empting, outflanking, outmanoeuvring, and then removing each of his political adversaries. The polite term for this is power consolidation. In that, he has certainly succeeded.

The external manifestations of this are seen in the decision, now endorsed by the 19th Party Congress and the 13th National People's Congress, to formally enshrine "Xi Jinping Thought" as part of the Chinese constitution. For Xi Jinping's predecessors, Deng, Jiang and Hu, this privilege was only accorded them after they had formally left the political stage. In Xi Jinping's case, it occurs near the beginning of what is likely to be a long political career.

A further manifestation of Xi Jinping's extraordinary political power has been the concentration of the policy machinery of the Chinese Communist Party. Xi now chairs six top-level "leading small groups" as well as a number of central committees and commissions covering every major area of policy.

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A third expression of Xi's power has been the selection of candidates for the seven-man Standing Committee of the Politburo, the 20-person wider Politburo, and the 209-member Central Committee. There's been some debate among China analysts as to the degree to which these ranks are now filled with Xi loyalists. My argument is simple: it is a much more accommodating and comfortable set of appointments from Xi Jinping's personal perspective than what he inherited from the 18th Party Congress.

Furthermore, his ability to prevail on critical personnel selection is underlined by the impending appointment of his close friend and colleague Wang Qishan as Chinese Vice President. Wang Qishan himself has passed the retirement age, but this has proven to be no obstacle to retaining him as an ex-officio member of the politburo standing committee, as reflected in the footage carried yesterday by the Chinese media of the opening sessions of the National People's Congress. And it is Wang Qishan who will be entrusted by Xi with working-level responsibility for the vast complexity that is now the US-China relationship.

A fifth manifestation of Xi Jinping's accumulation of unchallenged personal power has been the decision to remove the provision of the 1982 Chinese State Constitution, which imposed a limit of two five-year terms on those appointed to the Chinese presidency. Xi Jinping is now 64 years old. He will be 69 by the expiration of his second term as President, General Secretary of the Party, and Chairman of the Central Military Commission. Given his own family's longevity (his father lived to 88, and his mother is still alive at 91), as well as the general longevity of China's most senior political leaders, it is prudent for us to assume that Xi Jinping, in one form or another, will remain China's paramount leader through the 2020's and into the following decade.

He therefore begins to loom large as a dominant figure not just in Chinese history, but in world history, in the twenty-first century. It will be on his watch that China finally becomes the largest economy in the world, or is at least returned to that status, which it last held during the Qing dynasty.

Finally, there is the personality of Xi Jinping himself as a source of political authority. For those who have met him and had conversations with him, he has a strong intellect, a deep sense of his

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country's and the world's history, and a deeply defined worldview of where he wants to lead his country. Xi Jinping is no accidental president. It's as if he has been planning for this all his life.

It has been a lifetime's accumulation of the intellectual software, combined with the political hardware of raw politics, which form the essential qualities of high political leadership in countries such as China. For the rest of the world, Xi Jinping represents a formidable partner, competitor or adversary, depending on the paths that are chosen in the future.

There are those within the Chinese political system who have opposed this large-scale accumulation of personal power in the hands of Xi Jinping alone, mindful of the lessons from Mao. In particular, the decision to alter the term-limits concerning the Chinese presidency has been of great symbolic significance within the Chinese domestic debate. State censorship was immediately applied to any discussion of the subject across China's often unruly social media. The People's Daily, in a surprisingly defensive editorial last week, was at pains to point out that the changes to term limits for the Chinese presidency simply brought China's state constitution into line with the Party constitution, which imposed no term limits on the positions of General Secretary and Chairman of the Central Military Commission. Even more defensively, the People's Daily was at equal pains to point out that these constitutional changes did not signify "leadership for life".

For Xi's continuing opponents within the system, what we might describe as "a silent minority", this has created a central, symbolic target for any resentments they may hold against Xi Jinping's leadership. It would be deeply analytically flawed to conclude that these individuals have any real prospect of pushing back against the Xi Jinping political juggernaut in the foreseeable future. But what these constitutional changes have done is to make Xi potentially vulnerable to any single, large-scale adverse event in the future. If you have become, in effect, "Chairman of Everything", then it is easy for your political opponents to hold you responsible for anything and everything that could go wrong, whether you happen to be responsible for it or not.

This could include any profound miscalculation, or unintended consequence, arising from contingencies on the Korean Peninsula, Taiwan, the South China Sea, the Chinese debt crisis, or large-scale social disruption arising from unmanageable air pollution or a collapse in employment through a loss of competitiveness, large-scale automation or artificial intelligence.

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However, militating against any of the above, and the "tipping points" which each could represent, is Xi Jinping's seemingly absolute command of the security and intelligence apparatus of the Chinese Communist Party and the state. Xi Jinping loyalists have been placed in command of all sensitive positions across the security establishment. The People's Armed Police have now been placed firmly under party control rather than under the control of the state. And then there is the new technological sophistication of the domestic security apparatus right across the country—an apparatus which now employs more people than the PLA.

We should never forget that the Chinese Communist Party is a revolutionary party which makes no bones about the fact that it obtained power through the barrel of a gun, and will sustain power through the barrel of a gun if necessary. We should not have any dewy-eyed sentimentality about any of this. It's a simple fact that this is what the Chinese system is like.

Xi Jinping's View of the Party

Apart from the sheer construction of personal power within the Chinese political system, how does Xi Jinping see the future evolution of China's political structure? Here again, we've reached something of a tipping point in the evolution of Chinese politics since the return of Deng Xiaoping at the 3rd Plenum of the 11th Central Committee in November 1978.

There has been a tacit assumption, at least across much of the collective West over the last 40 years, that China, step-by-step, was embracing the global liberal capitalist project. Certainly, there was a view that Deng Xiaoping's program of "reform and opening" would liberalise the Chinese economy with a greater role for market principles and a lesser role for the Chinese state in the economy.

A parallel assumption has been that over time, this would produce liberal democratic forces across the country which would gradually reduce the authoritarian powers of the Chinese Communist Party, create a greater plurality of political voices within the country, and in time involve something not dissimilar to a Singaporean-style "guided democracy", albeit it on a grand scale. Despite the global wake-up call that was Tiananmen in 1989, by and large this continued to be the underlying view across the West, always misguided in my view, that China, through many twists and turns, was still broadly on track to create a more liberal political system, if not to create any form of classical Western liberal democracy.

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Many scholars failed to pay attention to the internal debates within the Party in the late 1990s, where internal consideration was indeed given to the long-term transformation of the Communist Party into a Western-style social democratic party as part of a more pluralist political system. The Chinese were mindful of what happened with the collapse of the Soviet Union. They also saw the political transformations that unfolded across Eastern and Central Europe. Study groups were commissioned. Intense discussions held. They even included certain trusted foreigners at the time. I remember participating in some of them myself. Just as I remember my Chinese colleagues telling me in 2001-2 that China had concluded this debate, there would be no systemic change, and China would continue to be a one-party state. It would certainly be a less authoritarian state than the sort of totalitarianism we had seen during the rule of Mao Zedong. But the revolutionary party would remain.

The reasons were simple. The Party's own institutional interests are in its long-term survival: after all, they had won the revolution, so in their own Leninist worldview, why on earth should they voluntarily yield power to others? But there was a second view as well. They also believed that China could never become a global great power in the absence of the Party's strong central leadership. And that in the absence of such leadership, China would simply dissipate into the divided bickering camps that had often plagued the country throughout its history. The Communist Party would continue, therefore, as an unapologetically Leninist party for the future.

To be fair to Xi Jinping, it should be noted for the historical record that these internal debates were concluded a decade before Xi's rise to power. The rise of Xi Jinping should not be interpreted simplistically as the sudden triumph of authoritarianism over democracy for the future of China's domestic political system. That debate was already over. Rather it should be seen as a definition of the particular form of authoritarianism that China's new leadership now seeks to entrench.

I see this emerging political system as having three defining characteristics. First, the unapologetic assertion of the power, prestige and prerogatives of the Party apparatus over the administrative machinery of the state. In previous decades, the role of the Party apparatus had shrunk to a more narrowly defined, ideological role. The powers of detailed policy decision-making had gradually migrated to the institutions of the state council. This indeed had been a signature reform under Premier Zhu Rongji.

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That is no longer the case. Xi Jinping has realised that if you remove the Party as an institution from continued structural relevance to the country's real policy decision-making process, the party over time would literally fade away. As a person who believes deeply not just in the Party's history, but also the Party's future, Xi has not been prepared to stand idly by while that happened. Xi has now intervened decisively to reverse this trend.

A second defining feature of this "new authoritarian" period is the role of political ideology over pragmatic policy. For the previous forty years, we've been told that China's governing ideology was "Socialism with Chinese Characteristics". As the decades rolled by, at least in the economy, there was much less "socialism" than there were "Chinese characteristics". In this sense, "Chinese characteristics" became the accepted domestic political euphemism for good old capitalism.

Few people seemed to have understood that a core part of Xi Jinping's intellectual make-up is that he is a Marxist dialectician. This derives from the Hegelian principles of "thesis, antithesis and synthesis". Or in Chinese Maoist terms: "Contradictions among the people". This forms a deep part of Xi Jinping's intellectual software. Indeed the importance which Xi attaches to this as an intellectual methodology led him to conduct two formal Politburo study sessions on both "historical materialism" and "dialectical materialism" in 2013 and 2015 respectively. As a dialectician, Xi Jinping is acutely conscious of the new social, economic and political forces being created by China's "neo-liberal" economic transformation. He would also understand intuitively the challenges which these new forces would, over time, represent to the Party's continuing Leninist hold on power.

Both he and the rest of the central leadership have read development economics. They are not deaf and dumb. They know what the international literature says: that demands for political liberalisation almost universally arise once per capita income passes a certain threshold. They are therefore deeply aware of the profound "contradiction" which exists between China's national development priority of escaping the "middle income trap" on the one hand, and unleashing parallel demands for political liberalisation once incomes continue to rise on the other.

Xi Jinping's response to this dilemma has been a reassertion of ideology. This has meant a reassertion of Marxist-Leninist ideology. And a new prominence accorded to ideological

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education across the entire Chinese system. But it's more sophisticated than a simple unidimensional ideological response. At least since the 2008 Olympics, which pre-dated Xi's ascendency, Chinese nationalism has also become a parallel mainstay in China's broader ideological formation. This has continued and expanded under Xi Jinping. And it has been augmented by an infinitely more sophisticated propaganda apparatus across the country, which now fuses the imagery of the Chinese Communist Party and the Chinese nation into a combined Chinese contemporary political consciousness.

On top of this, we've also seen a rehabilitation of Chinese Confucianism as part of the restoration of Chinese historical narratives about, and the continuing resonance of, China's "unique" national political forms. According to the official line, this historical, authoritarian, hierarchical continuity is what has differentiated China from the rest of the world. This Chinese "neo-Confucianism" is regarded by the party as a comfortable historical accompaniment to the current imperatives for a strong, modern Chinese state, necessary to manage the complex processes of the "Great Chinese Renaissance" of the future.

The short-hand form of the political narrative is simple: China's historical greatness, across its dynastic histories, lay in a strong, authoritarian hierarchical Confucian state. By corollary, China's historical greatness has never been a product of Western liberal democracy. By further corollary, China's future national greatness will lie not in any adaptation of Western political forms, but instead through the modern adaptation of its own indigenous political legacy in the form of a Confucian, communist state.

Xi Jinping's View of the Economy

A third characteristic of China's "new authoritarianism", although less clear than the first and second, is what is now emerging in the future direction of China's economic program. We are all familiar with Deng Xiaoping's famous axiom that "it doesn't matter whether a cat is white or black, so long as it catches mice". Just as we are familiar with his other exhortation, "it is indeed glorious to be rich". These were followed by later exhortations by China's apparatchik class to leave government service (xiahai) and go out into the world (zouchuqu). These simple axioms, as opposed to complex statements of ideology, provided the underlying guidance for the subsequent two generations of Chinese entrepreneurs, both at home and abroad.

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In policy terms, China's first phase of economic reform (1978-2012) was characterised by small-scale, local family enterprises, involved in light industry; low-wage, labour-intensive manufacturing for export; combined with high-level state investment in public infrastructure, including telecommunications, broadband, road, rail, port, power generation, transmission and distribution.

In early 2013, at the 3rd plenum of the 18th Central Committee, Xi Jinping released a new blueprint for the second phase of China's economic reform program, or what was ominously called "The Decision", or more elegantly China's "New Economic Model". Its defining characteristics were a new emphasis on the domestic consumption market rather than exports as the principal driver of future economic growth; the explosion of China's private sector at the expense of the overall market share of China's state owned enterprises, which were to be constrained to certain, critical strategic industry sectors; the flourishing of the services sector, particularly through the agency of digital commerce; "leapfrogging" the West in critical new technology sectors, including biotechnology, and artificial intelligence; and all within the new framework of environmentally sustainable development, particularly air pollution and climate change.

It's important to track over the last five years what progress and regress has occurred across the 60 specific reform measures articulated in the decision of March 2013. The core organising principle across the reform program was that "the market would play the decisive role" across China's economic system. The Asia Society Policy Institute, of which I am President, in collaboration with the Rhodium Group, has been producing over the last six months the "China Economic Dashboard", which looks in detail at the ten core barometers of economic change. What we have concluded is that China has made progress in two of these. First, in innovation policy, where China has made measurable strides, both in policy direction but more critically, in defiance of the usual skepticism about China's capacity to innovate, in actual economic performance.

Second, we also measured progress in Chinese environmental reforms, in particular the reduction in the PMI measures of air pollution across China's major cities over the last two years. However, in five of ten areas, we've seen China at best marking time: investment, trade, finance, SOE and land reform. And finally, in fiscal policy, competition policy and labour reform, we see

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evidence of China sliding backwards against the reform direction it set for itself five years ago. Each of these are the subject of considerable debate across the Chinese economic analytical community, particularly given the perennial problems we all face with data. Nonetheless, only the bravest official commentators in China could now point to 2013-18 as a path-breaking period of economic reform. It has at best been slow.

This brings into sharp relief the content of the government work report on the economy delivered at the National People's Congress in Beijing in March 2018. Once again, precisely five years down the track from the original documents, the analytical community will pore over the entrails to analyse whether the spirit of market-based reforms continues to flourish for the future. Or whether it has begun to fade amidst a more general Chinese political and ideological redirection to the left. Or just as problematically, for economic reform to die at the implementation level because of confusing political and policy signals from the centre, meaning that it is much safer to just keep your head down. Or because there are limited local incentives, either personal or institutional, to actively prosecute reform which inevitably generates local conflict with deeply entrenched vested interests. Or, more likely, an unholy cocktail of the above, collectively reinforcing a natural predisposition towards bureaucratic inertia.

Certainly those at the centre of China's economic reform team, including Wang Qishan, Liu He and Wang Yang, understand the absolute imperatives of implementing this next round of economic reform. They know from bitter experience that to stand still is in fact to go backwards. And they understand in particular that the only source of employment growth in China's economy over the last five years has come from the private sector, not SOEs, as China each year is required to absorb 20 million new workers into its labour force.

Nonetheless, there have been worrying signs. First, the role of Party secretaries within private firms now seems to have been enhanced. Second, there is now an open debate in China as to whether the state should acquire equity within China's most successful private firms in order to secure broad representation and greater political influence over these companies' future direction. And third, in the wake of the anti-corruption campaign and other compliance irregularities, we now see a number of prominent Chinese private firms in real political difficulty, and in one case, Anbang, the temporary "assumption of state control" of the company's assets after its Chairman and CEO was taken into custody.

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Compounding all of the above is still a continuing lack of truly independent commercial courts and arbitration mechanisms. The complication this creates is whether this leads over time to a private capital strike, or a flight of private capital of the type we have seen over the last several years, resulting in a re-imposition of formal capital controls by the state.

So on the future direction of China's economy, the jury is still out. Have we also reached a new "tipping point", as we appear to have done in Chinese politics? Or will this be a more sophisticated Chinese play, consistent with one of the deeper aphorisms of Chinese politics, that "in order to go right on the economy, you must go left on politics" in order to sustain to internal "balance" of the system? The next 12 months with China's new economic team will be critical.

CHINA'S "WORLDVIEW" UNDER XI JINPING

Seven Core Priorities

There is always a danger facing foreign policy and security policy specialists when they seek to understand and define the capabilities, strategy and worldview of other states. There is always a temptation, given the analytical disciplines we represent, to see these "external" manifestations of state behaviour in the international realm as independent phenomena. The reality is that any country's worldview is as much the product of its domestic politics, economics, culture and historiography, as it is the product of the number of guns, tanks and bullets held by ourselves, and by those around us.

That's why I've sought to emphasise in this presentation so far the domestic drivers that underpin China's emerging worldview. It's important to bear in mind that those who ultimately shape Chinese strategy, like American strategy, are those who are equally engaged in the domestic affairs of their nations. There is no longer a clinical distinction between the foreign and domestic, the international and the national. Therefore understanding the domestic imperatives of China's leadership is the beginning of wisdom in understanding the emerging patterns of China's foreign and security policy behaviour.

The Party

China's emerging worldview, in my own estimation, is best understood as a set of seven concentric circles. The first concentric circle is the Chinese Communist Party itself and its

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overriding interest to remain in power. This Leninist reality should never be forgotten. It is radically different from the worldview of Western political parties, who while always determined to remain in electoral power while they possibly can, also understand there is a natural ebb and flow in our national political discourse, intermediated by the electoral process.

National Unity

The second concentric circle, in terms of the core interests of the Chinese leadership, is the unity of the motherland. This may seem a hackneyed phrase in the West. But it remains of vital concern in Beijing, both as a question of national security on the one hand, and a question of enduring political legitimacy on the other. From Beijing's perspective, Tibet, Xinjiang, Inner Mongolia and Taiwan represent a core set of security interests. Each within itself represents a confluence of external and internal security factors. Tibet is a central factor in Chinese perceptions of its strategic relationship with India. Xinjiang represents China's gateway to what it perceives to be an increasingly hostile Islamic world, reinforced by concerns about its own, home-grown Islamic separatist movement. Inner Mongolia, despite the resolution of the common border with Russia decades ago, represents a continuing source of strategic anxiety between China and Russia. Taiwan, long seen as an American aircraft carrier in the Pacific, represents in the Chinese strategic mind a grand blocking device against China's national aspirations for a more controlled, and therefore more secure maritime frontier, as well as an impediment to the ultimate political holy grail of national re-unification. These "internal" security challenges will always remain China's core security challenges, apart, of course, from the security of the Party itself.

The Economy and Environmental Sustainability

The third in this series of concentric circles is the economy, together with its strategic counterfoil, environmental sustainability. I've already referred at some length to the current dilemmas in Chinese economic policy. Parallel dilemmas also confront the leadership over the litany of stories which permeate its own media on water, land and air pollution, and the inadequacy of food quality standards. The tragedy of China's rapid economic development over the first 35 years was the relegation of the environment. Indeed, the systematic treatment of the environment as simply an "economic externality" to the Chinese development process led to wholesale environmental destruction. China is now paying the price.

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Of course, these are not just domestic concerns for the Chinese people themselves. The quantum of China's greenhouse gas emissions is of fundamental relevance to the future of global climate security and therefore of the planet itself. Indeed, if China fails to deliver on its future commitments on GHG reductions, as America and my own country Australia are now failing to do, by the time you students of the academy are taking your grandchildren to school during the last quarter of this century, the climate will represent the single greatest security threat to us all. But within the framework of China's current and emerging worldview, both a strong economy and clean environment represent core determinants of the Party's future political legitimacy.

These existential questions, therefore, of clean water, useable land, uncontaminated fish stocks, clean air to breathe as well as continued jobs growth, increased living standards, and all within the constraints of an ageing population, represent the daunting, day-to-day challenges of China's Communist Party leadership.

China's Neighbouring States - Securing China's Continental Periphery across Eurasia

The fourth in this widening series concentric circles relates to China's fourteen neighbouring states. Neighbouring states occupy a particular place in China's strategic memory. Historically, they've been the avenue through which China's national security has been threatened, resulting in successive foreign invasions. From the Mongols in the North in the 12th century, to the Manchurians in the North East in the mid-17th century, to the British, French, the Western imperial powers including the United States, and then the absolute brutality of the Japanese occupation from the East.

In Chinese traditional strategic thought, this has entrenched a deeply defensive view of how to maintain China's national security. But Chinese historiography also teaches that purely defensive measures have not always succeeded. The failure of the Great Wall of China to provide security from foreign invasion is a classic case in point.

For these reasons, modern Chinese strategic thinking has explored different approaches. First and foremost, through political and economic diplomacy, China wishes to secure positive, accommodating, and wherever possible compliant relationships with all its neighbouring states.

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But beyond that, China is also in search of its own form of strategic depth. We see this in China's political, economic and military diplomacy across its vast continental flank from Northeast, through Central to Southeast Asia. We see this thinking alive in the Shanghai Cooperation Organisation. We see it alive in the Conference on International Confidence Building in Asia (CICA). We see it also with the Continental Silk Road, and the Maritime Silk Road initiative which charts its course across the Indian Ocean to the Red Sea and now the Mediterranean. And beyond that we see the Belt and Road Initiative, or BRI. The strategic imperative is clear: to consolidate China's relationships with its neighbouring states. And by and large, this means enhancing its strategic position across the Eurasian continent, thereby consolidating China's continental periphery.

China's Maritime Periphery - East Asia and the West Pacific

The fifth concentric circle, or arguably its co-equal fourth, lies on China's maritime periphery, across East Asia and the West Pacific. Unlike its continental periphery, China sees its maritime periphery as deeply hostile. It sees its traditional territorial claims in the East and South China Seas as under threat, and now routinely refers to these as China's "core national interests", placing them in a similar category to Taiwan. China also sees the region as strategically allied against it—with a ring of US allies from South Korea to Japan to Taiwan to the Philippines and onto Australia. Beyond this ring of US allies, the Chinese are fundamentally fixated on the formidable array of US military assets deployed by US Pacific Command across the entire region.

China's strategy in response to this is clear. It seeks to fracture US alliances and has said as much repeatedly in its declaratory statements. Its position is that these alliances are relics of the Cold War. China's deepest strategic concern about the peaceful reunification of North Korea lies in potentially having a unified Korean Peninsula, as a US ally, positioned on its immediate land border. China's deeper response to its strategic circumstances is to enhance the capability of its navy and air force. Under Xi Jinping, the change in China's military organisation, doctrine and force structure has been profound. The army continues to shrink. The navy and air force continue to expand.

Chinese naval and air capabilities now extend to reclaimed islands in the South China Sea. China's naval and air expansion has also been enhanced by the rapid development of its land-

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based missile force targeted at both Taiwan and wider US naval operations in the Western Pacific. The strategic rationale is clear: a strategy of air-sea denial against US forces seeking to sustain large-scale US military operations in support of Taiwan, its partners in the South China Sea, and ultimately in the East China Sea as well. China's overall political-military strategy is clear: to cause sufficient doubt in the minds of PACOM, and therefore any future US administration as to the "winnability" of any armed conflict against Chinese forces within the first island chain. And that includes American doubts over its ability to defend Taiwan.

The softer edge of China's strategy in East Asia and the Western Pacific is economic engagement through trade, investment, capital flows and development aid. China's strategy in this region, as in elsewhere in the world, is to turn itself into the indispensable economic power. In many countries and regions in the world, it has made great progress on this score. This, in many respects, is a simple projection of the scale of the Chinese economy as economic growth continues and China remains on track to pass the United States as the world's largest economy over the course of the next decade.

The bottom line is this: in both reality and in perception, China has already become a more important economic partner than the United States to practically every country in wider East Asia. We all know where the wider strategic logic takes us. From economic power proceeds political power; from political power proceeds foreign policy power; and from foreign policy power proceeds strategic power. That is China's strategy.

China and the Developing World

The sixth in my attempted visual image of China's order of strategic priorities is China's particular relationship with the developing world. This has long historical roots going back to Mao and Zhou Enlai's role in the non-aligned movement. It applies particularly in Africa. But we also see it in countries like Pakistan, Sri Lanka and Bangladesh. China's relationship with the developing world has long been seen as a pillar in the prosecution of its global interests and values. In the current period this has continued with large-scale public and private Chinese trade and investment across Africa, Asia and Latin America.

Across Africa, China has laid out large slabs of the continent's emerging infrastructure. Each of these projects is generating its own local controversies. But the remarkable thing about China's

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strategy is its persistence and its ability to adapt and adjust over time. Multiple field studies have now been conducted by Western academics on Chinese investment projects in the developing world. Some have not been good. But what is remarkable is how many positive stories are also emerging, on balance. So when China looks for local voices to support its interests, either in the United Nations or across the labyrinth of the global multilateral system, its ability to pull in political and diplomat support is unprecedented.

China and the Global Rules-based Order

The seventh and final concentric circle concerns the future of the global rules-based order itself. The United States, combined with its allies, as the victors of the Second World War, constructed the underlying architecture of the post-war, liberal international rules-based order. We saw this at Bretton Woods in 1944, the emergence of the IMF, the World Bank and the General Agreement on Tariffs and Trade, later the WTO. We saw it in 1945 with the UN Charter. We saw it in 1948 with the Universal Declaration of Human Rights.

The United States also sought to defend the order it had created with a global network of alliances: NATO in Europe, and bilateral security alliances across East Asia. Across all this, even during the Cold War, the United States remained the dominant superpower. Dominant politically, economically, and militarily. Now we find ourselves in a period of great change and challenge.

Our Western political systems are under challenge in terms of their own domestic legitimacy. China will soon replace the United States as the world's largest economy. China will begin to challenge US regional but not global military dominance. China is also creating its own new multilateral institutions outside the UN framework, such as the AIIB. China also continues to expand its strategic and economic reach across Europe and Asia. And Xi Jinping has made plain he does not see China's role as simply replicating the current US-led liberal international order for the future.

China has consistently said that this was an order created by the Western, victorious, and by-and-large colonial powers after the Second World War. But China leaves open what future changes it may make to the international rules-based system in the future. The desirability of having a form of rules-based system, rather than simple chaos, lies deep within Chinese political consciousness.

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Chaos is utterly alien to China's preferred political approach. But it is important to remember that "order", the alternative to "chaos", will not necessarily be an American order, or for that matter a liberal international order of America's making, where Chinese co-leadership of that order may now be expected or desired.

China's expectation of the future of the order will be one which is more suited to China's own national interests and values. This means China will want to change things. At this stage, it is not clear how much China wants to change things. And whether the rest of the international community will agree. This will have implications, for example, for the current international order on human rights, anchored in the three current international treaties and the human rights council in Geneva. It will also have implications for the future international economic order, including the WTO, particularly in the aftermath of any unfolding trade war with the United States. As for the future international security order, we now find ourselves in completely uncertain terrain for reasons increasingly shaped by the future contours of both American and Chinese domestic politics.

There is much public debate about Thucydides' Trap on the probability of conflict between China and the United States. Just as there is now debate about the Kindleberger Trap, drawn from the experience of the 1920s and 1930's, when we saw the emergence of strategic vacuum through the global retrenchment of the United Kingdom and an unwillingness of the United States to fill that vacuum in the provision of global public goods. The result was global anarchy of a different sort. My deepest belief is that we must avoid both these traps. Our deepest wisdom must be harnessed in defining another path.

CONCLUSION

There are many reasons to study China. It is an extraordinary civilisation in its own right. It contains deep wisdom, generated over more than 4000 years of recorded history. China's aesthetic tradition is also rich beyond all measure. It is easy to become lost in the world of Sinology. But the rise of China demands of us all a New Sinology for the 21st century.

One which is familiar with the Chinese tradition. One which is clear in its analysis of contemporary Chinese politics, economics, society and China's unfolding role in the region and the world. As well as a New Sinology which is capable of synthesising the above.

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We will need a generation of leaders who understand this integrated Chinese reality, in order to make sense of and engage with the China of the future. With our eyes wide open. And with our minds wide open as well. Open to new challenges. Open to new threats. Open to new possibilities. Open to new areas of cooperation and collaboration.

And above all, open to finding creative paths about how we preserve peace, preserve stability, avoid conflict and the scourge of war between these two great nations, while preserving the universal values, anchored in our international covenants, for which we all still stand.

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Understanding China's Political System

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March 20, 2013

Excerpts Only

Congressional Research Service
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CRS Report for Congress
Prepared for Members and Committees of Congress

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Summary

This report is designed to provide Congress with a perspective on the contemporary political system of China, the only Communist Party-led state in the G-20 grouping of major economies. China's Communist Party dominates state and society in China, is committed to maintaining a permanent monopoly on power, and is intolerant of those who question its right to rule. Nonetheless, analysts consider China's political system to be neither monolithic nor rigidly hierarchical. Jockeying among leaders and institutions representing different sets of interests is common at every level of the system.

The report opens with a brief overview of China's leading political institutions. They include the Communist Party and its military, the People's Liberation Army; the State, led by the State Council, to which the Party delegates day-to-day administration of the country; and the National People's Congress (NPC), China's unicameral legislature. On paper, the NPC has broad powers. In practice, the legislature is controlled by the Communist Party and is able to exercise little of its constitutionally mandated oversight over the state and the judiciary. Following its 18th Congress in November 2012, the Communist Party ushered in a new Party leadership. New State and NPC leaders took office following the opening session of the 12th NPC in March 2013.

Following the overview, this report introduces a number of distinct features of China's formal political culture and discusses some of their implications for U.S.-China relations. Those features include the fact that China is led not by one leader, but by a committee of seven; that the military is not a national army, but rather an armed wing of the Communist Party; that provincial leaders are powerful players in the system; and that ideology continues to matter in China, with the Communist Party facing vocal criticism from its left flank each time it moves even further away from its Marxist roots. Other themes include the role of meritocracy as a form of legitimization for one-party rule, and ways in which meritocracy is being undermined; the introduction of an element of predictability into elite Chinese politics through the enforcement of term and age limits for holders of public office; the Chinese system's penchant for long-term planning; and the system's heavy emphasis on maintaining political stability. The next section of the report discusses governance challenges in the Chinese political system, from "stove-piping" and bureaucratic competition, to the distorting influence of bureaucratic rank, to factionalism, corruption, and weak rule of law.

The second half of the report is devoted to detailed discussion of China's formal political structures—the Party, the military, the State, the National People's Congress, a consultative body known as the China People's Political Consultative Conference, and China's eight minor political parties, all of which are loyal to the Communist Party. Also discussed are other political actors who play a role in influencing policy debates, including the media, big business, research institutes, university academics, associations, and grassroots non-governmental organizations. The report concludes with a discussion of prospects for political reform, noting that while China's new Communist Party chief has called for everyone to be bound by the constitution and law, Party policy is to reject vigorously the notion of a multi-party system, separation of powers, a bicameral legislature, or a federal system, on the grounds that all are unsuited to China's conditions.

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Introduction

This report is designed to provide Congress with a perspective on the contemporary political system of China, the world's second-largest economic power, one of five permanent members of the United Nations Security Council, and the only Communist Party-led state in the G-20 grouping of major economies.[1] By introducing some of the distinct features and governance challenges of China's political culture, the report aims to help Congress understand the ways in which political actors in China interact, or in some cases, fail to interact, with implications for China's relationship with its neighbors and the world. By introducing some of the leading political institutions and political actors in China, the report aims to help Congress understand where Chinese interlocutors sit within the Chinese political system, gauge their relative influence, and judge the authoritativeness of their statements with respect to official policy. Where appropriate, the report also seeks to highlight ways in which China's political culture affects official Chinese interactions with the U.S. government.

The **Chinese Communist Party (CCP or Party)** has been in power in China for 63 years, a record of longevity that rivals and could in six years surpass that of the Communist Party of the Soviet Union.[2] The CCP assumed power in 1949 by means of a civil war victory over the forces of Chiang Kai-shek's Nationalists, who moved the seat of their Republic of China government to the island of Taiwan. The Communists named their new regime the People's Republic of China (PRC). Although the CCP has been continually in power since, China's political institutions and political culture have evolved significantly over those decades, with the CCP's willingness to adapt helping to explain why it has, so far at least, avoided the fate of its sister parties in the Soviet Union and Eastern Europe.

Today, although the Party is committed to maintaining a permanent monopoly on power and is intolerant of those who question its right to rule, analysts consider the political system to be neither monolithic nor rigidly hierarchical. Jockeying among leaders and institutions representing different sets of interests is common at every level of the system. Sometimes fierce competition exists among the members of the Communist Party's seven-man Politburo Standing Committee and 25-member Politburo, China's highest decision-making bodies. It also exists among ministries; between ministries and provincial governments, which are equals in bureaucratic rank; among provinces; and among the headquarters departments and service branches of the military. The military and the Foreign Ministry are often on different pages. Deputies to the National People's Congress, China's weak legislature, sometimes attempt to push back against the government, the courts, and the public prosecutor's office. As part of a trend of very modest political pluralization, moreover, other political actors are increasingly able to influence policy debates. Such actors, who may join forces to advance particular causes, include an increasingly

[1] The world's other remaining Communist Party-led states are Cuba, Laos, North Korea, and Vietnam, none of which is a member of the G-20. The G-20 countries are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Republic of Korea, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, and the United States.

[2] The Soviet Union was established in 1922 and collapsed in 1991. Its ruling Communist Party, in power for 69 years, was initially called the Russian Communist Party. It changed its name in 1925 to the All-Union Communist Party (Bolsheviks), and in 1952 to Communist Party of the Soviet Union. China's ruling party has kept the same name throughout its history. It is sometimes referred to as the Chinese Communist Party (CCP) and sometimes as the Communist Party of China (CPC). Official Chinese documents most often use the latter formulation. This report uses the former.

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diverse media, micro-bloggers, state-owned and private corporations, official and quasi-official research institutes, university academics, officially sponsored associations and societies, and grassroots non-governmental organizations.

One test of a political system is its ability to manage political transitions. In the run-up to a once-in a decade change in the Communist Party's leadership in November 2012, Communist Party Politburo member and Chongqing Municipality Party Secretary Bo Xilai fell from grace, exposing at least one serious rift in the leadership, raising questions about the unity and probity of China's remaining leaders, and, because of Bo's ties to senior military figures, raising questions about the loyalty of parts of the military to the central Party authorities. (See text box on p. 19.) In the same period, the leadership was also shaken by revelations in the foreign media about the vast personal fortunes amassed by relatives of the outgoing premier, Wen Jiabao, and the incoming Party General Secretary, Xi Jinping.[3] Despite the turmoil in its top ranks, the Party convened its 18th National Congress in November 2012 without public displays of discord, and immediately afterwards appointed a new leadership. Xi Jinping was named both General Secretary of the Communist Party and Chairman of the body that oversees the military, the Party's Central Military Commission. He added the title of State President at the first session of the 12th National People's Congress in March 2013. The NPC meeting also produced a new Premier of the State Council, Li Keqiang, and other new top state officials.

Many analysts, both in China and abroad, have questioned the long-term viability of China's current political system, in which the Party remains above the law, leadership politics is a black box, and civil society and the right to free speech and association are severely constrained. While he was in office, China's recently retired Premier, Wen Jiabao, called for political reform, including reform of "the leadership system of the party and the state," warning that, "Without the success of political structural reform, it is impossible for us to fully institute economic structural reform. The gains we have made in reform and development may be lost, new problems that have cropped up in China's society cannot be fundamentally resolved and such historical tragedy as the Cultural Revolution may happen again."[4] Wen never elaborated, though, on precisely what sort of political reform he hoped to see.

China's new Communist Party General Secretary Xi Jinping raised hopes for a change in the Communist Party's relationship to the law when he called in December 2012 for full implementation of China's state constitution and declared that, "No organization or individual has the special right to overstep the Constitution and law, and any violation of the Constitution and the law must be investigated."[5] Xi has also repeatedly mentioned the need for the Party to police itself, rather than allowing any outside body to do so, however. Perhaps tellingly, in a January 2013 speech, he urged Party organizations and members to abide not by the state constitution, but rather by the Party's constitution, a separate document.[6] The apparent contradictions among Xi's statements make his attitude toward political reform unclear.

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[3] David Barboza, "Billions in Hidden Riches for Family of Chinese Leader," *The New York Times*, October 25, 2012; Michael Forsythe, Shai Oster, Natasha Khan, and Dune Lawrence, "Xi Jinping Millionaire Relations Reveal Fortunes of Elite," *Bloomberg*, June 29, 2012.

[4] Ministry of Foreign Affairs of the People's Republic of China, "Premier Wen Jiabao Meets the Press," transcript, March 15, 2012, http://www.fmprc.gov.cn/eng/zxxx/t914983.htm.

[5] "CPC's new chief pledges to implement rule of law," *Xinhua News Agency*, December 4, 2012; Zhao Yinan, "Uphold Constitution, Xi says," *China Daily*, December 5, 2012.

[6] "Xi Jinping vows 'power within cage of regulations'," *Xinhua News Agency*, January 22, 2013. According to Xinhua, (continued...)

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Overview of China's Political Institutions

Figure 1. China's Leading Political Institutions

The Communist Party dominates the Chinese political system



Source: CRS research.

True to its Leninist roots, the Chinese Communist Party dominates state and society in China. Its power rests on four pillars: its control of China's approximately 2.25 million person-strong military, the **People's Liberation Army (PLA)**, its 1.5 million person-strong paramilitary force, the **People's Armed Police**, and its 800,000 other internal security forces;[7] its control of personnel appointments across all political institutions, the military, state-owned corporations, and public institutions; its control of the media; and its control of the judiciary and the internal

(...continued)

"Xi stressed all Party organs and members should strictly enforce Party discipline, abide by its Constitution, and implement the Party's theories, line, principles and policies."

[7] Figures for force size from Richard D. Fisher, Jr., *China's Military Modernization: Building for Regional and Global Reach* (Stanford University Press, 2010), p. 5. The 2006 edition of China's Defense White Paper stated that the PLA had 2.3 million troops and the PAP had a force size of 600,000. Information Office of the State Council, People's Republic of China, *China's National Defense in 2006*, White Paper, December 29, 2006, http://www.china.org.cn/english/features/book/194421.htm.

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security apparatus. (For discussion of the Party organs in charge of these functions, see "The Party Bureaucracy.") The Party's leadership role is referenced five times in the preamble to the PRC's 1982 constitution, but is not mentioned in any of the articles of the constitution, creating ambiguity about the legal basis for the Party's vast powers.[8]

The Party entrusts implementation of its policies and day-to-day administration of the country to the institution of the **State**, headed by the State Council and including the State's ministries and commissions and layers of "people's governments" below the national level. The top State officials at every level of administration usually concurrently hold senior Party posts, to ensure Party control.

According to China's state constitution, the **National People's Congress (NPC)** oversees the State Council, as well as four other institutions: the Presidency, the Supreme People's Court, the public prosecutors' office, and the military. In practice, the NPC, like People's Congresses at every level of administration, is controlled by the Communist Party and is able to exercise little oversight over any of the institutions officially under its supervision. NPC deputies are expected to approve all budgets, agency reports, and personnel appointments put before them. The NPC's most significant power is its ability to initiate and shape legislation.

The formal political system also includes two other categories of institutions, although they have little substantive power. The first is People's Political Consultative Conferences (PPCCs), the most senior level of which is known as the **Chinese People's Political Consultative Conference (CPPCC) National Committee.** The Party and State ostensibly "consult" with PPCCs on policy issues.[9] The second set of institutions is China's eight **minor political parties**, known as the "democratic parties." All the parties were established before the Communists came to power, pledge loyalty to the Communist Party, and accept its leadership. The existence of the PPCCs and the minor parties allows the Communist Party to describe China's political system as one of "multi-party cooperation and political consultation led by the Communist Party of China."[10]

Features of China's Formal Political Culture

The formal Chinese political system has a number of distinct features. Awareness of these features can be helpful for congressional interactions with Chinese officials and institutions, and can inform Congress's understanding of official Chinese behavior.

[8] The full English-language text of the 1982 state constitution and its subsequent amendments can be accessed on the website of the People's Daily, the mouthpiece of the Communist Party Central Committee, at http://english.peopledaily.com.cn/constitution/constitution.html. The clearest statement in the constitution mandating continued Communist Party rule reads: "Under the leadership of the Communist Party of China and the guidance of Marxism-Leninism and Mao Zedong Thought, the Chinese people of all nationalities will continue to adhere to the people's democratic dictatorship and follow the socialist road.... " Chinese critics of one Party rule sometimes make their case obliquely by calling for revision of the Preamble to the Constitution.

[9] The People's Congresses extend down to the township level, one level above the village, and the People's Political Consultative Conferences extend down to the county level, one level above the township.

[10] See discussion of this concept on an authorized Chinese government portal site operated by the CCP's external propaganda arm, the State Council Information Office: http://www.china.org.cn/english/Political/29034.htm.

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Collective Leadership

China has had no supreme leader since the death of Deng Xiaoping in 1997. The seven men who sit on the country's most senior decision-making body, the Communist Party's Politburo Standing Committee (PSC),[11] form a collective leadership in which each man has a rank, from one to seven, and shoulders primary responsibility for a specific portfolio. (See **Table 1** for the names and offices of all seven members.) Party General Secretary Xi Jinping is ranked first among the seven and has responsibility for convening PSC and larger Politburo meetings. He also controls some of the most consequential portfolios, including military and foreign affairs. Unlike his predecessor, who had to wait two years after becoming head of Party to be named head of the military, Xi was awarded the top military post immediately upon taking over leadership of the Party, a development that has enhanced his authority. Like all his colleagues, however, Xi must still win consensus from the rest of the group for major decisions. Forging agreement can be difficult, in part because members of the PSC owe their jobs to horse trading among different constituencies, interest groups, and influential retired Party elders, whose interests they represent informally on the PSC.[12]

Table 1. The 18th Central Committee's Politburo Standing Committee

All Were Appointed at the First Plenum of the 18th Central Committee in November 2012

Name (family name is listed first)	Party position(s)	Birthdate[a]	Other titles	Portfolio
Xi Jinping	General Secretary of the Communist Party; Chairman of the Party Central Military Commission	June 1953	State President; Chairman of the State Military Commission	The Communist Party and foreign and military affairs
Li Keqiang	No. 2 Ranked Politburo Standing Committee (PSC) Member	July 1955	Premier and Party Secretary of the State Council	Government administration and the economy
Zhang Dejiang	No. 3 Ranked PSC Member	November 1946	Chairman, Standing Committee of the 12th National People's Congress	Legislative affairs
Yu Zhengsheng	No. 4 Ranked PSC Member.	April 1945	Chairman, 12th National Committee of the Chinese People's Political Consultative Conference	Relations with non-communists
Liu Yunshan	No. 5 Ranked PSC Member; Member of the Party Secretariat; President of the Central Party School	July 1945		Party affairs

[11] The Politburo Standing Committee is also known as the Political Bureau Standing Committee.

[12] For more information about the dynamics of the PSC, see Alice L. Miller, "The Politburo Standing Committee under Hu Jintao," *China Leadership Monitor*, no. 35 (September 21, 2011), http://www.hoover.org/publications/china-leadership-monitor/article/93646. The authors are grateful to Prof. Joseph Fewsmith of Boston University for insights into this topic.

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Name (family name is listed first)	Party position(s)	Birthdate[a]	Other titles	Portfolio
Wang Qishan	No. 6 Ranked Member of the PSC; Secretary of the Central Disciplinary Inspection Commission	July 1948		Party discipline and fighting corruption
Zhang Gaoli	No. 7 Ranked Member of the PSC	November 1946	No. 1 Ranked Vice Premier	Assisting the Premier; the economy

Source: Website of the Communist Party's mouthpiece, *The People's Daily*, http://cpc.people.com.cn/.

a. Because of age limits for senior offices, all those born before 1950 are expected to retire at the next Party Congress, in 2017. Only Xi Jinping and Li Keqiang are expected to continue serving.

The collective leadership feature of the Chinese political system is designed to guard against a repeat of the excesses of the era of the PRC's founding father, Mao Zedong, when a single outsized leader was able to convulse the nation with a series of mass political campaigns. It is also meant to guard against the emergence in China of a figure like Mikhail Gorbachev, whose decisions are widely blamed in China for the collapse of the Soviet Union. Before his death in 1997, China's supreme leader, Deng Xiaoping, served as the ultimate check on the power of the Party general secretary, cashiering two reformist General Secretaries, Hu Yaobang in 1987 and Zhao Ziyang in 1989, before settling on Jiang Zemin in the aftermath of the 1989 Tiananmen massacre. It is unclear whether Jiang, age 86, or other retired leaders would today have the authority to remove the general secretary if he were to pursue policies with which they profoundly disagreed.

The Military as an Armed Wing of the Communist Party

China's military, the People's Liberation Army (PLA), is not a national army belonging to the state. Rather, it is an armed wing of the Communist Party, with the Party's exercise of "absolute leadership" over the military a fundamental guarantee of Communist Party rule. The PLA's willingness to put the Communist Party's interests first was tested in 1989, when the Party ordered tanks into the streets of Beijing to clear unarmed protestors from Tiananmen Square. The PLA did as the Party ordered, killing hundreds of protestors in the process—no authoritative death toll has ever been released. The PLA also served the Party by enforcing seven months of martial law in the capital before and after the killings, even though its actions badly damaged the PLA's image within China and around the world.

A heavy emphasis on political indoctrination—and particularly on the need for the PLA to be unswervingly loyal to the Communist Party—has been a hallmark of the PLA from its earliest days. Among the five "core values" for the military outlined by China's most recent Party and military chief, Hu Jintao, "loyalty to the Party" came first, ahead of "ardent love for the people," and "service to the country."[13] In remarks to troops in December 2012, China's new top Party and

[13] James Mulvenon, "Hu Jintao and the 'Core Values of Military Personnel,'" *China Leadership Monitor*, no. 28 (May 8, 2009).

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military leader, Xi Jinping, described obeying the Party's command as "the soul of the military" and the military's ability to engage in combat and win battles as a "top priority."[14]

A major tool for Party control of the military is the General Political Department (GPD), one of the four "general departments" of the PLA headquarters, all of which are represented on the Party's Central Military Commission. Among other things, the GPD is responsible for political training and military personnel matters, including management of personnel dossiers, promotions, and job assignments. GPD political commissars (known at lower levels as political directors and political instructors) serve side-by-side with military commanders at all levels of the PLA, and head the Party committees in all PLA units. Almost all PLA officers are Party members.[15] Only two uniformed officers serve on the Party's Politburo, however, and none serve on China's most senior leadership body, the Politburo Standing Committee.

Scholars and others in China have sometimes broached the possibility of strengthening the PLA's institutional ties to the State by "de-politicizing" it, or "nationalizing" it. The Party has repeatedly rejected such notions. In 2012, at a press conference marking the 85th anniversary of the founding of the PLA, a military spokesman denounced talk of de-politicization as "erroneous ideas" raised with "ulterior motives."[16] Communist Party General Secretary Xi Jinping reportedly confirmed his opposition to de-politicization in leaked remarks in December 2012 in which he blamed the collapse of the Soviet Union on Moscow's decision to depoliticize the Soviet military.[17]

The Legislature: Strong on Paper, Weak in Practice

China's 1982 state constitution, adopted six years after the death of Mao Zedong, describes the country's unicameral legislature, the National People's Congress, as "the highest organ of state power." The constitution gives the NPC the power to amend the constitution; supervise its enforcement; enact and amend laws; ratify and abrogate treaties; approve the state budget and plans for national economic and social development; elect and impeach top officials of the state and judiciary; and supervise the work of the State Council, the State Central Military Commission, the Supreme People's Court, and the Supreme People's Procuratorate. In reality, however, the NPC exercises many of those powers in name only.

One major reason for the NPC's weakness is the Communist Party's insistence that it serve as little more than a rubber stamp for Party decisions. While the constitution gives the NPC the right to "elect" such top state officials as the President, Vice President, and Chairman of the State Central Military Commission, for example, in practice, the Party decides who will fill those positions. The NPC's role is simply to ratify the Party's decisions.

Some analysts see a related reason for the NPC's weakness in the dual identity of most of its deputies and the way they are "elected." The Party nominates all candidates for positions as deputies, usually nominating 20% to 50% more candidates than available positions. Provincial-

[14] "Xi Orders PLA to Intensify Combat Awareness," *Xinhua News Agency*, December 12, 2012, http://news.xinhuanet.com/english/china/2012-12/12/c_132036566.htm.

[15] Dennis J. Blasko, *The Chinese Army Today: Tradition and Transformation for the 21st Century*, 2nd ed. (New York: Routledge, 2012), pp. 33-34.

[16] "China Stresses Party's Absolute Leadership over Army: Military Officer," *Xinhua News Agency*, July 29, 2012.

[17] "Leaked Speech Shows Xi Jinping's Opposition to Reform," *China Digital Times*, January 27, 2013, http://chinadigitaltimes.net/2013/01/leaked-speech-shows-xi-jinpings-opposition-to-reform/.

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level People's Congresses and the People's Liberation Army elect deputies from among the nominees. Campaigning is forbidden.[18] Because China rejects the principle of the separation of powers, the heads of all the constitutional branches of government over which the NPC is meant to exercise oversight are themselves NPC deputies, including the President and the Premier of the State Council. In all, according to calculations by a leading Chinese media organization, 85% of the current NPC's nearly 3,000 deputies hold concurrent posts as Communist Party or state officials or civil servants.[19] Holders of state, judicial, and procuratorial positions are barred, however, from serving on the NPC Standing Committee, the elite body that carries out the work of the NPC when the full NPC is out of session, as it is for all but approximately 10 days a year. As a guarantee of Party control of the legislature, a member of the Party's seven-man Politburo Standing Committee serves concurrently as chairman of the NPC Standing Committee.

Proposals for political reform in China often involve empowering the NPC to play the role envisioned for it in the constitution. Proposals have focused, for example, on incentivizing the NPC to enforce the state constitution by creating a dedicated committee under the NPC Standing Committee to review laws passed nationwide for compliance with the constitution.[20] Others have suggested that the Party rule through the NPC, using only the NPC's powers as outlined in the constitution. If the Party were to do so, however, it would be significantly curbing its powers and, for the first time, submitting them to constitutional restraints. [21]

The Power of Provincial Governments

Provincial leaders are powerful players in the Chinese political system. Six of them, all Party Secretaries, sit on the Party's Politburo, making them among the 25 most powerful officials in the country. All provincial leaders share at least the same bureaucratic rank as central government ministers. With the 2011 inauguration of a U.S.-China Governors Forum, designed to bring together U.S. governors and Chinese provincial Party secretaries and governors, outreach to provincial leaders has become an important element of U.S. policy toward China.

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[18] Jiang Jinsong, *The National People's Congress of China* (Foreign Languages Press Beijing, 2003), pp. 86-104. Jiang notes on pp. 96-97 that, "The Election Act entitles national organizations and the provincial organizations of every political party and of every people's organization to nominate candidates of Deputies to the NPC. In addition, 10 or more Deputies of the incumbent NPC in each of the electoral units are also entitled to jointly nominate candidates to the NPC." That said, however, he writes that, "In reality all candidates to the NPC are nominated by the Communist Party in consultation with the other parties and the people's organizations at the national and provincial levels."

[19] "南都社论: 优化代表结构 畅通民意表达" (Improve the Composition of Deputies: Clear the Way for Expression of Popular Opinion), *South Metropolitan News* editorial, March 10, 2012.

[20] 李勇 (Li Yong), "建立有效可行的宪法实施监督机制," ("Establish an Effective, Feasible Mechanism to Review Implementation of the Constitution"), 学习时报 (*Study Times*), January 21, 2013, http://www.studytimes.com.cn:9999/epaper/xxsb/html/2013/01/21/05/05_27.htm.

[21] The Vice President of China's Supreme People's Court, Jiang Bixin, is closely associated with this proposal. Jiang argues that the NPC's relatively robust constitutionally mandated powers would be "sufficient for the Party to exercise effective control over administrative and judicial powers, and leadership over state power." Jiang's stated rationale for proposing such an arrangement: that it would ease the tension between the Communist Party's current approach to ruling and the constitution's depiction of the NPC and local people's congresses as China's fundamental system of government. 江必新 (Jiang Bixin), "关于社会主义法制国家建设若干问题的理论思考" ("Theoretical Thinking on Certain Questions Related to Building a Socialist Country Ruled by Law"), 理论视野 (Theoretical Horizon), June 2012, p. 13. See also Jiang Bixin, "全面推进依法治国的若干思考: 以学习党的十八大报告为背景" ("Some Thoughts on Comprehensively Promoting the Rule of Law: Background to Studying the Party's 18th Congress Report"), 人民论坛杂志 (*People's Forum Magazine),* Issue 385, November 23, 2012.

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China's Political Institutions in Detail

The Chinese Communist Party (CCP)

The Communist Party's 82.6 million members constitute approximately 6% of China's population of 1.34 billion. Any Chinese citizen over the age of 18 who is willing to accept and abide by the Party's constitution and policies, which include a requirement that Party members be atheists, can apply for Party membership. In 2011, however, of 21.6 million applicants, fewer than 15% were accepted. The Party is heavily male, with female members making up less than a quarter of the total. Nearly 85% of members work for the Party or the State.[51] Party membership is considered prestigious, although not to the degree that it was in earlier eras.

Every Party member, irrespective of position, is required to be organized into a branch, cell, or other specific unit of the Party to participate in the regular activities of the Party organization. Party units exist in all official and semi-official organizations and institutions, including state-owned enterprises and universities. As of the end of 2011, they also existed in nearly 1 million private businesses and foreign-owned enterprises and in nearly every officially registered civil society organization.[52] These Party bodies can wield great power within an institution, even though in some cases, as in foreign-owned companies, they may have little formal authority. With the Party controlling all avenues for public sector advancement, it is thought that many young people join the Party for career reasons.

Party policy is communicated down the layers of the Party organization by means of directives and Party committee meetings. The Party also ensures ideological conformity through nationwide study campaigns. In September 2008, for example, the Party launched an 18-month-long campaign for Party members to study Communist Party General Secretary Hu Jintao's "scientific concept of development." Party members throughout the system were required to study speeches and documents related to the concept. Party publishing houses published study guides. In another example, in 2009, as part of a broader study campaign on "the theory of socialism with Chinese characteristics," the Party's Propaganda Department ordered Party organizations nationwide to lead study sessions on a set of concepts known as the "Six Why's." Among the six why's were why separation of powers and a Western-style multi-party system were not right for China.[53]

[51] "China Communist Party members exceed 82 mln," *Xinhua News Agency*, June 30, 2012; "中组部: 全国党员8260.2万名 基层党组织402.7万个," ("Central Organization Department: 82.602 million Party members nationwide, 4.027 million grassroots Party organizations," *Xinhua News Agency*, July 1, 2012.

[52] "中组部: 全国党员8260.2万名 基层党组织402.7万个," ("Central Organization Department: 82.602 Million Party Members Nationwide, 4.027 Million Grassroots Party Organizations," *Xinhua News Agency*, July 1, 2012.

[53] Theory Bureau, CCP Central Committee Propaganda Department, *Six "Why's": Answers to Some Important Questions (六个"为什么": 对几个重大问题的回答)* (Study Press 学习出版社, 2009).

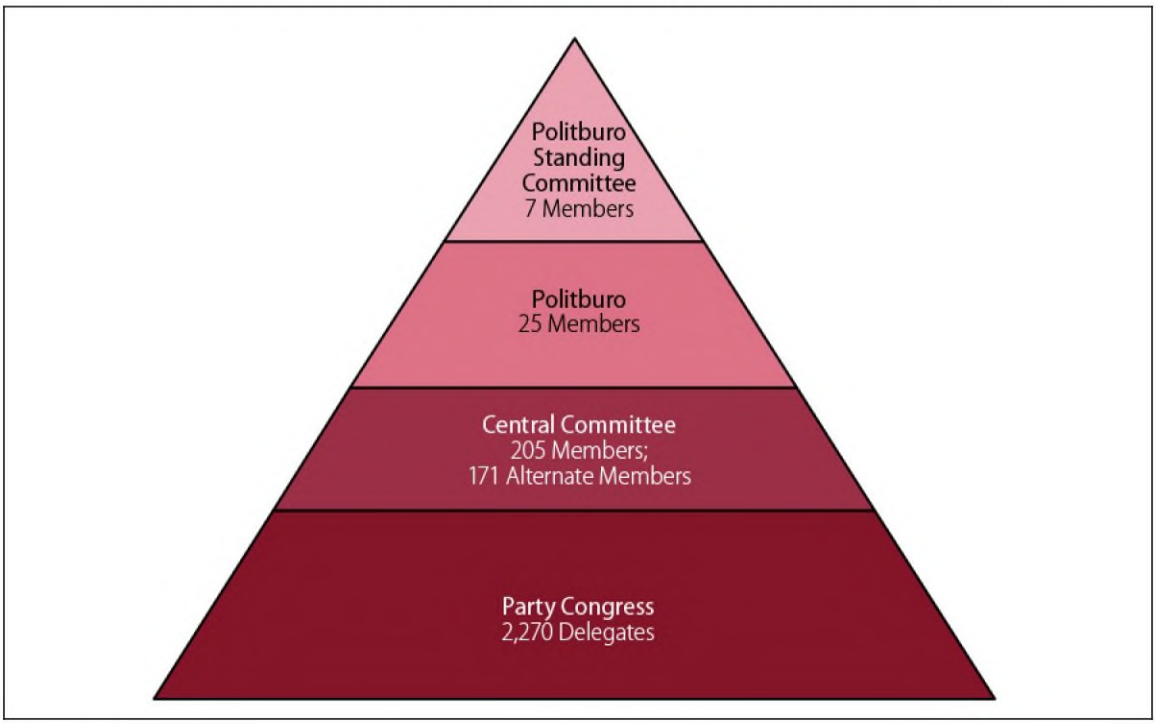
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Figure 3. The National-Level Communist Party Hierarchy

The Politburo Standing Committee is the Most Powerful Decision-Making Body



Source: 中共中央组织结构图 (Organizational Structure Chart of the Communist Party Central Committee), http://cpc.people.com.cn/GB/64162/351757/index.html.

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PART 1

The Land That Failed to Fail

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The West was sure the Chinese approach would not work. It just had to wait. It's still waiting.

By PHILIP P. PAN Photographs by BRYAN DENTON NOV. 18, 2018

https://www.nytimes.com/interactive/2018/11/18/world/asia/china-rules.html?module=inline

In the uncertain years after Mao's death, long before China became an industrial juggernaut, before the Communist Party went on a winning streak that would reshape the world, a group of economics students gathered at a mountain retreat outside Shanghai. There, in the bamboo forests of Moganshan, the young scholars grappled with a pressing question: How could China catch up with the West?

It was the autumn of 1984, and on the other side of the world, Ronald Reagan was promising "morning again in America." China, meanwhile, was just recovering from decades of political and economic turmoil. There had been progress in the countryside, but more than three-quarters of the population still lived in extreme poverty. The state decided where everyone worked, what every factory made and how much everything cost.

The students and researchers attending the Academic Symposium of Middle-Aged and Young Economists wanted to unleash market forces

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but worried about crashing the economy — and alarming the party bureaucrats and ideologues who controlled it.

Late one night, they reached a consensus: Factories should meet state quotas but sell anything extra they made at any price they chose. It was a clever, quietly radical proposal to undercut the planned economy — and it intrigued a young party official in the room who had no background in economics. "As they were discussing the problem, I didn't say anything at all," recalled Xu Jing'an, now 76 and retired. "I was thinking, how do we make this work?"

The Chinese economy has grown so fast for so long now that it is easy to forget how unlikely its metamorphosis into a global powerhouse was, how much of its ascent was improvised and born of desperation. The proposal that Mr. Xu took from the mountain retreat, soon adopted as government policy, was a pivotal early step in this astounding transformation.

China now leads the world in the number of homeowners, internet users, college graduates and, by some counts, billionaires. Extreme poverty has fallen to less than 1 percent. An isolated, impoverished backwater has evolved into the most significant rival to the United States since the fall of the Soviet Union.

An epochal contest is underway. With President Xi Jinping pushing a more assertive agenda overseas and tightening controls at home, the Trump administration has launched a trade war and is gearing up for what could be a new Cold War. Meanwhile, in Beijing the question these days is less how to catch up with the West than how to pull ahead — and how to do so in a new era of American hostility.

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The pattern is familiar to historians, a rising power challenging an established one, with a familiar complication: For decades, the United States encouraged and aided China's rise, working with its leaders and its people to build the most important economic partnership in the world, one that has lifted both nations.

During this time, eight American presidents assumed, or hoped, that China would eventually bend to what were considered the established rules of modernization: Prosperity would fuel popular demands for political freedom and bring China into the fold of democratic nations. Or the Chinese economy would falter under the weight of authoritarian rule and bureaucratic rot.

But neither happened. Instead, China's Communist leaders have defied expectations again and again. They embraced capitalism even as they continued to call themselves Marxists. They used repression to maintain power but without stifling entrepreneurship or innovation. Surrounded by foes and rivals, they avoided war, with one brief exception, even as they fanned nationalist sentiment at home. And they presided over 40 years of uninterrupted growth, often with unorthodox policies the textbooks said would fail.

In late September, the People's Republic of China marked a milestone, surpassing the Soviet Union in longevity. Days later, it celebrated a record 69 years of Communist rule. And China may be just hitting its stride — a new superpower with an economy on track to become not just the world's largest but, quite soon, the largest by a wide margin.

The world thought it could change China, and in many ways it has. But China's success has been so spectacular that it has just as often

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changed the world — and the American understanding of how the world works.

There is no simple explanation for how China's leaders pulled this off. There was foresight and luck, skill and violent resolve, but perhaps most important was the fear — a sense of crisis among Mao's successors that they never shook, and that intensified after the Tiananmen Square massacre and the collapse of the Soviet Union.

Even as they put the disasters of Mao's rule behind them, China's Communists studied and obsessed over the fate of their old ideological allies in Moscow, determined to learn from their mistakes. They drew two lessons: The party needed to embrace "reform" to survive — but "reform" must never include democratization.

China has veered between these competing impulses ever since, between opening up and clamping down, between experimenting with change and resisting it, always pulling back before going too far in either direction for fear of running aground.

Many people said that the party would fail, that this tension between openness and repression would be too much for a nation as big as China to sustain. But it may be precisely why China soared.

Whether it can continue to do so with the United States trying to stop it is another question entirely.

Apparatchiks Into Capitalists

None of the participants at the Moganshan conference could have predicted how China would take off, much less the roles they would

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play in the boom ahead. They had come of age in an era of tumult, almost entirely isolated from the rest of the world, with little to prepare them for the challenge they faced. To succeed, the party had to both reinvent its ideology and reprogram its best and brightest to carry it out.

Mr. Xu, for example, had graduated with a degree in journalism on the eve of Mao's violent Cultural Revolution, during which millions of people were purged, persecuted and killed. He spent those years at a "cadre school" doing manual labor and teaching Marxism in an army unit. After Mao's death, he was assigned to a state research institute tasked with fixing the economy. His first job was figuring out how to give factories more power to make decisions, a subject he knew almost nothing about. Yet he went on to a distinguished career as an economic policymaker, helping launch China's first stock market in Shenzhen.

Among the other young participants in Moganshan were Zhou Xiaochuan, who would later lead China's central bank for 15 years; Lou Jiwei, who ran China's sovereign wealth fund and recently stepped down as finance minister; and an agricultural policy specialist named Wang Qishan, who rose higher than any of them.

Mr. Wang headed China's first investment bank and helped steer the nation through the Asian financial crisis. As Beijing's mayor, he hosted the 2008 Olympics. Then he oversaw the party's recent high-stakes crackdown on corruption. Now he is China's vice president, second in authority only to Xi Jinping, the party's leader.

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The careers of these men from Moganshan highlight an important aspect of China's success: It turned its apparatchiks into capitalists.

Bureaucrats who were once obstacles to growth became engines of growth. Officials devoted to class warfare and price controls began chasing investment and promoting private enterprise. Every day now, the leader of a Chinese district, city or province makes a pitch like the one Yan Chaojun made at a business forum in September.

"Sanya," Mr. Yan said, referring to the southern resort town he leads, "must be a good butler, nanny, driver and cleaning person for businesses, and welcome investment from foreign companies."

It was a remarkable act of reinvention, one that eluded the Soviets. In both China and the Soviet Union, vast Stalinist bureaucracies had smothered economic growth, with officials who wielded unchecked power resisting change that threatened their privileges.

Mikhail Gorbachev, the last leader of the Soviet Union, tried to break the hold of these bureaucrats on the economy by opening up the political system. Decades later, Chinese officials still take classes on why that was a mistake. The party even produced a documentary series on the subject in 2006, distributing it on classified DVDs for officials at all levels to watch.

Afraid to open up politically but unwilling to stand still, the party found another way. It moved gradually and followed the pattern of the compromise at Moganshan, which left the planned economy intact while allowing a market economy to flourish and outgrow it.

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Party leaders called this go-slow, experimental approach "crossing the river by feeling the stones" — allowing farmers to grow and sell their own crops, for example, while retaining state ownership of the land; lifting investment restrictions in "special economic zones," while leaving them in place in the rest of the country; or introducing privatization by selling only minority stakes in state firms at first.

"There was resistance," Mr. Xu said. "Satisfying the reformers and the opposition was an art."

American economists were skeptical. Market forces needed to be introduced quickly, they argued; otherwise, the bureaucracy would mobilize to block necessary changes. After a visit to China in 1988, the Nobel laureate Milton Friedman called the party's strategy "an open invitation to corruption and inefficiency."

But China had a strange advantage in battling bureaucratic resistance. The nation's long economic boom followed one of the darkest chapters of its history, the Cultural Revolution, which decimated the party apparatus and left it in shambles. In effect, autocratic excess set the stage for Mao's eventual successor, Deng Xiaoping, to lead the party in a radically more open direction.

That included sending generations of young party officials to the United States and elsewhere to study how modern economies worked. Sometimes they enrolled in universities, sometimes they found jobs, and sometimes they went on brief "study tours." When they returned, the party promoted their careers and arranged for others to learn from them.

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At the same time, the party invested in education, expanding access to schools and universities, and all but eliminating illiteracy. Many critics focus on the weaknesses of the Chinese system — the emphasis on tests and memorization, the political constraints, the discrimination against rural students. But mainland China now produces more graduates in science and engineering every year than the United States, Japan, South Korea and Taiwan combined.

In cities like Shanghai, Chinese schoolchildren outperform peers around the world. For many parents, though, even that is not enough. Because of new wealth, a traditional emphasis on education as a path to social mobility and the state's hypercompetitive college entrance exam, most students also enroll in after-school tutoring programs — a market worth $125 billion, according to one study, or as much as half the government's annual military budget.

Another explanation for the party's transformation lies in bureaucratic mechanics. Analysts sometimes say that China embraced economic reform while resisting political reform. But in reality, the party made changes after Mao's death that fell short of free elections or independent courts yet were nevertheless significant.

The party introduced term limits and mandatory retirement ages, for example, making it easier to flush out incompetent officials. And it revamped the internal report cards it used to evaluate local leaders for promotions and bonuses, focusing them almost exclusively on concrete economic targets.

These seemingly minor adjustments had an outsize impact, injecting a dose of accountability — and competition — into the political system,

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said Yuen Yuen Ang, a political scientist at the University of Michigan. "China created a unique hybrid," she said, "an autocracy with democratic characteristics."

As the economy flourished, officials with a single-minded focus on growth often ignored widespread pollution, violations of labor standards, and tainted food and medical supplies. They were rewarded with soaring tax revenues and opportunities to enrich their friends, their relatives and themselves. A wave of officials abandoned the state and went into business. Over time, the party elite amassed great wealth, which cemented its support for the privatization of much of the economy it once controlled.

The private sector now produces more than 60 percent of the nation's economic output, employs over 80 percent of workers in cities and towns, and generates 90 percent of new jobs, a senior official said in a speech last year. As often as not, the bureaucrats stay out of the way.

"I basically don't see them even once a year," said James Ni, chairman and founder of Mlily, a mattress manufacturer in eastern China. "I'm creating jobs, generating tax revenue. Why should they bother me?"

In recent years, President Xi has sought to assert the party's authority inside private firms. He has also bolstered state-owned enterprises with subsidies while preserving barriers to foreign competition. And he has endorsed demands that American companies surrender technology in exchange for market access.

In doing so, he is betting that the Chinese state has changed so much that it should play a leading role in the economy — that it can build and run "national champions" capable of outcompeting the United

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States for control of the high-tech industries of the future. But he has also provoked a backlash in Washington.

‘Opening Up’

In December, the Communist Party will celebrate the 40th anniversary of the “reform and opening up” policies that transformed China. The triumphant propaganda has already begun, with Mr. Xi putting himself front and center, as if taking a victory lap for the nation.

He is the party’s most powerful leader since Deng and the son of a senior official who served Deng, but even as he wraps himself in Deng’s legacy, Mr. Xi has set himself apart in an important way: Deng encouraged the party to seek help and expertise overseas, but Mr. Xi preaches self-reliance and warns of the threats posed by “hostile foreign forces.”

In other words, he appears to have less use for the “opening up” part of Deng’s slogan.

Of the many risks that the party took in its pursuit of growth, perhaps the biggest was letting in foreign investment, trade and ideas. It was an exceptional gamble by a country once as isolated as North Korea is today, and it paid off in an exceptional way: China tapped into a wave of globalization sweeping the world and emerged as the world’s factory. China’s embrace of the internet, within limits, helped make it a leader in technology. And foreign advice helped China reshape its banks, build a legal system and create modern corporations.

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The party prefers a different narrative these days, presenting the economic boom as "grown out of the soil of China" and primarily the result of its leadership. But this obscures one of the great ironies of China's rise — that Beijing's former enemies helped make it possible.

The United States and Japan, both routinely vilified by party propagandists, became major trading partners and were important sources of aid, investment and expertise. The real game changers, though, were people like Tony Lin, a factory manager who made his first trip to the mainland in 1988.

Mr. Lin was born and raised in Taiwan, the self-governing island where those who lost the Chinese civil war fled after the Communist Revolution. As a schoolboy, he was taught that mainland China was the enemy.

But in the late 1980s, the sneaker factory he managed in central Taiwan was having trouble finding workers, and its biggest customer, Nike, suggested moving some production to China. Mr. Lin set aside his fears and made the trip. What he found surprised him: a large and willing work force, and officials so eager for capital and know-how that they offered the use of a state factory free and a five-year break on taxes.

Mr. Lin spent the next decade shuttling to and from southern China, spending months at a time there and returning home only for short breaks to see his wife and children. He built and ran five sneaker factories, including Nike's largest Chinese supplier.

"China's policies were tremendous," he recalled. "They were like a sponge absorbing water, money, technology, everything."

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Mr. Lin was part of a torrent of investment from ethnic Chinese enclaves in Hong Kong, Taiwan, Singapore and beyond that washed over China — and gave it a leg up on other developing countries. Without this diaspora, some economists argue, the mainland's transformation might have stalled at the level of a country like Indonesia or Mexico.

The timing worked out for China, which opened up just as Taiwan was outgrowing its place in the global manufacturing chain. China benefited from Taiwan's money, but also its managerial experience, technology and relationships with customers around the world. In effect, Taiwan jump-started capitalism in China and plugged it into the global economy.

Before long, the government in Taiwan began to worry about relying so much on its onetime enemy and tried to shift investment elsewhere. But the mainland was too cheap, too close and, with a common language and heritage, too familiar. Mr. Lin tried opening factories in Thailand, Vietnam and Indonesia but always came back to China.

Now Taiwan finds itself increasingly dependent on a much more powerful China, which is pushing ever harder for unification, and the island's future is uncertain.

There are echoes of Taiwan's predicament around the world, where many are having second thoughts about how they rushed to embrace Beijing with trade and investment.

The remorse may be strongest in the United States, which brought China into the World Trade Organization, became China's largest

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customer and now accuses it of large-scale theft of technology — what one official called "the greatest transfer of wealth in history."

Many in Washington predicted that trade would bring political change. It did, but not in China. "Opening up" ended up strengthening the party's hold on power rather than weakening it. The shock of China's rise as an export colossus, however, was felt in factory towns around the world.

In the United States, economists say at least two million jobs disappeared as a result, many in districts that ended up voting for President Trump.

Selective Repression

Over lunch at a luxurious private club on the 50th floor of an apartment tower in central Beijing, one of China's most successful real estate tycoons explained why he had left his job at a government research center after the crackdown on the student-led democracy movement in Tiananmen Square.

"It was very easy," said Feng Lun, the chairman of Vantone Holdings, which manages a multibillion-dollar portfolio of properties around the world. "One day, I woke up and everyone had run away. So I ran, too."

Until the soldiers opened fire, he said, he had planned to spend his entire career in the civil service. Instead, as the party was pushing out those who had sympathized with the students, he joined the exodus of officials who started over as entrepreneurs in the 1990s.

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"At the time, if you held a meeting and told us to go into business, we wouldn't have gone," he recalled. "So this incident, it unintentionally planted seeds in the market economy."

Such has been the seesaw pattern of the party's success.

The pro-democracy movement in 1989 was the closest the party ever came to political liberalization after Mao's death, and the crackdown that followed was the furthest it went in the other direction, toward repression and control. After the massacre, the economy stalled and retrenchment seemed certain. Yet three years later, Deng used a tour of southern China to wrestle the party back to "reform and opening up" once more.

Many who had left the government, like Mr. Feng, suddenly found themselves leading the nation's transformation from the outside, as its first generation of private entrepreneurs.

Now Mr. Xi is steering the party toward repression again, tightening its grip on society, concentrating power in his own hands and setting himself up to rule for life by abolishing the presidential term limit. Will the party loosen up again, as it did a few years after Tiananmen, or is this a more permanent shift? If it is, what will it mean for the Chinese economic miracle?

The fear is that Mr. Xi is attempting to rewrite the recipe behind China's rise, replacing selective repression with something more severe.

The party has always been vigilant about crushing potential threats — a fledgling opposition party, a popular spiritual movement, even a

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dissident writer awarded the Nobel Peace Prize. But with some big exceptions, it has also generally retreated from people's personal lives and given them enough freedom to keep the economy growing.

The internet is an example of how it has benefited by striking a balance. The party let the nation go online with barely an inkling of what that might mean, then reaped the economic benefits while controlling the spread of information that could hurt it.

In 2011, it confronted a crisis. After a high-speed train crash in eastern China, more than 30 million messages criticizing the party's handling of the fatal accident flooded social media — faster than censors could screen them.

Panicked officials considered shutting down the most popular service, Weibo, the Chinese equivalent of Twitter, but the authorities were afraid of how the public would respond. In the end, they let Weibo stay open but invested much more in tightening controls and ordered companies to do the same.

The compromise worked. Now, many companies assign hundreds of employees to censorship duties — and China has become a giant on the global internet landscape.

"The cost of censorship is quite limited compared to the great value created by the internet," said Chen Tong, an industry pioneer. "We still get the information we need for economic progress."

A 'New Era'

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China is not the only country that has squared the demands of authoritarian rule with the needs of free markets. But it has done so for longer, at greater scale and with more convincing results than any other.

The question now is whether it can sustain this model with the United States as an adversary rather than a partner.

The trade war has only just begun. And it is not just a trade war. American warships and planes are challenging Chinese claims to disputed waters with increasing frequency even as China keeps ratcheting up military spending. And Washington is maneuvering to counter Beijing's growing influence around the world, warning that a Chinese spending spree on global infrastructure comes with strings attached.

The two nations may yet reach some accommodation. But both left and right in America have portrayed China as the champion of an alternative global order, one that embraces autocratic values and undermines fair competition. It is a rare consensus for the United States, which is deeply divided about so much else, including how it has wielded power abroad in recent decades — and how it should do so now.

Mr. Xi, on the other hand, has shown no sign of abandoning what he calls "the great rejuvenation of the Chinese nation." Some in his corner have been itching to take on the United States since the 2008 financial crisis and see the Trump administration's policies as proof of what they have always suspected — that America is determined to keep China down.

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At the same time, there is also widespread anxiety over the new acrimony, because the United States has long inspired admiration and envy in China, and because of a gnawing sense that the party's formula for success may be faltering.

Prosperity has brought rising expectations in China; the public wants more than just economic growth. It wants cleaner air, safer food and medicine, better health care and schools, less corruption and greater equality. The party is struggling to deliver, and tweaks to the report cards it uses to measure the performance of officials hardly seem enough.

"The basic problem is, who is growth for?" said Mr. Xu, the retired official who wrote the Moganshan report. "We haven't solved this problem."

Growth has begun to slow, which may be better for the economy in the long term but could shake public confidence. The party is investing ever more in censorship to control discussion of the challenges the nation faces: widening inequality, dangerous debt levels, an aging population.

Mr. Xi himself has acknowledged that the party must adapt, declaring that the nation is entering a "new era" requiring new methods. But his prescription has largely been a throwback to repression, including vast internment camps targeting Muslim ethnic minorities. "Opening up" has been replaced by an outward push, with huge loans that critics describe as predatory and other efforts to gain influence — or interfere — in the politics of other countries. At home, experimentation is out while political orthodoxy and discipline are in.

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In effect, Mr. Xi seems to believe that China has been so successful that the party can return to a more conventional authoritarian posture — and that to survive and surpass the United States it must.

Certainly, the momentum is still with the party. Over the past four decades, economic growth in China has been 10 times faster than in the United States, and it is still more than twice as fast. The party appears to enjoy broad public support, and many around the world are convinced that Mr. Trump's America is in retreat while China's moment is just beginning.

Then again, China has a way of defying expectations.

Philip P. Pan is The Times's Asia Editor and author of "Out of Mao's Shadow: The Struggle for the Soul of a New China." He has lived in and reported on China for nearly two decades.

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Design: Matt Ruby, Rumsey Taylor, Quoctrung Bui Editing: Tess Felder, Eric Nagourney, David Schmidt Photo Editing: David Furst, Craig Allen, Meghan Petersen, Mikko Takkunen Illustrations: Sergio Peçanha

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PART 2

How China's Rulers Control Society: Opportunity, Nationalism, Fear

阅读简体中文版 閱讀繁體中文版

As China grew richer, the West assumed, political freedoms would follow. Now it is an economic superpower — and the opposite has happened.

By AMY QIN and JAVIER C. HERNÁNDEZ NOV. 25, 2018

In the dusty hillsides of one of China's poorest regions, Gong Wanping rises each day at 5:10 a.m. to fetch well water and cook her son's breakfast. She washes his feet while he keeps his nose in English and chemistry books. She hits him if he peeks at her cellphone.

To Ms. Gong, 51, who dropped out of school, the future of her son, Li Qiucai, 17, is paramount. If Qiucai does well on the college entrance exam, if he gets a spot at a top university, if he can achieve his dream of becoming a tech executive — then everything will change.

"He is our way out of poverty," she said.

To achieve all this, Ms. Gong and millions of other Chinese like her have an unspoken bargain with the ruling Communist Party. The

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government promises a good life to anyone who works hard, even the children of peasants. In exchange, they stay out of politics, look away when protesters climb onto rooftops to denounce the forced demolition of their homes, and accept the propaganda posters plastered across the city.

Ms. Gong is proud of China's economic success and wants a piece of it. Politics, she said, doesn't matter in her life. "I don't care about the leaders," she said, "and the leaders don't care about me."

For years, many Western analysts believed the Chinese people, having endured decades of hardship under Mao, would tolerate one-party rule in exchange for rising incomes and more social freedom until the day — or so the argument went — that a newly prosperous nation would demand political freedoms, too.

Instead, the opposite has happened. Income levels have jumped, yet China's authoritarian leaders have consolidated power. President Xi Jinping could be a ruler for life. China's people still place demands on the party, but the old assumption that prosperity inevitably stirs democratization is being challenged.

It turns out that the unspoken bargain that binds Ms. Gong and others to the state is more complicated. It resonates, in part, because China is still intent on addressing the questions that it asked itself one century ago, before the Communist Revolution in 1949: What made it so weak and held it back as the West advanced? And what did it need to do to get ahead?

Back then, the blame was placed on a conservative traditional culture that emphasized hierarchy, discouraged individual initiative and

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rewarded knowledge of Confucian classics over more practical topics like mathematics and science. The Communists sought to smash that culture through Marxist-inspired policies, but that ended in disaster.

Yet China's leaders, and its people, have continued to look for answers, as the party crafts new ones that build on and reshape traditional culture without rejecting it entirely.

The government has offered education as a path to social mobility, unleashed private enterprise by removing Confucian and Marxist stigmas against the merchant class and cultivated a potent brand of nationalism, blending pride and humiliation into a narrative of restoring Chinese greatness.

But for many Chinese, those incentives are only part of the calculation. So, too, are the costs of rejecting the party's bargain.

Over the years, the party has expanded its repressive capabilities.

For some, like the ethnic minority Uighurs in Xinjiang, the country's turn toward hard-nosed authoritarianism has meant the devastation of entire families, cultural and religious practices and ways of life. For others, just the fear of repression is enough to keep them in line.

It is impossible to know how many Chinese disapprove of the system. In private, many middle-class Chinese have voiced frustrations with, for example, Beijing's handling of the growing trade war with the Trump administration. But few dare to speak out.

Memories of famine and political upheaval have shaped Ms. Gong's generation and are passed down in the form of whispered warnings:

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China has too many people. China is not ready for democracy. Stay out of politics. Don't ask questions.

But so far, frustrations and fears have been overshadowed by the surge in pride — and the sense of opportunity — that has come from seeing the motherland's rise.

Once, the allure of the West was considered irresistible; now many Chinese educated in Europe or the United States have returned, eager for their children to know a China that is proud and powerful. James Ni had a chance to study in America but instead remained in China and became a multimillionaire. Hua Yijia, a venture capitalist in Beijing, studied and worked in America but wants her 8-year-old daughter to take pride in being Chinese.

"I want her to understand the beauty of the language and the hard work and sacrifices of the people, especially in the countryside," Ms. Hua said. "China used to be a very backward country, but her generation will have so many more opportunities."

Many analysts and Western diplomats are now confronting the likelihood that so much of what they assumed about how China would change — and become more like the West — is turning out to be wrong.

"The Chinese mentality is very practical," said Xu Zhiyuan, a Beijing-based historian and writer. "From a young age, you are told not to be idealistic, you are told not to be different. You are encouraged to survive, to compete, to excel within the system."

"The whole society is a competitive playground."

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The Chinese Dream

It was Aug. 9, exactly 302 days until the college entrance exam, and Li Qiucai was frantic.

In the halls of Huining No. 1 High School, in the northwestern province of Gansu, teachers were already turning up the pressure. The school is a powerhouse in producing rural students with top test scores, and teachers urged Qiucai to preserve the school's reputation and "shine like the sun." Signs posted in the hallways warned that students must tolerate a little pain now to avoid a "life of suffering."

Since Qiucai began attending the school two years ago, his life has been a blur of late-night cram sessions, practice tests and mastering the art of finishing geometry problems while slurping noodles. He starts each day by running around a racetrack chanting, "The heavens reward industrious people!"

He attends classes until almost 10 p.m., with only a short break on Sundays, and lives nearby in a $32-a-month apartment with his mother, who cooks and cleans so that he can study full time.

All of it is pointed toward next June, when Qiucai will be one of nine million students taking a test that is at the core of China's high-stakes meritocracy — those who perform best get a ticket to the Chinese dream.

"Only if I do well on the test," Qiucai said one recent night as he worked on physics problems, "can I have a better life."

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Perhaps nothing is more linked to social mobility in China than education, especially the college entrance exam, known as the gaokao. At Huining No. 1, graduates who have won admission to China's top universities return each summer as living proof of the dream, sharing their experiences and imploring students like Qiucai to work even harder.

Yet if the gaokao is a symbol of opportunity, it is also a tool of social control. Scholars say it is a clever governing tactic borrowed from the keju, the Confucian examination system that determined the selection of government officials in China for more than 1,300 years. Even in dynastic China, the keju lent the government an aura of meritocracy, as it was open to all men. But only 1 percent of applicants passed the exam for the highest degree, since few had the time and money to prepare.

In a modern China rife with corruption, the gaokao is seen as relatively fair and incorruptible, meaning that those who fail are unlikely to blame the government.

"It allows the government to say: 'If you are not successful, you can only blame yourself. You did not work hard enough,'" said Yong Zhao, an education professor at the University of Kansas. "That is a very powerful way of governing."

The gaokao was established in 1952, under Mao, and initially only students with class backgrounds deemed suitably red were allowed to apply. The test was suspended during the Cultural Revolution — the turbulent period in which teachers were beaten and schools shuttered — and then restored in 1977, after Mao's death. More than 10 million

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students rushed to take the exam, which was now more meritocratic, and open to almost anyone.

In the decades since, the spread of basic literacy and numeracy, and the cultivation of top technical talent, have resulted in immeasurable economic gains. But the gaokao has contributed to concerns that China's education system overemphasizes rote memorization and instills values of obedience and conformity, not critical thinking.

For the Communist Party, the surge in high school graduates has also increased pressure to provide employment — and brought rising complaints that the system still places rural students at a disadvantage. Admission quotas at universities still greatly favor urban elites, and secondary education in the rural areas is lagging. And even as schools like Huining No. 1 keep students focused on the gaokao, a rising number of graduates struggle to find work and repay college loans.

So some are opting for another way to get ahead: They apply to join the Communist Party.

Love, Not Marriage

James Ni is fine with not being a member of the Communist Party. He is a fabulously wealthy private entrepreneur whose company, Mlily, is the official pillow and mattress partner of the English soccer club Manchester United. His goal is for Mlily to become a global brand.

Growing up in a small town in Jiangsu Province, Mr. Ni came of age during China's once-unimaginable economic transformation. Private enterprise wasn't even legal when he was born in 1975. And once the

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state did open the door for private entrepreneurs, they faced persistent obstacles — as they still do even today.

"Of course, there are a lot of things that are unfair," Mr. Ni said. "The state-owned companies have an advantage. Those who have the right connections have an advantage. But in this environment of development and expansion, anyone can find their own way."

Today, Mr. Ni estimates his personal wealth at $400 million. Many Chinese executives cozy up to local governments to gain advantages, but Mr. Ni says he keeps a distance from officials, hewing to a philosophy that "it's better for business to stay business."

In the long view of Chinese history, it is remarkable how the country now embraces entrepreneurs, given the traditional Confucian condescension toward profit-seeking merchants. To catch up to the West, the party embraced market mechanisms and capitalist ideas not as end in itself but as a means through which to achieve national wealth and power.

Party leaders have always worried that private business could evolve into an independent economic force, and some in the West predicted that capitalism could be a Trojan horse for democratization. Yet though Mr. Ni resists joining the party, he is fiercely patriotic, loves China and believes that, ultimately, party leaders want what is best for the country.

"This country is my land," he said. "And as long as I live on this land, I will be comfortable and have self-respect. That is what's important to me."

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Party leaders legalized certain private enterprises in 1979 and made a historic shift in 2001 by accepting capitalists as members of the party itself.

"Allowing private entrepreneurs into the party really reinforced a certain mutual dependence between the party-state and the private economy," said Kellee Tsai, the dean of humanities and social sciences at Hong Kong University of Science and Technology.

Even so, the rules of competition have been tilted in favor of state-owned enterprises. Mr. Ni's first business venture, selling software, failed. He got into the bedding business after noticing the high prices of memory foam pillows in a shop display. But while state-backed companies could easily get bank loans, Mr. Ni, a private entrepreneur with no credit history, was shut out.

Instead, Mr. Ni raised 500,000 renminbi — about $60,000 at the time — in seed money in 2003 from friends and family, with over half coming from a single cousin. These trust networks are at the heart of China's huge "gray" economy, operating outside the formal banking structure and providing an investment engine for a private sector.

As Mr. Ni's company grew in Nantong, a city in Jiangsu Province, local cadres began to take notice. But Mr. Ni said they did not interfere because he complies with regulations, employs about 3,000 people and is a major tax contributor. That, in turn, helps the officials advance their careers by meeting production targets.

And even when the party does hand down orders, there is sometimes room to push back. Four years ago, Mr. Ni's vice chairman told him

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that the government wanted the company to create a party cell inside Mlily.

"I said no," he recalled. "It is just some middle-level officials trying to please higher-ups. It wasn't an order that came down from Xi Jinping."

But there are signs that under Mr. Xi, the space for maneuver may be shrinking. In recent months, leftist scholars, bloggers and government officials have publicly endorsed what appears to be a state-led shift away from free-market policies. Mr. Xi has recently sought to reassure private business leaders, praising their contribution to China's economic miracle, but his broader approach has favored the state-owned sector.

"Today you have the largest bureaucracy in history, with a capacity to intrude in anything," said William C. Kirby, a professor of China studies at Harvard. "It isn't just ideology. There are now enormous numbers of interest groups that don't like competition."

For guidance, Mr. Ni often looks to Jack Ma, the executive chairman of Alibaba, who is China's richest man and a cultlike figure among many businessmen. Mr. Ni is currently enrolled in a business school program that Mr. Ma established to cultivate China's next generation of entrepreneurs.

Over the years, Mr. Ma has spoken publicly about the push-pull relationship between private companies and the government, though there is one piece of his advice for entrepreneurs that Mr. Ni seems to have especially taken to heart: "Fall in love. But don't marry."

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The Pull of Home

Over time, Hua Yijia felt the pull of China. The feeling surprised her.

Living in Boston, Ms. Hua had received an elite education in the United States, landed a consulting job and even contemplated applying for American citizenship. She loved jazz and American pop culture.

But more than a decade after she left China, she decided to return in 2007.

Part of it was opportunity: a job prospect at a consulting firm in Beijing. Part of it was a tinge of disillusionment: She had seen Chinese friends hit a "bamboo ceiling" in corporate America, even as the careers of friends in China seemed to be taking off. And part of it was something deeper: a desire to help the country catch up with the West and to reconnect with her Chinese roots.

Now a partner at a venture capital firm, Ms. Hua, 44, has a daughter whose elementary school offers a steady dose of Tang dynasty poems, calligraphy lessons and excursions to ancient sites. "She needs to know where she came from," Ms. Hua said.

Exposed to liberal democracy, Ms. Hua's generation was supposed to be the one that demanded it at home. Middle-class Chinese students poured into universities in the United States and Europe — then seen as the most promising path to wealth and prestige — and some Western analysts predicted that they would return to China as a force for political change.

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Like many other middle-class parents, Ms. Hua worries about repression and rampant materialism in Chinese society. Yet many of these parents say they want their children to see themselves as Chinese above all else — to understand China's roots as an agrarian society and to have a sense of pride in the perseverance of the Chinese people through decades of poverty and strife.

Patriotism has run through centuries of Chinese history, uniting the country in difficult times and, more recently, blending a pride in the cultural legacy of China's civilization with deep resentment over the humiliations at the hands of foreign powers during the colonial era. It is a volatile mix that the party skillfully manipulates to stir the feeling that China needs to stand up in the world.

Even as some analysts argue that China's success has more to do with the resilience of its people than the Communist Party and its policies, leaders have been adept at shaping a politicized nationalism that reinforces the primacy of the party — and defends the authoritarian model as the best bulwark against chaos.

"Chinese nationalism binds the people with the state, not to each other," said Minxin Pei, a professor of government at Claremont McKenna College.

Mr. Xi has selectively revived traditional Chinese culture — an effort, experts say, to give people something to be proud of. That approach, however, is rich with historical irony. Both the modernizers who overthrew the Qing dynasty and then Mao and his communists once blamed Chinese tradition for holding the country back.

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But with communist ideology long ago having lost its appeal to the public, Mr. Xi is drawing on Chinese tradition to reinforce the idea that the country needs a strong leader to prevent chaos and to guard against outsiders. That leaves some worrying that he could be leading the country into a new period of isolation.

“Opening up and learning from the West is not a humiliating thing,” said Zhu Dake, a scholar and cultural critic in Shanghai. “Chinese culture is not a self-enclosed culture, and our greatness is not wholly self-created. Unfortunately this is a minority point of view.”

Ms. Hua’s apartment complex overlooking Chaoyang Park in central Beijing is covered with propaganda posters, including displays celebrating “socialist” values like “patriotism” and “honesty.” She said she worried that it had become nearly impossible to criticize the country without being labeled unpatriotic, and she is uneasy with tightening censorship and information control.

“I’m a Chinese citizen,” she said. “It doesn’t mean I think everything in China is great.”

But if she has grievances, she still believes society is moving in the right direction — and has made peace with waiting. “Two steps forward, one step backward,” she said.

Ms. Hua has started to take her daughter on trips to poor parts of China, to show her the vast inequalities that still persist, even in an age of mobile payments and self-driving cars. She hopes her daughter will live in a more tolerant China, one still open to the outside world.

But that is not the same as wanting China to be just like the West.

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"I hope my daughter will have the chance to be exposed to different worlds and different cultures," she said. "But she was born in China. She grew up here. She will always need some understanding of who she is and what it means to be Chinese, from the very beginning."

Amy Qin is a China correspondent for The Times based in Hong Kong. She has been writing about the intersection of culture, society and politics in China since 2012.

Javier C. Hernández is a China correspondent for The Times based in Beijing. Since moving to China in 2014, he has written about the Communist Party's grip on the news media and schools, and social causes.

Javier C. Hernández reported from Huining County, China, and Beijing. Amy Qin reported from Hong Kong. Karoline Kan contributed research from Huining County and Beijing.

Design: Matt Ruby, Rumsey Taylor, Quoctrung Bui Editing: Tess Felder, Eric Nagourney, David Schmidt Photo Editing: David Furst, Craig Allen, Meghan Petersen, Mikko Takkunen Illustrations: Sergio Peçanha

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PART 3

Money and Muscle Pave China's Way to Global Power

阅读简体中文版 閱讀繁體中文版

Beijing is leveraging its commercial and military might to redraw the terms of trade, diplomacy and security, challenging the liberal democratic order.

By PETER S. GOODMAN and JANE PERLEZ Photographs by BRYAN DENTON NOV. 25, 2018

Under a merciless sun, a dozen Chinese construction workers survey an empty expanse of desert, preparing to transform it into the heart of a new Egyptian capital.

The workers are employed by China's largest construction conglomerate through a $3 billion contract from an Egyptian company, with financing from Chinese banks. They are erecting a thicket of 21 skyscrapers, one as tall as the Empire State Building.

The presence of Chinese labor and largess on the sands of Egypt is a testament to China's global aspirations. After centuries of weakness and isolation, China is reclaiming what its leaders regard as its natural destiny — supremacy in Asia, and respect around the planet. Through the ventures in Egypt and elsewhere, China is exploiting its formidable economic clout to expand its geopolitical influence, directing investment to woo governments that control vital assets.

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A traditional ally of the United States, Egypt controls the Suez Canal, a vital shipping passage where a threat to access could impede China's movement around the globe. In constructing a central piece of the futuristic capital, China is ingratiating itself with the canal's ultimate gatekeeper, President Abdel Fattah el-Sisi, while rendering his grandest visions dependent on friendly relations with Beijing.

China's reach for commercial expansion along with diplomatic influence guides an array of Chinese undertakings, from rail networks and highways taking shape across Africa and Latin America to ports and power stations being constructed in Eastern Europe and South Asia. In Southeast Asia, Chinese entrepreneurs are engineering a crop of web companies just as China projects growing military power in the South China Sea.

Little more than a decade ago, China's forays beyond its borders were mainly about bringing home energy, minerals and other resources, often from countries forsaken by the West as pariah states like Iran, Sudan and Myanmar. In foreign policy, China pursued a sole obsession — peeling off diplomatic recognition of Taiwan, the self-governing island that Beijing claims as its territory. Even as China skirmished with neighbors over contested islands, it accepted the dominance of the United States Navy.

Those days are over.

Under the muscular leadership of President Xi Jinping, China has cast off previous restraints, rejecting deference to an American-dominated global order as an impediment to national revival. In matters of

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commerce and national security, China is competing with the United States, even in traditional American spheres of influence.

From a Chinese perspective, this reordering is merely an overdue reversion to historical reality as Beijing demands consideration commensurate with its stature.

In the telling of the ruling Communist Party, China's modern history is the story of Chinese mastery degraded by colonial depravity. China is the land that invented the compass, gunpowder, paper and printing, amassing stupendous wealth while Europe was still backward. Then came centuries of humiliation — Britain's profiting from forcing opium on the populace, Japanese brutality, demeaning lectures about human rights from hypocritical Americans. Now, China is intent on securing its own fate.

"China wants to be a great power in the world," says Paul Heer, a former chief national intelligence officer in East Asia for the United States, who now teaches at George Washington University. "They think the rest of the world owes them recognition, and a return to what the Chinese see as their rightful place."

Nowhere are China's designs clearer than in Asia. China has overtaken the United States as the leading trading partner with Asian nations while pushing back against American naval primacy in the South China Sea. China is disrupting American alliances in the region, from Japan to Singapore to Australia.

Beyond its backyard, China's ambitions are boundless. It celebrates its Belt and Road Initiative, a vast collection of infrastructure projects around the world, as the means of recreating the Silk Road, the trails

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navigated in ancient times by merchants carrying goods between Asia and Europe.

"Xi Jinping is leading a China that has influences in all corners of the globe," says Zhang Baohui, a professor of international relations at Lingnan University in Hong Kong. "The 2008 financial crisis in the West was the turning point for China. Beijing started to embrace a triumphal mind-set, and pursued global leadership with new confidence on the back of the West's perceived flaws."

China's assertive role in world affairs is grounded in its domestic needs. It is at once spreading into new markets, generating fresh demand for its factory wares just as growth slows at home. It is projecting military strength and influence when the legitimacy of the Communist Party rests on bolstering economic fortunes and international esteem.

Among its neighbors, China's rise provokes fears that an unwanted piece of history is being resurrected — the old tribute system that cemented China's status as the Middle Kingdom. For centuries, other nations bowed in recognition of China's imperial might, bestowing gifts on the emperor and accepting vassal status to secure trade and peace.

Beijing now confronts accusations that it is directing investments to ensnare partners in debt traps as a means of seizing their assets. Last year, Sri Lanka handed control of a port to a Chinese venture after failing to pay back Chinese loans. Malaysia recently canceled a pair of projects involving Chinese financing. Faced with pushback abroad and concerns about mounting debts at home, China is reassessing the

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breadth and cost of its global ventures,although the scope remains vast.

For the Western powers whose order has prevailed since the end of World War II, China poses a foundational challenge. The United States and its victorious allies erected institutions that were — at least rhetorically — designed to keep the peace by promoting trade and fair competition. The World Bank and the International Monetary Fund have dispensed aid with conditions, though frequently drawing accusations that they have failed to comply with their standards on protecting human rights and the rule of law.

China's investments come with no such strictures. China bankrolls autocrats who control geopolitically valuable real estate. China demands only that its companies gain a piece of the action while recipients eschew criticizing Beijing.

China's challenge to the Western-dominated order is amplified by the reality that its primary architect, the United States, is now led by an avowed nationalist. As President Trump wages a trade war and derides international cooperation, he has generated doubts about the perseverance of the liberal democratic philosophy the United States has long championed.

Mr. Xi has sought to fill the vacuum. He has cast himself as the leader of the rules-based international trading system, even as China faces accusations of stealing intellectual property, subsidizing state-owned companies and dumping products on world markets at unfairly low prices.

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"What's happening in the United States gives China this golden opportunity to portray itself as the defender of the international order," says Jessica Chen Weiss, a China expert at Cornell University.

Threatening Competition and Cohesion

If the new Silk Road is in part about moving goods from Chinese factories to customers in the rest of the world, the trail seems certain to pass through Central and Eastern Europe.

Already, Chinese investment has turned the Greek port of Piraeusinto the busiest shipping hub on the Mediterranean, a gateway to the rest of the European Union, with its 500 million consumers. China has promised to help finance the construction of a high-speed rail link from the Serbian capital, Belgrade, to the Hungarian capital, Budapest. It has also pledged to turn the region into a transportation corridor laced with highways, airports, rail, ports and power stations.

This reality frames the proceedings of the "16-plus-1" group, an economic bloc that China has forged with 16 Central and Eastern European nations. Its latest summit meeting convenes on a drizzly day in July in the Bulgarian capital, Sofia. Officials from the 16 governments — among them the newest, least-affluent members of the European Union — pose for photos with the delegation from China, the one nation wealthy and ambitious enough to finance their visions.

Leaders in the rest of the European Union construe the group as a stealth assault on the rules and cohesion of their bloc. In offering financing for infrastructure projects, China has positioned itself as an alternative to European Union development funds.

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Europe's money comes with rules protecting labor and the environment, while requiring that projects be awarded to companies on the basis of competitive bidding to ensure fair competition. China tends to distribute its funds with far simpler demands: Chinese companies must gain work, free of competition, while Beijing secures an international ally.

European Union officials are especially worried that Chinese money could weaken the pressure Europe is applying on members that have been breaching democratic norms. Europe has threatened to withhold development funds from Poland and Hungary as punishment for their turns toward authoritarianism. Both have packed courts with government-friendly judges and menaced the press.

"It's a mutually beneficial cooperation based on mutual trust without any kind of attempts to interfere into domestic issues," Hungary's foreign minister, Peter Szijjarto, says in an interview before the summit meeting in Sofia.

Bulgaria has high hopes for Chinese investment on highway projects linking its ports. The Bulgarian government has broken with other European Union members in declining to join international statements condemning China's human rights record. As Bulgarian officials prepare at the gathering to meet China's premier, Li Keqiang, they plan to stick to business.

"We are talking about different conversations, concrete conversations related to infrastructure, and other conversations related to the level of democracy and human rights in China," Deputy Prime Minister Tomislav Donchev of Bulgaria says in an interview the day before the

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event. “It would not be polite and constructive if we try to merge them into one.”

The summit meeting convenes in a hulking convention center that harks back to era of Soviet domination. At a news conference, the Chinese and Bulgarian prime ministers offer assurances that the 16-plus-1 bloc does not aim to divide Europe.

Mr. Li seeks to allay European worries that China poses a challenge to its rules. He promises that Chinese-financed projects will be awarded on the basis of competitive bidding.

“There needs to be open and transparent tendering,” the Chinese premier declares.

But the Serbian prime minister, Ana Brnabic, has just undercut that assertion. Asked moments earlier about the high-speed rail from Belgrade to Budapest, she says Chinese companies have been promised construction work.

“China is a strategic partner,” she says. “We are not putting out tenders.”

Investing for the Future

As a currency crisis ravaged Indonesia two decades ago, angry mobs tore through West Jakarta, killing hundreds of ethnically Chinese merchants. Yet Cheng Tao, a Chinese software engineer turned venture capitalist, can look down from his high-rise office on the same neighborhood and see a tranquil center of Chinese life — grocery shops, restaurants and his own son’s school.

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Mr. Cheng, 34, is part of an influx of young Chinese financiers, engineers and web designers who rent space in an area full of technology companies. He first came to Indonesia a decade ago with the Chinese telecom company Huawei. He and other veterans of large Chinese conglomerates are increasingly unleashing their own start-ups.

"Ten years ago, there were no mainland Chinese here," Mr. Cheng says as he sips tea imported from China. "We see opportunities here that no longer exist in China."

The thriving Chinese start-up scene in a neighborhood once devastated by anti-Chinese terrorism illustrates China's deepening engagement in Southeast Asia. Only a few years ago, Chinese companies in the region were mainly focused on purchasing natural resources. Today, China is investing for the future, seeding innovative industries with money and brainpower.

Last year, Chinese investors participated in funding rounds for Indonesian start-ups that accounted for 95 percent of the value of those companies, according to a survey by Google and A. T. Kearney, a global management company.

"China is Indonesia's Silicon Valley," says Adrian Li, a venture capitalist who has a Stanford M.B.A. and moved to Jakarta from Beijing in 2014.

China's place in Southeast Asia has proceeded deliberately, and just as the United States has ceded ground.

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Back in 2003, the prime minister at the time, Wen Jiabao, addressed the yearly gathering of the Association of Southeast Asian Nations. A decade later, President Barack Obama did not attend the annual conclave, held that year on the Indonesian island Bali. It was a noteworthy absence given that Mr. Obama had spent time in Indonesia in his youth.

China's new president, Mr. Xi, showed up. He even addressed the Indonesian Parliament, using the occasion to announce a new institution — what would become the Asian Infrastructure Investment Bank, now a rival to the World Bank.

While heads of state forge ties amid pageantry, Chinese businesses have been quietly yet persistently making inroads in Indonesia, guided by bottom-line concerns. At home, Chinese web companies are running out of new customers. Indonesia, a land of 260 million people, is adding more internet users than anywhere else on Earth.

Jack Ma, the founder of the Chinese e-commerce company Alibaba, was early to appreciate this reality, pouring major investments into local shopping start-ups, including $1.1 billion last year into Tokopedia, a thriving online marketplace. During the Muslim holy month of Ramadan this spring, the Tokopedia site drew 78 million people, a 70 percent increase from the previous month.

Such potential fortifies Mr. Ma's determination to stay ahead of his biggest global competitor — Amazon. The American e-commerce company operates in Singapore but has yet to significantly penetrate Southeast Asia.

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Alibaba has put more than $3 billion into a former regional competitor, Lazada. Its Alipay digital payment system operates across Southeast Asia. Mr. Ma sits on advisory boards in the region that will help set standards and shape consumer perceptions, expanding China's traditional reach.

Military Buildup

Beyond money and clicks, China projects its power through a more traditional display of strength — military might.

Alex Pama has watched it unfold from uncomfortable proximity. In the 1990s, when he was a junior officer in the Philippine Navy, he saw Chinese boats landing on Mischief Reef, a glorified collection of rocks claimed by the Philippines in the South China Sea. Chinese crews erected shelters to mark the territory, then began pouring concrete for larger buildings.

The Philippines sought help from its former colonial overseer, the United States. But the Clinton administration demurred. The American Navy was still smarting over losing access to Subic Bay, its longtime base in the Philippines.

That decision was a historic turning point, says Mr. Pama, who would rise to become admiral of the Philippine Navy. From then on, the United States shrank from the region, relinquishing the seas to China.

"That's when the appeasement started," Mr. Pama says.

Two decades later, President Xi ordered the buildup of Mischief Reef and other outcroppings in the Spratly archipelago into islands

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bristling with reconnaissance gear, aircraft hangars, runways, deepwater harbors and, most recently, short-range missiles. Those bases and China's maritime buildup have given Beijing effective control over one of the most heavily trafficked waterways on the planet.

"The U.S. should have been more assertive back then and now," says Mr. Pama, now retired.

Dominating the South China Sea and unseating the United States have become central objectives in Mr. Xi's bid to return China to glory. Last year, China for the first time staged aircraft carrier drills using advanced fighter jets in the South China Sea.

Chinese state-owned companies control two Chinese-built ports on the Indian Ocean, in Sri Lanka and Pakistan. Two more are on the drawing board for Myanmar and Bangladesh, helping China achieve its maritime strategy of a "string of pearls" stretching from the mainland to Port Sudan in Africa. Last year, China opened its first overseas military base, in Djibouti on the Horn of Africa.

China has presented these moves as defensive. But the United States and its Asian allies warn that Beijing has positioned itself to hold global trade hostage while diminishing the American presence. China's emergence as the region's dominant commercial power combined with its moves toward maritime supremacy has heightened the sense that a changing of the guard is underway.

"Over the long term, China's power and influence will undoubtedly weaken and ultimately abolish U.S. dominance in the region," says Shi

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Yinhong, a professor of international relations at Renmin University in Beijing, who advises the government.

The perspective gained momentum during the 2012 standoff at Scarborough Shoal, a horseshoe-shaped chain of reefs that is much closer to the Philippines than to China.

As the Philippine Navy challenged Chinese fishing boats, the Obama administration brokered a deal in which both sides would withdraw. The Philippine vessels departed, but some of the Chinese boats stayed.

China has controlled the shoal ever since. Emboldened, China began construction of seven artificial islands in the Spratly archipelago.

China appears reluctant to build a full-fledged military base on the shoal, lest it stoke nationalist anger in the Philippines, damaging relations with its pro-China president, Rodrigo Duterte.

“Any reclamation will outrage the Duterte government,” says Zhu Feng, the executive director of the Center for the South China Sea at Nanjing University. “China can’t afford to lose a good friend like that.”

But many Philippine officials fear that this is merely a pause before an inevitable Chinese expansion.

Two large maps of the South China Sea cover the walls of the office of Gary Alejano, a Philippine congressman and former marine. He shows visitors how the Scarborough Shoal sits on the edge of the Bashi Channel, the Chinese Navy’s entryway into the western Pacific. He points out the artificial islands in the Spratly archipelago. He notes Mischief Reef, where Chinese fighter jets have landed.

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Unless someone confronts them, those jets will remain there, using the hangars China built, Mr. Alejano says. Philippine Navy vessels rarely patrol the area, he laments.

"Right now, you can feel that China controls the South China Sea," Mr. Alejano says. "And the U.S. comes in and out."

Owning the Choke Points

As China charts its global reach, six zones demand special attention: the maritime choke points.

The entryway to the Black Sea from the Mediterranean. The passageway from the Pacific to the Indian Ocean via the Strait of Malacca. The corridor separating Europe from Africa at the Strait of Gibraltar. Bab el Mandeb, off Djibouti in the Horn of Africa. The Strait of Hormuz in the Persian Gulf. Access to the Mediterranean from the Red Sea through the Suez Canal.

At any one, an outbreak of hostilities could imperil China's free movement around the globe, jeopardizing its exports and access to resources.

These zones have historically been policed by American naval power, which has made China's access dependent on peaceful relations with the United States. To liberate itself, China has been lavishing investment on governments that control the choke points.

Which is how China became financier and developer for the grandiose capital being constructed by President Sisi in the reddish-brown desert east of Cairo. Mr. Sisi craves investment and allies at a time

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when much of the world has recoiled from his brutal crackdown on dissent.

In an interview, Gen. Ahmed Zaki Abdeen, who heads the Egyptian state-owned company overseeing the new capital, railed against American reluctance to invest in his country.

"Stop talking to us about human rights," he says. "Come and do business with us. The Chinese are coming — they are seeking win-win situations. Welcome to the Chinese."

In backing the new capital, China has furthered an age-old aspiration for the Egyptian powers that be: taming the desert. The project aims to construct a city of 6.5 million people, replacing crumbling Cairo with a technological metropolis engineered to rival Dubai. Construction is expected to take 15 years while costing 200 billion Egyptian pounds, more than $11 billion.

Under a master agreement signed in October 2017, China Construction is building the capital's central business district. A consortium of Chinese state-owned banks is lending $3 billion to finance a first phase expected to be completed in three years. Egypt is obligated to spend the money by hiring the China State Construction Engineering Corporation. A second phase is expected to run $3.2 billion.

Yu Wenchuan dons a yellow safety vest as he works security at the China Construction site. Born and raised in the southwestern Chinese province of Sichuan, Mr. Yu, 24, complains about the 100-degree heat and the conspicuous absence of spicy noodles. But he is resigned to spending the next eight years in Egypt.

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"This is a good way to get experience," he says.

Under the contract, 35 percent of construction materials can be brought from China. Even some of the 65 percent procured from domestic sources stands to enrich China, given the presence of entrepreneurs like Xin Zhu.

Seventeen years have passed since Mr. Xin landed in Cairo from his native Hubei Province. There, he oversaw a factory that processed slabs of granite and marble into flooring and countertops. He had heard that Egypt was rich with quarries full of high-quality, low-priced rock.

He took control of a lot in an industrial area outside Cairo. He endured terrible roads and power failures. "I was like a pioneer," he says.

Today, Mr. Xin's company employs more than 100 people, mostly migrants from China. He ships most of his production to China. But he aims to sell into the new capital, profiting as Beijing erects a veritable Pharaonic monument for Egypt's authoritarian leader.

"I was looking for new opportunities outside China," Mr. Xin says. "More development is good for our business."

Peter S. Goodman, The Times's global economics correspondent, spent six years in China as the Shanghai bureau chief for The Washington Post.

Jane Perlez is The Times's bureau chief in Beijing, where she has covered China's relations with the United States and Asia since 2012.

Design: Matt Ruby, Rumsey Taylor, Quoctrung Bui Editing: Tess Felder, Eric Nagourney, David Schmidt Photo Editing: David Furst, Craig Allen, Meghan Petersen, Mikko Takkunen Illustrations: Sergio Peçanha

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PART 4

China's Economy Became No. 2 by Defying No. 1

阅读简体中文版 閱讀繁體中文版

The Chinese thought they had little to learn from conventional wisdom. Now it's the West that's taking notes.

By KEITH BRADSHER and LI YUAN Photographs by LAM YIK FEI NOV. 25, 2018

Milton Friedman had a message for China: To get rich, it must be free.

It was 1988. The Soviet Union was tottering. Across Eastern Europe, the communist order was on the verge of collapsing. Trying to avoid its own demise, the Chinese Communist Party had taken small steps toward unshackling its economy from the state. But prices for food and other necessities were surging as a result, and the party's reformers wanted advice.

They invited Mr. Friedman — the Nobel laureate and champion of economic freedom — to Zhongnanhai, the walled compound in Beijing where the country's most senior leaders live and work. Sitting down with Zhao Ziyang, the Communist Party's top leader, Mr. Friedman was tactful but insistent. If Beijing wants to help its people thrive, he said, the state must let go faster.

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"I hope the Chinese people can become strong and prosperous," he told Mr. Zhao. "I wish to see China's reform succeed so that she can contribute more to the progress of mankind."

China made a different choice. Mr. Zhao and other reformists were ousted a year later. Tanks were sent to Tiananmen Square to teach the people a bloody lesson about challenging the party's power.

China would instead reform on its terms. It would free entrepreneurs to seek their fortunes, while still keeping a tight grip on essential economic levers. It would set national goals, then persuade or force people and companies to meet them. It would open up to the world at its own pace — and the Communist Party would run the show.

To Mr. Friedman and other top economists, the strategy should have failed. Centrally planned economies breed waste and corruption. Big government ambitions cripple future generations with debt. Price controls lead to hunger and want. Official prognosticators invariably blow it. The Soviet Union proved that.

Those experts were wrong. China prospered.

Today it is the world's second-largest economy. Hundreds of millions of its people have been lifted out of poverty. It is home to the world's biggest auto industry, the second-most billionaires and the largest single group of internet users. It has some of the richest and most powerful technology companies on the planet.

China succeeded by creating its own model. It borrowed some Western ideas while rejecting others. It opened itself to the world when necessary, and put on the brakes when it chose to. It set goals and

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backed them with government money. It freed its people to make and spend money, but it forbade them to ask for a better deal. Entrepreneurs built modern China, and the Communist Party kept them in line.

Other potential success stories in Asia and Latin America stuck to the economic script and stumbled. They slashed budgets when international experts told them to, hurting growth. They opened up to the world before they were fully ready to compete — and were tripped up by global turbulence. China's government, by contrast, reformed slowly and sometimes reluctantly, stepping in when external or internal forces threatened its rule. During financial crises that struck Asia in 1997 and then the world in 2008, China gained strength as other nations faltered.

China's economy now stands as an alternate narrative to Western ideals. And yet the decisions the Communist Party made to secure its economic future have led Beijing to its biggest test since Tiananmen Square.

Its goals — a complicated mix of juicing the economy, cleaning upthe country's air and water and meeting its people's rising expectations — have become harder to reach. Its efforts to spur growth have left the country staggering under trillions of dollars in debt, while the world is taking aim at China's industrial ambitions.

And after three decades of balancing freedom and authoritarianism, China may be leaning too far toward state control under Xi Jinping, the country's top leader. The Communist Party may be putting too

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much stock in its own abilities at the expense of the entrepreneurs who drove China's success.

Milton Friedman might have been right after all.

Or China may still find its way.

Over and over, China has been underestimated by legions of leaders and economists who thought they knew better. "It's not only the West," said Justin Lin Yifu, a former chief economist at the World Bank, who was born in Taiwan but defected to China. "It's almost every country in the world. It's the multilateral institutions and the academics and intellectuals."

A Booming Bird Cage

Deng Xiaoping, the paramount leader of China, was worried. After the 1989 Tiananmen Square crackdown, his great Chinese experiment faced collapse.

He had led the country out of the chaos of the Cultural Revolution under the idea that its people should make more money. Farmers were given greater choice to plant what they liked and sell it for a profit. Entrepreneurs flocked to special economic zones, essentially capitalist petri dishes where they paid lower taxes and made their own business decisions. The economy surged, millions of peoplewere lifted out of poverty, and China's growth become the envy of the world.

The boom, though, fostered inflation and corruption. When the tanks rolled through Tiananmen Square, they killed not just pro-democracy activists but also common people angry at surging prices for rice,

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vegetables and vinegar. The reformers were ousted, and the conservatives who took their place reasserted state control.

By 1990, foreign investors were fleeing and some Communist Party cadres were again suppressing entrepreneurs. Growth had fallen to one-third that of the boom years. Deng feared that, without a spark, the Communist Party would lose its control over China. Reform, he decided, had to be on the agenda again.

Finding the right balance would prove the economic foundation of modern China. Loosen the grip too much, and the Communist Party begins to face a real threat to its hold on power. Tighten too much, and it threatens to squelch the country's growth.

Reform has swung in one direction or the other, but it has long fit into the model of what one of the architects of modern China, Chen Yun, called a "bird cage economy." Entrepreneurs were free to spread their wings, as long as they stayed within the cage of government control.

In 1992, Deng embarked on his "southern tour" — a visit to Shenzhen and other emerging capitals of Chinese commerce. He laid out the case for a "socialist market economy" that would twin an embrace of markets with respect for the Communist Party.

"If China does not practice socialism, does not carry on with 'reform and opening' and economic development, does not improve the people's standard of living, then no matter what direction we go," he said, "it will be a dead end."

He championed the lessons of people in Shenzhen like Shao Chunyou. Mr. Shao, now a successful entrepreneur who owns an electronics

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manufacturing company, was one of the hundreds of millions of Chinese who struck a silent pact with his country to pursue riches while staying out of the state's business.

The crackdown in Tiananmen Square was far from Mr. Shao's mind when he arrived that summer in Shenzhen. A penniless carpenter from a city in China's interior, he struggled to find work among the electronics factories and garment mills. He wasn't allowed to live in Shenzhen without a government permit, so when the police came looking for illegal workers he would hide in a cemetery. Once, he lived off discounted mooncakes after China's Mid-Autumn festival holiday.

"I still can't bear looking at mooncakes," he said.

Three years later, in 1992, Mr. Shao was earning more money at a factory making hardware parts for electronics than he had ever made before. Such successes would cement the country's path.

Conservative leaders were sidelined for reformers. Local officials loosened up, and banks started lending. China abolished ration coupons for food and drastically reduced the government's role in setting prices for grain, oil and coal. China's entrepreneurs responded. Growth surged into double digits.

Two years later, the International Monetary Fund and other leading economic institutions publicly worried that China's growth was too fast and threatened to spiral out of control. But the lessons from past failures taught China's leaders to complement their reform efforts with aggressive government action at certain moments.

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The leadership forced down prices of essentials like grain, eggs, vegetables and real estate. Even as it pressured bloated state-owned companies to streamline, it often gave them breathing room. Then, when prices fell, China gave a variety of industries — everything from tractor and electronics factories to ostrich breeders — the power to form cartels to stay in business.

The approach worried free-market economists. While they widely acknowledged that China couldn't change overnight, they argued that state control hobbled the economy by pouring money into wasteful targets.

Mr. Friedman, the Nobel laureate, gave voice to those concerns when he returned to China in 1993. China's entrepreneurs, he noted approvingly, were thriving. But everywhere, he saw the domineering presence of the Chinese government. "Not surprisingly," he wrote later, "the managers of state-owned enterprises are not at all willing to give up their powers."

Mr. Friedman was shocked at the scale of a government-led project to build what was in effect a new city, Pudong, across the Huangpu River from Shanghai. "A Potemkin village built for a reigning emperor," Mr. Friedman wrote, predicting disaster.

A decade later, Pudong was one of Asia's hottest real estate markets.

Opening and Dragging

While China was getting richer, it wasn't enough by the end of the 1990s. It was still home to about one in five of the world's poorest people. Inflation ping-ponged, demanding constant government

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attention. Beijing pushed state-owned companies to get leaner and work smarter, leading to the layoffs of millions of workers.

China needed growth. To get there, the leadership reasoned, it had to join the World Trade Organization, the premier global commerce club. Membership would mean lower tariffs for China's manufacturers and give foreign companies the confidence to invest more in the country. Membership would also free China from the annual scrutiny that American lawmakers gave its human rights record before extending favorable trading terms.

The rest of the world expected that China would be forced to adopt greater political and economic freedoms to compete. "The more China liberalizes its economy, the more fully it will liberate the potential of its people — their initiative, their imagination, their remarkable spirit of enterprise," President Bill Clinton said in 2000.

Casting aside wasted years of halfhearted negotiations, China launched an all-out effort to get in. It yielded on a number of demands made by the United States and others. It agreed to slash tariffs and lower trade barriers to telecommunications, the financial sector and a host of other industries. It agreed to curb subsidies.

In the bargain, China got what it wanted, paving the way for a global trading colossus.

After China's entry in the W.T.O. in 2001, its exports doubled in three years and nearly tripled in four. Investment poured into the country. Global manufacturers moved entire operations to China, while consumers around the world got cheaper tools, toys and phones.

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"When China joined the W.T.O., I was so excited that I cried," said Zhu Dingding, the general manager of Hangzhou Jinyuan, which makes baby shoes and other crafts.

By 2011, orders were 10 times what they had been in 2001. He made enough money to buy a car, a Volkswagen. Three apartments followed, all purchased without mortgages.

"The W.T.O. pushed my business to develop rapidly," Mr. Zhu said. "Without the W.T.O., it would be impossible."

But China didn't change that much.

Beijing has kept its iron grip on critical levers of the economy. It has been slow to meet commitments to open up key parts of its financial system, while other essential areas like telecommunications remain cut off. It has continued to nurture businesses aimed at meeting its technological and political goals, like high-speed rail and solar panels. It hasn't fully relaxed its grip on the value of the country's currency.

China's entry into the W.T.O. caused a systemic shock, one underestimated particularly by the United States. Cheap Chinese goods ushered in a new era of low prices, upending industries from textile mills in South Carolina to circuit board manufacturers in Japan and fashion designers in Italy. One study suggested that, between 1999 and 2011, Chinese imports eliminated one million American manufacturing jobs, plus more in other industries.

"China's entrance into the World Trade Organization has enabled the greatest jobs theft in the history of our country," Donald J. Trump said

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at a campaign appearance in 2016, four months before he was elected president.

'Can China Save the World?'

As the global financial system tottered in 2008, an influential Chinese leader chastised Henry M. Paulson, then the United States Treasury secretary and a former Goldman Sachs executive.

The leader, Wang Qishan, was among the first Chinese officials to soak in the lessons of the free market evangelists. But he told Mr. Paulson that China had perhaps listened to the West long enough.

"You were my teacher, but now here I am in my teacher's domain, and look at your system, Hank," Mr. Wang said, according to Mr. Paulson. "We aren't sure we should be learning from you anymore."

Nobody was unscathed by the global financial crisis. Washington bailed out Wall Street and Detroit, then its efforts slowed to a crawl as a new president, Barack Obama, clashed with Congress over the size of a stimulus package. Europe also fell into squabbling as individual countries fell into crisis, creating cracks in the union.

While China withstood the initial shock, the ripples threatened to become devastating. Exports plunged and economic growth slowed as foreign markets dried up. Factories began to lay off workers. Later, economists at the World Bank would estimate that as many as 36 million Chinese workers had lost their jobs.

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What followed was perhaps the greatest show of financial firepower the world has ever seen — and it wouldn't have been possible without government controls that would have made Milton Friedman blanch.

Beijing unleashed a nearly $600 billion spending package in an effort to rev up its economy. It called for building rail lines, highways, power lines and other big infrastructure projects across the country.

Then it began to lend. The central bank flooded the country with money, and China's economic leaders told its government-backed banks to start giving out loans. State-run companies were told to build and invest, and local government officials were told to help them. By one estimate, the financial stimulus totaled, over three years, nearly $1.4 trillion.

Asked one headline, "Can China Save the World?"

In some ways, China was well positioned for this moment. Early in its embrace of capitalism, it recognized the treasure it had in thesavings of its people. Currently, their savings rate is nearly three times that of the United States — driven in part by worries that an underdeveloped social safety net won't help them when they retire or get sick.

Because the government controlled the banking system, it could force banks to extend mercy to troubled borrowers or simply roll over their loans at more agreeable terms. It could ignore the advice of global investors and institutions, like the International Monetary Fund, that preached open markets and austerity, sometimes to disastrous results.

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China also kept money from leaving the country. It put limits on how much people could move overseas and kept a tight grip on the value of its currency, the renminbi.

The contrast between China and the rest of the world was stark. Beijing moved swiftly — and its growth was the rare bright spot in the global economy. Washington didn't complete a $787 billion stimulus package until the next year, filled with political compromises. The American economy couldn't avoid recession.

Nicholas R. Lardy, a China expert at the Peterson Institute for International Economics, told American officials in 2009 that "China is the gold standard in terms of its response to the global economic crisis."

Testing China's Model

More than a quarter-century after Deng Xiaoping used his southern tour to get Chinese reform back on track, Xi Jinping followed on a mission of his own.

Mr. Xi's trip to Guangdong Province in the south last month deliberately echoed his predecessor's. Like Deng, he visited start-ups, inspected their work and gabbed with factory employees. He visited an appliance company and an auto parts plant, praising the role of small businesses in the Chinese economy. China, he said, hadn't wavered from its commitment to them.

"China's reform and opening up will never stop," Mr. Xi told a group at an exhibition center celebrating decades of reform. "The next 40

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years of China will bring new achievements that will make the world take notice."

So far, Mr. Xi's rhetoric hasn't matched reality. While Deng dragged the Chinese economy further out of the clutches of state control, Mr. Xi has been pulling it back.

Despite calls to rein in debt, he has kept the money flowing. Despite a push to create global technology champions, he has putthe country's vibrant internet industry under the increasing authority of the party and the state. Despite promising to lift entrepreneurs, he has strengthened state behemoths, which now account for growing shares of the country's profits and industrial production.

Mr. Xi has made some modest reforms. He has loosened, just a bit, Beijing's hold on the value of its currency. He moved to allow foreign banks and automakers to directly own their Chinese operations.

But the pendulum has markedly swung toward the state at a time when the cumulative weight of four decades of choices has left the Chinese economy vulnerable. Growth is slowing — and juicing it won't be as easy.

The lending-and-spending binge that powered its economy, and arguably the world's, after the financial crisis has saddled the country with a huge debt load. While calculating what China owes is difficult since much is off the books, debt could total $41 trillion — or three years' worth of the country's economic output. That's roughly equal to developed countries like the United States, Britain and Japan. But whereas their debt built up over decades, China's accumulated in nine years.

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Moving the needle has become harder. China's economy is roughly three times the size it was in 2008. Those airport and highway projects it still uses to spur growth are expensive and deliver less economic bang.

The world has also begun to take aim at China's pace of opening up and its global ambitions. President Trump has started a trade warover China's economic barriers and its state-sponsored plans to build world-beating competitors in industries like semiconductors, robotics and electric cars.

The tariffs and tensions threaten a key cog in China's trade machine: exports of goods and services, which total about one-fifth of the country's output. The United States has also taken more forceful action against Chinese companies that it believes break the global rules of trade, in some cases depriving them of buying or investing in the American-made technology they need to survive or innovate.

And in a fundamental change, China's leaders appear to be losing their willingness to experiment. Amid fear over slowing economic growth and difficult social problems, the party's talk has turned to more control. Some increasingly strident voices within the Communist Party are tapping pre-reform language to lash out against Western ideas. Even private business ownership — a bedrock of Deng's reform and opening up — has been criticized in some quarters.

China may also have become complacent. Its four decades of success under the China model may have persuaded the country's leaders that the Communist Party, rather than the country's entrepreneurs, drove its success, and it has little reason to let go.

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"The China model concept misleads China," said Zhang Weiying, a prominent pro-market economist, "so we're going backward."

China, of course, has changed course in the past. Pragmatism has often won out.

China's leaders received a subtle reminder of that in September — from a son of Deng, the architect of reform. In a speech to top leaders, Deng Pufang praised their work but cautioned that once China's opening had begun, it could never go back.

"Reform and opening up is the liberation of people," he said. "It encourages the recognition of people's desire and pursuit of a happy life, it stimulates the wisdom and strength of the masses, and it provides opportunities and platforms for every ordinary person to improve their lives and change their destiny."

Keith Bradsher has covered the Chinese economy for The Times since 2002, first as Hong Kong bureau chief and now as Shanghai bureau chief.

Li Yuan, The Times's Asia technology columnist, held a similar position at The Wall Street Journal, where she was also the top editor of its Chinese website.

Ailin Tang contributed research.

Design: Matt Ruby, Rumsey Taylor, Quoctrung Bui Editing: Tess Felder, Eric Nagourney, David Schmidt Photo Editing: David Furst, Craig Allen, Meghan Petersen, Mikko Takkunen Illustrations: Sergio Peçanha

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PART 5

The Road to Confrontation

阅读简体中文版 閱讀繁體中文版

The U.S. adopts a hard line against China, and an era of engagement recedes into the past.

By MARK LANDLER NOV. 25, 2018

On a late August weekend in 2017, a week after he was forced out as President Trump's chief strategist, Stephen K. Bannon made a trip to the Connecticut country house of Henry A. Kissinger to talk about China.

It was more of a pilgrimage, actually: the prophet of disruption seeking out the high priest of geopolitics to make the case that Mr. Kissinger's view of America's relationship with China was hopelessly out of date. The two men talked for hours in the sunroom, and while they enjoyed each other's company, they did not, in the end, see eye to eye.

"He agreed 100 percent with my analysis," Mr. Bannon recalled, "but he disagreed with my conclusions because they were too blunt force."

Mr. Kissinger confirmed this account, saying he told his visitor that the United States and China must strive for the "partial cooperation of countries that by normal standards might be considered enemies."

"He has a different view," Mr. Kissinger added dryly.

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In the four decades since the United States re-established diplomatic ties with China, Mr. Kissinger and Mr. Bannon can be seen as bookends.

With his secret trip to Beijing in 1971, Mr. Kissinger kicked off an era of engagement marked by the stubborn belief that bringing China out of its isolation through trade and investment would make America safer — and perhaps make China more like America. That era now seems to be ending, giving way to a more hostile one, with a trade war encouraged by Mr. Bannon and the ascendancy of his view that the United States must confront China while it still can.

From the White House to the boardroom, from academia to the news media, American attitudes toward China have soured to an extent unseen since Mr. Kissinger's historic trip. China's rapid rise, and the acute sense of grievance and insecurity it has stirred in the United States, has led some to conclude, as the title of a recent book about the relationship suggested, that these two giants are "destined for war."

The United States and China, of course, have had their ups and downs ever since the 1780s, when New England brigs first sailed to China with beaver skins and silver coins, ushering in more than a century of exchanges that sent Christian missionaries to the Middle Kingdom and Chinese railroad workers to the Wild West.

The two nations fought as allies in World War II, then faced off as foes in the Cold War, before Richard M. Nixon rekindled relations with Beijing to isolate the Soviets. The hopes generated by Deng Xiaoping's economic opening in the 1980s were dashed by the Tiananmen Square

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massacre. The trade deals of the 1990s were strained when wayward American bombs destroyed the Chinese Embassy in Belgrade.

For at least a decade, Americans have blamed China for shuttered factories and jobless workers. Public views of China swung from positive to negative in 2012, according to Pew Global Research, and have remained underwater since. About 38 percent of Americans now view China favorably — down from 44 percent in 2017 — but that number is not markedly worse than it has been for the last half-decade.

Yet the current chill in the relationship seems different, less a temporary rupture than a searching reappraisal of what a status-quo superpower should do about an ambitious, formidable challenger.

The Trump administration has adopted a more confrontational stance but struggled to set clear goals and articulate a strategy for achieving them. To date, its efforts have been scattershot: trade tariffs that have rattled Beijing but also Wall Street, a foreign aid program dwarfed by China's enormous loans for infrastructure overseas, a warning against Chinese meddling in American elections without much evidence of such activity.

The White House is channeling antagonism that extends far beyond Washington. Business executives accuse China of stealing technology from their firms. College professors suspect that some of its exchange students are spies. Military officers see its warships advancing across the Pacific.

Many Americans who embraced trade and cooperation with China had hoped that bringing it into the global economic order would, over

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time, pull its politics and society into a kind of convergence with the West. Yet China is heading in the opposite direction under the strongman rule of Xi Jinping, toward less political freedom and more state control of the economy — a surveillance state at home that nourishes imperial ambitions abroad. Far from modeling itself on the United States, China is presenting itself as a defiant alternative.

"In our good-hearted way, we wanted to believe that with a few more cultural exchanges, a few more visiting ballet troupes, China would come around," said Orville H. Schell, the director of the Center on U.S.-China Relations at the Asia Society. "But Xi Jinping shut the door on that. He said, 'Not only are we not going there, but we have our own model now.' "

Kevin Rudd, a former prime minister of Australia and longtime observer of China, said the political and economic changes in China under Mr. Xi, and in the United States under Mr. Trump, had shattered the consensus in both nations about how to manage the relationship. That, Mr. Rudd said, portended an uncertain — and almost certainly more dangerous — future.

"You can almost hear the ripping sound somewhere up the middle of the Pacific," Mr. Rudd said in an interview, "and I'm not sure how that's put back together."

'Tacit Allies'

Realpolitik motivated Mr. Kissinger's outreach to China: He and Nixon saw it as a counterweight to the Soviet Union. But they were not immune to what an American diplomat, U. Alexis Johnson, called

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"rapturous enchantment." After a return trip to Beijing in 1973 to open a liaison office, a euphoric Mr. Kissinger wrote to Nixon, "We have now become tacit allies."

In the United States, China suddenly became cool. "Americans donned Mao jackets and Mao hats, stir-fried in woks, and wielded chopsticks," the journalist John Pomfret wrote in his 2016 book, "The Beautiful Country and the Middle Kingdom." Shortly after Nixon's landmark trip, the Chinese cut a $392 million deal with a Texas company to build 16 fertilizer plants in China, an early sign of engagement's bottom-line benefits.

Diplomatic relations would ebb and flow, buffeted by domestic politics in both nations. But trade across the Pacific began a relentless upward march. Companies like IBM, Citibank and Jeep were entranced by the vastness of the Chinese market, and the pioneers of engagement marveled at how quickly commerce came to define the relationship.

Even a devastating setback, the deadly crackdown on the 1989 Tiananmen Square democracy movement, did not snuff out those ties. President George Bush, who once headed the United States liaison office in Beijing, secretly sent his national security adviser, Brent Scowcroft, to Beijing to keep the relationship from going off the rails.

In March 2000, after the United States opened the door to China's entry into the World Trade Organization, Bill Clinton laid out the case for economic integration as the best way to bring freedom to the country. In one of the more forceful arguments for engagement made by an American president, he promised that W.T.O. membership would wean China off state-owned enterprises and open its society.

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"The more China liberalizes its economy, the more fully it will liberate the potential of its people — their initiative, their imagination, their remarkable spirit of enterprise," he said. "And when individuals have the power, not just to dream but to realize their dreams, they will demand a greater say."

Mr. Clinton's view was widely shared at the time, and not without reason. Under President Jiang Zemin and his prime minister, Zhu Rongji, the Communist Party withdrew from large parts of the economy, encouraged private entrepreneurship and welcomed foreign investors.

Over the decades, the United States and China built the mightiest commercial relationship in history: Trade between the two ballooned from $5 billion in 1980 to $231 billion in 2004. China soon became the manufacturer of choice for T-shirts and toys, laptops and television sets. General Motors, Motorola and other American companies that invested in China made healthy profits. To satisfy the American appetite for low-cost goods, China began exporting more to Walmart alone than it did to most entire nations.

By 2006, though, China's transition to market economics was slowing, and it began pursuing a policy of "indigenous innovation," establishing targets to achieve dominance in high-tech industries that were traditionally the domain of the United States and Japan. By the time Barack Obama was elected, a narrative had taken hold in some quarters that letting China into the W.T.O. was a mistake.

Mr. Obama called out Beijing on the theft of American technology and intellectual property, and needled two of his advisers, Lawrence H.

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Summers and Jeffrey A. Bader, about their work in negotiating with China during the Clinton administration. “Did you guys give away too much?” he asked, according to Mr. Bader.

President Trump has since turned Mr. Obama’s private gibe into a political slogan. Letting China into the W.T.O., he argues, was the original sin of America’s dealings with China — a defective agreement that gave the Chinese license to steal from American companies and siphon off American jobs.

But to Charlene Barshefsky, the United States trade representative who ran the negotiations with Beijing in the 1990s, whether China should have been admitted is a “nonsensical question.”

“Of course it was going to end up in the W.T.O.,” she said.

With a fifth of the world’s population, nuclear weapons, a permanent seat in the United Nations Security Council and a track record of economic opening, China could not realistically be kept out, she argued. It already had significant access to the world’s major economies, including the United States. If it did not join the W.T.O., it would have continued to reap the benefits without being forced to open its own markets.

“The issue is, was it going to be a substantively, commercially significant deal?” Ms. Barshefsky said. “And I would argue that the proof is in the pudding.” China, she noted, now imports more goods from the world than any country besides the United States.

But with every step China took to open its markets, it erected new barriers that hobbled foreign competitors and favored its own

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companies. The problem was not China's W.T.O. membership but the failure of American officials to use the tools in the agreement to force China's compliance with the terms, Ms. Barshefsky said.

"The U.S. did the right thing," she said. "We just didn't continue to do the right thing."

'Economic Aggression'

Peter Navarro, the bomb-throwing economist who heads Mr. Trump's trade office, said he first noticed the corrosive impact China was having on the American economy in the early 2000s, when he was teaching evening classes at the University of California, Irvine.

During the day, most of his students held down jobs. But Mr. Navarro recalled noticing that "my students were having more and more problems in the job market. It was a puzzle to me. I thought, 'What's going on here?' "

Mr. Navarro already suspected that jobs were moving to China because of its low labor costs. But after a year of research, he concluded there were four other factors at play: China's theft of American intellectual property, its subsidies for exporters, its currency manipulation and its dearth of environmental regulations.

"All roads led to China," he said.

The economist remade himself into a China Cassandra, publishing books like "The Coming China Wars" and "Death by China" that put him on the radical fringe of his profession. But his views dovetailed

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with those of Mr. Trump, who had railed for decades against the unfair trade practices of China and, earlier, Japan.

While the Japanese threat was overblown, there is little disagreement now that China contributed to the hollowing out of American manufacturing. Cheap Chinese clothing decimated textile jobs between 1973 and 2015. Chinese furniture makers wiped out their American counterparts. For blue-collar America, "Made in China" became synonymous with the ravages of globalization.

Now ensconced in the White House, Mr. Navarro has supplied the intellectual grist for Mr. Trump's trade war with China. In June, his office published a report titled "How China's Economic Aggression Threatens the Technologies and Intellectual Property of the United States and the World," which accused China of preying on American companies in a variety of ways.

Other economists still dismiss Mr. Navarro's prescription, which consists of piling on more tariffs until China agrees to fundamental changes. But privately, many businesspeople share his diagnosis. Their immediate concern is Made in China 2025, a state policy that seeks to dominate key industries by forcing American companies to hand over technology and assisting Chinese firms with subsidies.

Occasionally, American frustrations with Chinese partners and competitors spill into the open. In July 2010, the then-chief executive of General Electric, Jeff Immelt, said at a private dinner, "I am not sure that in the end they want any of us to win, or any of us to be successful." General Electric backpedaled furiously after his comments were reported. Despite their grievances, American business executives

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were still afraid of antagonizing the Chinese authorities, who could order raids on their operations.

Doing business in China became even harder after the financial crisis of 2008. By that time, China had passed Japan to become America's largest creditor, holding about $600 billion of United States Treasury notes. Chinese officials were appalled by the bankruptcy of Lehman Brothers and fearful of their own exposure. If they were always suspicious of American politicians, now they turned against their friends on Wall Street, too, taking a harder line in negotiations and rejecting their calls to open up the Chinese economy further.

"Chinese officials began to dress down Americans and skip meetings," said James McGregor, the chairman of greater China for APCO Worldwide, who advises companies dealing with Chinese officials. "For the Chinese leadership, this was the emperor-had-no-clothes moment."

Strategic Competition

For all of Mr. Obama's wariness on trade, he was as committed to engaging China as each of his predecessors going back to Nixon. He sought global issues, like climate change and nuclear nonproliferation, on which the United States and China could work together. But his strategy, known as the "Asia pivot," also called for a greater American diplomatic and military presence in the region, to try to manage China's rise.

The Trump administration has rejected the Obama strategy, branding it naïve and inadequate. It has adopted a more combative approach,

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formally designating China a “strategic competitor” and “revisionist power,” one that is trying to rewrite the rules of the post-World War II order to match its own interests and ambitions. Mr. Trump’s aides say that China has gotten away with too much for too long, and that only a show of American strength can force it to change its behavior.

The cornerstone of this policy has been the trade war, with new tariffs on $250 billion worth of Chinese exports in place and Mr. Trump threatening more. Yet the administration’s objective is uncertain.

Mr. Trump has floated various demands that would be difficult to enforce or require a wholesale overhaul of the Chinese economy, including a sharp reduction in the trade deficit and an end to coercive technology transfers. Some trade and security hawks have urged “decoupling” the United States entirely from the Chinese economy.

The Trump administration has taken a tougher approach outside trade as well. It has stepped up naval patrols in the disputed waters of the South China Sea, where the Chinese have been turning isolated spits of reef into military installations. But it has not laid out how the United States can stop a Chinese military buildup that is already tilting the balance of power in the region in Beijing’s favor.

The Trump administration has also taken a harder line on economic espionage, indicting Chinese citizens accused of being intelligence agents, tightening controls on Chinese investment, and even considering a plan to restrict Chinese students from attending American universities.

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Left unanswered has been a profound question: How can the United States compete by closing its doors when openness has been key to its success?

Vice President Mike Pence laid out the case for confrontation in a harshly worded speech last month that many interpreted as a call for a new Cold War, with the United States as defender of democracy and market competition and China as the champion of authoritarianism and state-led growth. But as he called for a sustained effort to counter Beijing, Mr. Pence made little effort to reach beyond America's partisan divide and rally the entire nation behind it.

"To put it bluntly," he said, "President Trump's leadership is working; and China wants a different American president."

The conflict with China is intensifying amid unresolved concerns about American leadership and overreach that built up during the era of globalization, and in Iraq, Afghanistan, Syria and other distant battlefields.

If anything, Mr. Trump has shown a desire to pull back from commitments around the world — a pattern, critics say, that has sundered trade deals like the Trans-Pacific Partnership and undermined America's allies, depriving the United States of one of its greatest advantages in a geopolitical competition.

China's own efforts to win friends and expand its influence, meanwhile, have brought mixed results so far. As part of its Belt and Road Initiative, Beijing has dangled billions of dollars for infrastructure projects in dozens of countries, from Malaysia to Kenya.

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The Trump administration has condemned the loans as predatory and is trying to put together its own competing aid program.

Mr. Trump's instincts about China are not easy to pigeonhole. He speaks often about his friendship with Mr. Xi and admiringly of China's economic success. His grievances are rooted in trade — in the conviction that China has been cheating the United States — rather than in Beijing's ambitions in Asia or its repressive political system.

Among his advisers, there is a wide disparity in how they view the coming contest. Some, like Mr. Navarro, cast it as an epic struggle over who will control the commanding heights of the 21st-century economy. Others, like Treasury Secretary Steven Mnuchin, Commerce Secretary Wilbur Ross, and the director of the National Economic Council, Larry Kudlow, have tried to put the brakes on Mr. Trump's most belligerent trade moves.

They feud constantly, and at times publicly, about who speaks for the president, leaving both Chinese officials and China experts in the United States confused about the direction of American policy.

Mr. Bannon, who says his views of China were formed as a young Navy officer in the Pacific in the 1970s, speaks in almost apocalyptic terms, foreseeing a clash of civilizations. "It's either going to be the Confucian, mercantilist model or the liberal democratic Western model handed down from Greece," he said.

Matthew Pottinger, the senior director for Asia on the National Security Council, portrays it as more of a traditional, Cold War-style rivalry between superpowers with competing ideologies. He began his

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career as a foreign correspondent in China, where a state security officer once roughed him up.

"We in the Trump administration have updated our China policy to bring the concept of competition to the forefront," Mr. Pottinger said recently at the Chinese Embassy in Washington. "But I think that's O.K. For us, in the United States, competition is not a four-letter word."

The trouble is, there has been very little public debate about any of this. What are the goals of America's competition with China: toppling the Communist regime or thwarting China's rise, as some in China have long suspected, or merely trying to modify its behavior? And in any case, how much are Americans willing to sacrifice for it?

Graham Allison, a Harvard professor who worked in the Defense Department to reshape relations with former Soviet nations after the end of the last Cold War, argues that a rising power like China is likely to come to blows with an established one like the United States. In his book "Destined for War," he describes a chilling scenario in which an accidental naval collision in the South China Sea escalates calamitously into a full-blown conflict.

But some China experts note that other areas of dispute, like Taiwan, have not become more fraught in recent years. And whatever the issue, they argue, a disastrous miscalculation is more likely without persistent engagement.

"Americans need to understand that if we go down the road of disengagement from China in pursuit of unbridled competition, it will not be a repetition of the Cold War with the Soviet Union," said Mr.

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Bader, the former Obama adviser. “The rest of the world, like us, is deeply entangled with China.”

As a result, he said, even countries as wary of China as the United States “will not risk economic ties nor join in a perverse struggle to re-erect the ‘Bamboo Curtain,’ this time by the West. We will be on our own.”

At 95, Mr. Kissinger, not surprisingly, takes the long view. Together, he said, the United States and China exert such power, and are capable of inflicting such unthinkable destruction, that they owe it to the world to find a path toward “partial cooperation.”

“We have to make the effort of moving in that direction,” he said.

Harking back to his session with Mr. Bannon, Mr. Kissinger added, “I cannot guarantee that that will be the result.”

Mark Landler, a White House correspondent, was The Times’s Hong Kong bureau chief from 1998 to 2002. He was the last American journalist to ask a question of President Xi Jinping, during his news conference with President Barack Obama in the Great Hall of the People in 2014.

Design: Matt Ruby, Rumsey Taylor, Quoctrung Bui Editing: Tess Felder, Eric Nagourney, David Schmidt Photo Editing: David Furst, Craig Allen, Meghan Petersen, Mikko Takkunen Illustrations: Sergio Peçanha

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FOREIGN AFFAIRS
Published by the Council on Foreign Relations

Tuesday, August 15, 2017
China vs. America
Managing the Next Clash of Civilizations
Graham Allison

GRAHAM ALLISON is Douglas Dillon Professor of Government at the Harvard Kennedy School of Government. This essay is adapted from his book *Destined for War: Can America and China Escape Thucydides's Trap?* [1] (Houghton Mifflin Harcourt, 2017).

As Americans awaken to a rising China that now rivals the United States in every arena, many seek comfort in the conviction that as China grows richer and stronger, it will follow in the footsteps of Germany, Japan, and other countries that have undergone profound transformations and emerged as advanced liberal democracies. In this view, the magic cocktail of globalization, market-based consumerism, and integration into the rule-based international order [2]will eventually lead China to become democratic at home and to develop into what former U.S. Deputy Secretary of State Robert Zoellick once described as "a responsible stakeholder [3]" abroad.

Samuel Huntington disagreed. In his essay "The Clash of Civilizations? [4]," published in this magazine in 1993, the political scientist argued that, far from dissolving in a global liberal world order, cultural fault lines would become a defining feature of the post–Cold War world. Huntington's argument is remembered today primarily for its prescience in spotlighting the divide between "Western and Islamic civilizations"—a rift that was revealed most vividly by the 9/11 attacks and their aftermath. But Huntington saw the gulf between the U.S.-led West and Chinese civilization as just as deep, enduring, and consequential. As he put it, "The very notion that there could be a 'universal civilization' is a Western idea, directly at odds with the particularism of most Asian societies and their emphasis on what distinguishes one people from another."

The years since have bolstered Huntington's case. The coming decades will only strengthen it further. The United States embodies what Huntington considered Western civilization. And tensions between American and Chinese values, traditions, and philosophies will aggravate the fundamental structural stresses that occur whenever a rising power, such as China, threatens to displace an established power, such as the United States.

The reason such shifts so often lead to conflict is Thucydides' trap [5], named after the ancient Greek historian who observed a dangerous dynamic between a rising Athens and ruling Sparta. According to Thucydides, "It was the rise of Athens, and the fear that this instilled in Sparta, that made war inevitable." Rising powers understandably feel a growing sense of entitlement and demand greater influence and respect. Established powers, faced with challengers, tend to become fearful, insecure, and defensive. In such an environment, misunderstandings are magnified, empathy remains elusive, and events and third-party actions that would otherwise be inconsequential or manageable can trigger wars that the primary players never wanted to fight.

In the case of the United States and China [6], Thucydidean risks are compounded by civilizational incompatibility between the two countries, which exacerbates their competition and makes it more difficult to achieve rapprochement. This mismatch is most easily observed in the profound

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differences between American and Chinese conceptions of the state, economics, the role of individuals, relations among nations, and the nature of time.

Americans see government as a necessary evil and believe that the state's tendency toward tyranny and abuse of power must be feared and constrained. For Chinese, government is a necessary good, the fundamental pillar ensuring order and preventing chaos. In American-style free-market capitalism, government establishes and enforces the rules; state ownership and government intervention in the economy sometimes occur but are undesirable exceptions. In China's state-led market economy, the government establishes targets for growth, picks and subsidizes industries to develop, promotes national champions, and undertakes significant, long-term economic projects to advance the interests of the nation.

Chinese culture does not celebrate American-style individualism, which measures society by how well it protects the rights and fosters the freedom of individuals. Indeed, the Chinese term for "individualism"—*gerenzhuyi*—suggests a selfish preoccupation with oneself over one's community. China's equivalent of "give me liberty or give me death" would be "give me a harmonious community or give me death." For China, order is the highest value, and harmony results from a hierarchy in which participants obey Confucius' first imperative: Know thy place.

This view applies not only to domestic society but also to global affairs, where the Chinese view holds that China's rightful place is atop the pyramid; other states should be arranged as subordinate tributaries. The American view is somewhat different. Since at least the end of World War II, Washington has sought to prevent the emergence of a "peer competitor" that could challenge U.S. military dominance. But postwar American conceptions of international order have also emphasized the need for a rule-based global system that restrains even the United States.

Finally, the Americans and the Chinese think about time and experience its passage differently. Americans tend to focus on the present and often count in hours or days. Chinese, on the other hand, are more historical-minded and often think in terms of decades and even centuries.

Of course, these are sweeping generalizations that are by necessity reductive and not fully reflective of the complexities of American and Chinese society. But they also provide important reminders that policymakers in the United States and China should keep in mind in seeking to manage this competition without war.

WE'RE NUMBER ONE

The cultural differences between the United States and China are aggravated by a remarkable trait shared by both countries: an extreme superiority complex. Each sees itself as exceptional [7]—indeed, without peer. But there can be only one number one. Lee Kuan Yew, the former prime minister of Singapore, had doubts about the United States' ability to adapt to a rising China. "For America to be displaced, not in the world, but only in the western Pacific, by an Asian people long despised and dismissed with contempt as decadent, feeble, corrupt, and inept is emotionally very difficult to accept," he said in a 1999 interview. "The sense of cultural supremacy of the Americans will make this adjustment most difficult."

In some ways, Chinese exceptionalism is more sweeping than its American counterpart. "The [Chinese] empire saw itself as the center of the civilized universe," the historian Harry Gelber wrote in his 2001 book, *Nations Out of Empires* [8]. During the imperial era, "the Chinese scholar-bureaucrat did not think of a 'China' or a 'Chinese civilization' in the modern sense at all. For him, there were the Han people and, beyond that, only barbarism. Whatever was not civilized was, by definition, barbaric."

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To this day, the Chinese take great pride in their civilizational achievements. "Our nation is a great nation," Chinese President Xi Jinping declared in a 2012 speech. "During the civilization and development process of more than 5,000 years, the Chinese nation has made an indelible contribution to the civilization and advancement of mankind." Indeed, Xi claimed in his 2014 book, *The Governance of China* [9], that "China's continuous civilization is not equal to anything on earth, but a unique achievement in world history."

Americans, too, see themselves as the vanguard of civilization, especially when it comes to political development. A passion for freedom is enshrined in the core document of the American political creed, the Declaration of Independence, which proclaims that "all men are created equal" and that they are "endowed by their Creator with certain unalienable Rights." The declaration specifies that these rights include "Life, Liberty and the pursuit of Happiness" and asserts that these are not matters for debate but rather "self-evident" truths. As the American historian Richard Hofstadter wrote, "It has been our fate as a nation not to have ideologies, but to be one." In contrast, order is the central political value for Chinese—and order results from hierarchy. Individual liberty, as Americans understand it, disrupts hierarchy; in the Chinese view, it invites chaos.

DO AS I SAY . . . AND AS I DO?

These philosophical differences find expression in each country's concept of government. Although animated by a deep distrust of authority, the founders of the United States [10] recognized that society required government. Otherwise, who would protect citizens from foreign threats or violations of their rights by criminals at home? They wrestled, however, with a dilemma: a government powerful enough to perform its essential functions would tend toward tyranny. To manage this challenge, they designed a government of "separated institutions sharing power," as the historian Richard Neustadt described it. This deliberately produced constant struggle among the executive, legislative, and judicial branches, which led to delay, gridlock, and even dysfunction. But it also provided checks and balances against abuse.

The Chinese conception of government and its role in society could hardly be more different. As Lee observed, "The country's history and cultural records show that when there is a strong center (Beijing or Nanjing), the country is peaceful and prosperous. When the center is weak, then the provinces and their counties are run by little warlords." Accordingly, the sort of strong central government that Americans resist represents to the Chinese the principal agent advancing order and the public good at home and abroad.

For Americans, democracy is the only just form of government: authorities derive their legitimacy from the consent of the governed. That is not the prevailing view in China, where it is common to believe that the government earns or losses political legitimacy based on its performance. In a provocative TED Talk delivered in 2013, the Shanghai-based venture capitalist Eric Li [11] challenged democracy's presumed superiority. "I was asked once, 'The party wasn't voted in by election. Where is the source of legitimacy?'" he recounted. "I said, 'How about competency?'" He went on to remind his audience that in 1949, when the Chinese Community Party took power, "China was mired in civil war, dismembered by foreign aggression, [and] average life expectancy at that time [was] 41 years. Today [China] is the second-largest economy in the world, an industrial powerhouse, and its people live in increasing prosperity."

Washington and Beijing also have distinctly different approaches when it comes to promoting their fundamental political values internationally. Americans believe that human rights and democracy are universal aspirations, requiring only the example of the United States (and sometimes a neoimperialist nudge) to be realized everywhere. The United States is, as Huntington wrote in his follow-on book, *The Clash of Civilizations*, "a missionary nation," driven by the belief "that the non-Western peoples should commit themselves to the Western values . . . and should embody these values in their institutions." Most Americans believe that democratic rights will benefit anyone, anywhere in the world.

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Over the decades, Washington has pursued a foreign policy that seeks to advance the cause of democracy—even, on occasion, attempting to impose it on those who have failed to embrace it themselves. In contrast, although the Chinese believe that others can look up to them, admire their virtues, and even attempt to mimic their behavior, China's leaders have not proselytized on behalf of their approach. As the American diplomat Henry Kissinger [12] has noted, imperial China "did not export its ideas but let others come to seek them." And unsurprisingly, Chinese leaders have been deeply suspicious of U.S. efforts to convert them to the American creed. In the late 1980s, Deng Xiaoping, who led China from 1978 until 1989 and began the country's process of economic liberalization, complained to a visiting dignitary that Western talk of "human rights, freedom, and democracy is designed only to safeguard the interests of the strong, rich countries, which take advantage of their strength to bully weak countries, and which pursue hegemony and practice power politics."

THINKING FAST AND SLOW

The American and Chinese senses of the past, present, and future are fundamentally distinct. Americans proudly celebrated their country turning 241 in July; the Chinese are fond of noting that their history spans five millennia. U.S. leaders often refer to "the American experiment," and their sometimes haphazard policies reflect that attitude. China, by contrast, sees itself as a fixture of the universe: it always was; it always will be.

Because of their expansive sense of time, Chinese leaders are careful to distinguish the acute from the chronic and the urgent from the merely important. It is difficult to imagine a U.S. political leader suggesting that a major foreign policy problem should be put on the proverbial shelf for a generation. That, however, is precisely what Deng did in 1979, when he led the Chinese side in negotiations with Japan over the disputed Diaoyu/Senkaku Islands and accepted an eventual, rather than an immediate, solution to the dispute.

Ever more sensitive to the demands of the news cycle and popular opinion, U.S. politicians take to Twitter or announce alliterative, bullet-point policy plans that promise quick solutions. In contrast, Chinese leaders are strategically patient: as long as trends are moving in their favor, they are comfortable waiting out a problem. Americans think of themselves as problem solvers. Reflecting their short-termism, they see problems as discrete issues to be addressed now so that they can move on to the next ones. The American novelist and historian Gore Vida [13]l once called his country "the United States of Amnesia"—a place where every idea is an innovation and every crisis is unprecedented. This contrasts sharply with the deep historical and institutional memory of the Chinese, who assume that there is nothing new under the sun.

Indeed, Chinese leaders tend to believe that many problems cannot be solved and must instead be managed. They see challenges as long term and iterative; issues they face today resulted from processes that have evolved over the past year, decade, or century. Policy actions they take today will simply contribute to that evolution. For instance, since 1949, Taiwan has been ruled by what Beijing considers rogue Chinese nationalists. Although Chinese leaders insist that Taiwan remains an integral part of China, they have pursued a long-term strategy involving tightening economic and social entanglements to slowly suck the island back into the fold.

WHO'S THE BOSS?

The civilizational clash that will make it hardest for Washington and Beijing to escape Thucydides' trap emerges from their competing conceptions of world order [14]. China's treatment of its own citizens provides the script for its relations with weaker neighbors abroad. The Chinese Communist Party maintains order by enforcing an authoritarian hierarchy that demands the deference and compliance of citizens. China's international behavior reflects similar expectations of order: in an unscripted moment during a 2010 meeting of the Association of Southeast Asian Nations, then

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Chinese Foreign Minister Yang Jiechi responded to complaints about Chinese assertiveness in the South China Sea by telling his regional counterparts and U.S. Secretary of State Hillary Clinton that "China is a big country and other countries are small countries, and that's just a fact."

By contrast, American leaders aspire to an international rule of law that is essentially U.S. domestic rule of law writ large. At the same time, they also recognize the realities of power in the Hobbesian global jungle, where it is better to be the lion than the lamb. Washington often tries to reconcile this tension by depicting a world in which the United States is a benevolent hegemon, acting as the world's lawmaker, policeman, judge, and jury.

Washington urges other powers to accept the rule-based international order over which it presides. But through Chinese eyes, it looks like the Americans make the rules and others obey Washington's commands. General Martin Dempsey [15], former chairman of the Joint Chiefs of Staff, became familiar with the predictable resentment this elicited from China. "One of the things that fascinated me about the Chinese is whenever I would have a conversation with them about international standards or international rules of behavior, they would inevitably point out that those rules were made when they were absent from the world stage," Dempsey remarked in an interview with this magazine last year.

YOU CAN GO YOUR OWN WAY

The United States has spent nearly three decades as the world's most powerful country. During that time, Washington's massive influence on world affairs has made it crucial for elites and leaders in other nations to understand American culture and the U.S. approach to strategy. Americans, on the other hand, have often felt that they have the luxury of not needing to think too hard about the worldviews of people elsewhere—a lack of interest encouraged by the belief, held by many American elites, that the rest of the world has been slowly but surely becoming more like the United States anyway.

In recent years, however, the rise of China [16] has challenged that indifference. Policymakers in the United States are beginning to recognize that they must improve their understanding of China—especially Chinese strategic thinking. In particular, U.S. policymakers have begun to see distinctive traits in the way their Chinese counterparts think about the use of military force. In deciding whether, when, and how to attack adversaries, Chinese leaders have for the most part been rational and pragmatic. Beyond that, however, American policymakers and analysts have identified five presumptions and predilections that offer further clues to China's likely strategic behavior in confrontations.

First, in both war and peace, Chinese strategy is unabashedly driven by realpolitik and unencumbered by any serious need to justify Chinese behavior in terms of international law or ethical norms. This allows the Chinese government to be ruthlessly flexible, since it feels few constraints from prior rationales and is largely immune to criticisms of inconsistency. So, for example, when Kissinger arrived in China in 1971 to begin secret talks about a U.S.-Chinese rapprochement, he found his interlocutors unblinkered by ideology and brutally candid about China's national interests. Whereas Kissinger and U.S. President Richard Nixon felt it necessary to justify the compromise they ultimately reached to end the Vietnam War as "peace with honor," the Chinese leader Mao Zedong felt no need to pretend that in establishing relations with the capitalist United States to strengthen communist China's position vis-à-vis the Soviet Union, he was somehow bolstering a larger socialist international movement.

Just as China's practical approach to international politics arguably gives China an edge over the United States, so, too, does China's obsessively holistic strategic worldview. Chinese planners see everything as connected to everything else. The evolving context in which a strategic situation occurs determines what the Chinese call *shi*. This term has no direct English translation but can be rendered as the "potential energy" or "momentum" inherent in any circumstance at a given moment.

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It comprises geography and terrain, weather, the balance of forces, surprise, morale, and many other elements. “Each factor influences the others,” as Kissinger wrote in his 2011 book, *On China*, “giving rise to subtle shifts in momentum and relative advantage.” Thus, a skilled Chinese strategist spends most of his time patiently “observing and cultivating changes in the strategic landscape” and moves only when everything is in optimal alignment. Then he strikes swiftly. To an observer, the result appears inevitable.

War for Chinese strategists is primarily psychological and political. In Chinese thinking, an opponent’s perception of facts on the ground may be just as important as the facts themselves. For imperial China, creating and sustaining the image of a civilization so superior that it represented “the center of the universe” served to deter enemies from challenging Chinese dominance. Today, a narrative of China’s inevitable rise and the United States’ irreversible decline plays a similar role.

Traditionally, the Chinese have sought victory not in a decisive battle but through incremental moves designed to gradually improve their position. David Lai, an expert on Asian military affairs, has illustrated this approach by comparing the Western game of chess with its Chinese equivalent, *weiqi* (often referred to as go). In chess, players seek to dominate the center of the board and conquer the opponent. In *weiqi*, players seek to surround the opponent. If the chess master sees five or six moves ahead, the *weiqi* master sees 20 or 30. Attending to every dimension in the broader relationship with an adversary, the Chinese strategist resists rushing prematurely toward victory, instead aiming to build incremental advantage. “In the Western tradition, there is a heavy emphasis on the use of force; the art of war is largely limited to the battlefields; and the way to fight is force on force,” Lai wrote in a 2004 analysis for the U.S. Army War College’s Strategic Studies Institute. By contrast, “the philosophy behind *go* . . . is to compete for relative gain rather than seeking complete annihilation of the opponent forces.” In a wise reminder, Lai warns that “it is dangerous to play *go* with the chess mindset.”

LET'S MAKE A DEAL

Washington would do well to heed that warning. In the coming years, any number of flash points could produce a crisis in U.S.-Chinese relations, including further territorial disputes over the South China Sea [17] and tensions over North Korea’s burgeoning nuclear weapons program. Since it will take at least another decade or more for China’s military capabilities to fully match those of the United States, the Chinese will be cautious and prudent about any lethal use of force against the Americans. Beijing will treat military force as a subordinate instrument in its foreign policy, which seeks not victory in battle but the achievement of national objectives. It will bolster its diplomatic and economic connections with its neighbors, deepening their dependency on China, and use economic leverage to encourage (or coerce) cooperation on other issues. Although China has traditionally viewed war as a last resort, should it conclude that long-term trend lines are no longer moving in its favor and that it is losing bargaining power, it could initiate a limited military conflict to attempt to reverse the trends.

The last time the United States faced extremely high Thucydidean risks was during the Cold War—especially during the Cuban missile crisis. Reflecting on the crisis a few months after its resolution, U.S. President John F. Kennedy identified one enduring lesson: “Above all, while defending our own vital interests, nuclear powers must avert those confrontations which bring an adversary to a choice of either a humiliating retreat or nuclear war.” In spite of Moscow’s hard-line rhetoric, Soviet Premier Nikita Khrushchev ultimately concluded that he could compromise on nuclear arms in Cuba. Likewise, Kissinger and Nixon later discovered that the Chinese ideologue Mao was quite adept at giving ground when it served China’s interests.

Xi and U.S. President Donald Trump have both made maximalist claims, especially when it comes to the South China Sea. But both are also dealmakers. The better the Trump administration understands how Beijing sees China’s role in the world and the country’s core interests, the better prepared it will be to negotiate. The problem remains psychological projection: even seasoned State

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Department officials too often mistakenly assume that China's vital interests mirror those of the United States. The officials now crafting the Trump administration's approach to China would be wise to read the ancient Chinese philosopher Sun-tzu: "If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle."

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China's Claims in the South China Sea

Jun 29 , 2018

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C.H.Tung
Chairman, China-United States Exchange Foundation

The Chinese discovered the Spratlys (known as Nansha Island in China) with the earliest archaeological evidence of their use dating back hundreds of years. Navigation guides for fishery activity, compiled by fishermen from China's Hainan Island as early as the 18th Century, not only designated specific names to most features in the Spratlys, but also provided detailed narratives on the direction and distances (expressed in the length of travel time) of the navigational routes. Chinese fishermen would live on these islands during the more favorable fishing seasons.

In addition, China exercised sovereignty over the Spratlys going back to the Yuan Dynasty (1271 – 1368 AD) starting with an official survey of Chinese territories covering the Spratlys followed later by the formal incorporation of the Spratlys as well as Hainan Island into the administration of Guangdong Province during the Qing Dynasty (1644 – 1911 AD).

In more recent history, towards the end of the Second World War, there is ample, clear, and convincing evidence that China has sovereignty over the Spratlys. This was recognized by the international community including the US. Evidence of this can be found in some very important international treaties and declarations.

First, is the Cairo Declaration of 27 November 1943. Second, is the Potsdam Declaration, of 26 July 1945. Third, is the Treaty of Peace, also known as the Treaty of San Francisco, signed on 8 September 1951, between 48 nations and Japan. (Because of the onset of the Cold War, neither the PRC nor the ROC were invited to San Francisco). Fourth, is the Sino-Japanese Peace Treaty, signed on 28 April 1952, between Japan and the Republic of China(ROC). Fifth, is the United Nations General Assembly Resolution 2758, passed in 1971, recognizing that the People's Republic of China was the only lawful representative of China to the United Nations, in place of the Republic of China. And lastly, the Joint Communiqué of the Government of Japan and the Government of the People's Republic of China, signed 29 September 1972, which acknowledged that all territories stolen from the Chinese shall be restored. In each one of these treaties or declarations, reading them separately, or reading the six together, you will find definitive evidence supporting the legal position that the Spratly Islands actually belong to China.

Now, I would also like to briefly describe what has been happening in the Spratlys since the 1950s. Since that time, the Vietnamese have been actively and aggressively taking over many of these features in the Spratlys. The Philippines has also done the same, starting in the 1970s. So today, of all the features in the Spratlys, Vietnam has 29, the Philippines has 8, and China has 9.

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By the 1970s, there was a discovery that the South China Sea possessed a wealth of oil and gas reserves. This resulted in a dramatic escalation of interest in the region, particularly by Vietnam and the Philippines. As a result, tensions increased.

The situation was further exacerbated in 1982, when the United Nations Convention on the Law of the Sea was promulgated, giving states territorial rights over waters 12 miles from the shore, and recognized an economic zone 200 miles from the shore. This has further complicated the claims and counter claims, and enticed even more ASEAN countries to make claims in the South China Sea.

Since the 1970s, China urged restraint. And while insisting on her sovereign rights, China suggested that peace can be maintained if the countries agreed to explore the resources jointly, sharing them together, and leaving the sovereignty dispute for future generations to resolve. China began bilateral negotiations with the other claimants.

Unfortunately, there has been no progress in those negotiations, but since that time, more than a thousand oil wells have been drilled, mostly by the Vietnamese and the Filipinos. But till now, China has not drilled a single well in the area.

Over this period, Vietnam built an airstrip on one of its features. Last year, China decided to proceed with the construction of an airport on one of its features. China has also built four lighthouses in the Spratlys to support international navigation.

By 2002, because of the intensive efforts of ASEAN countries and China, a Declaration on the Conduct of Parties in the South China Sea was reached, promoting bilateral negotiation among the disputing nations on sovereignty issues, and calling for the unfettered freedom of navigation in the South China Sea for all nations of the world. A Code of Conduct between the ASEAN countries and China to reflect the above is now being actively pursued. China believes that this process, although at times fraught with difficulty, continues to be the best way to resolve the dispute.

I hope, from the above, you can appreciate that China's activities in the South China Sea have not been aggressive, nor assertive, but rather has been restrained, and aimed at promoting peace and common prosperity.

I would now like to address the allegations that China does not follow legal norms on the settlement of sovereignty disputes in the South China Sea. It is not commonly known that the United Nations Conference on the Law of the Sea (UNCLOS) successfully produced a convention, only after nine years of marathon discussions and negotiations. The stalemate was broken because the convention provided the parties with an option to make an exception in cases concerning national sovereignty and making boundary delimitation.

China ratified the Convention on 7 June 1996. She made a declaration upon ratification reaffirming its sovereignty over all its archipelagos and islands, including those of the Spratlys. On 25 August 2006, China made a declaration under Article 298 of the Convention that any sovereignty and maritime boundary delimitation issues are excluded from the jurisdiction of any dispute resolution mechanism under the Convention. A similar position is taken by over 30 other countries.

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This is the legal ground under which China has declined to participate in the Permanent Court of Arbitration proceedings at the Hague, called for by the Philippines. Legal experts consider China's position in this regard proper and legal.

The South China Sea issue is now on the front pages, almost daily. While the Americans feel that the Chinese are being assertive, aggressive, unreasonable and fail to adhere to international legal norms; the Chinese people feel strongly that history, logic, and the law is on their side, and despite this, China is still patiently and constructively seeking peaceful solutions. China cannot understand why America takes a different view and is oblivious to the historical facts, and even goes so far as to frequently carry out military exercises in the South China Sea to make her point.

South China Sea | Territorial Disputes

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China-US Relations: Looking Forward

Jul 10 , 2019

Wenzhong Zhou

Vice President, China-US People's Friendship Association

Member of Council of Advisors, Boao Forum for Asia

This year marks the 40th anniversary of the establishment of China-US diplomatic relations. For the past four decades, the bilateral relationship has weathered numerous ups and downs as the two countries keep pressing forward. Today, it has become the most important bilateral relationship in the world. How the two countries engage with each other is not only about the well-being of 1.7 billion people in China and America, but also about peace and stability for the whole world.

Confucius once said, "At forty, I had no doubts." Yet the current situation of the China-US relations has raised some questions. Since late 2017, strategic rivalry between the two countries has been intensifying, and frictions in economy and trade, politics, culture, science and technology increasing. Many people couldn't help but wonder what exactly is going on with the China-US relations? Is it true that the two countries have already stumbled into the "Thucydides Trap", or even worse, into a "new cold war"? Only by a retrospection of history, can we find answers to how to sustain a healthy and stable China-US relationship for the next 40 years.

If we look back on the trajectory in the last 40 years, it is not difficult to realize that one of the most important lessons is cooperation leads to mutual benefit, while conflict puts everyone in harm's way. Cooperation is the best option for both countries. There is a misconception that China policy espoused by the United States for the past 40 years has bankrupted, in the sense that China has not integrated into the US-led political and economic world order. In fact, international relations are based on common interests. The more mutual interests any given two countries share, the broader their cooperation base is, and the more solid their bilateral relations become. Forty years ago, it was mutual interests that brought about the establishment of China-US diplomatic relations. And forty years later, it is mutual interests again that help push forward this bilateral relationship. As globalization deepens, interdependence and intertwined interests have emerged as the most significant characteristic of the modern world. States must engage with one another in dialogue instead of confrontation, in cooperation instead of friction, in win-win instead of zero-sum game. Only by this way can nations better serve the fundamental interests of their own, and contribute to the betterment of the world at the same time.

After 40 years, the China-US relationship has long transformed into one community of shared interests, inextricably interwoven with each other. From 1978 when I was first posted at the China Liaison Office in the United States to 2005 when I was appointed PRC Ambassador to America, I was

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able to bear witness to the historical progress of an ever broadening of China-US cooperation scope, an ever multiplying of cooperation dimensions, and an ever growing of cooperation benefits. Whereas during the first years shortly after the establishment of diplomatic ties, bilateral trade volume was less than $2.5 billion, with the number of people exchange hovering in thousands; in 2005 when I started as an ambassador to the United States, bilateral trade volume reached $211.6 billion and people exchange increased to over two million. In 2018, China-US trade volume went on to value at $633.5 billion, making the two countries the largest trading partner of each other. And people exchange during the same year more than doubled to 5.15 million. All these numbers show that it is not only necessary but also possible for the two countries to avoid falling into the so-called trap of conflict and confrontation, and during the process both China and the United States are able to achieve mutual promotion and mutual development.

Both countries need to think hard about how to address a lack of strategic mutual trust, a fundamental issue underlying today's China-US relations. There is no such thing as "Thucydides Trap" in the world politics. Nevertheless, strategic miscalculation between major powers keeps popping up, a situation prone to leading to a vicious cycle, which in turn might result in the "self-fulfilling prophecy". For some time, anti-China rhetoric within the American establishment have been on the rise. Some are deeply skeptical about China's intentions. Believing China is bent on challenging or replacing US predominance, they advocate a US policy featuring containment of, "decoupling" from or even confrontation with China. Some of them even go as far as trumping such ideas as "clashes of civilizations" and "a new cold war". This is utter strategic misjudgment, as well as wrong prescription for the woes in China-US relations. If we let such agitations fester, it will shake loose the foundation of China-US relationship, poison the atmosphere of bilateral relations, and even push China-US ties down into the "Thucydides Trap".

"Harmony" lies at the core of the Chinese nation's value system. This dictates that China will commit itself to a peaceful rise and uphold an opening strategy of mutual benefit and win-win. The fundamental strategic intention of China is to help its people lead a decent life, and, together with all nations in the world, construct a community of shared future for mankind. China is by no means a replica of the former Soviet Union. It will never follow down the beaten path of "power inevitably leading to hegemony", for such a path will take us nowhere, nor is it welcome anywhere in the world. China will never become a second America, nor does it harbor ambitions of replacing it. Competition between China and the United States is bound to arise, but such competition should be constructive and rule-based. China's development and prosperity present opportunities for the United States, and the same can be said the other way around. Both countries stand to benefit if we strengthen connectivity rather than decouple from each other. We should never allow bias and misjudgment to dictate the future of China-US relations.

Both countries need to address differences and disputes between themselves in a proper way. China and the United states stand in sharp contrast in terms of social structure, history and cultural tradition: whereas China is a socialist country led by the Chinese Communist Party, the United States is the world's largest and most powerful capitalist nation; China boasts a civilization dating as far back as 5,000 years ago, while America is a relatively young nation with a history of some 200 years; American people are proud to claim themselves as "God's Chosen People", while the Chinese

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burn with a strong sense of national pride. The two countries approach issues from different perspectives, thus it is inevitable that differences and disputes arise. However, it is critical that we not allow these differences and disputes prevail. In the bilateral ties, there are much more mutual benefits than differences, much more cooperation than friction. We are obligated to prevent differences and disputes from dictating today's China-US relations. It is critical to face up to and cope with these differences and frictions in a proper way, and to manage them constructively in the spirit of reciprocity and mutual respect.

Recently, the most prominent issue in the China-US relations is frictions in economy and trade. China has made it clear its stance in "White Paper: China's Position on the China-US Economic and Trade Consultations". Guests attending today's forum are all benefiting from the economic and trade cooperation between China and the United States, and all of us understand that mutual benefit and win-win lie at the core of the China-US economic and trade relations. No winner emerges from a trade war. All disputes need to be settled through dialogue and consultation. That being said, all negotiations are bound by principles and bottom lines. China will never budge on issues of principle that bear a direct significance on national pride and core interests. On June 29, President Xi Jinping and President Donald Trump met on the sidelines of G20 summit in Osaka, Japan. The two sides have agreed to restart trade negotiations in the spirit of reciprocity and mutual respect. The Americans assured that new tariffs on Chinese imports will be suspended, and negotiators from the two countries will be tasked with working out the particulars. This move sent a positive signal to the global market and international community. Both China and the United States are willing to expand cooperation in economy and trade, and both countries are supposed to possess capabilities and wisdom of reaching a resolution acceptable to either party. The two countries need to implement what their leaders have agreed upon, move in the same direction, and manage to reach a trade deal as soon as possible. This would come as good news to both peoples and great assurances to the world at large.

Taiwan, Tibet, Xinjiang and South China Sea are issues concerning China's sovereignty and territorial integrity, as well as the feelings of 1.4 billion Chinese people. On such matters, China has no room for any compromise or concession. The United States, with an eye to the overall bilateral relations and its own interests, should address these issues in a cautious and appropriate way, in order to prevent them from affecting and undermining the China-US relations.

People-to-people exchange is an important aspect of informing and shaping public opinions in the two countries. Recently, some American departments and agencies have set up unwarranted barriers against China-US cultural exchange, including visa revocations and prolonged reviews. This has hindered people exchange between the two countries. As a result, starting from July of 2018, the number of Chinese tourists visiting America has been experiencing a steady decline. Many American experts argue that America is over-reacting against the so-called "China threat", and it might deteriorate into McCarthyism type of "Red Scare" in the 1940s and 1950s, which in turn harms American interests in the longer term. President Trump, after meeting with President Xi in Osaka, said America welcomes Chinese students studying in the States. Thus it is imperative that American departments and agencies follow through on the president's positive remarks with

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concrete measures, listen to those rational voices in the two countries, and facilitate, not discourage people-to-people exchange between China and America.

As a witness to the 40 years of China-US relations, I have faith in the prospects of this bilateral relationship going forward. As long as the two sides stand firm on the right direction of no conflict, no confrontation, mutual respect and mutual benefit through cooperation, as long as the two side expand cooperation in the spirit of mutual benefit and win-win, as long as the two sides manage differences and disputes with mutual respect and are committed to promoting a coordinated, cooperative and stable China-US relationship, can this bilateral tie move forward for another 40 years, which will in turn bring more benefits to peoples of the two countries, as well as those from all across the world.

(Note: This is the unofficial translation of the speech, which was delivered in Chinese. Find the Chinese version HERE)

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SCHOOL OF GLOBAL POLICY AND STRATEGY
21st Century China Center

COURSE CORRECTION:

TOWARD AN EFFECTIVE AND SUSTAINABLE CHINA POLICY

Task Force Report

Orville Schell and Susan L. Shirk, Chairs

February 2019

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Task Force participants endorse the overall findings of the report, with individual dissents or additional commentary included at the end of the report. They participated in their individual, not institutional, capacities.

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Acknowledgements

This memorandum marks the second set of findings issued by the Task Force on U.S.-China Policy, a group comprised of China specialists from around the United States convened by Asia Society's Center on U.S.-China Relations and the University of California San Diego's 21st Century China Center. The Task Force first set out in the fall of 2015 to reexamine the U.S.-China relationship in an increasingly uncertain time and offered up a set of recommendations to the incoming Trump administration in its 2017 report, "U.S. Policy Toward China: Recommendations for a New Administration."

Now, two years into the administration, the United States and the People's Republic of China find their bilateral relationship at a dangerous crossroads. As more stresses and strains beset their relations, both sides are casting about for redefinitions of their national interest and new policy directions for attaining them. Thus, the findings in this report come at a particularly crucial time.

As co-chairs of the Task Force, we want to extend our deepest appreciation to all those who have helped us advance our work and without whom this project would have never come to fruition.

We'd like to start by thanking the Annenberg Foundation Trust at Sunnylands—especially its president, Ambassador David Lane, and policy director, Jeffrey Phillips—for their continuing partnership and hospitality shown to our group, both in California and Washington, D.C.

Of course, this project would not be possible without the generous support of our funders, including Carnegie Corporation of New York under the unfailing support of Vartan Gregorian and Stephen Del Rosso, Program Director, International Peace & Security. We are also grateful to The Henry Luce Foundation, especially Helena Kolenda, Asia Program Director, and Li Ling, Asia Program Officer; Janet Ross; and Harold and Ruth Newman.

A very special thank you is due to Laura Chang and Michael Laha at Asia Society's Center on U.S.-China Relations and Lei Guang at UC San Diego's 21st Century China Center, who have been the operating system for Task Force activities.

Finally, we would like to thank all the members of this Task Force who have generously and collegially devoted themselves to this project over the past three years. At a time when governments are so challenged, we feel it is more important than ever to have well-informed civil society groups such as this one playing a monitoring and advisory role.

Orville Schell and Susan L. Shirk
Co-chairs of the Task Force on U.S.-China Policy

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Introduction

The United States and China are on a collision course. The foundations of goodwill that took decades to build are rapidly breaking down. Many American opinion makers are starting to see China as a rising power seeking to unfairly undercut America's economic prosperity, threaten its security, and challenge its values, while their Chinese counterparts are starting to see the United States as a declining power seeking to prolong its dominance by unfairly containing China's rise. Beijing's recent policies under Xi Jinping's leadership are primarily driving this negative dynamic, so the Trump administration is right to counter those Chinese actions that defy norms of fair economic competition, abrogate international law, and violate fundamental principles of reciprocity. The Trump administration is justified in pushing back harder against China's actions, but pushback alone isn't a strategy. It must be accompanied by the articulation of specific goals and how they can be achieved.

As the Trump administration stands up to China, it must also clearly express a willingness to pursue negotiated solutions by spelling out specific steps that could restore equity and stability to the relationship. Otherwise, the United States risks an irreparable, and possibly avoidable, rupture in this crucially important bilateral relationship. To avoid such a breakdown, the United States and China should seek negotiated solutions to priority issues whenever possible and erect prudent guardrails—including the appointment of specially designated officials—to keep the relationship from running further off the tracks. An adversarial United States-China relationship is in no one's interest. More responsible statecraft is required both to protect American interests and to increase the chances of avoiding that no-win outcome.

Fashioning a China Strategy Consistent with U.S. National Interests and Values

As the Trump administration begins its third year in office, this year's Task Force memorandum builds on our 2017 report (*U.S. Policy Toward China: Recommendations for a New Administration*, www.AsiaSociety.org/USChinaTaskForce) to identify the fundamental interests of the United States in its relationship with China. These are a fair market-based global economic system, a peaceful and stable Asia-Pacific region, a liberal rules-based political and economic order, and a stable and productive relationship with China.

To further these interests we propose a strategy of "smart competition." "Smart competition" involves building on American strengths to compete effectively with China while maintaining as much cooperation as possible in areas of common interest; building international coalitions to press China to follow international laws and norms; negotiating resolutions of key disputes wherever feasible; and preserving and updating those international institutions that have enhanced the welfare and security of both countries and the rest of the world for so many decades.

"Smart competition" means that while the United States must never compromise its national interests, neither should it define those interests as always antithetical to China's pursuit of its legitimate economic and security goals. It is natural for China's international role to expand as its economy, international interests, and diplomatic capabilities grow. Opposing Chinese influence across the board is neither desirable nor feasible. Our policy goal should be to provide the kind of American leadership that maximizes the chances of China's contributing at a global level in constructive ways that benefit not only itself, but the U.S. and the broader global community as well.

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The Trump administration has put great power competition with Russia and China at the heart of its national security strategy. But Russia and China present very different challenges to the United States. Vladimir Putin aims to destabilize and subvert Western democracies, while China's leaders instead have tried to influence Western narratives about China in an effort to win acceptance and favor for its economic development model and its one-party system of government. The contrast between Russia and China is even sharper when it comes to their economic impact on the United States and the world. Except for oil and gas exports, Russia is neither a serious economic competitor nor an important economic partner of the United States. China, with an economy (the second largest in the world) deeply intertwined with that of the United States, is both a competitor and a partner.

Given the close economic ties between the U.S. and China, efforts to decouple our two deeply intertwined economies should proceed with great caution.

Given the close economic ties between the United States and China, efforts to decouple our two deeply intertwined economies should proceed with great caution. The United States must safeguard its national security and the key technologies that underpin it. But national security restrictions on trade and investment should be highly selective, and policymakers should be mindful of their costs, including to America's own innovation ecosystem. Disruption of production chains could hurt global economic stability and growth. U.S. alliances could be weakened if friendly countries believe they must choose sides between two valued trading partners, the United States and China. A properly regulated system of economic relations is a crucial part of a comprehensive national security strategy.

A strategy of "smart competition" must be a mixture of competition and cooperation that does not foreclose the avenues for stability, comity, and growth. Only if we make a good-faith effort to negotiate the issues of importance to the United States will we be able to continue to test the willingness of China's leaders to modify their policies. Thus a deeper understanding of what is happening within China itself is essential information as we adjust our own policies going forward.

Many of China's recent actions require a firmer U.S. response and a greater insistence on fairness and reciprocity, and there is no guarantee China's leaders will be willing to respond to this challenge in a constructive way. But the United States has as much to lose from overreaction as it does from under reaction. The United States must not defend itself in ways that undermine the openness and vibrancy of its own society; these, after all, are the ultimate sources of American strength and competitiveness. Our critical challenge is to right-size the China threat and pursue solutions that effectively address that threat without undercutting the vitality of the American system, our alliance structure, or our economic well-being.

So long as we preserve our alliances and partnerships, the prospects that China will be able to drive the United States from the Asia-Pacific, much less to dominate the world, are slight. When it chooses its policies wisely, the United States has many inherent economic and political advantages. In short, in the face of China's rapid rise and the myriad challenges it poses, the United States has good reason to be confident in its ability to compete successfully and to continue to lead globally.

Taking Stock of 2017-19: What Has Changed

This memorandum of the Task Force on U.S.-China Policy considers what has changed in China's strategy since we issued our first report in February 2017 and then makes recommendations on how the United States ought to respond in the current climate. We focus on five different issue areas: economics and trade; regional security; global governance; human rights; and China's influence-seeking and interference abroad.

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When the Task Force issued its first report in February 2017, China's leaders were already acting more assertively in Asia, taking an increasingly mercantilist approach toward trade and investment, using more coercion to advance their maritime claims, and adopting a more authoritarian posture in their domestic politics. These negative trends had begun to gain momentum after the global financial crisis in 2008 tarnished the prestige of Western democratic capitalism as a model and stimulated a sense of nationalist triumphalism in China. After Xi Jinping became the country's leader in 2012, China's assertiveness increased markedly in both international and domestic domains, and in the intervening years has provoked a growing backlash in the United States and around the world.

Beijing has engendered serious doubts about its peaceful intentions with assertive efforts to consolidate its long-held, vaguely defined, and expansive claims of sovereignty over the South China Sea in ways that have harmed the legitimate interests of neighboring countries and flouted international law. At the same time, it also has begun developing asymmetric military threats to the decades-long strategic stability created by U.S. military presence in the Asia-Pacific, under which China, too, thrived. The Chinese Communist Party (CCP) also stepped up its worldwide efforts to claim what it calls "discourse power," by using sometimes covert and intrusive methods to induce ethnic "overseas Chinese" as well as other foreign groups abroad to adopt, or at least accept, pro-CCP positions. Beijing's encroachment on Hong Kong's autonomy and its pressure tactics to narrow Taiwan's international space have further marred its international image.

At the same time, China's increasingly unfair business practices have generated growing international criticism, especially from the very businesspeople who have traditionally been most enthusiastic in their support of engagement with China. One of their most serious concerns is the way Beijing has ramped up its massive state drive to dominate the technologies of the future, both at home and abroad. This has included not just legitimate forms of Chinese innovation and investment, but also the acquisition of foreign technology through illegitimate means such as cyber theft, intellectual property violation, and forced technology transfer. As market reforms stalled or were reversed and the Chinese state's role in the economy has grown, it has become increasingly clear that China is no longer converging with global norms of fair market competition but is in fact steadily diverging from them.

Xi Jinping's revival of personalistic autocratic rule makes China a less predictable and trustworthy partner and accentuates the political and values system gap that makes finding common ground more difficult.

Xi Jinping's revival of personalistic autocratic rule, including the scrapping of presidential term limits and his refusal to adhere to precedent for the peaceful turnover of political power for top leadership positions, makes China a less predictable and trustworthy partner and accentuates the political and values system gap that makes finding common ground more difficult. The Chinese Communist Party has tightened its control over information and society. It enforces ideological orthodoxy, demands political loyalty, and screens out foreign ideas, particularly in education and the media. Moreover, by arresting rights lawyers, incarcerating and indoctrinating Muslim minorities in the Xinjiang region, and repressing independent Christian congregations throughout the country, the regime has attracted increased international opprobrium as a human rights violator and set itself more explicitly in opposition to liberal values.

Across multiple domains, Xi Jinping is enacting policies that put China's impressive development success story at risk by diminishing its once self-professed hopes for a "peaceful rise" in a stable international environment. Moreover, the leadership is now attempting to paper over its responsibility for the growing global backlash against its more assertive policies by framing the foreign response as a reaction to China's economic, technological, and

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military achievements. In reality, the global community is reacting not to China's success and growing capabilities, but to how the current leadership has sought to use China's new wealth and power in ways that are inimical to the very global order that fostered China's rise, as well as to the interests of the United States and many other nations.

This new dynamic that emanates from Beijing has precipitated a deep questioning—even among those of us who have spent our professional careers seeking productive and stable U.S.-China ties—about the long-term prospects of the bilateral relationship. We view this current period as unprecedented in the past forty years of U.S.-China relations. In the past, good sense usually prevailed and American and Chinese policymakers and scholars always managed to overcome severe bilateral strains triggered by specific incidents. We saw such a recovery even after the 1989 Tiananmen Square crackdown, as well as after the 1995-96 Taiwan Strait crisis, the 1999 accidental bombing of the Chinese embassy in Belgrade, and the 2001 collision between a U.S. surveillance plane and a Chinese fighter jet. By contrast, the current downturn in relations is deeper and more systemic in scope. What is more, it is occurring at a time when the U.S. and China's economic and military capabilities have become more evenly matched, making the dangers of overt conflict far greater.

The Trump administration has exacerbated these dangers by undervaluing two of the United States' greatest advantages: our network of allies and partners and the global multilateral institutions on which we all depend.

The Trump administration has exacerbated these dangers by undervaluing two of the United States' greatest advantages: our network of allies and partners and the global multilateral institutions on which we all depend. By questioning the benefits of or actively undermining these alliances, trade agreements, and multilateral institutions—and sometimes casually violating America's international commitments—it has heedlessly devalued the rule of law, alienated friends, and undercut America's reputation at the very time when, given China's actions, we need them more than ever. The Trump administration's behavior also has tarnished the U.S. image as a beacon of liberal values on the world stage. This has emboldened the CCP, worried countries caught between the U.S. and China, unnerved our allies, and dispirited those Chinese people who desire political reform.

A particularly damaging error was the administration's abandonment of the Trans-Pacific Partnership (TPP), a regional trade agreement that would have joined together a dozen like-minded states and pushed China to conform to higher standards of fairness and reciprocity in trade relations. The administration also disrupted the U.S.-global economy through the imposition of unilateral punitive tariffs on trade with China. Although the massive tariffs had the virtue of getting Beijing's attention, they not only seemingly violated U.S. commitments at the WTO, but left unclear whether the administration's goal was to "decouple" the deeply intertwined Chinese and American economies, or to pressure China to adopt a more reciprocal and rules-based approach to trade and investment. If the latter, better alternatives, including TPP, were available to the administration.

But such failures do not obviate the reality that the long-held bipartisan strategy of engaging China from a principled position of strength now requires adjustment to reflect Beijing's growing assertiveness and the new reality of our more competitive bilateral relationship. Engagement from a principled position of strength always included an adjustable mix of cooperation, deterrence, and pressure. That strategy has basically been successful, enhancing regional stability for decades, convincing China to forego the use of force in its many regional disputes in the South China Sea and East China Sea, and encouraging China to pursue economic marketization and reassurance policies toward its neighbors. This approach also allowed the United States and China to manage their differences while cooperating on many global issues of common interest such as fostering trade, addressing

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climate change, and preventing nuclear proliferation. In response to China's growing assertiveness in military and foreign policy matters in the past ten years, as well as its increasingly mercantilist economic policies, the United States must respond with a course correction, altering the mix of cooperation and pressure to more strongly emphasize pressure and deterrence. But we do not call for the United States to pivot toward a latter-day containment policy or give up seeking cooperation with China where it can. In fact, a tougher approach of push-back against Chinese assertiveness and destabilizing policies gives us the maximum chance that China will return to the more cooperative and less destabilizing policies it had adopted earlier.

Emerging Challenges to American Interests

Unfortunately, by the midpoint of the Trump administration's first term, the negative trends in Chinese behavior that were highlighted in our earlier report have only grown more pronounced and worrisome. If the three most harmful trends identified below are now to be effectively addressed, a more robust and proactive U.S. policy toward China is required.

(1) China's pursuit of a mercantilist high-tech import-substitution industrial policy

The Chinese state ramped up its clearly scripted and lavishly funded strategy to dominate the technologies of the future, not just through its own innovation but also by acquiring foreign technology by inappropriate means. This is not a standard industrial policy in which the government merely enables or channels spontaneous market activity. Instead, the policy aims to help Chinese firms control targeted sectors of technology markets both at home and abroad, dominate a wide range of cutting-edge industries deemed "strategic," and put systemic limits on the operation of foreign competitors in its own domestic markets. As a result of this strategy, many foreign firms are pressured to transfer technology in order to conduct business in China, while others become victims of cyber theft by Chinese state actors. Despite decades of reform, discriminatory treatment of foreign firms is still deeply embedded in the Chinese system of bureaucratic protectionism.

The United States must respond with a course correction, altering the mix of cooperation and pressure to more strongly emphasize pressure and deterrence.

As a result of intensified state control, the Chinese economy is diverging from global market norms. While rhetorically China's leaders espouse an open global economic order, domestically the party-state is now dominating the economy more than it has at any time since the Mao era. Market reforms and the opening of the country to imports and inbound investment have stalled. At the same time, China's government funds outbound investments by private as well as state firms to bring home technology and know-how in areas like robotics, chip fabrication, artificial intelligence, aerospace, ocean engineering, advanced railway equipment, new energy vehicles, power equipment, agricultural machinery, new materials, and biomedicine and medical devices. The goals of China's industrial policy as expressed in the government's major plans, such as "Made in China 2025" and "Civil-Military Integration," are not just to help China achieve high-tech import substitution and dominate global markets in tech sectors, but also to enhance the country's military power.

Beijing's approach is forcing the United States and other advanced industrial countries to reassess their open and market-based commercial relationships with China in order to discipline mercantilist and zero-sum Chinese practices, preserve their own economic competitiveness, and protect their defense industrial bases.

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(2) China's efforts to project power and influence in East Asia

Beijing's actions and its military modernization signal its growing desire to project greater power in East Asia. To do this, China is seeking to increase control over the South China Sea (SCS), pressure Taiwan's government toward reunification, shift the military balance with Japan in the East China Sea, weaken the credibility of American assurances to allies and partners throughout the region, and deter or delay U.S. intervention in a conflict over Taiwan. Reforms of the People's Liberation Army (PLA) launched by Xi Jinping emphasize improving China's naval, air, missile, and cyber forces in order to be able to conduct joint operations in the region, especially in the "near seas" adjacent to China, against U.S. allies. China also continues to repudiate the ruling of the 2016 International Tribunal on the Law of the Sea, which rejected China's claim to historic rights in the South China Sea and upheld the lawful claims of littoral states to Exclusive Economic Zones in these waters. China completed development of seven artificial islands in the SCS, in which the PLA navy, coast guard, and maritime militia now maintain a continuous presence. This increased maritime activity raises the risk of accidents or confrontations with U.S., French, British, Japanese, Indian, Australian, and regional forces operating lawfully in the area.

(3) China's hardening authoritarianism

Under Xi Jinping's leadership, China has been reversing what had been a slow and sometimes halting process of social and political liberalization by turning back toward more authoritarian forms of political control. For three decades after Mao Zedong's death in 1976, China's party-state gradually lessened its ideological controls on social and economic life. This progress created domestic support in both countries for U.S.-China cooperation. By making a U-turn back to personalistic dictatorship, Leninist party rule, and enforced ideological conformity, Xi has created new obstacles to engagement with the United States and other liberal democracies around the world, while also erecting barriers to Chinese interactions with foreign civil society institutions such as universities, think tanks, and non-governmental organizations (NGOs). One of the most egregious examples of the return to Mao-era repressive practices is the round-up of hundreds of thousands of Muslims in the Xinjiang Uyghur Autonomous Region and their confinement in camps where they are forced to undergo intensive "re-education" aimed at weakening their religious convictions and strengthening their loyalty to the Chinese party-state. Across China, independent Christian churches have been shut down. Civil rights lawyers, feminists, environmental activists, and citizen petitioners have been imprisoned or put under police supervision. The media and the Internet are under ever more rigid state controls, while faculties, students, and scholars at universities are now required to receive political instruction in Marxism, and research collaborations with foreigners in the social sciences and humanities are increasingly obstructed.

Party organs such as the Central Propaganda Department and United Front Work Department now also are reaching more aggressively out beyond China's borders in new and more intrusive ways to manipulate and punish overseas journalists, scholars, and NGO staffers at those universities, think tanks, and civil society organizations the party views as overly critical of China, while at the same time rewarding those who act as its cheerleaders with trips, contracts, and honors. United Front party organizations have also stepped up activities to influence other foreign individuals and organizations, to target Chinese nationals and members of the Chinese diaspora community living abroad, and to squelch critical views by playing on patriotic pride and an elaborate but subtle system of retaliation and intimidation.

Guidelines for Effective Management of U.S.-China Relations

Given these new realities, in protecting and advancing U.S. interests and values American policymakers need to be prepared to tolerate more tension in the relationship, even though this tension may create domestic economic and political difficulties. At the same time, wherever China is willing, U.S. policymakers should also be ready to seek opportunities to negotiate resolutions on priority issues and to cooperate in areas of common concern.

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We offer the following guidelines to help U.S. policymakers strike the delicate balance needed in an era of "smart competition" as they seek to manage relations with China under increasingly trying circumstances:

First, the United States should publicly call out Chinese practices and firmly stand against China when it conducts itself in ways harmful to U.S. interests, even if responding comes with economic costs to ourselves. However, decisive action against Chinese conduct should always be accompanied by a clear set of achievable demands. And as the United States responds, the measures taken should always be carefully designed to protect specific U.S. interests, not used simply as a form of retaliation or competition for their own sake, or for political grandstanding.

Second, the United States should avoid adopting exclusionary policies that irreversibly delink the two economies and societies. While there will sometimes be a clear national security case for maintaining production capabilities in specific sectors inside the U.S., destroying global production chains and seeking to replace them with two rival economic blocs, at this stage of the relationship, would not only hinder our own economy and innovation ecosystem, but also make China more of a possible security threat by reducing the U.S. economic leverage on it.

Third, in competing with China, we should always strike a judicious balance between protecting national security and preserving our own open society. The United States must avoid overreactions to perceived China threats that could trigger an anti-Chinese "red scare." We should beware the dangers of repeating the mistakes of the McCarthy era by casting unfair suspicion on all ethnic Chinese and others who have close ties with China.

Fourth, the United States should pursue cooperation with China on those global and regional issues where it is clearly in our national interest to do so and where China is willing. In the past, China has voluntarily collaborated with the United States on such critical areas as climate change, preservation of the oceans, fighting pandemics, developing third-country infrastructure investment, counter-terrorism, and nuclear non-proliferation in North Korea and Iran. Washington should continue to seek to engage Beijing to work with us on both these areas and new ones such as the global refugee crisis.

One area where the Trump administration has been particularly remiss is climate change. During the Obama administration, the U.S. and China had, after many years of trying, finally developed a very constructive collaboration on many aspects of the climate challenge. The Paris Climate Accord involved an historic moment of cooperation to address a major shared global challenge. It also provided an ongoing forum in which the United States could cooperate with China on a critical common problem, a very real threat to our planet. Regrettably, the United States has now withdrawn from the climate accord, abandoning not only the best current effort to mitigate this daunting global challenge, but also dismantling one of the most fruitful areas of joint United States-China collaboration.

Fifth, in seeking to induce positive changes in Chinese behavior, the United States should enhance its coordination with friends and allies rather than act alone. Whenever possible, the United States must operate on the basis of established multilateral agreements and principles that are shared by allies and friends, fortifying them and using them as the focal points for joint action. And because of the political backlash against China's increasingly assertive posture abroad, there may be new opportunities for concerted action.

Sixth, the United States should neither stop advocating for its own liberal democratic values, nor surrender hope that many Chinese share these values. A deeply rooted liberal tradition exists in China, even if it has been temporarily forced into quiescence by the present resurgence of authoritarian controls. But it is far from dead, and its suffocation by the party leaves many Chinese intellectuals quietly chafing. We should not forget that the

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party's dictatorial rule has always waxed and waned and that the tolerance of the urban middle class for repression could well weaken as economic growth slows. Moreover, we would forget at our peril the ways in which China has unpredictably changed in the past and will certainly do so again in the future.

Finally, our best defense will always be to be a better version of our own democratic selves. In this new era of growing competition, the United States must protect and strengthen our own innate advantages. These include both our soft- and hard-power assets. So, even as we maintain our hard-power assets, we must also reaffirm our own commitments to a free and open society, an effective democracy, a dynamic economy, greater investment in education and research, consistent support for a vibrant civil society, and a commitment to rebuilding our nation's infrastructure. These societal strengths will be fundamental to America's international leadership and its national security and will undergird our ability to compete with an increasingly challenging China.

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Dealing with the Dragon

To reach a new understanding with Beijing, we need to appreciate China's history—and the worldview and expectations that motivate its leaders.

BY PHILIP A. SHULL

Winston Churchill famously referred to Russia as "a riddle wrapped in a mystery inside an enigma." Doubtless, many would agree the same could be said of China. During nearly four decades dealing off and on with China, first as a university teacher and then as a diplomat with the Foreign Agricultural Service, I have seen hundreds of officials and exporters from dozens of countries smack their foreheads in surprise and frustration at Chinese behavior—from unjustly rejected shipments and illogical lurches in negotiating positions to blatant disregard of World Trade Organization commitments.

Since the United States and the People's Republic of China established diplomatic relations in 1979, the relationship has swung back and forth between one of glowing expressions of optimism about shared interests in a peaceful and prosperous world, and one of tension and mutual mistrust. Always underpinning hopes for a happy future on the U.S. side was the basic assumption that China would join the international community as a "responsible" player, and that the obvious benefits of a "rules-based" system of trade and diplomacy would inevitably lead China in that direction, to the betterment—and enrichment—of all.

Since Beijing's accession to the WTO in 2001, trade with China has exploded and the country's potential as a market has become greater than ever. Yet the promise of China operating as a trusted and conventional member of the international community has not been realized and seems further away than ever. Instead, China's spectacular economic rise has led to outrageous behavior and unfair competitive practices. China's frequent and flagrant flouting of WTO rules has resulted in many billions of dollars in lost trade and consternation among U.S. and "like-minded" traders, policymakers and negotiators.

So, what's going on? Why doesn't China behave like a "normal" country and play by the rules? Why does Beijing act in ways that undermine the confidence of the global community? Why would China take these self-destructive actions now, precisely when its historic achievements have made it the second-largest economy in the world, and when its new prominence on the world stage has rekindled a desire to be seen as a global leader and to reclaim what it sees as its rightful position as "The Middle Kingdom"? Most importantly, how do we encourage China to be a positive force in a world where its impact is so huge?

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Rules as Objective Requirements vs. Optional Tools

It will come as no surprise to diplomats and other international practitioners that China's actions and reactions—which many Americans find shocking—may be traced in large part to fundamentally different expectations and worldviews. When it comes to global economic competition, those differing views include (a) the role and responsibility of government and (b) the role and purpose of rules and regulations.

While the American ideal of the government's role in trade is to create and police a transparent, predictable egalitarian system in which participants may compete and strive for "life, liberty and the pursuit of happiness," the Chinese ideal is very different. Most Chinese I know believe the government not only may, but must take a far more active role. Because government has the responsibility to ensure domestic tranquility and provide prosperity, it is only natural for government at all levels to become active and biased participants in promoting trade.

Similarly, while the American view is that rules and regulations should be equally applied and consistently enforced, Chinese government officials are expected to use rules and regulations as simply another set of policy tools to be used or set aside in the pursuit of broader policy objectives that serve the national interest. The U.S. government and U.S. companies are not the only ones that have had secrets stolen or shipments unjustly rejected. Indeed, when it comes to violating international trade norms, China has been a model of nondiscrimination.

The Chinese are genuinely puzzled by our reverence for "principle" and see it as a weakness to be exploited. I have been in many trade negotiations where the Chinese seek to defend an unjustified trade barrier by quoting from the WTO's declaration that each country has the right to establish its own regulations. Fundamentally, China rejects and is even confused by a trading system based on "rule of law," and tries to operate instead according to a "rule by law" of its own making.

Understanding China's Behavior

The root of China's interventionist and authoritarian role in trade and all other parts of its economy may be found, among other places, in its searing experience with scarcity, especially food scarcity.

As I learned in a Foreign Service Institute area studies class decades ago, no country in the world has known more starvation than China. The impact of recurring famine was so common and so profound that it became embedded in the Chinese language. The Chinese

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word for "population" is made up of "person" + "mouth," and a colloquial way of saying hello is, "Have you eaten yet?" (By contrast, in English we talk in terms of "per capita," which comes from the Greek "per head." Most Western language greetings inquire about health and family, perhaps because it was disease rather than starvation that was the greatest threat to life.)

One of the worst famines in China's history took place after the founding of the PRC in 1949. While estimates vary, it is widely agreed that Chairman Mao's Great Leap Forward resulted in tens of millions of Chinese dying of hunger from 1959 to 1962. Significantly, this occurred during the formative years of most of China's current top leadership.

China's actions and reactions—which many Americans find shocking—may be traced in large part to fundamentally different expectations and worldviews.

Combined with the powerful weight of history and imperial Confucian tradition, these long years of tremendous suffering and turmoil refreshed and entrenched the conviction in the Communist Party that strong, centralized authority is essential to bringing a higher standard of living for the people, and a bright future for China. Yet as confident as the PRC leadership is that its power and position justify its behavior, many Chinese officials also recognize that China's continued growth and prosperity depend on constructive economic relations with other countries.

The PRC's lack of respect for the WTO and other international norms is also because China had no part in their creation, and its experience with international treaties has been far from pleasant. After many centuries as the richest and most advanced country in the world, China experienced invasions and "unequal treaties" in the 19th and 20th centuries. Profoundly humiliating, these experiences still help shape how Chinese leaders approach international trade and security questions—including their aggressive steps to assert China's centuries-old "Nine-Dash-Line" territorial claims in the South China Sea. Of course, to understand unacceptable behavior is not to excuse it.

I agree with many others who believe that the best way to change China's behavior is to work together with our allies. Beijing's modus operandi is to divide and conquer. While the United States is strong enough to go "toe-to-toe" with China, many others are not. China respects power. To the extent we can enlist those countries in our efforts, we will all stand that much taller.

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Competitive Leadership

One of the most eloquent and insightful statements about international leadership I have seen is in President Dwight David Eisenhower's farewell address. Delivered in 1961, at a time when the United States was the dominant power in the world, he said: "Understandably proud of this pre-eminence, we yet realize that America's leadership and prestige depend, not merely upon our unmatched material progress, riches and military strength, but on how we use our power in the interests of world peace and human betterment."

This truth is a basic lesson Chinese leaders have not yet learned. As long as China behaves with such narrow self-interest, it cannot join—much less displace—the United States as a top global leader. China is still trapped in the mindset that "might makes right" and that being the biggest means being the best.

There is a reason why many countries have prominent boulevards and plazas named Roosevelt, Kennedy and Eisenhower. Global leadership is demonstrated and earned by pursuing policies that work toward the common good, and by honoring commitments and following rules even when they disadvantage the country in a particular case. The reservoir of goodwill and trust the United States has built up over the decades endures, despite occasional missteps. When combined with the quality of our products and trustworthiness of our traders, the United States is well placed to retain its role as a global leader and its tremendous competitive advantage in global trade.

To give credit where it is due, hard work, determination and economic reform policies have transformed China, lifting hundreds of millions out of dire poverty and making it a leading world economy. But without a fundamental change in behavior that makes it less of a riddle, mystery and enigma, China will not become a leader of nations.

Philip A. Shull is a retired FSO who served in China (three times), the Philippines, Argentina, Korea and Hong Kong during 31 years with the Foreign Agricultural Service. He is a retiree representative on the 2017-2019 AFSA Governing Board.

THE GREAT WALL SEPARATING COMMON GROUND

The Chinese term *mao dun* (literally "spear shield") is used to describe two irreconcilable differences. It comes from a famous folktale about an endless battle between two warriors—one with a spear that could pierce any shield, and the other with a shield that could stop any sword. Here, drawn from my personal experience, is a sampling of common Chinese practices that run counter to our sense of right and proper international behavior.

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Inconsistent application of import regulations. A product rejected at one Chinese port may well be accepted at another. I was meeting with an importer when he got a call about an arriving shipment. "Yes … good … What?! NO! The ship must dock at BERTH SIX! That is where things are arranged!" he exclaimed. Vastly different tariffs may be assessed for the same product, as well. In one case I worked on, one company importing a product with a 44 percent tariff paid zero, while another importer paid 100 percent.

Ignoring their own trade bans and their own rhetoric. For many years in the trade, there was a running joke that because Beijing banned a certain U.S. product, China was only our fourth-largest market for it. During a break in one negotiation in which I had been told yet again how U.S. meat was unsafe and posed a grave risk to Chinese, my opposite number came up to me and said, "Minister Counselor Shull, I want to tell you my wife and I are so happy our son will be going to university in the United States!"

Changing requirements in the middle of a negotiation. When Chinese officials were surprised to learn we could comply with a new technical requirement for an agricultural product, they called a break and then announced a stricter one.

Rejecting shipments that are no longer profitable. If the price of an imported product has dropped between the signing of the contract and the delivery, chances rise that Chinese inspectors will find the shipment does not meet contract specifications and reject it.

Ignoring some laws and regulations to achieve a more important objective. During the peak of the "one-child policy" in the late 1980s, I discovered in my crop travels that most farmers were ignoring it. When I asked a Beijing official in charge of rural policy about this, he said: "Local officials must adapt central government policies to local conditions. The one-child policy in the villages might be very unpopular with the peasants."

Relationships trump laws and rules. One joint venture executive shared two kernels of wisdom: "The signing of the contract marks the beginning of the negotiations," and "If the relationship is not good, the contract won't save you." (These attitudes toward relationships played out even inside the embassy. In the early days of ICASS, the admin section put out a notice that agencies could no longer share office supplies. When one Foreign Service National was challenged for using another section's copier, she replied, "Oh, it's okay, because one of your officers is married to one of our officers, so we are related.")

Mistrust of "The People." Even otherwise open-minded Chinese I have spoken with say China is "too big" for democracy. When I spoke with demonstrating pro-democracy students in Tiananmen Square in 1989, some told me: "Well, of course, we can't let everyone vote. Peasants don't have education and would vote to raise food prices, and that would be destabilizing."

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Mistrust of "The Market." During the early introduction of market reforms, one local grain official asked me, "How does the U.S. government set the price of bread?" I explained that our government doesn't do that; the price floats. "If there are 100 people and 50 loaves of bread, there is one price; and if there are 50 people and 100 loaves of bread, there is another price," I said. He paused for a moment and then asked, "How does the U.S. government set the price of bread?"

Setting impossible standards. One way China has tried to reconcile millennia of absolute government power over commercial operations with an objective and egalitarian rules-based system of trade and laws is to set standards no one can meet, and then give officials the discretion about whether to enforce them. This practice alone has disrupted billions of dollars in U.S. food and agricultural exports.

—Phil Shull

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Diplomacy

‘Don’t poke China but keep it guessing’: White House insider Michael Pillsbury’s take on Trump’s strategy

US president sees Beijing as competition, not enemy, Pillsbury says

Topic | US-China relations

Wendy Wu | South China Morning Post | Updated: Wednesday, 20 Feb, 2019 9:03pm

There is scope for Beijing and Washington to build a cooperative relationship but the US has to keep China on edge, according to a top adviser to US President Donald Trump.

Michael Pillsbury, director of the Centre for Chinese Strategy with conservative think tank the Hudson Institute, said Trump had no intention of branding China an “enemy”, but regarded it as a competitor that had to be checked and counterbalanced, and an “unpredictable” US was the way to do that.

Pillsbury, described by Trump as the “leading authority on China”, made the remarks on Tuesday at an event examining the roles of the United States, Japan and India in countering China’s growing influence in the Indo-Pacific region.

The event coincided with trade talks in Washington this week between Chinese and US officials. Chinese Vice-Premier Liu He, US Treasury Secretary Steven Mnuchin and US Trade Representative Robert Lighthizer will meet on Thursday to try to beat a March 1 deadline for the US to impose more tariffs on Chinese imports.

The Hudson Institute was also the venue for US Vice-President Mike Pence speech in October in which he called for a tougher approach towards Beijing as the confrontation between China and the US spilled from trade to security and ideology, fuelling fears of a new “cold war”.

The rivalry between the world’s two largest economies has long been anticipated, according to Pillsbury, who said Trump predicted in 2000 that China would be the greatest challenge for the US.

But Pillsbury also said that in more than 50 speeches from Trump mentioning a free and open Indo-Pacific, the businessman-turned-president never “demonised” China or named it an enemy or adversary. He preferred the word “competition”.

There have been about 30 phone calls between Trump and Chinese President Xi Jinping and some of those lasted an hour. That was “not two enemies talking to each other”, Pillsbury said.

“The notion now, the solution to trade disputes could probably come in a face-to-face conversation of some kind,” he said. “The potential for cooperation with China remains.”

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In addition to the tariffs war, China and the US are at odds over development of Chinese technology. On the weekend, Pence claimed Chinese telecom giant Huawei posed a security threat – a statement rebuked by Chinese State Councillor and senior diplomat Yang Jiechi.

Then there is the South China Sea, to which China and a number of other countries lay claim. Beijing has protested against the presence of US warships in contested waters, movements that have become more common over the past two years as Washington revitalised its Indo-Pacific strategy in December 2017 to counter the growing geopolitical influence of China.

Patrick Cronin, a senior fellow with the Hudson Institute, said China was rewriting the rules "very swiftly ", mainly through the Code of Conduct in the South China Sea under negotiation with Asean neighbours.

The parties agreed to establish a non-binding code during a 2002 summit Phnom Penh, Cambodia, after more than a decade of tensions over territorial claim and counterclaim on the resource-rich waters.

A more formal framework for the code was settled in 2017 with the aim of completing talks by 2020, although the details have never been made public.

"It is clear that India, Japan and the US can do much about this here toward a common approach, toward international law that does not allow China to create exclusive regional rules," Cronin said.

In October, the US Congress passed the Better Utilisation of Investments Leading to Development Act of 2018, known as the Build Act.

This sought to double the investment cap for the Overseas Private Investment Corporation, an intergovernmental agency to channel US private capital and influence towards overseas projects – a US$60 billion counter to China's "Belt and Road Initiative".

Pillsbury said the US Indo-Pacific strategy was not a cold war-style containment plan for China, but he said Beijing warned that the strategy "could move in that direction".

One of the areas yet to be tested was the balance of military power, and possible conflict scenarios such as Chinese military action against self-governing Taiwan had to be assessed.

He also said Chinese hawks were particularly sensitive to US arms sales to India as they saw it as evidence of an alliance between the US and India.

"If we, in fact, do nothing more than what's already been done, and Chinese hawks perceive that as a reason to strengthen their armed forces and prepare themselves for a new cold war, that to me would be a nightmare," Pillsbury said.

"It will be not the intention of the authors of the Indo-Pacific strategy to use hollow, almost meaningless in a strategic sense, rhetoric to provoke China into much stronger, assertive reaction we've ever expected," he said. "Be careful of what you wish for.

"So, my own view is that the president balances these ideas. He is smarter than me, and he sees choices that lie ahead with China. But do not forget the point, unpredictability is the best way to out-negotiate the Chinese."

"So, how do you be unpredictable? Certainly, vagueness and ambiguity will be in there," he said.

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BROOKINGS

Order from Chaos

Responsible competition and the future of U.S.-China relations

Seven critical questions for strategy

Ryan Hass and Mira Rapp-Hooper Wednesday, February 6, 2019

Over the last two years, a near-consensus has crystallized among China-watchers that Washington and Beijing are locked in a great power competition over vital economic and security interests. As a result, this narrative holds, the United States must adopt a hard-nosed approach to address the growing challenge that China's rise poses to its standing in the world.

While there is little doubt that China's domestic turn toward authoritarianism and its foreign policy assertiveness pose growing challenges to American interests, the gathering momentum toward thinking about U.S.-China relations in the context of inescapable confrontation raises more questions than it answers.

As observers of and participants in these quickly-evolving debates on the future of U.S.-China relations and the role of the United States in Asia, we believe that an important set of questions remains to be answered. Below we identify seven questions that the China-facing policy community is now debating as it grapples with how the United States should respond to challenges being posed by China's rise. In many cases, these major questions beget research agendas of their own. If the United States seeks to craft a durable and comprehensive strategy for its role in Asia and relationship with China, experts and policymakers must interrogate these debates.

1 What are China's national ambitions?

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China's leaders have been transparent about the fact that they seek to restore the country to a position as a great global power economically, technologically, militarily, and politically by midcentury, in effect, returning to its self-perception of its historic position in the international community. Some experts see China's objectives as defined by declared "core interests": preserving the Communist Party's (CCP) grip on power, protecting territorial integrity and sovereignty, and upholding China's economic and social development.

China's ambitions appear to include a quest to become a major power that is wealthy, strong, influential, and respected. In other words, a country that escapes the middle-income trap through technological innovation; has a military capable of defending China's territory and protecting its access to resources and markets; can shape international rules and norms to serve its interests; and whose political and economic models are internationally accepted.

There is little debate that these objectives require Beijing to be a leader in Asia. A critical question, however, is whether China's core interests and economic and major power objectives require it to substantially weaken the U.S. role in the region, or whether it can accept a strong American presence, so long as it is able to preserve its form of governance and protect its "core interests." The answer is crucial to determining the compatibility of the two countries' interests.

2 What kind of regional environment does China need to achieve its ambitions in Asia?

China seeks a regional environment that is conducive to and does not jeopardize its "core interests" while it continues to ascend. China has generally pursued a risk-averse strategy and seeks to avoid direct conflict with the United States, given that conflict could derail China's development. It is possible, however, that although China seeks to avoid great power confrontation now, U.S. and Chinese interests will become more incompatible over time as China moves closer to its national objectives, e.g., consolidating control over contested territories, harnessing technological advances to suppress dissent and tighten social control, and deepening the Communist Party's influence over economic decisions.

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It is possible...that although China seeks to avoid great power confrontation now, U.S. and Chinese interests will become more incompatible over time.

Although arguably the most worrisome flashpoint between the United States and China remains Taiwan, the CCP presently seems to have confidence in eventual unification. So long as any effort by Taiwan's elected leaders to pursue *de jure* independence is not imminent and CCP legitimacy is not jeopardized, Beijing may continue to judge that the costs of forcible unification outweigh the benefits of the attempt, preserving some form of an uncomfortable cross-Strait balance.

An under-scrutinized line of inquiry, however, is whether China needs to achieve uncontested regional hegemony to realize its national ambitions, and what that condition would look like if it did. Regional hegemony suggests a condition in which no other power in Asia can dominate China militarily, giving Beijing the ability to enforce some degree of regional hierarchy with itself at the top. Experts tends to agree that China is already pursuing some form of regional hegemony, whereby it wields influence over other states and has some ability to set rules within the region. China's leaders have long denied that the country seeks hegemony, however, so its prospective requirements are only beginning to come into focus through an analysis of Beijing's behavior and vague statements of intent.

In all likelihood, China will probably continue to pursue a policy that seeks to reduce the role of human rights norms and liberal democracy in international order, or at least to insulate itself from them. It will also likely continue to proffer new rules and institutions, as with the Asia Infrastructure Investment Bank, which it will continue to revise, or on internet governance, where it seeks to set standards in a currently ungoverned space.

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A central question for the future of the region is to what extent China's vision of regional hegemony requires it to weaken or eliminate U.S. alliance relationships and America's military presence and diplomatic influence in the Asia-Pacific region, especially close to its borders. If, as China's anti-access, area denial (A2/AD) strategy implies, Beijing seeks to expunge the U.S. security presence from its maritime periphery, China and the United States would likely find themselves in zero-sum security competition. If, on the other hand, a U.S.-free Western Pacific is an ideal, but not a necessity, this aspect of rivalry may be mitigated somewhat.

Overall, considerable work remains to be done to explore whether China is committed to pursuing some version of Chinese regional hegemony and what methods it would use in seeking to do so. Complicating this agenda is the fact that China's leaders may not have fully settled on what Beijing's regional requirements are, or on how aggressively to pursue them at this juncture—some of China's strategy is almost certainly based on opportunism.

3 What are the United States strategic requirements in Asia, and vis-à-vis China?

A central goal of U.S. strategy in Asia has been to prevent a hostile hegemon from dominating the region. Since the 19th century, U.S. strategy has been designed to ensure that the region remains open to commerce and that it does not serve as a source of direct threats to the American homeland. Unimpeded military access has been viewed as necessary for upholding these goals and maintaining the credibility of American alliance commitments.

In the 21st century, the requirements of upholding these objectives has shifted somewhat. We would no longer expect a rising power like China to make its ascent known through territorial conquest or overt economic subjugation. It is not necessarily the case, however, that the United States requires exclusive regional hegemony to achieve its national objectives, just as it also does not require regional partners to align exclusively with the United States and against China.

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If the United States seeks to retain security, economic, and political access and influence in the region, it can accomplish its objective of preventing a hostile hegemon from dominating the region without forcing regional alignment decisions, as such a strategy may create countervailing resistance among local states. The United States does, however, need to maintain the integrity of its alliances and its strategic position in the First Island Chain to protect them.

On economics, the United States continues to have an interest in a bilateral relationship with China that supports growth, as well as in securing investment and migration from Asia. China will continue to be an engine in all three areas in the next 5 to 10 years. But Washington also has an interest in ensuring that the economic relationship with China is grounded in shared rules and standards. Washington similarly has an interest in working with allies and partners in Asia to update rules and standards to address 21st century challenges to the international trade regime, and through such efforts, to sharpen pressure on Beijing to accept and abide by such rules and standards.

The United States also would benefit by improving increasingly-sclerotic institutions like the World Trade Organization (WTO), which has been taxed by China's inclusion. Importantly, in the coming decades several Asian economies will outpace China's economic growth rates. India is unlikely to establish itself as a region-wide player on the order of Beijing, but rapid growth by it, Vietnam, the Philippines, and Indonesia, will give each of these countries an incentive to ensure their place in integrated supply chains. Asia will not be multipolar according to all power metrics, but could move gradually in that direction in economic terms.

Unless analysts have a sense of the requirements of Chinese regional hegemony, they won't be able to evaluate how much China's requirements conflict or are compatible with U.S. interests. Put differently, it may be possible that there is some form of "regional bipolarity" that is not exclusive and could satisfy both countries' strategic objectives in Asia. Without doubt, this state of affairs would likely entail a good deal of managed competition for years or decades. Without knowing more about China's precise requirements, though, such a state of the world is hard to define or evaluate, and American analysts will reasonably be tempted to conduct "worst case" analysis of China's

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regional aspirations. Regardless of how China's regional requirements come into focus, however, U.S. policymakers should clearly define U.S. interests with the objective of protecting them.

4 To what extent is U.S.-China competition ideological?

Experts agree that there is some ideological component to U.S.-China competition, but have not yet defined the precise role of ideology in the relationship or in future strategy. There are numerous features that distinguish the current U.S.-China dynamic from U.S.-Soviet competition during the Cold War, but experts are only beginning to grapple with the exact implications of ideological and regime-type differences for competition.

The Worldwide Threat Assessment of the U.S. Intelligence Community states:

China's leaders will increasingly seek to assert China's model of authoritarian capitalism as an alternative—and implicitly superior—development path abroad, exacerbating great-power competition that could threaten international support for democracy, human rights, and rule of law.

While this warning merits serious consideration, several useful cautionary warnings also bear heeding. U.S. policymakers should distinguish between the ideological orientations of the Chinese Communist Party and the Chinese people, and that changing China's political system from the outside has not been—and should not become—an indicator of U.S. policy success. Nonetheless, in the absence of reform to China's political model, there may be an irreconcilable ideological tension between the United States and Chinese governments that will place downward pressure on the relationship and on some forms of international order.

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The United States and China have managed ideological differences over their domestic governance models for the past four decades and may be able to do so going forward. However, China's use of artificial intelligence applications for domestic surveillance technology—and Beijing's export of such practices around the world—may also place a sharper edge on ideological tensions in the relationship going forward, as ideology appears to find a technological vector. A profoundly important question for future analysis is whether China is exporting a positive, ideological vision with which the United States must compete directly, or whether it is using ideologically defensively—essentially as a tool for regime survival. The answer would likely have implications for American policy, and U.S. strategists must consider both possibilities as they contemplate the role of human rights, democratic values, and the liberal model more broadly in any future regional strategy.

5 To what extent is China a revisionist power, and what are the implications?

Among the expert community, there is strong agreement that China seeks revisions to international rules and norms to accommodate China's political and economic model, yet this does not require it to create a new international system to replace the post-World War II international order. Primarily, China appears to seek some redefinition of existing concepts around human rights and to proffer new ones for internet governance. At a broader level, Beijing seeks to ensure international acceptance (or non-hostility toward) its state-led economic model and Leninist political model.

In general, China seeks to make the international order friendlier to it, but at least at present, that approach seems to involve revisions to specific issue sets, rather than the wholesale overturning of a system. This approach is consistent with a China that is, in the words of one expert, a "revisionist power but not a revolutionary one."

Nonetheless, moderate revisionism that seeks to change some of the more liberal aspects of the post-World War II order raises significant questions about what a mixed-regime order might look like, or whether Chinese revisions will create alternative forms of order that may be incompatible with existing institutions and norms. Some in the expert community are concerned that China's growing global reach and influence will erode the efficacy of liberal values around the world, and with them, the potency of some

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institutions and rules. American strategists should invest research energy in contemplating the forms a mixed-regime order might take, as well as its implications for U.S. interests, in order to fashion appropriate responses.

6 Does China's state-interventionist economic model militate towards new U.S. policy responses, including decoupling?

It is difficult to argue that there is a sound economic rationale for pursuing holistic economic decoupling.

China appears committed to heavy state involvement in its economy, and prevailing international rules and norms appear ill-equipped to deal with China's economic model. If there is an effort to update the international rules-based economic order, the United States will have to play a leading role (e.g., through the modernization of the World Trade Organization, or through the United States and China jointly entering a trade bloc with common rules such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership). Fixating on the bilateral trade deficit and pursuing unilateral tariffs against China is unlikely to change Chinese behavior to address American concerns about market access, forced technology transfer, state-directed industrial policies to support national champions, overcapacity, and intellectual property protections.

It is difficult to argue that there is a sound economic rationale for pursuing holistic economic decoupling as a general U.S. government policy. Widespread decoupling would isolate the U.S. economy, but would not necessarily alter China's own practices, unless the United States could convince China's other top trading partners to follow the U.S. lead—a seemingly unlikely outcome. Efforts to decouple are unlikely to change America's overall trade balance with Asia, but would create adjustment costs on production, which would drive up prices on goods and generate inflationary pressure in the United States. Even if overall economic and supply chain decoupling seems infeasible, however, there may be more merit to exploring the relative costs and benefits of partial sector-specific

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decoupling. The technology and manufacturing sectors may be more appropriate for this, and analysts should study the complex interactive sectoral reverberations that would take place.

7 Does U.S.-China competition eliminate the potential for great power cooperation?

As the United States and China become more competitive, they increasingly risk locking themselves in an intensifying security dilemma, where one's actions make the other feel less secure, and mortgaging remaining forms of great power cooperation as a result. They have faced this dilemma for years, but as leaders in both countries increasingly embrace rivalry, the stakes and risks of that tradeoff mount. Do American efforts to cooperate with China on global issues like climate change or nonproliferation risk emboldening Beijing in other areas? Or does a tack towards confrontation create a self-fulfilling prophecy? There may be some risk in drawing sweeping conclusions about the incompatibility of U.S. and Chinese interests, because doing so diminishes pressure on policymakers in both capitals to manage differences and risks inviting the very sort of spiral discussed here.

For the United States, however, some forms of cooperation with China may coexist comfortably alongside a more competitive approach.

For the United States, however, some forms of cooperation with China may coexist comfortably alongside a more competitive approach. For the next few decades, much of U.S.-China competition will take place inside of Asia, whereas many of the most important agenda items for cooperation are global and include climate change and preventing pandemics and nuclear spread. Cooperation with China on global issues need not limit America's ability to push back against untoward Chinese behaviors or fashion a regional strategy to defend American interests. Nonetheless, experts must contemplate: Given that the economic relationship was long considered to be a ballast in the relationship and is

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now at the heart of competition, how can these two powers craft cooperative global agendas that are substantive, salient, and resilient to competition in other areas? If competition is to be managed constructively and in a manner that does not tip the relationship toward a purely adversarial dynamic, this is an essential task.

Conclusion

As the questions raised in this piece illustrate, there remain profound unresolved debates about the scale of China's ambitions, the nature of U.S.-China competition, and the factors that will shape the trajectory of the bilateral relationship. Although there is a strengthening consensus in the United States for taking a tougher approach toward China, there is not yet unanimity on the American interests that may be at stake in competition, the objectives for U.S. strategy with China and in Asia, or the question of how to prioritize those challenges posed by China's rise. These are essential tasks if the United States seeks to compete effectively. How the China-facing policy community addresses these questions, and whether Washington coordinates its responses to them with its traditional allies and partners will, in turn, influence China's evaluation of the durability of America's strategy for the region.

Order from Chaos

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Sense of Urgency, Respect and Good Faith is Critical. So is Compromise and Flexibility

Jul 10 , 2019

Written Remarks by M.R. Greenberg, Chairman & CEO C.V. Starr & Co., Inc.

Good morning. I am pleased to share my thoughts with this distinguished group about the difficulty our two governments have faced in renegotiating our bilateral trading relationship. I think it is important to acknowledge upfront that this dispute has threatened to destabilize arguably the most important bilateral relationship in the world.

Through my many years of doing business in China and involvement in U.S.-China relations, it seems to me the solution to our current predicament is and has been for some time rather clear. When President Nixon visited China in 1972, its economy was marginal to world trade. Today, it is the second largest economy in the world and poised to become the global leader. Compared with the U.S.'s population of roughly 300 million, China has a population of 1.4 billion. Since its economic opening, many Chinese citizens have been educated in the U.S. and then returned to China to become leaders in government and industry. The China of today is fully capable of competing with foreigners in its domestic markets on a level playing field, just as its firms have proven overseas.

As an emerging market, China erected trade barriers to build its nascent industries. This was acceptable to foreign countries like the U.S. for strategic reasons. Foreign companies endured it because of China's vast potential. Now, discriminatory treatment of foreigners is embedded in the Chinese bureaucracy – in government policies, in regulatory procedures laden with obstacles and delays, in structural impediments, such as turnover in government agencies resulting from forced early retirements, and in the ingrained mindset of Chinese officials.

This all needs to change. While China has made progress in opening its economy to foreign participation, it is difficult for the U.S. and other countries to continue to extend national treatment to Chinese companies when their own firms are not provided the same rights in China. It is in China's interest to proceed at a faster pace. It should recognize that equal treatment of foreign and domestic firms in China will benefit the Chinese economy and people. It will attract more businesses from around the world, bringing with them new ideas, jobs, and goods and services that will improve the quality of life for China's citizenry. My company, Starr Insurance, is a good example. Started in Shanghai in 1919, Starr is celebrating its 100th anniversary this year. It was the first American insurance company to operate in China. We left after the revolution, but as head of Starr, I started to visit China in 1975. I met and established a relationship with the Peoples Insurance Company of China (PICC), the country's only insurer. We signed a Memorandum of Understanding with the PICC and began training many of their people as well as arranging reinsurance of their business to expand their capacity.

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Our relationships in China grew, and we helped them in every way possible, believing we would eventually be able to reestablish our business in the country. In 1992, we did, when AIG and its subsidiaries, which had been founded by Starr and were already operating throughout Asia, received eight regional licenses. The first was in Shanghai. We were the only wholly owned foreign life insurer to be awarded operating licenses. We introduced the agency system in China, which caught on. In fact, a past President of China once told me that in doing so we enabled the creation of a million jobs across the country. Simultaneously, the Starr Foundation, which I have served as Chairman for many years, we believe has become one of the largest charitable givers in China, donating over $300 million to healthcare, educational, and cultural related causes and to improving U.S.-China relations.

As the United States and China continue their negotiations, a sense of urgency, mutual respect, and genuine good faith will be absolutely essential in securing a mutually agreed upon path forward. But so will compromise and flexibility. The U.S. opened its economy long ago and did so without an act of Congress. I would assume that our government officials working together should be able to find a way for China to do the same thing.

One mechanism currently being under-utilized in my opinion that could codify and implement such a deal is the World Trade Organization (WTO). China joined the WTO in 2001, something that never would have happened without the diligent efforts of the U.S. Government and business community. I was proud to lead that effort as Chairman of the U.S.-China Business Council. New rule changes and other reforms are needed to update and improve how the WTO operates. That effort should be initiated promptly to restore the body's integrity and effectiveness as the world's adjudicator of global trade.

In the end, what is most important for government officials on both sides to understand is that this is about more than just trade. The geopolitical stakes involved are high for both the U.S. and China and globally. I hope that American and Chinese leaders recognize the critical importance now more than ever of maintaining a constructive and open relationship. It should not be viewed as a zero-sum game. Increased and mutually beneficial bilateral cooperation should be pursued in earnest. That would be a stabilizing force, capable of nurturing peace and prosperity, while providing a much-needed source of comfort to countless people in an increasingly uncertain world.

(Note: This is the text of M.R. Greenberg's prepared remarks for the forum.)

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SPECIAL NOTE AS TO LEGISLATION AFFECTING TAIWAN AS WELL AS U.S.-PRC RELATIONS

Set out below are provisions from the Taiwan Travel Act (H.R. 535). Sponsored by Representative Steve Chabot (R-OH), the bill passed the House on January 9, 2018 by suspension of the rules. On February 12, 2012, the bill was reported from the Senate Foreign Relations Committee. It passed the Senate on February 28, 2018 and the President signed it into law on March 16, 2018. The Chinese Government has been deeply concerned about this legislation, believing its provisions calling for high level official contacts between the United States and Taiwan contradict the core principles under which China and the United States established diplomatic relations.

I wish to offer a perspective on this matter. In 2017, I published A Legislative History of the Taiwan Relations Act: Bridging the Strait. From my research, I learned that China required three things of the United States in the course of 1978 normalization negotiations. These three conditions were:

1. End diplomatic ties to the Republic of China (Taiwan)
2. End a Mutual Defense Treaty (in effect since 1954) between the ROC and the United States
3. Withdraw any U.S. military forces from Taiwan (there were at the time U.S. forces based on Taiwan, although these had been reduced since the time of President Nixon's 1972 trip to China. At one time, the U.S. contingent included more than 10,000 troops plus sundry intelligence operations)

Although discussions on normalization proceeded gingerly, and not particularly productively, during the Nixon and Ford Administrations, they accelerated under President Carter. In 1977, Secretary of State Cyrus Vance visited China. In meetings with senior Chinese leaders (including Hua Guofeng and Deng Xiaoping), Vance explored the possibility of keeping an official U.S. presence on Taiwan and proposed the U.S. maintain a liaison office.

The Chinese leadership firmly rejected that idea. Deng told Vance, "You want an Embassy that does not have a sign on its door." President Carter and his senior advisors concluded that having official ties in any form would contradict normalization. Therefore, the United States agreed to maintain unofficial relations with Taiwan through the mechanism of the American Institute on Taiwan. In so doing, the U.S. followed a model Japan had used since 1972 when it recognized the PRC as the legitimate government of China.

Agreement on these conditions paved the way for normalization negotiations to conclude successfully. On December 15, 1978, the American and Chinese Governments simultaneously announced opening of relations. Diplomatic relations began on January 1, 1979.

Congressional deliberations on Taiwan legislation began soon thereafter. President Carter signed the Taiwan Relations Act on April 10, 1979. It provided a framework for maintaining economic and cultural ties with Taiwan and contained defense-related provisions falling short of ironclad commitments or treaty-like obligations. In both the Senate and House, amendments were offered that would have solidified the defense posture or elevated the Taiwan relationship to an official level. These amendments all failed.

The core principal in U.S.-China relations, as reflected in the three conditions, is the One China policy. This concept is central to three bilateral diplomatic documents: the Shanghai Communique of February 28, 1972, the Joint Communique on the Establishment of Diplomatic Relations of December 16, 1978, and the Joint Communique of August 17, 1982. The 1982 Joint Communique

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further addressed the issue of arms sales to Taiwan, which was an area of disagreement that nearly derailed 1979 normalization discussions, and which the parties deferred for later understandings so that normalization could move forward. The 1982 Communique indicated the United States did not have a policy of continuing such sales indefinitely, and that the volume of such sales would not exceed, in quality or quantity the level of arms supplied in the three years since relations were normalized.

After the 1982 Joint Communique, the United States offered six assurances to Taiwan. These were:

- The U.S. and PRC had not agreed on a set date to terminate arms sales
- The U.S. would not mediate between Taiwan and the PRC
- The U.S. would not pressure Taiwan to negotiate with the PRC
- The U.S. position on sovereignty over Taiwan had not changed ("The United States acknowledges that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is part of China. The United States does not challenge that position. It reaffirms its interest in a peaceful settlement of the Taiwan question by the Chinese themselves.") – from the Shanghai Communique of 1972
- No revisions would be sought to the Taiwan Relations Act, and
- The U.S. would not engage in prior consultations with the PRC on arms sales to Taiwan

After appearing to cast doubt on the One China Policy during the transition, President Trump embraced it in early 2017.

The Chinese argue that the Taiwan Travel Act is highly problematic because it recommends the reengagement of high-level civilian and military contacts characteristic of government-to-government relations. They contend that executing these policies would contradict the three communiques, including the One China policy.

Before the 115th Congress adjourned, both houses reinforced this policy via passage of the Asia Reassurance Initiative Act. This legislation sets out broad guidelines for U.S. policy in the Asia-Pacific region, and incorporates by reference and reaffirms the Taiwan Travel Act. There were also pro-Taiwan provisions included in the FY 2019 National Defense Authorization Act (NDAA).

In the current Congress, the House passed H. Res. 273 (Engel), reaffirming the United States Commitment to Taiwan and the implementation of the Taiwan Relations Act. Similar legislation passed the Senate, in the form of S. Con. Res. 13 (Gardner). The House has also passed H.R.2002, the Taiwan Assurance Act of 2019 (McCaul). It makes specific reference to the Taiwan Travel Act and mandates a State Department report on its implementation.

Section 1257 of the 2020 Senate version of the NDAA contains some of the Senate language promoting enhancement of the U.S.-Taiwan defense relationship. Section 6211 mandates a report on obligations of the United States under the Taiwan Relations Act. Section 6212 addresses implementation of the Asia Reassurance Initiative Act with respect to Taiwan arms sales.

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Myriad other Taiwan measures have been introduced. These include, but may not be limited to:

- S. 878: The Taiwan Assurance Act of 2019 (Cotton)
- S. 1478: Taiwan Allies International Protection and Enhancement Initiative Act of 2019 (Gardner)
- S. Res. 228: A resolution supporting measures taken by the Government of Taiwan to deter, or if so compelled, defeat, aggression by the Government of the People's Republic of China (Hawley)
- H.R. 3508: South China Sea and East China Sea Sanctions Act of 2019 (Gallagher)
- H. Res. 248: Expressing the sense to the House of Representatives that the United States One-China Policy does not commit it to the People's Republic of China's One-China Principle (Chabot)

Here is the text of the Taiwan Travel Act (H.R. 535):

AN ACT

To encourage visits between the United States and Taiwan at all levels, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Taiwan Travel Act".

SEC. 2. FINDINGS.

Congress finds the following:

(1) The Taiwan Relations Act (22 U.S.C. 3301 et seq.), enacted in 1979, has continued for 37 years to be a cornerstone of relations between the United States and Taiwan and has served as an anchor for peace and security in the Western Pacific area.

(2) The Taiwan Relations Act declares that peace and stability in the Western Pacific area are in the political, security, and economic interests of the United States and are matters of international concern.

(3) The United States considers any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to the United States.

(4) Taiwan has succeeded in a momentous transition to democracy beginning in the late 1980s and has been a beacon of democracy in Asia, and Taiwan's democratic achievements inspire many countries and people in the region.

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(5) Visits to a country by United States Cabinet members and other high-ranking officials are an indicator of the breadth and depth of ties between the United States and such country.

(6) Since the enactment of the Taiwan Relations Act, relations between the United States and Taiwan have suffered from insufficient high-level communication due to the self-imposed restrictions that the United States maintains on high-level visits with Taiwan.

SEC. 3. SENSE OF CONGRESS; STATEMENT OF POLICY.

(a) SENSE OF CONGRESS.—It is the sense of Congress that the United States Government should encourage visits between officials from the United States and Taiwan at all levels.

(b) STATEMENT OF POLICY.—It should be the policy of the United States to—

(1) allow officials at all levels of the United States Government, including Cabinet-level national security officials, general officers, and other executive branch officials, to travel to Taiwan to meet their Taiwanese counterparts;

(2) allow high-level officials of Taiwan to enter the United States, under conditions which demonstrate appropriate respect for the dignity of such officials, and to meet with officials of the United States, including officials from the Department of State and the Department of Defense and other Cabinet agencies; and

(3) encourage the Taipei Economic and Cultural Representative Office, and any other instrumentality established by Taiwan, to conduct business in the United States, including activities which involve participation by Members of Congress, officials of Federal, State, or local governments of the United States, or any high-level official of Taiwan.

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FOREIGN AFFAIRS

March / April 2018
Volume 97 • Number 2

The China Reckoning

How Beijing Defied American Expectations

Kurt M. Campbell and Ely Ratner

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The China Reckoning

How Beijing Defied American Expectations

Kurt M. Campbell and Ely Ratner

The United States has always had an outsize sense of its ability to determine China's course. Again and again, its ambitions have come up short. After World War II, George Marshall, the U.S. special envoy to China, hoped to broker a peace between the Nationalists and Communists in the Chinese Civil War. During the Korean War, the Truman administration thought it could dissuade Mao Zedong's troops from crossing the Yalu River. The Johnson administration believed Beijing would ultimately circumscribe its involvement in Vietnam. In each instance, Chinese realities upset American expectations.

With U.S. President Richard Nixon's opening to China, Washington made its biggest and most optimistic bet yet. Both Nixon and Henry Kissinger, his national security adviser, assumed that rapprochement would drive a wedge between Beijing and Moscow and, in time, alter China's conception of its own interests as it drew closer to the United States. In the fall of 1967, Nixon wrote in this magazine, "The world cannot be safe until China changes. Thus our aim, to the extent that we can influence events, should be to induce change." Ever since, the assumption that deepening commercial, diplomatic, and cultural ties would transform China's internal development and external behavior has been a bedrock of U.S. strategy. Even those in U.S. policy circles who were skeptical of China's intentions still shared the underlying belief that U.S. power and hegemony could readily mold China to the United States' liking.

KURT M. CAMPBELL is Chairman of the Asia Group and was U.S. Assistant Secretary of State for East Asian and Pacific Affairs from 2009 to 2013.

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The era of good feelings: Xi and Obama in California, June 2013

KEVIN LAMARQUE / REUTERS

Nearly half a century since Nixon's first steps toward rapprochement, the record is increasingly clear that Washington once again put too much faith in its power to shape China's trajectory. All sides of the policy debate erred: free traders and financiers who foresaw inevitable and increasing openness in China, integrationists who argued that Beijing's ambitions would be tamed by greater interaction with the international community, and hawks who believed that China's power would be abated by perpetual American primacy.

Neither carrots nor sticks have swayed China as predicted. Diplomatic and commercial engagement have not brought political and economic openness. Neither U.S. military power nor regional balancing has stopped Beijing from seeking to displace core components of the U.S.-led system. And the liberal international order has failed to lure or bind China as powerfully as expected. China has instead pursued its own course, belying a range of American expectations in the process.

That reality warrants a clear-eyed rethinking of the United States' approach to China. There are plenty of risks that come with such a reassessment; defenders of the current framework will warn against destabilizing the bilateral relationship or inviting a new Cold War. But building a stronger and more sustainable approach to, and rela-

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tionship with, Beijing requires honesty about how many fundamental assumptions have turned out wrong. Across the ideological spectrum, we in the U.S. foreign policy community have remained deeply invested in expectations about China—about its approach to economics, domestic politics, security, and global order—even as evidence against them has accumulated. The policies built on such expectations have failed to change China in the ways we intended or hoped.

THE POWER OF THE MARKET

Greater commercial interaction with China was supposed to bring gradual but steady liberalization of the Chinese economy. U.S. President George H. W. Bush's 1990 National Security Strategy described enhanced ties with the world as "crucial to China's prospects for regaining the path of economic reform." This argument predominated for decades. It drove U.S. decisions to grant China most-favored-nation trading status in the 1990s, to support its accession to the World Trade Organization in 2001, to establish a high-level economic dialogue in 2006, and to negotiate a bilateral investment treaty under U.S. President Barack Obama.

Trade in goods between the United States and China exploded from less than $8 billion in 1986 to over $578 billion in 2016: more than a 30-fold increase, adjusting for inflation. Since the early years of this century, however, China's economic liberalization has stalled. Contrary to Western expectations, Beijing has doubled down on its state capitalist model even as it has gotten richer. Rather than becoming a force for greater openness, consistent growth has served to legitimize the Chinese Communist Party and its state-led economic model.

U.S. officials believed that debt, inefficiency, and the demands of a more advanced economy would necessitate further reforms. And Chinese officials recognized the problems with their approach; in 2007, Premier Wen Jiabao called the Chinese economy "unstable, unbalanced, uncoordinated, and unsustainable." But rather than opening the country up to greater competition, the Chinese Communist Party, intent on maintaining control of the economy, is instead consolidating state-owned enterprises and pursuing industrial policies (notably its "Made in China 2025" plan) that aim to promote national technology champions in critical sectors, including aerospace, biomedicine, and robotics. And despite repeated promises, Beijing has resisted pressure from Washington and elsewhere to level the playing field for foreign

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companies. It has restricted market access and forced non-Chinese firms to sign on to joint ventures and share technology, while funneling investment and subsidies to state-backed domestic players.

Until recently, U.S. policymakers and executives mostly acquiesced to such discrimination; the potential commercial benefits were so large that they considered it unwise to upend the relationship with protectionism or sanctions. Instead, they fought tooth and nail for small, incremental concessions. But now, what were once seen as merely the short-term frustrations of doing business with China have come to seem more harmful and permanent. The American Chamber of Commerce reported last year that eight in ten U.S. companies felt less welcome in China than in years prior, and more than 60 percent had little or no confidence that China would open its markets further over the next three years. Cooperative and voluntary mechanisms to pry open China's economy have by and large failed, including the Trump administration's newly launched Comprehensive Economic Dialogue.

THE IMPERATIVE OF LIBERALIZATION

Growth was supposed to bring not just further economic opening but also political liberalization. Development would spark a virtuous cycle, the thinking went, with a burgeoning Chinese middle class demanding new rights and pragmatic officials embracing legal reforms that would be necessary for further progress. This evolution seemed especially certain after the collapse of the Soviet Union and democratic transitions in South Korea and Taiwan. "No nation on Earth has discovered a way to import the world's goods and services while stopping foreign ideas at the border," George H. W. Bush proclaimed. U.S. policy aimed to facilitate this process by sharing technology, furthering trade and investment, promoting people-to-people exchanges, and admitting hundreds of thousands of Chinese students to American universities.

The crackdown on pro-democracy protesters in Tiananmen Square in 1989 dimmed hopes for the emergence of electoral democracy in China. Yet many experts and policymakers in the United States still expected the Chinese government to permit greater press freedoms and allow for a stronger civil society, while gradually embracing more political competition both within the Communist Party and at local levels. They believed that the information technology revolution of

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the 1990s would encourage such trends by further exposing Chinese citizens to the world and enhancing the economic incentives for openness. As U.S. President Bill Clinton put it, "Without the full freedom to think, question, to create, China will be at a distinct disadvantage, competing with fully open societies in the information age where the greatest source of national wealth is what resides in the human mind." Leaders in Beijing would come to realize that only by granting individual freedoms could China thrive in a high-tech future.

But the fear that greater openness would threaten both domestic stability and the regime's survival drove China's leaders to look for an alternative approach. They took both the shock of Tiananmen Square and the dissolution of the Soviet Union as evidence of the dangers of democratization and political competition. So rather than embracing positive cycles of openness, Beijing responded to the forces of globalization by putting up walls and tightening state control, constricting, rather than reinforcing, the free flow of people, ideas, and commerce. Additional stresses on the regime in this century—including an economic slowdown, endemic corruption in the government and the military, and ominous examples of popular uprisings elsewhere in the world—have spurred more authoritarianism, not less.

Events of the last decade have dashed even modest hopes for China's political liberalization.

Indeed, events of the last decade have dashed even modest hopes for political liberalization. In 2013, an internal Communist Party memo known as Document No. 9 explicitly warned against "Western constitutional democracy" and other "universal values" as stalking-horses meant to weaken, destabilize, and even break up China. This guidance demonstrated the widening gap between U.S. and Chinese expectations for the country's political future. As Orville Schell, a leading American expert on China, put it: "China is sliding ineluctably backward into a political climate more reminiscent of Mao Zedong in the 1970s than Deng Xiaoping in the 1980s." Today, an ongoing crackdown on journalists, religious leaders, academics, social activists, and human rights lawyers shows no sign of abating—more than 300 lawyers, legal assistants, and activists were detained in 2015 alone.

Rather than devolving power to the Chinese people, as many in the West predicted, communications technologies have strengthened the

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hand of the state, helping China's authorities control information flows and monitor citizens' behavior. Censorship, detentions, and a new cybersecurity law that grants broad government control over the Internet in China have stymied political activity inside China's "Great Firewall." China's twenty-first-century authoritarianism now includes plans to launch a "social credit system," fusing big data and artificial intelligence to reward and punish Chinese citizens on the basis of their political, commercial, social, and online activity. Facial recognition software, combined with the ubiquity of surveillance cameras across China, has even made it possible for the state to physically locate people within minutes.

THE DETERRENT OF PRIMACY

A combination of U.S. diplomacy and U.S. military power—carrots and sticks—was supposed to persuade Beijing that it was neither possible nor necessary to challenge the U.S.-led security order in Asia. Washington "strongly promot[ed] China's participation in regional security mechanisms to reassure its neighbors and assuage its own security concerns," as the Clinton administration's 1995 National Security Strategy put it, buttressed by military-to-military relations and other confidence-building measures. These modes of engagement were coupled with a "hedge"—enhanced U.S. military power in the region, supported by capable allies and partners. The effect, the thinking went, would be to allay military competition in Asia and further limit China's desire to alter the regional order. Beijing would settle for military sufficiency, building armed forces for narrow regional contingencies while devoting most of its resources to domestic needs.

The logic was not simply that China would be focused on its self-described "strategic window of opportunity" for development at home, with plenty of economic and social challenges occupying the attention of China's senior leaders. American policymakers and academics also assumed that China had learned a valuable lesson from the Soviet Union about the crippling costs of getting into an arms race with the United States. Washington could thus not only deter Chinese aggression but also—to use the Pentagon's term of art—"dissuade" China from even trying to compete. Zalmay Khalilzad, an official in the Reagan and both Bush administrations, argued that a dominant United States could "convince the Chinese leadership that a challenge would be difficult to prepare and extremely risky to pursue." Moreover, it was

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unclear whether China could challenge U.S. primacy even if it wanted to. Into the late 1990s, the People's Liberation Army (PLA) was considered decades behind the United States' military and those of its allies.

Against this backdrop, U.S. officials took considerable care not to stumble into a confrontation with China. The political scientist Joseph Nye explained the thinking when he led the Pentagon's Asia office during the Clinton administration: "If we treated China as an enemy, we were guaranteeing an enemy in the future. If we treated China as a friend, we could not guarantee friendship, but we could at least keep open the possibility of more benign outcomes." Soon-to-be Secretary of State Colin Powell told Congress at his confirmation hearing in January 2001, "China is not an enemy, and our challenge is to keep it that way."

China has set out to build its own set of regional and international institutions.

Even as it began investing more of its newfound wealth in military power, the Chinese government sought to put Washington at ease, signaling continued adherence to the cautious, moderate foreign policy path set out by Deng. In 2005, the senior Communist Party official Zheng Bijian wrote in this magazine that China would never seek regional hegemony and remained committed to "a peaceful rise." In 2011, after a lively debate among China's leaders about whether it was time to shift gears, State Councilor Dai Bingguo assured the world that "peaceful development is a strategic choice China has made." Starting in 2002, the U.S. Defense Department had been producing a congressionally mandated annual report on China's military, but the consensus among senior U.S. officials was that China remained a distant and manageable challenge.

That view, however, underestimated just how simultaneously insecure and ambitious China's leadership really was. For Beijing, the United States' alliances and military presence in Asia posed unacceptable threats to China's interests in Taiwan, on the Korean Peninsula, and in the East China and South China Seas. In the words of the Peking University professor Wang Jisi, "It is strongly believed in China that . . . Washington will attempt to prevent the emerging powers, in particular China, from achieving their goals and enhancing their stature." So China started to chip away at the U.S.-led security order

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in Asia, developing the capabilities to deny the U.S. military access to the region and driving wedges between Washington and its allies.

Ultimately, neither U.S. military power nor American diplomatic engagement has dissuaded China from trying to build a world-class military of its own. High-tech displays of American power in Iraq and elsewhere only accelerated efforts to modernize the PLA. Chinese President Xi Jinping has launched military reforms that will make Chinese forces more lethal and more capable of projecting military power well beyond China's shores. With its third aircraft carrier reportedly under construction, advanced new military installations in the South China Sea, and its first overseas military base in Djibouti, China is on the path to becoming a military peer the likes of which the United States has not seen since the Soviet Union. China's leaders no longer repeat Deng's dictum that, to thrive, China will "hide [its] capabilities and bide [its] time." Xi declared in October 2017 that "the Chinese nation has gone from standing up, to becoming rich, to becoming strong."

THE CONSTRAINTS OF ORDER

At the end of World War II, the United States built institutions and rules that helped structure global politics and the regional dynamics in Asia. Widely accepted norms, such as the freedom of commerce and navigation, the peaceful resolution of disputes, and international cooperation on global challenges, superseded nineteenth-century spheres of influence. As a leading beneficiary of this liberal international order, the thinking went, Beijing would have a considerable stake in the order's preservation and come to see its continuation as essential to China's own progress. U.S. policy aimed to encourage Beijing's involvement by welcoming China into leading institutions and working with it on global governance and regional security.

As China joined multilateral institutions, U.S. policymakers hoped that it would learn to play by the rules and soon begin to contribute to their upkeep. In the George W. Bush administration, Deputy Secretary of State Robert Zoellick memorably called on Beijing to become "a responsible stakeholder" in the international system. From Washington's perspective, with greater power came greater obligation, especially since China had profited so handsomely from the system. As Obama emphasized, "We expect China to help uphold the very rules that have made them successful."

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In certain venues, China appeared to be steadily, if unevenly, taking on this responsibility. It joined the Asia-Pacific Economic Cooperation organization in 1991, acceded to the Nuclear Nonproliferation Treaty in 1992, joined the World Trade Organization in 2001, and took part in major diplomatic efforts, including the six-party talks and the P5+1 negotiations to deal with nuclear weapons programs in North Korea and Iran, respectively. It also became a major contributor to UN counterpiracy and peacekeeping operations.

Yet Beijing remained threatened by other central elements of the U.S.-led order—and has increasingly sought to displace them. That has been especially true of what it sees as uninvited violations of national sovereignty by the United States and its partners, whether in the form of economic sanctions or military action. Liberal norms regarding the international community's right or responsibility to intervene to protect people from human rights violations, for example, have run headlong into China's paramount priority of defending its authoritarian system from foreign interference. With a few notable exceptions, China has been busy watering down multilateral sanctions, shielding regimes from Western opprobrium, and making common cause with Russia to block the UN Security Council from authorizing interventionist actions. A number of nondemocratic governments—in Sudan, Syria, Venezuela, Zimbabwe, and elsewhere—have benefited from such obstruction.

China has also set out to build its own set of regional and international institutions—with the United States on the outside looking in—rather than deepening its commitment to the existing ones. It has launched the Asian Infrastructure Investment Bank, the New Development Bank (along with Brazil, Russia, India, and South Africa), and, most notably, the Belt and Road Initiative, Xi's grandiose vision for building land and maritime routes to connect China to much of the world. These institutions and programs have given China agenda-setting and convening power of its own, while often departing from the standards and values upheld by existing international institutions. Beijing explicitly differentiates its approach to development by noting that, unlike the United States and European powers, it does not demand that countries accept governance reforms as a condition of receiving aid.

In its own region, meanwhile, Beijing has set out to change the security balance, incrementally altering the status quo with steps just

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small enough to avoid provoking a military response from the United States. In the South China Sea, one of the world's most important waterways, China has deftly used coast guard vessels, legal warfare, and economic coercion to advance its sovereignty claims. In some cases, it has simply seized contested territory or militarized artificial islands. While Beijing has occasionally shown restraint and tactical caution, the overall approach indicates its desire to create a modern maritime sphere of influence.

In the summer of 2016, China ignored a landmark ruling by a tribunal under the UN Convention on the Law of the Sea, which held that China's expansive claims in the South China Sea were illegal under international law. U.S. officials wrongly assumed that some combination of pressure, shame, and its own desire for a rules-based maritime order would cause Beijing, over time, to accept the judgment. Instead, China has rejected it outright. Speaking to a security forum in Aspen, Colorado, a year after the ruling, in July 2017, a senior analyst from the CIA concluded that the experience had taught China's leaders "that they can defy international law and get away with it." Countries in the region, swayed by both their economic dependence on China and growing concerns about the United States' commitment to Asia, have failed to push back against Chinese assertiveness as much as U.S. policymakers expected they would.

TAKING STOCK

As the assumptions driving U.S. China policy have started to look increasingly tenuous, and the gap between American expectations and Chinese realities has grown, Washington has been largely focused elsewhere. Since 2001, the fight against jihadist terrorism has consumed the U.S. national security apparatus, diverting attention from the changes in Asia at exactly the time China was making enormous military, diplomatic, and commercial strides. U.S. President George W. Bush initially referred to China as a "strategic competitor"; in the wake of the September 11 attacks, however, his 2002 National Security Strategy declared, "The world's great powers find ourselves on the same side—united by common dangers of terrorist violence and chaos." During the Obama administration, there was an effort to "pivot," or "rebalance," strategic attention to Asia. But at the end of Obama's time in office, budgets and personnel remained focused on other regions—there were, for example, three times as

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many National Security Council staffers working on the Middle East as on all of East and Southeast Asia.

This strategic distraction has given China the opportunity to press its advantages, further motivated by the increasingly prominent view in China that the United States (along with the West more broadly) is in inexorable and rapid decline. Chinese officials see a United States that has been hobbled for years by the global financial crisis, its costly war efforts in Afghanistan and Iraq, and deepening dysfunction in Washington. Xi has called on China to become "a global leader in terms of comprehensive national strength and international influence" by midcentury. He touts China's development model as a "new option for other countries."

Washington now faces its most dynamic and formidable competitor in modern history. Getting this challenge right will require doing away with the hopeful thinking that has long characterized the United States' approach to China. The Trump administration's first National Security Strategy took a step in the right direction by interrogating past assumptions in U.S. strategy. But many of Donald Trump's policies—a narrow focus on bilateral trade deficits, the abandonment of multilateral trade deals, the questioning of the value of alliances, and the downgrading of human rights and diplomacy—have put Washington at risk of adopting an approach that is confrontational without being competitive; Beijing, meanwhile, has managed to be increasingly competitive without being confrontational.

The starting point for a better approach is a new degree of humility about the United States' ability to change China. Neither seeking to isolate and weaken it nor trying to transform it for the better should be the lodestar of U.S. strategy in Asia. Washington should instead focus more on its own power and behavior, and the power and behavior of its allies and partners. Basing policy on a more realistic set of assumptions about China would better advance U.S. interests and put the bilateral relationship on a more sustainable footing. Getting there will take work, but the first step is relatively straightforward: acknowledging just how much our policy has fallen short of our aspirations.

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Trump vs Xi: the new Cold War is hotting up

But America's new strategy towards China could actually work

Gerard Baker



It will be all smiles when Donald Trump meets President Xi Jinping this week in Osaka at the annual meeting of the G20: a show of comity for the cameras and financial markets. The two are midway through one of the biggest trade wars that the world has seen in recent years, with the US imposing tariffs on $250 billion of imports from China and Beijing retaliating in kind. It's possible that some sort of truce will be reached, as it was when the two men met late last year. The next stage of escalation — additional tariffs, or worse — may be postponed again.

Don't be misled. The tariff fight is only the most visible, outward sign of a much larger struggle. Security specialists are clear that the new realities of global power revolve around the age-old question of whether these two superpowers — one established, one emergent — can co-exist peacefully, or whether some form of conflict is inevitable, by accident or design.

There are plenty of doubts about Trump's foreign policy credentials, reinforced perhaps last week by his decision to rescind an earlier order to strike Iranian targets in retaliation for the shooting down of a US drone. On China, however, even critics acknowledge his administration has fundamentally reoriented US policy — and in a way that might even

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work. For years, China has been stealing secrets from western giants, prospered under an unfair trade regime, and got away with it. It took Trump to blow the whistle.

Over the past two decades, China has risen on the world stage to become the most powerful strategic rival to the US at least since the Cold War. All the time, Washington has been grappling ineffectively with how to handle the changed geopolitical circumstances. In the post-Cold War world, under successive Republican and Democratic presidents — beginning with George H. W. Bush, and continuing through Presidents Bill Clinton, George W. Bush and Barack Obama — the approach was to accommodate.

As Larry Summers, a top economic policy official under both Clinton and Obama put it, when historians look back on this period, the most important question of the first half of the 21st century will be whether the US was able to peacefully accommodate the rise of China. The election of President Trump has opened a new chapter in that history. In keeping with his approach to everything, his initial focus was transactional. In his view, the primary issue between the two countries was a commercial one — the $375 billion US trade deficit in 2017 with its largest trading partner was *prima facie* evidence that China was cheating, taking advantage of his predecessors' softness.

But it was soon clear that the underlying change in the US stance towards China was geopolitical and strategic. A new breed of notably hawkish foreign policy advisers and China specialists around Trump — many of whom arrived a year into the Trump presidency — had concluded that the US needed to challenge China's rise more broadly. The leading figures include Vice-President Mike Pence, a longtime critic of China's human rights record. Then John Bolton, Trump's national security adviser for the past year; Mike Pompeo, the secretary of state and a long-standing hawk; and outside the administration, Michael Pillsbury, a highly influential thinker and China expert whose book, *The Hundred-Year Marathon*, argues that the US has badly underestimated China's strategic ambitions for the past two decades.

A few months ago, I asked Bolton if he believed China's economic strength was good or bad for the US. He preferred to talk about how the US had misjudged China. 'For years, American policy was based on the assumption that bringing China into the WTO would increase pressure to conform to international norms in trade and business areas. That has obviously not happened,' he said. 'We had decades of people [saying] the modernisation and economic growth of China would produce increased political freedom and more representative government. That hasn't happened, either.'

Trump's National Security Strategy — essentially the foreign policy manifesto of a new administration — was published at the end of 2017. It set out, in far starker terms than any of its predecessors had done, that the US now regarded China as a strategic rival. China is mentioned twice as many times in Trump's strategy as it was in Obama's. Talk about the

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threat that China poses to US economic and national security interests dominates the document.

While Trump sends mixed signals about US intentions — with his trademark brand of personal comity and tweeted threats — it's been left to senior deputies to lay out the strategic position. Pence seems to have been given explicitly the role of 'bad cop' in the administration's China diplomacy. In a widely scrutinised speech in October to the Hudson Institute, Pence gave one of the most aggressive verbal assaults on a major foreign power by an American leader since Ronald Reagan shocked much of the West by taking on the Soviet Union in belligerent rhetorical terms. Pence attacked Beijing's human rights record, and its projection of power in Asia through both economic (the Belt and Road Initiative) and military (its expanding presence in the South China Sea) methods.

The speech earned Pence bloodcurdling denunciation in Beijing, where official mouthpieces warned that it marked the start of a new Cold War between the two nations. The Cold War terminology has been widely used by commentators in the US too but Pence and senior officials are careful to avoid the analogy. They are aware there are critical differences between the context of the US-China confrontation and that between the US and Russia from 1949 to 1991.

The most significant is that China's economy is much larger and more important than Russia's ever was. Although some Russia apologists made elaborate claims about the Soviets' economic prowess, the country's role in the global economy was a fraction of China's. And the significance of China's role is underscored by the degree of economic integration between the US and China. US imports from China are more than $500 billion. China is one of America's biggest creditors, holding tens of billions of dollars of US Treasury bonds. This gives Beijing a valuable weapon should relations deteriorate.

A third key difference is that there is no clearly delineated geographic Cold War potential battlefield, as there was for so long with the North German Plain. That may lessen the risk of a Cold War turning hot, but it also complicates the defensive strategy for the US and its allies.

That said, foreign policymakers in the administration still look to the Cold War to help guide the relationship with China in the coming years. 'We're in a different historical context now, but that doesn't mean there aren't valuable lessons that provide us with a basis for how to address China,' says Eric Edelman, a senior Pentagon official in the Bush administration who recently headed a strategic review of US defence capabilities in the face of the rising threat from China.

So how to address it? The Trump strategy — and there is a strategy — has four pillars. The first is to restrain and challenge China's technological growth and prowess and its ability to

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exploit technology to project its influence and power. At a *Wall Street Journal* conference this month in Washington, Bolton said that Trump has emphasised how China's ability to project strategic force in Asia or around the world depends on its economy — an economy 'that has been based over the years on theft of intellectual property, forced technology transfer [and] discrimination against foreign investors'.

This might explain the ferocity of the row over Huawei and other Chinese technology companies, and it may well become an increasingly important feature of US policy. Officials are concerned at the advances China has made in certain areas — artificial intelligence especially, but also hyper-sonics and military technologies. Washington is increasingly likely to do all it can to block transfer of US technology in these areas and to expect allies such as the UK to do the same.

The second pillar is a concerted effort to reduce US economic dependency on China. Tariffs may be justified in Trump's mind by China's 'cheating', but they are also clearly designed to discourage US investment in China. As US tariffs make goods made in China more expensive, US companies are beginning to shift production and other functions out of China, either home or to other Asian markets.

Then we have the US seeking to strengthen its general influence in Asia, as a counterweight to China. This means bolstering its defensive partnerships with key allies such as Japan, South Korea and the Philippines. It's a fine idea in theory, but in reality is proving a challenge for the administration. To the frustration of the China hawks, Trump's aggressive stance on trade with almost all countries — especially Japan — is complicating US strategic efforts to forge closer ties.

But a recent sign of a shift came when Trump visited Japan a few weeks ago, becoming the first US president to step on board a warship of the Japanese navy — technically Japan's Self-Defense Forces, since its post-second world war constitution forbids a traditional military. The helicopter carrier *JS Kaga* is being upgraded to a full aircraft carrier capable of transporting dozens of new F-35 fighter jets, recently ordered from the US, which still has 50,000 troops there.

The fourth and final pillar of the Trump strategy is a broad effort to improve US offensive capabilities. To start thinking more openly about war with China, and how it might be won and then, just as it did with the Soviet Union in the 1980s, raise the pressure with effective military competition. At a *Wall Street Journal* conference last month, Michael Pillsbury observed that, even ten years ago, military journals would never let any author write about a war with China. Now, he says, almost every one will have an article asking: 'What new weapon system should the navy buy to defeat China?'

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The Cold War was characterised by a very public stealthy ideological struggle. Given the technological advances since then — the rise of social media and other channels of communication — this kind of contest will be just as important in the fight with China.

No one thinks a war with China is either desirable or likely. But what's changed in the US since Trump came to power is a belief that, just as with the threat from the old Soviet Union, peace is more likely to be achieved through enhanced US strength and a willingness to project it than through accommodation and vacillation.

*Now listen to **Gerard Baker** talk to **Isabel Hardman** and **Dr Yu Jie**, from Chatham House, about America's containment policy:*

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US-China Relations : Now and Beyond

Jul 10 , 2019

Tung Chee-hwa

Vice Chairman of the CPPCC, Founder of CUSEF

Good Morning, Ladies and Gentleman

The recent meeting in Osaka between Mr. Trump and Mr. Xi gives us hope that the US-China trade relationship can move forward again. Immediately before the Osaka meeting, many of us sensed that the people of the United States and China, and in particular in the business world of the two countries, want to see progress being made in the discussions. Trade negotiation is always difficult, and maybe there will be set-backs, but in the end, I believe that common sense will prevail.

My assignment today is to talk about US-China relations – where we are now, and where we want to be in the future.

The modern day US-China relationship began 47 years ago in February, 1972, when president Nixon visited chairman Mao in Beijing. But it was not until 1979 when US-China diplomatic relations were formally established by president Carter and chairman Deng Xiaoping. Since that time, eight presidents of the United States and five leaders of China have pursued policies to ensure that the relationship moves forward positively.

Today, however, there are people in the US who, for one reason or another, advocate a so-called "decoupling" of US-China relations. They argue that China has taken too much advantage of the United States. This is an important topic, and, as someone who has spent half of his life promoting US-China relations, I think you know where I stand, but please allow me to make my case.

To start with, I think that it is important for everyone to understand China's priorities, from where she came from, and where she plans to go from here. Over the past 40 years, China has made great strides in improving its economy and the welfare of its people, with hundreds of millions of Chinese being pulled out of poverty. Never in the history of mankind has so many people been pulled out of poverty in such a short time.

Nevertheless, at the end of 2018, per capita income in China was still only $10,000, as compared with the US, where per capita income was over $60,000. Indeed, the country still has some way to go to satisfy the Chinese people's aspirations for a better life. In order to achieve that, internationally, China will continue to collaborate with other nations in the areas of trade, commerce, investment, etc. Domestically, she will pursue the development of science, technology and innovation, as well as continuing her path of reform and opening up her economy to the outside

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world. The ultimate aim is for her to eventually reach developed nation status. This may take some time.

There have been concerns in the United States about China's rapid rise. It is asked "would China seek to become a hegemonic power, and pose a threat to the United States?" From this point of view, what is noteworthy is that, historically, at the pinnacle of its power during the Tang dynasty thirteen hundred years ago, and during the Ming dynasty 650 years ago, when China was the largest economy in the world, with over 30% of the world's total GDP for years and years. During those periods, China never sought to expand her borders, export her method of governing, spread any extreme ideologies, or conquer other civilizations, although she would put up walls to keep invaders out. My point is that China does not seek to become a hegemonic power. It is not in China's DNA to do this.

Today China preaches peace and shared prosperity for all nations. The expansion of China's economic activities gives rise to common prosperity to everyone. A case in point: in every year since 2008, China's economic expansion contributed over 30% to the growth of the global economy year in, year out. It is indeed China's hope that the expansion of her economy is not only good for her people, but also for the rest of the world.

Furthermore, let me justify why a good relationship between the US and China is not only good for the two countries, but also good for the world at large.

First, it needs to be pointed out that, in the years to come, the US-China trade relationship is going to become increasingly complementary. The US is the world's largest supplier of oil and gas, while China is the world's largest buyer of oil and gas. The US is the world's largest supplier of farm products, and China is the world's largest buyer of farm products. The US is a major supplier of consumer goods in the world, and China, with a huge middle class of consumers numbering in the hundreds of millions, has become the largest purchaser of consumer goods.

Furthermore, with its high savings rate at around 50%, China will be seeking investment opportunities overseas. The US is an ideal destination for Chinese investment. Moreover, China has announced that its imports will not be subject to restrictions, and foreign investment will be more welcome. All I can see is an increasingly complementary US China trade and services relationship as time goes on. Some of you may ask is this for real? Yes it is for real. Why should I believe it. It is for China's own interest too.

Second, US-China relations are based not only on trade, commerce and finance alone. The two countries have been collaborating with each other in the recent past on major challenges that the world was facing. In 2008, China actively participated in an effort to support the global economic recovery in the face of the financial crisis. The US invested $800 billion in the US, and China accepted the American suggestion, and invested $400 billion in China to shore up the development of the world economy. US initiative and Chinese participation at that time was essential for the subsequent global economic recovery.

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Another example of the collaboration between China and the United States was in the effort to sign the Paris Accords on climate change in 2016. This was only possible because the two countries came together. And in West Africa, the Ebola epidemic was contained within 6 months of the US and China coming together. Towards the end of president Obama's second term, China and the United States also began to discuss a collaborative effort to clean up the oceans of world, which is well-recognized as a very pressing problem. And in this respect, we are heartened that the G20 has taken on this issue.

There are a host of other challenges that the world will face in the years to come. Whether it is on issues such as how to reduce the migration of people globally, how to curb the proliferation of nuclear weapons, how to promote a weapon-free outer space, how to procure cyber security, etc. etc. In all these areas, collaboration between the United States and China is essential, and this collaboration can only increase the chances of attracting other important nations in support of these efforts and therefore the ultimate success.

Unfortunately there is also talk that the US and China will no longer cooperate with each other in science and technology in the future. I believe that, when it comes to scientists, engineers and innovators, one-plus-one is always more than two. It will be to the benefit of all the people of the world if the US and China can come together in these areas. Of course for that to happen, intellectual property needs to be protected. For this China will be on board. It is in her own interest.

Time and again, my American friends have said to me that our political systems are vastly different. How can we possibly collaborate? My answer is that, our political systems are different because we have different cultures, different histories, and we are at different stages of development. Therefore, our needs are different. It is entirely reasonable that we have different political systems. The ultimate goal of a political system is to serve its people. Poll after poll, conducted by many pollsters, has shown that 80% of Chinese people feel that the country is going in the right direction. This clearly demonstrates that China's system works for China, and this should not in any way hinder the collaboration between the two countries.

Therefore, ladies and gentlemen, for all of these reasons, I believe that decoupling is not in the interest of the United States, nor of China, and certainly not in the intertest of the world at large. In fact, it is really short-sighted.

The more closely the two countries can work together, the better off the two countries will be, and the better off the world will be. Developing and maintaining a good US-China relationship will not be easy, and it is going to take people from the two countries to make major efforts to understand each other better, to listen to each other more, to give and take when things are difficult, and to keep an open mind, all because it is not just for our future, but also for the future of our children and grand-children. I listen carefully and make notes to many good suggestions. Stephen Roach I hear you. The work that this forum has undertaken over the last 2 days is only a small step of a long journey. This is just the beginning. Shall we see each other again next year?

Thank you.

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Hudson Institute



Vice President Mike Pence's Remarks on the Administration's Policy Towards China *Streaming Now*

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Remarks delivered by President Mike Pence on the administration's policy towards China at Hudson Institute on October 4, 2018:

Thank you, Ken, for that kind introduction. To the Members of the Board of Trustees, to Dr. Michael Pillsbury, to our distinguished guests, and to all of you who, true to your mission, "think about the future in unconventional ways" – it's an honor to be back at the Hudson Institute.

For more than half a century, this Institute has dedicated itself to "advancing global security, prosperity, and freedom." And while Hudson's hometowns have changed over the years, one thing has held constant: You have always advanced that vital truth, that American leadership lights the way.

And today, I bring greetings from a champion of American leadership, at home and abroad – the 45th President of the United States of America, President Donald Trump.

From early in this administration, President Trump has made our relationship with China and President Xi a priority. On April 6th of last year, President Trump welcomed President Xi to Mar-A-Lago. On November 8th of last year, President Trump traveled to Beijing, where China's leader welcomed him warmly.

Over the course of the past 2 years, our President has forged a strong personal relationship with the president of the People's Republic of China, and they've worked closely on issues of common interest, most importantly the denuclearization of the Korean Peninsula...

But I come before you today because the American people deserve to know... as we speak, Beijing is employing a whole-of-government approach, using political, economic, and military tools, as well as

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propaganda, to advance its influence and benefit its interests in the United States.

China is also applying this power in more proactive ways than ever before, to exert influence and interfere in the domestic policy and politics of our country.

Under our administration, we've taken decisive action to respond to China with American leadership, applying the principles, and the policies, long advocated in these halls.

In the "National Security Strategy" that President Trump released last December, he described a new era of "great power competition." Foreign nations have begun to "reassert their influence regionally and globally," and they are "contesting [America's] geopolitical advantages and trying to change the international order in their favor."

In this strategy, President Trump made clear that the United States of America has adopted a new approach to China. We seek a relationship grounded in fairness, reciprocity, and respect for sovereignty, and we have taken strong and swift action to achieve that goal.

As the President said last year on his visit to China, "we have an opportunity to strengthen the relationship between our two countries and improve the lives of our citizens." Our vision of the future is built on the best parts of our past, when America and China reached out to one another in a spirit of openness and friendship...

When our young nation went searching in the wake of the Revolutionary War for new markets for our exports, the Chinese people welcomed Americans traders laden with ginseng and fur...

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When China suffered through indignities and exploitation during her so-called "Century of Humiliation," America refused to join in, and advocated the "Open Door" policy, so that we could have freer trade with China, and preserve their sovereignty...

When American missionaries brought the good news to China's shores, they were moved by the rich culture of an ancient but vibrant people, and not only did they spread faith; they also founded some of China's first and finest universities...

When the Second World War arose, we stood together as allies in the fight against imperialism... And in that war's aftermath, America ensured that China became a Charter member of the United Nations, and a great shaper of the post-war world.

But soon after it took power in 1949, the Chinese Communist Party began to pursue authoritarian expansionism. Only five years after our nations had fought together, we fought each other, on the mountains and in the valleys of the Korean Peninsula. My own father saw combat on those frontlines of freedom.

Not even the brutal Korean War could diminish our mutual desire to restore the ties that for so long bound us together. China's estrangement from the United States ended in 1972, and soon after, we re-established diplomatic relations, began to open our economies to one another, and American universities began training a new generation of Chinese engineers, business leaders, scholars, and officials.

After the fall of the Soviet Union, we assumed that a free China was inevitable. Heady with optimism, at the turn of the 21st Century, America agreed to give Beijing open access to our economy, and bring China into the World Trade Organization.

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Previous administrations made this choice in the hope that freedom in China would expand in all forms - not just economically, but politically, with a newfound respect for classical liberal principles, private property, religious freedom, and the entire family of human rights... but that hope has gone unfulfilled.

The dream of freedom remains distant for the Chinese people. And while Beijing still pays lip service to "reform and opening," Deng Xiaoping's famous policy now rings hollow.

Over the past 17 years, China's GDP has grown 9-fold; it has become the second-largest economy in the world. Much of this success was driven by American investment in China. And the Chinese Communist Party has also used an arsenal of policies inconsistent with free and fair trade, including tariffs, quotas, currency manipulation, forced technology transfer, intellectual property theft, and industrial subsidies doled out like candy, to name a few. These policies have built Beijing's manufacturing base, at the expense of its competitors - especially America.

China's actions have contributed to a trade deficit with the United States that last year ran to $375 billion - nearly half of our global trade deficit. As President Trump said just this week, "we rebuilt China" over the last 25 years.

Now, through the "Made in China 2025" plan, the Communist Party has set its sights on controlling 90% of the world's most advanced industries, including robotics, biotechnology, and artificial intelligence. To win the commanding heights of the 21st Century economy, Beijing has directed its bureaucrats and businesses to obtain American intellectual property - the foundation of our economic leadership - by any means necessary.

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Beijing now requires many American businesses to hand over their trade secrets as the cost of doing business in China. It also coordinates and sponsors the acquisition of American firms to gain ownership of their creations. Worst of all, Chinese security agencies have masterminded the wholesale theft of American technology - including cutting-edge military blueprints.

And using that stolen technology, the Chinese Communist Party is turning plowshares into swords on a massive scale...

China now spends as much on its military as the rest of Asia combined, and Beijing has prioritized capabilities to erode America's military advantages - on land, at sea, in the air, and in space. China wants nothing less than to push the United States of America from the Western Pacific and attempt to prevent us from coming to the aid of our allies.

Beijing is also using its power like never before. Chinese ships routinely patrol around the Senkaku Islands, which are administered by Japan. And while China's leader stood in the Rose Garden of the White House in 2015 and said that his country had "no intention to militarize the South China Sea," today, Beijing has deployed advanced anti-ship and anti-air missiles atop an archipelago of military bases constructed on artificial islands.

China's aggression was on display this week, when a Chinese naval vessel came within 45 yards of the USS Decatur as it conducted freedom-of-navigation operations in the South China Sea, forcing our ship to quickly maneuver to avoid collision. Despite such reckless harassment, the United States Navy will continue to fly, sail and operate wherever international law allows and our national interests demand. We will not be intimidated; we will not stand down.

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America had hoped that economic liberalization would bring China into greater partnership with us and with the world. Instead, China has chosen economic aggression, which has in turn emboldened its growing military.

Nor, as we hoped, has Beijing moved toward greater freedom for its people. For a time, Beijing inched toward greater liberty and respect for human rights, but in recent years, it has taken a sharp U-turn toward control and oppression.

Today, China has built an unparalleled surveillance state, and it's growing more expansive and intrusive - often with the help of U.S. technology. The "Great Firewall of China" likewise grows higher, drastically restricting the free flow of information to the Chinese people. And by 2020, China's rulers aim to implement an Orwellian system premised on controlling virtually every facet of human life - the so-called "social credit score." In the words of that program's official blueprint, it will "allow the trustworthy to roam everywhere under heaven, while making it hard for the discredited to take a single step."

And when it comes to religious freedom, a new wave of persecution is crashing down on Chinese Christians, Buddhists, and Muslims...

Last month, Beijing shut down one of China's largest underground churches. Across the country, authorities are tearing down crosses, burning bibles, and imprisoning believers. And Beijing has now reached a deal with the Vatican that gives the avowedly atheist Communist Party a direct role in appointing Catholic bishops. For China's Christians, these are desperate times.

Beijing is also cracking down on Buddhism. Over the past decade, more than 150 Tibetan Buddhist monks have lit themselves on fire to protest

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China's repression of their beliefs and culture. And in Xinjiang, the Communist Party has imprisoned as many as one million Muslim Uyghurs in government camps where they endure around-the-clock brainwashing. Survivors of the camps have described their experiences as a deliberate attempt by Beijing to strangle Uyghur culture and stamp out the Muslim faith.

But as history attests, a country that oppresses its own people rarely stops there. Beijing also aims to extend its reach across the wider world. As Hudson's own Dr. Michael Pillsbury has said, "China has opposed the actions and goals of the U.S. government. Indeed, China is building its own relationships with America's allies and enemies that contradict any peaceful or productive intentions of Beijing."

China uses so-called "debt diplomacy" to expand its influence.Today, that country is offering hundreds of billions of dollars in infrastructure loans to governments from Asia to Africa to Europe to even Latin America. Yet the terms of those loans are opaque at best, and the benefits flow overwhelmingly to Beijing.

Just ask Sri Lanka, which took on massive debt to let Chinese state companies build a port with questionable commercial value. Two years ago, that country could no longer afford its payments - so Beijing pressured Sri Lanka to deliver the new port directly into Chinese hands. It may soon become a forward military base for China's growing blue-water navy.

Within our own hemisphere, Beijing has extended a lifeline to the corrupt and incompetent Maduro regime in Venezuela, pledging $5 billion in questionable loans that can be repaid with oil. China is also that country's single largest creditor, saddling the Venezuelan people with more than $50 billion in debt. Beijing is also corrupting some

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nations' politics by providing direct support to parties and candidates who promise to accommodate China's strategic objectives...

And since last year, the Chinese Communist Party has convinced 3 Latin American nations to sever ties with Taipeiand recognize Beijing. These actions threaten the stability of the Taiwan Strait - and the United States of America condemns these actions. And while our administration will continue to respect our One China Policy, as reflected in the three joint communiques and the Taiwan Relations Act, America will always believe Taiwan's embrace of democracy shows a better path for all the Chinese people.

These are only a few of the ways that China has sought to advance its strategic interests across the world, with growing intensity and sophistication. Yet previous administrations all but ignored China's actions - and in many cases, they abetted them. But those days are over.

Under President Trump's leadership, the United States of America has been defending our interests with renewed American strength...

We've been making the strongest military in the history of the world stronger still. Earlier this year, the President signed into law the largest increase in our national defense since the days of Ronald Reagan - $716 billion to extend our military dominance in every domain.

We're modernizing our nuclear arsenal, we're fielding and developing new cutting-edge fighters and bombers, we're building a new generation of aircraft carriers and warships, and we're investing as never before in our Armed Forces. This includes initiating the process to establish the United States Space Force to ensure our continued dominance in space, and authorizing increased capability in the cyber world to build deterrence against our adversaries.

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And at President Trump's direction, we're also implementing tariffs on $250 billion in Chinese goods, with the highest tariffs specifically targeting the advanced industries that Beijing is trying to capture and control. And the President has also made clear that we'll levy even more tariffs, with the possibility of substantially more than doubling that number, unless a fair and reciprocal deal is made.

Our actions have had a major impact. China's largest stock exchange fell by 25% in the first 9 months of this year, in large part because our administration has stood up to Beijing's trade practices.

As President Trump has made clear, we don't want China's markets to suffer. In fact, we want them to thrive. But the United States wants Beijing to pursue trade policies that are free, fair, and reciprocal.

Sadly, China's rulers have refused to take that path - so far. The American people deserve to know that, in response to the strong stand that President Trump has taken, Beijing is pursuing a comprehensive and coordinated campaign to undermine support for the President, our agenda, and our nation's most cherished ideals.

I want to tell you today what we know about China's actions - some of which we've gleaned from intelligence assessments, some of which are publicly available. But all of which is fact.

As I said before, Beijing is employing a whole-of-government approach to advance its influence and benefit its interests. It's employing this power in more proactive and coercive ways to interfere in the domestic policies and politics of the United States.

The Chinese Communist Party is rewarding or coercing American businesses, movie studios, universities, think tanks, scholars,

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journalists, and local, state, and federal officials.

Worst of all, China has initiated an unprecedented effort to influence American public opinion, the 2018 elections, and the environment leading into the 2020 presidential elections...

To put it bluntly, President Trump's leadership is working; and China wants a different American President.

China is meddling in America's democracy. As President Trump said just last week, we have "found that China has been attempting to interfere in our upcoming 2018 [midterm] election[s]."

Our intelligence community says that "China is targeting U.S. state and local governments and officials to exploit any divisions between federal and local levels on policy. It's using wedge issues, like trade tariffs, to advance Beijing's political influence."

In June, Beijing circulated a sensitive document, entitled "Propaganda and Censorship Notice," that laid out its strategy. It states that China must "strike accurately and carefully, splitting apart different domestic groups" in the United States.

To that end, Beijing has mobilized covert actors, front groups, and propaganda outlets to shift Americans' perception of Chinese policies. As a senior career member of our intelligence community recently told me, what the Russians are doing pales in comparison to what China is doing across this country.

Senior Chinese officials have also tried to influence business leaders to condemn our trade actions, leveraging their desire to maintain their operations in China. In one recent example, they threatened to deny a

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business license for a major U.S. corporation if it refused to speak out against our administration's policies.

And when it comes to influencing the midterms, you need only look at Beijing's tariffs in response to ours. They specifically targeted industries and states that would play an important role in the 2018 election. By one estimate, more than 80% of U.S. counties targeted by China voted for President Trump in 2016; now China wants to turn these voters against our administration.

And China is also directly appealing to the American voter. Last week, the Chinese government paid to have a multipage supplement inserted into the Des Moines Register - the paper of record in the home state of our Ambassador to China, and a pivotal state in 2018. The supplement, designed to look like news articles, cast our trade policies as reckless and harmful to Iowans.

Fortunately, Americans aren't buying it. For example: American farmers are standing with this President and are seeing real results from the strong stands that he's taken, including this week's U.S.-Mexico-Canada Agreement, where we've substantially opened North American markets to U.S. products - a great win for American farmers and manufacturers.

But China's actions aren't focused solely on influencing our policies and politics. Beijing is also taking steps to exploit its economic leverage, and the allure of China's large domestic market, to advance its influence over American corporations.

Beijing now requires American joint ventures that operate in China to establish "party organizations" within their company, giving the

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Communist Party a voice - and perhaps a veto - in hiring and investment decisions.

Chinese authorities have also threatened U.S. companies that depict Taiwan as a distinct geographic entity, or that stray from Chinese policy on Tibet. Beijing compelled Delta Airlines to publicly apologize for not calling Taiwan a "province of China" on its website. It also pressured Marriott to fire a U.S. employee who liked a tweet about Tibet.

Beijing routinely demands that Hollywood portray China in a strictly positive light, and it punishes studios and producers that don't. Beijing's censors are quick to edit or outlaw movies that criticize China, even in minor ways. "World War Z" had to cut the script's mention of a virus originating in China. "Red Dawn" was digitally edited to make the villains North Korean, not Chinese.

Beyond business, the Chinese Communist Party is spending billions of dollars on propaganda outlets in the United States, as well as other countries.

China Radio International now broadcasts Beijing-friendly programming on over 30 U.S. outlets, many in major American cities. The China Global Television Network reaches more than 75 million Americans - and it gets its marching orders directly from its Communist Party masters. As China's top leader put it during a visit to the network's headquarters, "The media run by the Party and the government are propaganda fronts and must have the Party as their surname."

That's why, last month, the Department of Justice ordered that network to register as a foreign agent.

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The Communist Party has also threatened and detained the Chinese family members of American journalists who pry too deep. And it has blocked the websites of U.S. media organizations and made it harder for our journalists to get visas. This happened after the New York Times published investigative reports about the wealth of some of China's leaders.

But the media isn't the only place where the Chinese Communist Party seeks to foster a culture of censorship. The same is true of academia.

Look no further than the Chinese Students and Scholars Associations, of which there are more than 150 branches across American campuses. These groups help organize social events for some of the more than 430,000 Chinese nationals studying in the United States; they also alert Chinese consulates and embassies when Chinese students, and American schools, stray from the Communist Party line.

At the University of Maryland, a Chinese student recently spoke at her graduation ceremony of what she called the "fresh air of free speech" in America. The Communist Party's official newspaper swiftly chastised her, she became the victim of a firestorm of criticism on China's tightly-controlled social media,and her family back home was harassed. As for the university itself, its exchange program with China - one of the nation's most extensive - suddenly turned from a flood to a trickle.

China exerts academic pressure in other ways, too. Beijing provides generous funding to universities, think tanks, and scholars, with the understanding that they will avoid ideas that the Communist Party finds dangerous or offensive. China experts in particular know that their visas will be delayed or denied if their research contradicts Beijing's talking points.

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And even scholars and groups who avoid Chinese funding are targeted by that country, as the Hudson Institute found out firsthand. After you offered to host a speaker Beijing didn't like, your website suffered a major cyber-attack, originating from Shanghai. You know better than most that the Chinese Communist Party is trying to undermine academic freedom and the freedom of speech in America today.

These and other actions, taken as a whole, constitute an intensifying effort to shift American public opinion and public policy away from the America First leadership of President Donald Trump. But our message to China's rulers is this: This President will not back down - and the American people will not be swayed. We will continue to stand strong for our security and our economy, even as we hope for improved relations with Beijing.

Our administration will continue to act decisively to protect American interests, American jobs, and American security.

As we rebuild our military, we will continue to assert American interests across the Indo-Pacific.

As we respond to China's trade practices, we will continue to demand an economic relationship with China that is free and fair and reciprocal, demanding that Beijing break down its trade barriers, fulfill its trade obligations, and fully open its economy, just as we have opened ours.

We will continue to take action until Beijing ends the theft of American intellectual property, and stops the predatory practice of forced technology transfer...

And to advance our vision of a free and open Indo-Pacific, we're building new and stronger bonds with nations that share our values,

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across the region - from India to Samoa. Our relationships will flow from a spirit of respect, built on partnership, not domination.

We're forging new trade deals, on a bilateral basis, just as last week, President Trump signed an improved trade deal with South Korea, and we will soon begin negotiating a historic bilateral free-trade deal with Japan.

And we're streamlining international development and finance programs, giving foreign nations a just and transparent alternative to China's debt-trap diplomacy. To that end, President Trump will sign the BUILD Act into law in the days ahead.

And next month, it will be my privilege to represent the United States in Singapore and Papua New Guinea, at ASEAN and APEC. There, we will unveil new measures and programs to support a free and open Indo-Pacific - and on behalf of the President, I will deliver the message that America's commitment to the Indo-Pacific has never been stronger.

To protect our interests here at home, we've strengthened CFIUS - the Committee on Foreign Investment in the United States - heightening our scrutiny of Chinese investment in America, to protect our national security from Beijing's predatory actions.

And when it comes to Beijing's malign influence and interference in American politics and policy, we will continue to expose it, no matter the form it takes. And we will work with leaders at every level of society to defend our national interests and most cherished ideals. The American people will play the decisive role - and in fact, they already are...

As we gather here, a new consensus is rising across America...

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More business leaders are thinking beyond the next quarter, and thinking twice before diving into the Chinese market if it means turning over their intellectual property or abetting Beijing's oppression. But more must follow suit. For example, Google should immediately end development of the "Dragonfly" app that will strengthen Communist Party censorship and compromise the privacy of Chinese customers...

More journalists are reporting the truth without fear or favor, and digging deep to find where China is interfering in our society, and why - and we hope that more American, and global, news organizations will join in this effort.

More scholars are speaking out forcefully and defending academic freedom, and more universities and think tanks are mustering the courage to turn away Beijing's easy money, recognizing that every dollar comes with a corresponding demand. We're confident that more will join their ranks.

And across the nation, the American people are growing in vigilance, with a newfound appreciation for our administration's actions to re-set America's economic and strategic relationship with China, to finally put America First.

And under President Trump's leadership, America will stay the course. China should know that the American people and their elected representatives in both parties are resolved.

As our National Security Strategy states: "Competition does not always mean hostility." As President Trump has made clear, we want a constructive relationship with Beijing, where our prosperity and security grow together, not apart. While Beijing has been moving further away from this vision, China's rulers can still change course, and return to the

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spirit of "reform and opening" and greater freedom. The American people want nothing more; the Chinese people deserve nothing less.

The great Chinese story-teller Lu Xun often lamented that his country "has either looked down at foreigners as brutes, or up to them as saints, but never as equals." Today, America is reaching out our hand to China; we hope that Beijing will soon reach back - with deeds, not words, and with renewed respect for America. But we will not relent until our relationship with China is grounded in fairness, reciprocity, and respect for sovereignty.

There is an ancient Chinese proverb that tells us that "men see only the present, but heaven sees the future." As we go forward, let us pursue a future of peace and prosperity with resolve and faith...

Faith in President Trump's leadership, and the relationship that he has forged with China's president...

Faith in the enduring friendship between the American people and the Chinese people...

Faith that heaven sees the future - and by God's grace, America and China will meet that future together.

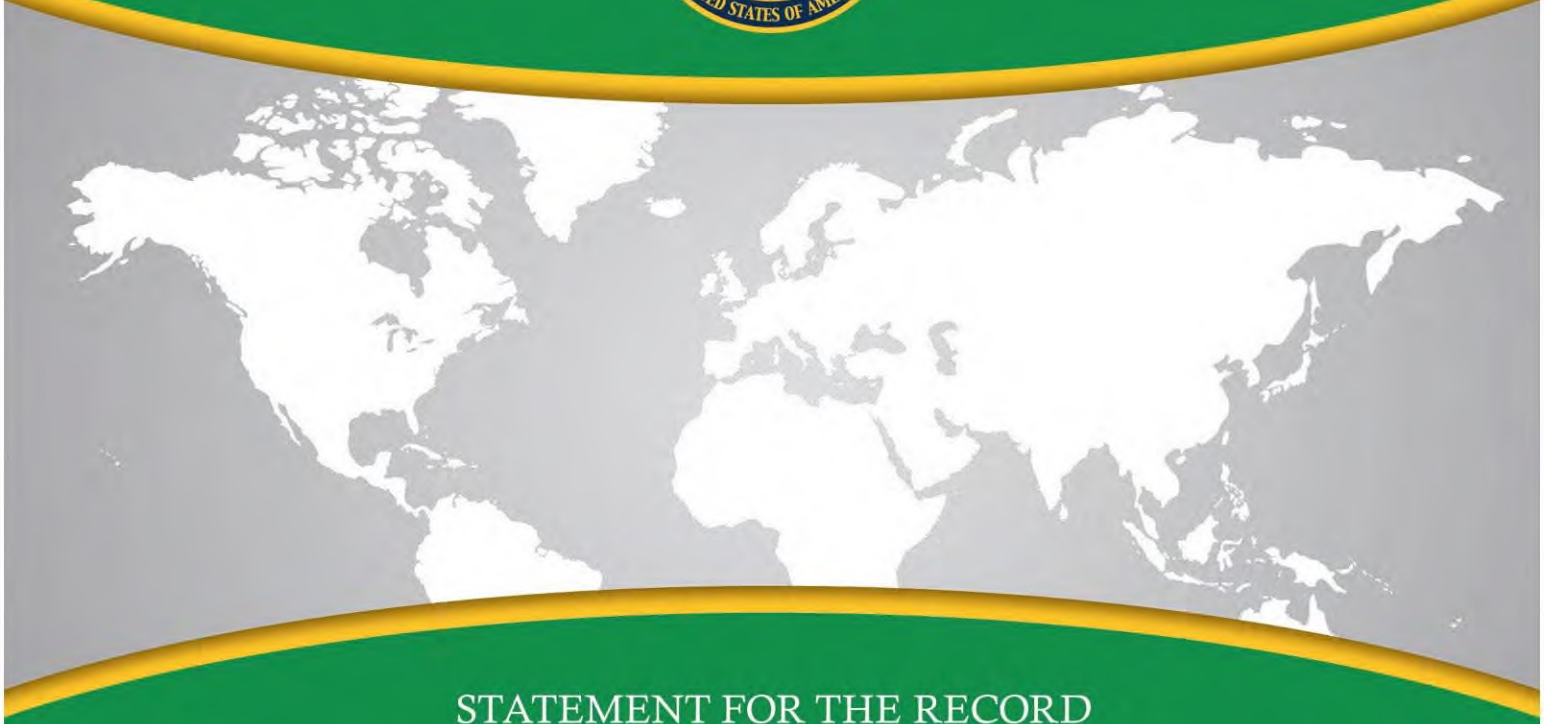
Thank you. God bless you. And God bless the United States of America.

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STATEMENT FOR THE RECORD

WORLDWIDE THREAT ASSESSMENT
OF THE US INTELLIGENCE COMMUNITY

Daniel R. Coats
Director of National Intelligence

Senate Select Committee on Intelligence

29 JANUARY 2019

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REGIONAL THREATS

CHINA AND RUSSIA

China and Russia will present a wide variety of economic, political, counterintelligence, military, and diplomatic challenges to the United States and its allies. We anticipate that they will collaborate to counter US objectives, taking advantage of rising doubts in some places about the liberal democratic model.

Chinese-Russian Relations

China and Russia are expanding cooperation with each other and through international bodies to shape global rules and standards to their benefit and present a counterweight to the United States and other Western countries.

- The two countries have significantly expanded their cooperation, especially in the energy, military, and technology spheres, since 2014.
- China has become the second-largest contributor to the UN peacekeeping budget and the third-largest contributor to the UN regular budget. It is successfully lobbying for its nationals to obtain senior posts in the UN Secretariat and associated organizations, and it is using its influence to press the UN and member states to acquiesce in China's preferences on issues such as human rights and Taiwan.
- Russia is working to consolidate the UN's counterterrorism structures under the UN Under Secretary General for Counterterrorism, who is Russian.
- Both countries probably will use the UN as a platform to emphasize sovereignty narratives that reflect their interests and redirect discussions away from human rights, democracy, and good governance.
- China and Russia also have increased their sway in the International Telecommunication Union through key leadership appointments and financial and technical assistance. They seek to use the organization to gain advantage for their national industries and move toward more state-controlled Internet governance.

EAST ASIA

The United States will see mounting threats in Asia, including a variety of challenges from China and North Korea, and rising authoritarianism in the region.

China

The Chinese Communist Party's Concentration of Power

China is deepening its authoritarian turn under President Xi Jinping, and the resulting hardening of Chinese politics and governance probably will make it more difficult for the leadership to recognize and correct policy errors, including in relations with the United States and our allies and partners.

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- President Xi removed one of the few remaining checks on his authority when he eliminated presidential term limits in March 2018, and the Chinese Communist Party has reasserted control over the economy and society, tightened legal and media controls, marginalized independent voices, and intensified repression of Chinese Muslims, Christians, and other religious minorities.

- The Chinese Government also is harnessing technology, including facial recognition, biometrics, and vehicle GPS tracking, to bolster its apparatus of domestic monitoring and control.

- Beijing's increasing restrictions on scholars' and researchers' freedom of movement and communication with US counterparts may increase the prospects for misunderstanding and misinterpretation of US policies.

Expanding Global Reach

We assess that China's leaders will try to extend the country's global economic, political, and military reach while using China's military capabilities and overseas infrastructure and energy investments under the Belt and Road Initiative to diminish US influence. However, Beijing is likely to face political pushback from host governments in many locations, and the overall threat to US and partner interests will depend on the size, locations, and offensive military capabilities of the eventual Chinese presence.

- China has built its first overseas military facility in Djibouti and probably is exploring bases, support facilities, or access agreements in Africa, Europe, Oceania, Southeast Asia, and South Asia.

- In most instances, China has not secured explicit permanent basing rights but is using commercial development and military ties to lay the groundwork for gaining future military access.

- Successful implementation of the Belt and Road Initiative could facilitate PLA access to dozens of additional ports and airports and significantly expand China's penetration of the economies and political systems of participating countries.

The Coming Ideological Battle

Chinese leaders will increasingly seek to assert China's model of authoritarian capitalism as an alternative—and implicitly superior—development path abroad, exacerbating great-power competition that could threaten international support for democracy, human rights, and the rule of law.

- The actions of Xi and his advisers—doubling down on authoritarianism at home and showing they are comfortable with authoritarian regimes abroad—along with China's opaque commercial and development practices, reward compliant foreign leaders and can be corrosive to civil society and the rule of law.

- At the 2018 Central Foreign Affairs Work Conference, Xi stated his desire to lead the reform of the global governance system, driving a period of increased Chinese foreign policy activism and a Chinese worldview that links China's domestic vision to its international vision.

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- Beijing has stepped up efforts to reshape the international discourse around human rights, especially within the UN system. Beijing has sought not only to block criticism of its own system but also to erode norms, such as the notion that the international community has a legitimate role in scrutinizing other countries' behavior on human rights (e.g., initiatives to proscribe country-specific resolutions), and to advance narrow definitions of human rights based on economic standards.

South China Sea and Taiwan

We assess that China will continue increasing its maritime presence in the South China Sea and building military and dual-use infrastructure in the Spratly Islands to improve its ability to control access, project power, and undermine US influence in the area. A body of open-source reporting shows that China seeks to achieve effective control over its claimed waters with a whole-of-government strategy, compel Southeast Asian claimants to acquiesce in China's claims—at least tacitly—and bolster Beijing's narrative in the region that the United States is in decline and China's preeminence is inevitable.

- Meanwhile, Beijing almost certainly will continue using pressure and incentives to try to force Taipei to accept the One China framework and ultimately Chinese control, and it will monitor the US reaction as an indicator of US resolve in the region.

- Since 2016, Beijing has persuaded six of Taiwan's 23 diplomatic partners, most recently Burkina Faso and El Salvador, to recognize China instead of Taiwan.

Military Capabilities

The People's Liberation Army (PLA) continues to develop and field advanced weapons and hardware while honing its ability to fight in all military domains. The force is undergoing its most comprehensive restructuring ever to realize China's long-held goal of being able to conduct modern, rapid military operations based on high technology to assert and defend China's regional and growing global interests.

- PLA reforms seek to reinforce the Chinese Communist Party's control of the military, improve the PLA's ability to perform joint operations, increase combat effectiveness, and curb corruption.

- As China's global footprint and international interests have grown, its military modernization program has become more focused on investments and infrastructure to support a range of missions beyond China's periphery, including a growing emphasis on the maritime domains, offensive air operations, and long-distance mobility operations.

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Zero-Sum, Winner-Loser Mentality Is Wrong and Naive

Jul 10 , 2019

By Neil Bush

Founder and Chairman, George H.W. Bush Foundation for U.S.-China Relations

I'm proud to be delivering this speech as Chairman of the George HW Bush Foundation for US China Relations which is gearing up to do great work to carry out my father's legacy interest in closer ties between our two great countries and which is run so ably by a real China expert, David Firestein. We have a wonderful team.

Throughout his amazing life, my father played important roles in shaping US policy towards China. He often stated that the US-China relationship was the most important bilateral relationship in the world. He had deep understanding of the cultural, political, and economic complexities vital to normalizing ties. So my views are largely shaped by my father's views but they are also shaped by over 140 trips to China over the past 44 years.

My first trip to China was in 1975 when my father was the "bicycling ambassador" representing the US in Beijing. This was a time towards the end of the Cultural Revolution where there were very few personal liberties, China was pretty much closed off to the west. I remember going with my family to the zoo to see the pandas or to the Forbidden City only to notice that we were being followed by throngs of people who were curious to see westerners. I've been back many times and have witnessed China's rise first hand.

At the core of our American value system is individual freedom. We know that once you have enjoyed freedom, there is no giving it back. And as a freedom-loving American, I have marveled that over the past 44 years there has been an unprecedented freedom movement in China where more people have gained more freedoms in the shortest period of time in all of human history. The freedom to choose where to live, who to marry, what career to pursue. The freedom to travel abroad, the freedom to seek the best education anywhere in the world, to enjoy a better quality of life. Those freedoms and many many more were unimaginable 44 years ago.

As China rises, so too does the anti-China rhetoric. You'd think that China is taking advantage of the United States at every turn to gain dominance over us. As most in this room know, the truth is that over the past 40 years there has been tremendous mutual benefit to the United States and China from closer commercial, educational, diplomatic, and cultural relations. Globalization, and specifically our connectivity to China, has contributed to a sustained growth in the US economy, has led to full employment, and has benefited consumers with lower cost, high quality goods. Globalization, and specifically connectivity to the US has been a major contributor to China's

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success in building a huge middle class and lifting hundreds of millions of people out of poverty. Our bilateral relationship has had bumps in the road but has produced a classic win-win scenario.

Central to our relationship is the question of whether China is a natural friend or a foe of the US.

My father who fought in the Pacific in WWII, who lived in China for 15 months in the mid 70s serving as our Chief Liaison Officer, who worked with Chinese in the UN and as Vice President and President, believed that China and the US have historical roots for deep friendship. He believed there is more that unites us than divides us and that the roots of our relationship today are deep enough to withstand the current typhoon. And he was disturbed at the rising anti-China sentiment that had become so prominent towards the end of his life.

So why the discord? Everyone in this room has more a studied reply to this question and we've heard plenty of explanations yesterday.

The very fact of China's economic rise is causing angst. Americans are quite competitive and when we see a much larger country become the second largest economy in the world with GDP growth rates of over 6% per year, then our competitive juices start to flow. Many who fear China, position this as a competition and they point to the trade deficit to suggest China is winning and we're losing. The zero-sum, winner-loser mentality is wrong and naïve. The truth is our trade deficit with China is natural – the richer country buys more stuff from the poorer country. As China develops and needs energy, agriculture, and as consumer demand high-end branded products, the deficit will shrink. In the meantime, both countries benefit from our bilateral trade.

The demonization of China is being fueled by a rising nationalism in the US that is manifested in anti-immigrant, anti-Chinese, pro-America First rhetoric. These nationalists, joined by a broad coalition of unlikely bedfellows, view China's ruling elite as a monolithic communist authoritarian system that has no regard for personal liberty or human rights. It is clear to me that China is not ruled by a monolithic regime where one guy makes the decisions without regard to the sentiments of other leaders or the care and concern for the people. It is impressive to me how leaders rise based on performance with one measure of success being that person's areas' GDP growth. Often times, a successful district or city official will rise to be a provincial or central government leader and so on. It is also quite clear that the Chinese people aspire to enjoy a better standard of living, safe food, clean air to breathe, improved health care, and a better system of education. And the government has put in five year plan after five year plan that has led to the gradual maturation of societal systems that has led to unprecedented economic growth inching the country closer and closer to what we in America would refer to as the American dream, what President Xi has called the Chinese dream, what one might call the American dream with Chinese characteristics.

Some critics of China feel that only a western style democracy will give the Chinese people a full set of liberties. Cultural traditions and institutions required to sustain a thriving democracy are not present in China today. A premature move towards a US style democracy would be destabilizing and would most likely cause major setbacks to the freedoms gained over the past 40 years. The

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bottom line is that our system of government, our form of democracy, would not work for China just like China's system would not work for us.

While on a family vacation last week I had a rather heated discussion, with a quite astute son-in-law. He feels, like many in America, that China is fundamentally flawed in terms of human rights sighting the treatment of ethnic minorities in Xinjiang. He complained about the growing use of intrusive big brother tactics including monitoring social media to crack down on criticism of the government, the use of big data to give individuals a social credit rating designed to control behavior, and the use of facial recognition technologies that monitor citizens. He complained about the nefarious nature of the 1000 Talents Program and the aggressive use of the Belt and Road Initiative to gain influence globally. He expressed concern that the Chinese are increasingly cutting back on basic freedoms and seeking a dominant position in the world. At one point he even compared the authoritarian rule of China to that of Saddam Hussein in Iraq and Hitler in Nazi Germany. I almost flew out of my seat at this point. Clearly the wine was speaking. My son-in-law has never been to China, he has no appreciation for the distance Chinese people have traveled to obtain unimaginable freedoms, and his facts and assumptions are clearly flawed and based on half-truths or all out fake news.

His views show just how hysterical and challenging the times are. The depth of his convictions indicates that we are at a critical time in the US-China relationship. My son-in-law and many Americans only know what they hear. Those that believe that the US and China ought to work together need to find our voices.

I urge my Chinese friends to be as transparent as possible as it relates to intentions and implementation of programs that are the target of widespread global criticism. I advise my American friends not meddle in the internal affairs of China. Chinese leaders are walking a tight rope in terms of maintaining internal stability so that the solid platform that has produced amazing results can continue to improve the quality of life for more of its citizens. If the Chinese government gets carried away with denying personal liberties, then there will be pushbacks from within. Once people enjoy the taste of freedom there is no turning back.

Like in any bilateral relationship between friendly nations, there are plenty of issues that need to be addressed. Many of our speakers and experts have articulated these better than I ever could -- we need to address trade issues, IP protection, industrial sabotage, access to markets, national security, and human rights related matters.

To our government I would suggest we embrace the George H.W. Bush style of leadership to address these issues -- a style that looks to create and maintain multiple levels of frequent dialogue, that seeks to build trust, that puts the parties in the other guys' shoes, that looks for the best in others, that is respectful, that accounts for cultural differences, an approach that is encouraging and hopeful, one that is honest, direct, and targeted.

It has been frustrating as an American to see politicians use China as a political whipping boy and to see and hear one sided anti-China reports over recent years that disregard the fact that our bilateral

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relationship has benefited the US tremendously in the past and still does. So it was nice to see a letter written by five US leaders and signed by nearly 100 others that openly stated, "China is not an economic enemy or existential national security threat" to the United States. I encourage others to speak out to add balance to the debate so that over time my father's vision for closer ties that lead to real collaboration in addressing growing human challenges will be realized. As the two largest economies being led by people of good intent, we must lock arms to collaborate on issues like climate change, pandemic infectious disease response, terrorism, space exploration, medical breakthroughs, technology developments that make the planet safer and more harmonious, setting parameters to address the proliferation of fake news, and many others.

Our closer commercial ties, the opening of our markets to Chinese companies and their markets to our companies will fuel a decade of high growth and prosperity and will lift people in both countries. Our close diplomatic and strategic ties will help humans address daunting challenges for a more peaceful and more sustainable life on earth.

So let us go forth inspired by the possibility of working together to leave this world a better place for generations of humans to follow. Thank you very much.

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his Dec. 3, 2018, photo, a Panama Canal worker docks Chinese container ship Cosco at the Panama Canal's coli Locks, in Panama City.

ge Credit: AP Photo/Arnulfo Franco

China's Front Door to America's Backyard

China's rising influence in Panama is a case study of its ambitions in Latin America.

By Don Giolzetti
June 28, 2019

Recently, China has expanded its presence in the Latin America and the Caribbean (LAC) region. This increasing influence was crystallized during a state visit to Panama by Chinese President Xi Jinping in December 2018. Xi's 24-hour state visit to Panama, the first by any Chinese head of state, culminated in 19 cooperation agreements in trade, infrastructure, and other areas.

On the economic front, China secured agreements on significant infrastructure projects such as the building of a high-speed train as well as financial service deals between banking institutions to presumably fund such projects. These agreements were not just economic and geopolitical victories for China; Xi's visit also embodied China's ambition to pull Taiwan's remaining diplomatic allies into their orbit. In 2017, Panama shunned Taiwan in favor of relations with China, a shift that caused a ripple effect around the region. The Dominican Republic and El Salvador both cut ties with the island nation in 2018.

Xi's state visit also had significant geopolitical importance, specifically regarding the Panama Canal. The canal acts as a strategic gateway between the Atlantic and Pacific Oceans and is an essential passage for the world's commodities. The country of Panama itself links Central and South America.

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The geopolitical significance also lies in the shadows of historical elements. Panama was an unincorporated territory of the United States for the greater part of the 20th century. The U.S. also had military installations in Panama and controlled the Panama Canal until 1999 (per the Torrijos-Carter Treaties).

No stranger to the power of imagery, Chinese leadership was keenly aware of America's historical influence in Panama. Prior to Xi's inaugural state visit, Chinese leaders were in talks with their Panamanian counterparts to build the Chinese embassy near the Panama Canal in a zone formerly controlled by the United States; thus, the Chinese national flag would have been seen by arriving ships. However, domestic opposition pressured the Panamanian government to shelve those plans.

China's Latin America and the Caribbean Strategy

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China's upgraded relations with Panama reflect its strategic emphasis and increasing influence in the LAC region. China's strategy focuses on economic integration via trade, investment, and loans, which are driven by both China's appetite for raw materials in energy and the region's thirst for infrastructure investment.

Regarding trade, China has expanded partnerships with LAC countries like Brazil, which overtook the United States in 2013 as China's biggest import market for soybeans. Also, excluding Mexico, China is ahead of the United States in total trade volume in nearly all of Latin America, according to data from the International Monetary Fund (IMF). "Resource abundant LAC countries can help China to secure its imports for oil, raw material, and agricultural products," says Yue Su, a Chinese economist at the Economist Intelligence Unit (EIU) in Beijing. However, the LAC region's trade deficit with China remains an issue as China exports more than it imports. Plus, extraction exports – such as iron and crude petroleum – accounted for one-fourth of all LAC exports to China in 2017, highlighting the importance of energy in China's trade with the region.

Another attribute of China's primarily economic-centered LAC strategy is investment. Xi made an ambitious pledge of $250 billion in investment at the inaugural ministerial meeting of the Forum of China and the Community of Latin American and Caribbean States (China-CELAC Forum) in 2015. For LAC countries lacking adequate interior infrastructure, Chinese direct investment helps to meet their infrastructure needs. Similar to trade, Chinese investments also heavily focus on energy and natural resource extraction.

Chinese loan commitments to the region have also expanded. In 2017, Chinese loans in infrastructure increased significantly, contrasted to previous years where oil-related loans constituted the majority. Venezuela, Brazil, Argentina, and other regional countries have all been recipients of notable Chinese capital. Former U.S. Secretary of State Rex W. Tillerson, and current Secretary of State Mike Pompeo have both referred to opaque Chinese investments as debt trap diplomacy.

Across the political spectrum, from center-right governments in Chile to Argentina, Latin American officials are welcoming warming ties with China, says Rebecca Ray, an expert on LAC affairs at the Global Development Policy Center in Boston, Massachusetts.
"China has the advanced technology and experience for large-scale, modern infrastructure projects," said Ray. Additionally, Chinese contractors are in an advantageous position as they can rely on public financial backing, she added.

Besides economic pursuits, there is some apprehension that Beijing may have military ambitions in the LAC region as well. After El Salvador cut ties with Taipei and established diplomatic relations with Beijing, the U.S. ambassador to El Salvador expressed concern that China might use the country's bustling La Union commercial port as a "military base." However, the likelihood of such a move is minimal as China's strategy in the region is mostly economic. Moreover, in light of its aggressive actions in the South China Sea, China would also find a confrontational move counterproductive to its banner of "peaceful coexistence." Additionally, military equipment sales to LAC countries like Venezuela and military agreements with others such as Argentina, do not have a direct impact on U.S. national security interests in the region.

China's largely economic-based strategy in the region also helps to serve its foreign policy and geopolitical objectives. Chinese economic statecraft is increasingly used to expand its presence and leverage in the region. China's most celebrated exports to Latin America are not its manufactured goods, but its developmental model – a top-down economic approach with the state at the center of society and industry. Many LAC leaders view China's no-strings-attached investment deals as increasingly attractive.

Panama's Role in China's LAC Strategy

China views Panama's role in its LAC strategy through the Panama Canal. In essence, China's relationship with Panama is a move to gain a symbolic and economic foothold between the North and South American continents. "As a regional financial and transportation hub, Panama can act as a gateway for China's presence in the region," said Yue. Because of its strategic location, China hopes Panama will become a logistics center for the rest of the region, as well as a hub for Chinese goods entering into the Americas.

China's newfound ties with Panama also demonstrate to other regional powers the benefits of establishing formal diplomatic relations with the Middle Kingdom. "This [Panamanian-Chinese ties] could potentially help China gather more supporters as geopolitical tensions rise," mentioned Yue.

However, as the United States and China are the biggest users of the Panama Canal, the canal itself may end up an unintended casualty of the current U.S.-China trade conflict. The Trump administration's recent move to increase tariffs on $200 billion worth of Chinese imports and China's counter tariff-raising measures suggest further escalation and deterioration of bilateral relations. This downward trend amid a deepening strategic rivalry could conceivably stunt the growth of the canal as less American-Chinese goods flow through the maritime artery and a real decoupling of the two major economies slowly starts to manifest.

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On the other hand, as a result of the tariff escalations, China shifted its soy purchases from North to South America – further elevating the strategic importance of the canal to China. "It is no secret that China is a significant buyer of Brazilian and Argentine soy," said Ray. "A close relationship with Panama is vital to ensure that these shipments will be able to continue unimpeded."

Chinese state-owned enterprises (SOEs) are actively engaged around the canal. For example, Chinese Overseas Shipping (COSCO), is alleged to be a key client of Chinese investment on the Atlantic side of the canal, which if true, would enable it to expand its shipping operations in the region. Chinese interests could also impact the situation on the canal's Pacific-facing side with reported interest from Chinese investors to purchase nearby land to develop a logistics park.

China also sees Panama as a critical partner in the region for its Belt and Road Initiative (BRI), as it became the first LAC state to sign a memorandum of understanding (MOU) on the geopolitical and infrastructure plan. Panama's participation in the BRI effectively kills two birds with one stone as Beijing seeks to bolster its power projection and secure its economic interests in the region. The BRI itself is as much about image as it is about economics. Thus, considering the symbolic and strategic location of Panama, it is a fitting partner for China's new "Maritime Silk Road." Since Panama's inclusion, 15 other LAC countries have signed MOUs to promote the BRI.

Notably, however, these countries were largely absent from Beijing's Second Belt and Road Forum (BRF) this year, as Chile was the only LAC nation to send a top leader. Nonetheless, by including Panama, China can link its ambition of dominating the Panama Canal as a logistics and shipping center under the BRI. Many LAC countries also have diverging foreign policy interests and relations with China. Thus, China could exploit this lack of cohesiveness through Latin America's "front door" – Panama.

Significant potential nonetheless exists for triangular cooperation between Panama, the United States, and China, says Ray. Ray points out that Chinese technical compatibilities with LAC governments can be complementary with Western multilateral development banks' (MDBs) institutional management skills. "In Panama in particular, this kind of MDB expertise is crucial in avoiding social conflict and environmental damage from new infrastructure plans," she added.

Don Giolzetti is a China Policy Analyst based in Beijing and a frequent contributor to CNN in the Greater China Region.

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Why Blacklisting Huawei Could Backfire

By

Lorand Laskai | Jun 19, 2019 | foreignaffairs.com

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Last spring, when the U.S. Department of Commerce added the Chinese telecommunications company ZTE to a trade backlist, effectively severing ZTE from its vital U.S. suppliers, Chinese President Xi Jinping told an audience at a tech company that the Chinese people must "cast aside the illusion and rely on ourselves." "The illusion" was the idea that China can prosper even as it relies on foreign technology.

The Trump administration seems determined to prove Xi right. Last month, it blacklisted the telecommunications giant Huawei, the third major Chinese company to be added to the Commerce Department's blandly named Entity List within the last year. Huawei is an indispensable Chinese company, central both to the rollout of China's 5G mobile network at home and to the country's efforts to expand its digital influence abroad. The Trump administration is also considering blacklisting several of China's largest artificial intelligence companies.

The Trump administration is betting that banning Chinese tech companies will bring Beijing to the negotiating table with the aim of negotiating "structural changes" to the Chinese economy. And barring that, it is hoping to deal China a blow in the race to harness next-generation technologies, such as AI and 5G. But within China, the administration's moves have created a powerful new consensus in support of "self-reliance" and "indigenous innovation," two mantras of the Chinese Communist Party that the country's tech industry has reluctantly taken up. Washington has underestimated China's ability to "tighten its belt," as Xi put it after the ZTE blacklisting, and to develop replacements for foreign technology. The Trump administration may well be paving the way toward a more technologically independent, and possibly more powerful, China.

THE HISTORY OF SELF RELIANCE

In China, the concept of "self-reliance," or *ziligengsheng*, traces its roots back to the civil war, when Mao Zedong's communist guerrillas found themselves isolated and facing annihilation at the hands of the U.S.-backed nationalist forces. According to Communist Party lore, the communists lived off the land and decentralized the production of economic and military goods as they rebuilt their forces and marshaled their strength. When, in 2014, Xi revived the concept as a call to reduce China's dependence on foreign technology, the Mao-era slogan seemed an awkward fit for the age of global supply chains.

But China has a long tradition of defying international embargoes. During the Cold War, China succeeded in developing an atomic bomb even after the Soviet Union had cut off its technical support. Throughout the 1990s, China developed sophisticated satellites and rockets despite comprehensive U.S. sanctions on space-related technologies. In 2015, when the Obama administration prevented Intel from selling processors to China for its latest supercomputer, Chinese researchers quickly developed a local replacement. Less than a year and a half later, China

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unveiled TaihuLight, then the world's fastest supercomputer, which ran entirely on Chinese-made processors.

These successes are partly the result of official policy. For decades, the Chinese government has urged scientists and researchers to go about their work with "the spirit of two bombs, one satellite"—a reference to China's nuclear and missile programs during the height of the country's isolation in the 1960s. To make the spirit a reality, China has developed a sprawling network of state and military research labs, including the Chinese Academy of Science, arguably the world's largest research organization, with 115 research centers and 60,000 scientists.

This investment has translated into a formidable capacity for indigenous development, either through copying, and then building on, foreign technologies or through developing homegrown alternatives. China's space sector, which has been almost entirely cut off from the United States for the past two decades, has built most of its satellites and rocket components from scratch. U.S. export controls on space-grade microchips have "actually benefitted China in unexpected ways over the years, because we've had to develop our own," Zhao Yuanfu, a top state scientist, told the online magazine *Sixth Tone* in February. After nearly a decade of work, China produces all the microchips it needs for advanced satellites, including the BeiDou Navigation Satellite constellation, China's answer to the U.S. military-run Global Positioning System.

But indigenous development takes hold only when foreign options run out, and few tech sectors in China are as cut off from the outside world as the space industry. For decades, Chinese researchers, at the behest of Chinese leaders seeking "secure and controllable" IT systems, have worked on a domestic alternative to Microsoft Windows. But the weak demand for a homegrown operating system due to the wide availability of foreign alternatives, not to mention the sheer complexity of building one from scratch, has stymied their efforts. China has also invested heavily in disrupting Intel and AMD's near duopoly on cutting-edge central processing units. Yet Chinese developers continue to rely on more advanced foreign CPUs, which are more powerful and versatile than homegrown Chinese CPUs. As a result, even as China's economic and political power has expanded, its economy has grown more, not less, dependent on foreign technology and components.

"The biggest challenge for indigenous innovation is not technology, talent, or capital, but the market," Gao Xudong, a researcher at Tsinghua University, said in a 2017 interview. "Even if we produce a good product through indigenous innovation, it will not succeed if there is no market." China's technology industry illustrates the problems markets pose to Beijing's self-reliance push. The wide availability of superior foreign software and hardware has hampered progress. Moreover, China's tech giants have long been noncommittal toward Beijing's self-reliance drive, choosing to invest in lucrative consumer-facing applications rather than the "core technologies" that the state values. The country's three largest tech companies, Baidu, Alibaba, and Tencent, all owe their large valuations to consumer products built on Western technologies. None other than Huawei founder Ren Zhengfei has repeatedly bashed the idea of indigenous innovation and extolled the advantages of global supply chains. "The idea that one needs to do everything themselves is a mentality only for peasants," Ren said in an interview last year.

HUAWEI OR THE HIGHWAY

Blacklisting Huawei, however, has turbocharged the indigenous innovation effort. As a result of the blacklisting, the company plans to launch a replacement for Google's Android operating system later this year. It is also working to replace a myriad of U.S. components and software to which it will soon lose access. Last week, *Bloomberg* reported that Huawei has up to 10,000 developers

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working around the clock in three cities to "eliminate the need for American software and circuitry."

Beneath this burst of outward activity, a quieter and more consequential shift is taking place. U.S. action against Chinese companies has begun to change their calculus toward indigenous development. Reeling from U.S. sanctions, Huawei executives traveled to Peking University last week to launch an R & D partnership with the university to bolster Huawei's capacity for "indigenous innovation." By using the official slogan, Huawei's bosses seemed to be offering a *mea culpa* for their past resistance to self-reliance. Other executives have also changed their tune. Reflecting on the ZTE incident, Jack Ma, the founder of Alibaba, told a recent tech forum, "If we do not master the core technologies, we will be building roofs on other people's walls and planting vegetables in other people's yards." After the ZTE incident last year, Alibaba launched a chip business that will aim to reduce China's dependence on foreign chips.

Even before the Trump administration began blacklisting Chinese tech companies, Beijing had advanced toward self-reliance. In 2014, the government launched a massive initiative to reduce China's dependence on foreign chips. As part of that push, it will invest more than $100 billion in semiconductor design and manufacturing. Made in China 2025, the 2015 master plan to upgrade China's industrial capacity, specifically targets foreign inputs in high-tech sectors and aims for "self-sufficiency" in crucial components. China has also begun mobilizing its financial markets, establishing a new "tech board" on the Shanghai Stock Exchange to invest in companies working on technology the state deems strategically important.

Yet the United States may find that it has done more for self-reliance by banning ZTE and Huawei than the Chinese government has managed in a decade of official policy. Now that they are walking in lockstep, government and industry can move much faster. An international juggernaut with annual revenue comparable to that of Microsoft, Huawei can pour a lot of money into replacing core U.S. technology in its products. What is more important, by intentionally sourcing from Chinese suppliers, large companies such as Huawei can provide Chinese component makers with crucial opportunities to gain experience and develop new technical competencies. On average, Chinese chip and optical component suppliers are inferior to international leaders, since they lack scale and the ability to iterate their products with large customers. Orders from a company of Huawei's size could change that.

Replacing the many U.S. suppliers on which Chinese companies rely will be a tall order, and at least in the short term, Chinese suppliers will be unable to fully meet the needs of companies such as Huawei. Advanced processors and chipsets that power the cutting-edge computation involved in machine learning, cloud computing, and 5G networks are almost exclusively developed by a handful of Western companies. Although some Chinese companies, such as Huawei's chip unit HiSilicon, can build their own chips for some applications, they still rely on U.S. software and intellectual property to design the chips and international foundries, such as Taiwan's TSMC, to manufacture them.

Nevertheless, China does have several factors working in its favor. For starters, it doesn't need to develop everything itself. Chinese companies have long been comfortable acquiring technology abroad through partnerships, mergers and acquisitions, or outright intellectual property theft. U.S. export controls wouldn't stop most of these, as they restrict only the export of U.S. technology or foreign products that contain significant U.S.-origin software or components. Technological partnerships and academic exchanges between China and the European Union played a critical role in China's development of the BeiDou constellation. And Chinese state-backed funds, often using

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offshore shell companies, have proved adept at evading scrutiny from U.S. sanction enforcers. As the U.S. technological embargo expands, so will the opportunities to poke holes in it.

Another advantage is China's enormous domestic market. Few companies outside the United States are able to turn down opportunities to sell in China, and even fewer governments are willing to stomach the economic pain of turning away Chinese demand at Washington's say-so. The Trump administration's unsuccessful campaign to get Europe to ban Huawei from building its 5G network should have been a warning sign of the limited tolerance of U.S. allies for Washington's brinkmanship. Instead, the administration is doubling down on a strategy that anticipates allies toeing the U.S. line.

It didn't have to be this way. The United States could have maintained the rift between government and industry in China if it had ensured China's continued dependence on U.S. technology. Instead, the Trump administration's actions against ZTE and Huawei have turbocharged China's self-reliance drive, aligning the interests of government and industry. Although in the short term the pain imposed on China's tech industry by the blacklisting might appear to vindicate the administration's move, over the long term its actions will pave the way to a more technologically formidable China.

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Xinjiang and the Belt and Road Initiative

Rebecca Warren June 17, 2019 | The Strategy Bridge

China's economic growth over the last 40 years has been extraordinary, lifting millions of Chinese out of poverty and making China among the most economically powerful nations in the world. Since Deng Xiaoping's Reform and Opening-Up policies, China has modernised to a startling extent. However, this growth has been uneven and has caused severe inequality across the country. China's Belt and Road Initiative (BRI) is often seen as promoting China's influence across the world, but this is not its only purpose. This article looks at how the Belt and Road Initiative is being used as one measure to transform some of the poorest regions of China, and how despite this, China is failing to address some of the issues in its most volatile areas.

The province of Xinjiang has existed as a separate civilisation since the 7th century and has always sat uneasily within China's margins. It borders the former Soviet states of Central Asia, making its repeated bids for independence particularly unsettling for China in the light of the break-up of the Soviet Union. Xinjiang's main ethnic group, the Uighurs, are a Turkic people who predominantly practice Sufism. In an attempt to dilute the Uighur influence, the government has encouraged Han-majority peoples to settle in Xinjiang, which has led to the Uighur population falling from over 90% of Xinjiang in 1949 to around 40% in 2018.[1] Regional unrest only increased, however.

Ethnic Uighur women grab a riot police officer as they protest in Urumqi, in China's far west Xinjiang province, on July 7, 2009. (Peter Parks/AFP/Getty)

Following years of minor skirmishes, tensions boiled over in 2009 when 200 people, mainly Han Chinese, died in Uighur-led riots in Urumqi. President Hu Jintao was forced to return from a G8 summit to deal with the incident. This was an embarrassing moment for the ruling party. How could Hu persuade the world that China was ready to take on greater global power when he didn't even appear to have control over a sixth of his own land mass? His response was unequivocally brutal. The Uighurs were subject to increased persecution, with Islamic activities repressed and citizens encouraged to inform on one another if they breached the new laws. Unsurprisingly, this did little to stabilise the area.

The Chinese attitude to the Uighurs over the last thirty years demonstrates the opportunistic shifting of goals that often characterises China's approach to geopolitics.[2] After the end of the Cold War and the break-up of the Soviet state, China echoed the narrative of separatism in Xinjiang and painted the Uighurs as an independence group seeking to break up the country.[3]

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From the US perspective, China was the last major bastion of Communism in a changing world and Xinjiang another oppressed state seeking freedom. The US formally supported the Uighurs as an oppressed people and put pressure on China to improve their situation.[4] China was uncomfortable with this level of scrutiny but it was ten years before it could rewrite the narrative.

As the US War on Terror began, China opportunistically dropped the separatist argument and began to relate Xinjiang's problems to organised terrorism. In 2002, it linked the Uighurs to Al Qaeda in a State Council report.[5] Recognising the value of Chinese support to counter Al Qaeda in Afghanistan and the surrounding area, the US dropped its condemnation of the Uighur oppression.[6] The truth of the Uighur-Al Qaeda link is harder to get at. The main insurgent group, the Uighur East Turkestan Islamic Movement (ETIM), is not listed as a current or former terrorist group by either the US Department of State or the EU, nor are any other Uighur organisations. The UN does list East Turkestan Islamic Movement as a terrorist group associated with Al Qaeda and imposes sanctions accordingly. However, the movement's leader has repeatedly denied any links to Al Qaeda, and Bin Laden never acknowledged the group as being affiliated. Castets believes China fabricated or exaggerated the Al Qaeda link to generate international condemnation in the post-9/11 atmosphere of suspicion, which allowed China to continue its repression of the Uighurs without Western opposition.[7]

As the US drew down troop numbers in Afghanistan and focused on national reconstruction rather than conflict, its need for Chinese support diminished. At the same time, Donald Trump was developing an anti-China stance in his Presidential election campaign that only intensified after he took office. "Remember, China is not a friend of the United States!" he proclaimed on Twitter. At the same time, other nations—including the UK—were becoming increasingly concerned about the human rights situation in Xinjiang. Reports began to emerge of so-called correction centres for Uighurs who were breaching any of the restrictive local laws against Islamic activities. China continues to deny that it is imprisoning Uighurs without trial, calling the camps re-education centres and transformation through education schools. These euphemisms do little to hide the stories of brutality, violence, and brainwashing that emerge. Despite this increasing condemnation and the decreasing credibility of the Uighurs' links with Islamic terror organisations, China seems to be stepping up repression. In March 2019, one respected researcher estimated that up to 1.5 million Uighurs were being held in these camps. Out of a population of 8 million Uighurs in the region, this is startling.

China is increasingly presenting itself as a responsible member of the world order, and in a modern globalised world it is hard to hide such activities. It therefore seems incredible that this can be happening, but China's views on human rights are fundamentally different from those of the West. China sees individual rights as a dangerous Western concept that jeopardises the good of the collective.[8] Xinjiang's Uighurs, in the Chinese view, are damaging the cohesion of China, and their actions must be corrected.

As well as ethnic and religious differences, China believes that poverty and inequality are to blame for increasing militancy.[9] In his Report at the 19th Chinese Communist Party Congress, Xi Jinping set out his priorities for regional investment, including ethnic minority populations, border areas, poor areas and "old revolutionary base areas," in a clear reference to Xinjiang. China has adopted a two-pronged approach to improving Xinjiang's financial position. Firstly, a proportion of all revenue generated by Xinjiang's businesses must now remain in the region to

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be reinvested in local development. But this development only helps China if Xinjiang is more widely connected, which is where the Belt and Road Initiative comes in. Raffaello Pantucci, Director of International Security Studies at the Royal United Services Institute think-tank, told me that he felt Xinjiang's stability was one of the single most important issues around the initiative.[10] For China, increasing wealth in coastal regions and major cities matters little if a landlocked province a seven-hour flight from Beijing can destabilise the whole country. Especially now that Xi has abandoned any pretence of democracy, it is important to show the world that he can maintain control over his own country. A repeat of the 2009 riots would be a disaster.

Fortunately for China, Xinjiang has two qualities that make it an ideal candidate for development investment. It is rich in oil, gas, and coal, and it is geographically adjacent to Central Asia. The same geographical position that gives China concern that it might seek independence also makes it the perfect hub for Chinese exports via the Belt and Road Initiative. Not only will a more prosperous Xinjiang be less likely to seek independence and foment insurgency, but using the initiative to increase the wealth of Central Asian countries and make them beholden to China for this largesse creates a non-democratic buffer zone between China and the West. It is no surprise that the Belt and Road Initiative was announced in Astana, given that Xinjiang's longest border is with Kazakhstan.[11]

In many cases, the Belt and Road Initiative has built on existing infrastructure. The oil refinery at Dushanzi in Xinjiang has been a critical hub since the late 1990s, taking oil from across Central Asia to supply China's growing energy needs. Kashgar was designated a Special Economic Zone in 2001, twelve years before the Belt and Road Initiative began.[12] But the initiative is bringing all these projects together under one banner and adding some new ones. One of its headline ventures is the creation of six new economic land corridors, including the China-Pakistan Economic Corridor, linking Xinjiang to the port of Gwadar in Pakistan. This direct trade route is expected to bring "economic and national security dividends" to Xinjiang by making the province into a trading hub.[13] How effective this will be remains to be seen. Although a major distribution hub is being developed at the small town of Khorgos on the Xinjiang-Kazakhstan border, the tax-free shopping centres on the Kazakhstan side are largely empty, and the local market is still the heart of commerce. Traders flocked there initially, but were disappointed; the area is sparsely populated, and the 2015 currency devaluation by Kazakhstan meant that few could afford to shop there. The benefits for local people remain elusive.

Even if these benefits emerge, there is a risk that efforts to decrease poverty in Xinjiang will just increase inequality. The Chinese dismissal of individual rights may prove to be its downfall if it cannot improve living standards for everyone as a way of tackling extremism. Few seem to be concerned about this. When asked at a conference how the Belt and Road Initiative would improve the lives of the poorest people in Xinjiang and Central Asia who still didn't have cars or jobs, Joseph Chan—Professor of political theory at the University of Hong Kong and Visiting Professor at the University Center for Human Values at Princeton—was dismissive. To the bewilderment of the Western members of the panel and audience, he shrugged and suggested they now had better roads to walk in.[14]

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Xinjiang remains a thorn in China's side. Although the Belt and Road Initiative is aimed at improving living standards and thereby decreasing unrest in the province, there is little evidence so far that this is working. At the same time, the increasing repression of the Uighur people and the growing evidence of human rights abuses is leading to widespread international condemnation. Through its actions in Xinjiang, China risks alienating the rest of the world just at a time when it is seeking to expand into it.

Rebecca Warren is a warfare officer in the Royal Navy, currently undertaking a Master's by Research at King's College London. The views expressed in this article the author's own and do not reflect the position of the Royal Navy, the Ministry of Defence, or the UK Government.

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Header Image: Chinese President Xi Jinping waves as he leaves after a news conference at the closing of the Belt and Road Forum at Yanqi Lake on the outskirts of Beijing. (AP)

NOTES:

[1] Tom Miller. *China's Asian Dream.* (London: Zed Books, 2018): 60.

[2] Francois Jullien, translated by Janet Lloyd. *A Treatise on Efficacy.* (Honolulu: University of Hawaii Press, 2004), 33.

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[3] Russell Ong, "China's relations with Central Asia" in *The Ashgate Research Companion to Chinese Foreign Policy*, ed Emilian Kavalski (Farnham: Ashgate Publishing, 2012), 244

[4] Ibid.

[5] Ibid.

[6] Michael Clarke, ed. *Terrorism and Counter-terrorism in China.* (London: C Hurst & Co, 2018): 3.

[7] Remi Castets, "The Uyghurs in Xinjiang - The Malaise Grows." *China Perspectives*, no 49 (2003).

[8] Henry Kissinger. *World Order.* (n.p.: Penguin, 2015), 230.

[9] Peter Cai. "Understanding China's Belt and Road Initiative." Lowy Institute for International Policy, 2017, 7.

[10] Raffaello Pantucci, RUSI Director of International Security Studies. Interview with author, January 11, 2019.

[11] Miller, *China's Asian Dream,* 30.

[12] Ibid., 70.

[13] Cai, Understanding, 7.

[14] Joseph Chan, Speech, "The Belt and Road Initiative: Bringing the East and West Together?" Conference from SOAS China Institute, London, November 26, 2018.

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How China acquires 'the crown jewels' of U.S. technology

PUBLISHED : Tuesday, 22 May, 2018, 5:45pm
UPDATED : Monday, 28 May, 2018, 11:31am
News›China›Diplomacy

POLITICO

The U.S. fails to adequately police foreign deals for next-generation software that powers the military and American economic strength.

This story is being published by the South China Morning Post as part of a content partnership with POLITICO. It was reported by Cory Bennett and Bryan Bender and originally appeared on politico.com [1] on May 22, 2018.

The U.S. government was well aware of China's aggressive strategy of leveraging private investors to buy up the latest American technology when, early last year, a company called Avatar Integrated Systems showed up at a bankruptcy court in Delaware hoping to buy the California chip-designer ATop Tech.

ATop's product was potentially groundbreaking — an automated designer capable of making microchips that could power anything from smartphones to high-tech weapons systems. It's the type of product that a U.S. government report had recently cited as "critical to defense systems and U.S. military strength." And the source of the money behind the buyer, Avatar, was an eye-opener: Its board chairman and sole officer was a Chinese steel magnate whose Hong Kong-based company was a major shareholder.

Despite those factors, the transaction went through without an assessment by the U.S. government committee that is charged with reviewing acquisitions of sensitive technology by foreign interests.

In fact, a six-month POLITICO investigation found that the Committee on Foreign Investment in the United States, the main vehicle for protecting American technology from foreign governments, rarely polices the various new avenues Chinese nationals use to secure access to American technology, such as bankruptcy courts or the foreign venture capital firms that bankroll U.S. tech startups.

The committee, known by its acronym CFIUS, isn't required to review any deals, relying instead on outsiders or other government agencies to raise questions about the appropriateness of a proposed merger, acquisition or investment. And even if it had a more formal mandate, the committee lacks the resources to deal with increasingly complex cases, which revolve around lines of code and reams of personal data more than physical infrastructure.

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“I knew what was critical in 1958 — tanks, airplanes, avionics. Now, truthfully, everything is information. The world is about information, not about things,” said Paul Rosenzweig, who worked with CFIUS while at the Department of Homeland Security during President George W. Bush’s second term. “And that means everything is critical infrastructure. That, in some sense, means CFIUS really should be managing all global trade.”

As a senior official at the Treasury Department, which oversees CFIUS, put it: “Any time we see a company that has lots of data on Americans — health care, personal financial data — that’s a vulnerability.”

When CFIUS was formed, in the 1970s, the companies safeguarding important technology were so large that any takeover attempt by foreigners would be certain to attract attention. Now, much of the cutting-edge technology in the United States is in the hands of much smaller firms, including Silicon Valley startups that are hungry for cash from investors.

The gap in oversight became a more urgent problem in 2015, when China unveiled its “Made in China 2025” strategy of working with private investors to buy overseas tech firms. A year earlier, Chinese investments in U.S. tech startups had totaled $2.3 billion, according to the economic research firm CB Insights. Such investments immediately skyrocketed to $9.9 billion in 2015. These amounts dipped the following year, as the Obama administration voided a high-profile deal, but analysts say China’s appetite to buy U.S. firms and technology is still strong. In 2017, there were 165 Chinese-backed deals closed with American startups, only 12 percent less than the 2015 peak.

Yet the failure to investigate some forms of Chinese investments in American technology has flown under the radar as President Donald Trump goes tit for tat with Beijing, imposing tariffs meant to punish China for unfair trade practices. Critics noted on Monday that Trump's tentative agreement to drop his tariff threat in exchange for Chinese pledges to purchase billions of dollars more in American goods avoided any mention of the outdated foreign-investment policies that have alarmed lawmakers across the political spectrum.

On the Senate floor Monday, Minority Leader Chuck Schumer (D-N.Y.) lashed out at Trump's approach.

"China’s trade negotiators must be laughing themselves all the way back to Beijing," he said. "They’re playing us for fools — temporary purchase of some goods, while China continues to steal our family jewels, the things that have made America great: the intellectual property, the know-how in the highest end industries. It makes no sense."

National security specialists insist that such a stealth transfer of technology through China’s investment practices in the United States is a far more serious problem than the tariff dispute — and a problem hiding in plain sight. A recent Pentagon report bluntly declared: “The U.S. does not have a comprehensive policy or the tools to address this

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massive technology transfer to China." It went on to warn that Beijing's acquisition of top-notch American technology is enabling a "strategic competitor to access the crown jewels of U.S. innovation."

Some congressional leaders concur. Senate Majority Whip John Cornyn (R-Texas) regularly warns his colleagues that China is using private-sector investments to pilfer American technology. China has "weaponized" its investments in America "in order to vacuum up U.S. industrial capabilities from American companies," Cornyn said at a January hearing. The goal, he added, is "to turn our own technology and know-how against us in an effort to erase our national security advantage."

Legislation to expand the CFIUS budget and staff has been moving slowly through the halls of Congress amid pushback from Silicon Valley entrepreneurs and business groups. The legislation would give CFIUS new resources to scrutinize bankruptcy purchases and establish stricter scrutiny of start-up investments.

As months passed without any action, and the issue of Chinese investments got overshadowed by tariff fights and feuds between Beijing and the Trump administration, national security experts grew more concerned, fearing that Congress lacked a sense of urgency to police transfers of sensitive technology.

The White House began exploring what more it could do on its own, asking the Treasury Department in late March to offer a list of potential Chinese investment restrictions within 60 days.

Finally, earlier this month, Senate and House leaders announced plans to mark up the bill, starting a process that could lead to passage later this year.

Still, the failure to act more quickly may itself be jeopardizing national security. At a hearing in January, Heath Tarbert, the Treasury Department assistant secretary overseeing CFIUS, testified that allowing foreign countries to invest in U.S. technology without making sufficient background checks "will have a real cost in American lives in any conflict."

"That is simply unacceptable," he said.

'Made in China 2025'

Last October, Chinese President Xi Jinping took the podium before 2,300 Communist Party delegates to deliver his expansive vision for China's future.

Xi was speaking at the party's 19th Congress, a summit held every five years to choose the nation's leaders in the Great Hall of the People in Beijing, the expansive theater right off Tiananmen Square. Speaking in front of a giant gold hammer and sickle framed by bright red drapes, Xi held forth for 3½ hours, declaring that China would look outward to solve its problems.

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"China will not close its door to the world — we will only become more and more open," Xi declared to his rapt audience of party leaders, many of them having close ties to the billionaire investors who represent China in the global market. "We will deepen reform of the investment and financing systems, and enable investment to play a crucial role in improving the supply structure."

China watchers said Xi was alluding to the government's relatively new economic plan, dubbed "Made in China 2025," which leaders had unveiled in 2015. The detailed vision shifted the focus on domestic research investments to the need to pump money into — and better understand — foreign markets.

"We will," the document proclaimed, "guide enterprises to integrate into local culture."

"We will," the document continued, "support enterprises to perform mergers, equity investment and venture capital investment overseas."

At the top of the investment wish list were high-tech industries like artificial intelligence, robotics and space travel.

For the increasingly powerful Chinese leader, it was the culmination of years of efforts to guide how China spends its blossoming wealth. In addition to luring foreign companies to China, Xi wanted the country — which is sitting on several trillion dollars in foreign exchange reserves — to start investing abroad.

The plan had "much more money behind it" and "much more coordination" between Beijing and Chinese industrialists than previous economic strategies, according to Scott Kennedy, an expert on Chinese economic policy at the Center for Strategic and International Studies, a Washington think tank that specializes in defense matters.

"And a big component of that is acquiring technology abroad," he said.

From 2015 to 2017, Chinese venture capitalists pumped money into hot companies like Uber and Airbnb, but also dozens of burgeoning firms with little or no name recognition. The country didn't just want "trophy assets," Kennedy explained. China's leaders wanted to "fill in some of the gaps they have" in China's tech economy.

While the Asian power has piled up profits from its large manufacturing plants that churn out low-cost products, the Beijing government realized it would face declining productivity unless its economy, from agriculture to manufacturing, adopted high-tech methods. Essentially, China wanted to automate entire industries — including car manufacturing, food production and electronics — and bring the whole process in-house.

So Beijing's leaders encouraged the country's cash-rich investors to search for "emerging companies that have technologies that may be extremely important … but aren't proven," Kennedy said. The initiative has spawned investments in American

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startups that work on robotics, energy equipment and next-generation IT. Of particular concern to U.S. national security officials is the semiconductor industry, which makes the microchips that provide the "guts" of many advance technologies that China is seeking to leverage.

"A concerted push by China to reshape the market in its favor, using industrial policies backed by over one hundred billion dollars in government-directed funds, threatens the competitiveness of U.S. industry and the national and global benefits it brings," declared a January 2017 report from the President's Council of Advisors on Science and Technology, warning of the urgent threat to U.S. superiority in semiconductor technology.

Notably, many of China's investments didn't register on the CFIUS radar. They involved the early-seed funding of tech firms in Silicon Valley and low-profile purchases such as the one in Delaware bankruptcy court. They included joint ventures with microchip manufacturers, and the research and development centers created with international partners.

"They have diversified to look for smaller targets," Kennedy said. "Those things typically do not generate a CFIUS reaction. That is part of it."

An obscure research body

CFIUS was set up by Congress in 1975 amid growing concerns about oil-rich countries in the Middle East buying up American companies, from energy firms to armsmakers. Chaired by the Treasury Department, the committee brought together representatives from all the major Cabinet agencies to assess the financial, technological and national security threats posed by such investments. For its first decade, however, CFIUS existed mostly as an obscure research body. From 1975 to 1980, the committee met only 10 times, according to congressional reports.

Japan's economic ascendance in the 1980s changed that. The Defense Department asked CFIUS to step in and investigate potential Japanese purchases of a U.S. steel producer and a company that made ball bearings for the military. In 1988, Congress gave the committee the authority to recommend that the president nix a deal altogether. Still, the committee remained mostly an ad hoc operation into the 1990s.

"Bureaucratically it was not a very smooth, functioning operation," recalled Steve Grundman, who worked as part of the committee during the Clinton administration. "We had to pick up some intelligence here, some technology assessment there, some industrial analysis hither."

After the Sept. 11, 2001, terrorist attacks, Congress renewed its interest in CFIUS, passing legislation that instructed the committee to consider a deal's effect on "homeland security" and "critical industries," a notable change, according to Rosenzweig, the DHS official who worked with CFIUS during the George W. Bush

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administration. The directive gave the committee a mandate to keep an eye on a wider array of industries, such as hospitals and banks, that DHS considered "critical" to keeping American society operating.

Rosenzweig called it a "singular shift." Over time, he said, the committee went from reviewing acquisitions of steel companies — involving just two parties and a tangible product — to investigating technically complex purchases of microchip companies and other software or data-rich firms.

"When I first came to CFIUS, the filings from the other side would be a few-page letter about why this was a good deal," Rosenzweig said. "Now it's a stack of books that's up to my knee."

The committee's staffing and resources have not kept pace with the growing workload, multiple people who work with CFIUS told POLITICO. While the Treasury Department has been hiring staffers and contractors to help handle the record workload, the committee's overall resources are subject to the whims of the individual agencies involved in the process, said Stephen Heifetz, who oversaw the CFIUS work at DHS during the second Bush administration.

There is no single budget or staffing figure for CFIUS. Instead, each agency decides the level of personnel and funding it's willing to commit to the committee. The Treasury Department and DHS have two of the larger CFIUS teams, Heifetz said. During his tenure, Heifetz's DHS squad included roughly 10 people, split equally between government workers and outside contractors.

"Each agency decides more or less on their own how they're going to staff it," Heifetz said.

At Treasury, there are now between 20 and 30 people working for CFIUS, according to a senior department official. But even with the expanded team, the committee is stretched precariously thin. The official described 80-hour workweeks, regular weekend work and no ability to take time off.

"It's enough to handle the current mandate, but not comfortably," the official said.

Amid this uncertainty over resources, CFIUS investigations into foreign acquisitions nearly tripled from 2009 to 2015. The most common foreign investor that hits the CFIUS radar is now China. Nearly 20 percent of the committee's reviews from 2013 to 2015, the most recent data available, involved the Asian power, easily ahead of second-place Canada at just under 13 percent.

Since 2015, the Treasury official said, those trends have only continued: Chinese deals now represent a large plurality of the committee's work.

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The attention appears to be well-founded. In recent years, China has been repeatedly accused of industrial espionage — using indirect means to obtain American software and military secrets, everything from the code that powers wind turbines to the designs that produce the Pentagon's modern F-35 fighter jets. And several Chinese businessmen have pleaded guilty to participating in complex conspiracies to get their hands on sensitive technical data from U.S. firms and shuttle it back to Beijing. Again and again, high-tech products and military equipment have popped up in China that bear a too-striking resemblance to their American counterparts.

Spurred by these incidents, CFIUS has successfully advised the president to nix Chinese deals at a record clip. In December 2016, President Barack Obama stopped a Chinese investment fund from acquiring the U.S. subsidiary of a German semiconductor manufacturer — only the third time a president had taken such a step at that point. In September 2017, Trump halted a China-backed investor from buying the American semiconductor maker Lattice, citing national security concerns.

Three months later, a Chinese company's plan to acquire the American money transfer company MoneyGram fell apart when the two sides realized they would likely not get CFIUS approval because of concerns that the personal data of millions of Americans — including military personnel — could fall into the hands of the Chinese military.

Weeks after that, the committee essentially jettisoned a Chinese state-backed group's attempt to buy Xcerra, a Massachusetts-based tech company that makes equipment to test computer chips and circuit boards. Then, in March, Trump blocked the purchase of the chipmaker Qualcomm by Singapore-based Broadcom Ltd. CFIUS said such a move could weaken Qualcomm, and thereby the United States, as it vies with foreign rivals such as China's Huawei Technologies to develop the next generation of wireless technology known as 5G.

To national security leaders, though, CFIUS is still only scratching the surface of China's ambitions to acquire U.S. technology, noting that traditional sale-and-purchase agreements to obtain a U.S. company aren't the only ways to gain access to cutting-edge technology.

"You can buy a [partial] interest in a company and gain access to the same type of technology," Attorney General Jeff Sessions told Congress in October, adding that Justice Department investigators "are really worried about our loss of technology" in instances where Chinese investors buy small stakes in American tech companies.

The U.S. military has raised similar concerns. Defense Secretary Jim Mattis warned last summer that America is failing to restrict foreign investments in certain types of critical industries, testifying during another hearing that CFIUS is "outdated" and "needs to be updated to deal with today's situation."

A mysterious takeover

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The case that occurred last summer in an obscure courtroom in Delaware seemed innocuous enough: one relatively small tech firm buying out a bankrupt competitor, a transaction that elicited about as much drama as mailing a letter.

The bankrupt semiconductor maker ATop Tech had only 86 employees when it was declared insolvent. But it had a more than a $1 billion market share of the electronic-design automation and integrated circuits markets, the company told the bankruptcy court, giving it potential value to any player seeking to enter the highly specialized semiconductor industry.

Avatar Integrated Systems, the company seeking to purchase ATop, was apparently such a player. But it was not well known to others in the semiconductor industry, and its precise ownership was a bit of a mystery. The sole director listed on its incorporation papers was a Hong Kong-based businessman named Jingyuan Han, and it issued shares to King Mark International Limited, a Hong Kong company in which Han was an investor. Avatar was set up in March 2017, according to the company.

The transaction went ahead despite concerns raised to the court by other players in the semiconductor industry, as well as those of a former senior Pentagon official who specifically suggested the Chinese government may be backing Avatar.

The former Pentagon official, Joseph Benkert, was enlisted by another American semiconductor company, Synopsys, to help recoup money it was owed by ATop. He warned the court that the deal might have national security risks.

“CFIUS has identified businesses engaged in design and production of semiconductors as presenting possible national security vulnerabilities because they may be useful in defending, or seeking to impair, U.S. national security, as semiconductor design or production may have both commercial or military applications,” Benkert, the former assistant secretary of defense for global affairs under the second Bush administration, wrote to the court.

Benkert argued that the question of Avatar’s ownership needed more review given that the company appeared to be “under the control of Han, a Chinese national.”

“In my opinion,” Benkert wrote, “the proposed transaction is likely to receive thorough CFIUS scrutiny and there is a material risk that it will not receive CFIUS approval.”

But despite those concerns, the deal to buy ATop Tech was not given a formal review by CFIUS, according to a senior administration official with direct knowledge of the process. A Treasury Department official, speaking on behalf of CFIUS, declined to comment on the merger.

An Avatar official, reached at the company office in Santa Clara, California, did not respond to questions or a request for an interview with Han. The company did not

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respond to multiple requests to discuss its relationship — if any — with the Chinese government or the details of its business.

Han, who has been described in media reports as one of China's wealthiest men, has spent his career almost entirely in the iron and steel industries. Avatar's scant history seemed to suggest that it was created for the sole purpose of acquiring an established American semiconductor firm like ATop Tech, according to several former national security officials who still work on CFIUS cases.

Attempts to reach Han through China Oriental Group, the iron and steel company that he runs, were also unsuccessful.

Officials familiar with the CFIUS process say that bankruptcy deals such as the Atop-Avatar case sometimes fall off their radar because of difficulty in discerning whether Chinese investors are working with the government. In other bankruptcy cases, Chinese investment in a potential buyer may not be visible in official filings, especially when a web of holding companies is involved. Thus, say current and former officials working with CFIUS, a significant amount of detective work is necessary to discern both the identity and the intentions of the investors.

Traditionally, courts have defined control of a company as "the ability to direct management to make certain decisions." But a former Treasury Department official said CFIUS needs to focus on "beneficial ownership," defined as having the ability to obtain technology from the firm, rather than overall decision-making power.

"It is very hard to find beneficial ownership," said the official. "Our concern is the capacity of the system to deal with these."

The bills pending in Congress to strengthen the CFIUS review process include provisions designed to make scrutiny of bankruptcy cases easier. The bills would require CFIUS to "prescribe regulations to clarify that the term 'covered transaction' includes any transaction ... that arises pursuant to a bankruptcy proceeding or other form of default on debt."

A sharper focus on bankruptcy cases, particularly in making sure CFIUS scrutinizes investors to ties to foreign governments, is desperately needed, said a former Pentagon official who is still involved in CFIUS cases. "How do they find out about it now? They are reading The Wall Street Journal late at night," the official said. "It is not a very systematic process."

The former official also recalled that in the past, the Pentagon has hired an outside contractor to scour around for unreported transactions that might raise some national security flags, such as in the semiconductor or aerospace sectors. Such checks need to be performed in a more systematic way.

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"There is no process for surfacing information out of the bankruptcy courts," the official said.

China goes to Silicon Valley

In Silicon Valley, Chinese investment isn't typically viewed as a threat, but rather more of a blessing.

Chris Nicholson, co-founder of Skymind, an artificial intelligence company that makes the type of cutting-edge software that both the United States and China covet, recalls the many long months he spent in 2014 trudging up and down Sand Hill Road, the heart of Silicon Valley's leading venture capital firms, and all the doors that slammed shut.

"That was a long, dry year for us," he told POLITICO.

Nicholson hadn't sought Chinese money. But then Tencent, China's internet and telecommunications giant and now one of the world's largest companies, approached the firm, offering $200,000 in seed funding. The Chinese monetary infusion buoyed Skymind, which soon landed a coveted spot in Y Combinator, the powerful startup accelerator. American investors, who had only months earlier eschewed the firm's overtures, quickly changed their tune. Chinese investment soon beget American investment.

"It was that crucial piece of Chinese capital that allowed us to survive," Nicholson said. "That's all it took. Now we're a company with 35 employees."

Reflecting a common feeling among his cohorts in Silicon Valley startups, Nicholson insisted that working with Chinese investors does not mean granting Beijing officials access to the coding process. "My American co-founder and I are in control," Nicholson said, noting that Skymind has given up none of the rights to its intellectual property and has made its code "open sourced," which means the code is freely available for cybersecurity experts to inspect, audit and offer suggestions.

But Bryan Ware, CEO of Haystax Technology, which works with law enforcement, defense and intelligence clients on securing their technologies, cast some doubt on the idea that the owners of tech startups would naturally refuse to share details of their technology with their investors: "If you've got a Chinese investor and that's the lifeblood that's going to allow you to get your product out the door, or allow you to hire your next developer, telling them, 'No, you can't do that,' or, 'No you shouldn't do that,' while you have no other alternatives for financing — that's just the nature of the dilemma."

"Every investment comes with a risk of some loss of intellectual property or foreign influence and control," Ware said.

And too many Silicon Valley deals exist in a "netherworld" between passive investment and absolute takeover, "where there's access to information, technical information, [and]

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there is the ability to influence and potentially coerce management," according to the senior Treasury Department official.

One major concern among specialists like Ware is that Beijing officials could use early Chinese investments in next-generation technology to map the software the federal government and even the Defense Department may one day use — and perhaps even corrupt it in ways that would give China a window into sensitive U.S. information.

A POLITICO review of 185 tech startups with Chinese investors found just over 5 percent had received government contracts, loans or grants ranging from a few thousand dollars to several million dollars. Often, the contracts simply involved research — renewable energy for the Energy Department, electronics and communications equipment for the Pentagon, space technology for NASA. Others ordered lab equipment for the Commerce Department, or machine tools for the military.

"There's a tremendous amount of intelligence value there," Ware said. "All governments desire to know what other governments are doing. And knowing the technologies and how they work I think is a big part of that."

While there's no indication that the firms had U.S. government contracts at the time that Chinese investors became involved, that may be part of China's strategy. Derek Scissors, who manages the American Enterprise Institute's China Global Investment Tracker, an exhaustive database of China's major global investments, said that as welcome as the surge of Chinese-funded deals may be in Silicon Valley, the engine behind them is the Chinese government. China's Silicon Valley investment strategy "was shaped by the state and that shaping has gotten tighter," he said.

Still, many Chinese investments in the United States are not directly backed by the Beijing government, but it can be hard to distinguish.

Some prominent Chinese VC firms in Silicon Valley have clear links to the government. Westlake Ventures, for example, received funding from the government in the coastal Chinese city of Hangzhou, according to media reports and a Pentagon research paper. And Westlake has put money into other VC funds, such as the WI Harper Group, which has a stake in a wide slate of American tech companies, from a dating app to a three-dimensional imaging company to a maker of robot cooks. Westlake did not respond to a request for comment.

But it's not always easy to trace the money back to a single source, let alone determine what connection that source has to Beijing's Communist leadership. Haiyin Capital, a Beijing-based VC firm, is partially backed by a state-run Chinese company, according to a company release. Also complex is ZGC Capital Corporation — located in Silicon Valley and focused on providing startups with basic business help — is a subsidiary of a state-owned enterprise funded by the Beijing government, according to the organizations' websites. Attempts to reach each organization were unsuccessful.

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Security and economics experts say they are unsure how much financial or national security harm these Chinese investments are actually causing the United States — if any — simply because it may not be clear for years exactly how important the technology may be.

In the meantime, entrepreneurs in Silicon Valley are blunt: America actually needs Chinese money to maintain its global tech advantage.

“Here’s my warning shot,” Nicholson said. “If we make it difficult for foreign talent and foreign capital to find each other by over-regulating early-stage startup investing … we will lose our supremacy as the top tech economy in the world.”

Enter Congress

In Washington, Silicon Valley’s warning has been heard loudly enough to delay the passage of a bill to strengthen the CFIUS process, despite the support of such bipartisan figures as Cornyn, the second-ranking Senate Republican, and California’s own Democratic Sen. Dianne Feinstein, the ranking member of the Senate Judiciary Committee.

Last year, after a cascade of warnings from the Defense Department, Justice Department and other powerful sources, both the House and Senate seemed ready to take action to strengthen oversight of foreign investment in technology companies.

The bipartisan proposal would direct CFIUS to consider whether pending investments would erode America’s technological edge, enable a foreign government to utilize digital spying powers that might be used against the United States, or give sensitive data — even indirectly — to a foreign government. Similarly, it would expand the definition of “critical industries” — a reference to sectors like banking, defense or energy — to include “critical technologies,” a significant expansion of the committee’s current mandate.

Under the bill, CFIUS would have to create a system to monitor transactions that aren’t voluntarily brought to the committee’s attention.

The measure would also centralize some of the committee’s functions and allow the committee to charge filing fees up to 1 percent of the total value of the transaction up to $300,000, and let Treasury offer a single CFIUS budget request rather than relying on contributions from other departments.

The Trump administration offered a full-throated endorsement of the bill in January, saying it “would strengthen our ability to protect national security and enhance confidence in our longstanding open investment policy.”

And while the bill doesn’t explicitly cite China, the provisions are clearly aimed at limiting its access to the most sensitive areas.

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"Any Chinese-related company that is part of our supply chain is a concern to me," Rep. Robert Pittenger (R-N.C.), a lead House sponsor of the bill, told POLITICO.

Pittenger insisted that Congress' inaction is allowing China to brazenly pilfer the technology that drives America's military might, and sell that technology to adversaries like Iran and North Korea. He noted that a Treasury official told him getting the bill signed is the department's No. 1 legislative priority for 2018.

"We can't turn a blind eye to this," Pittenger said.

But many technology entrepreneurs believe the bill would simply drive cutting-edge research overseas. In 2016, foreign investors injected $373 billion into the United States, a figure that has been mostly increasing since the early 2000s, according to government data. Lengthening the CFIUS review time — currently 30 days, but set to extend to 45 days under the new bill — could damage the "brittle process" of early-stage fundraising, said Nicholson, who encouraged lawmakers to focus on expanding CFIUS powers in other areas, such as bankruptcy courts.

"I worry that they're driving a bulldozer towards a rose garden," said Nicholson, echoing his claim that training the CFIUS lens on Silicon Valley could scare off the very financing that keeps America growing.

IBM's vice president for regulatory affairs, Christopher Padilla, agreed, warning at a January hearing that the bill "could constitute the most economically harmful imposition of unilateral trade restrictions by the United States in many decades."

He raised particular concerns about expanding CFIUS authority to cover foreign investments in "critical technologies," a phrase tech leaders say is worryingly opaque and that could force companies peddling sensitive technology to have every single sale reviewed.

Padilla called it a "we'll know it when we see it" approach to regulating that "would be deeply damaging to U.S. competitiveness, and, more important, could lead to a false sense of security."

Some industry groups have suggested that the bill should delineate these technologies — robotics or artificial intelligence, for instance — to avoid having every deal scrutinized from top to bottom.

"We would be well served to define those issues from the outset," said Dean Garfield, CEO of the Information Technology Industry Council, a trade group representing industry heavyweights such as Amazon, Apple, Facebook, Google, Microsoft and Twitter. Garfield said getting the bill revised is a top-five issue for ITI in 2018.

He cautioned that the bill, as written, could spike the number of annual CFIUS reviews from "a few hundred deals" to "a few thousand."

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Proponents, however, feel that specifying specific technologies might be impossible. The software powering the country — from waterways to missile systems — is constantly changing and evolving, they say. Instead, they suggest, new CFIUS funds and a streamlined reporting process would help keep the growing stream of deal reviews moving.

“For the price of a single B-21 bomber, we can fund an updated CFIUS process and protect our key capabilities for several years,” Cornyn said at a hearing. “That is a down payment on long-term national security.”

Nonetheless, lawmakers have been working to address industry complaints, making tweaks to the legislation. And just last week, lawmakers made a breakthrough, agreeing to slightly narrow the bill’s scope, raising the chances the measure will make it to the president’s desk.

The House and Senate are scheduled to mark up their respective CFIUS bills on Tuesday, and lawmakers now are angling to attach the legislation to the annual, must-pass defense authorization bill as a way to guarantee it gets through. But lingering disputes could still derail the process.

National security leaders and lawmakers warn that these squabbles, while reflecting sincerely held positions, are simply delaying necessary action. At that January hearing, Cornyn described a changing reality if CFIUS is left in its current iteration.

“Just imagine if China’s military was stronger, faster and more lethal,” Cornyn said.

“That is what the future likely holds,” he added, “unless we act.”

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US accusations about technology transfer ring false

By Liu Zhiqin Source:Global Times Published: 2018/9/27 18:58:40



Illustration: Luo Xuan/GT

Amid all the unfair tariffs and false accusations made by the US to attack China, one claim has been particularly irritating: Western countries have continually accused China of requiring transfer of technology in return for access to its market. The US government has repeated this lie many times to make it sound like the truth. However, it is the Western countries that invented the idea of using technology to gain access to other markets.

It is well known that Western countries are dominant in terms of intellectual property rights and patents. In order to gain access to other countries' resources, for instance in the form of exploiting local mineral resources, Western countries have done this by using their advantageous technology. Western companies provide the technologies and equipment in less developed countries in return for access to local resources.

This is also how Western businesses have survived and developed in the Chinese market. Technologies and know-how from the West became common in people's lives decades ago and the Western countries were not complaining at that time.

Colonialism was developed by Western countries. It allowed them to plunder resources in less developed countries and to influence local cultural and educational systems.

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After the Opium Wars, the Chinese industrial system was reshuffled, with a large number of foreign firms flocking to major cities in China under the umbrella of providing technology. They built textile factories and machine shops and manufactured tobacco.

It is obvious that using technology to gain access to markets was started by Western countries. So now China will not accept countries like the US claiming that China forced foreign companies to transfer their technologies. It is Western countries that forced their technology on China after wars of aggression.

In the past 40 years of reform and opening-up, China's policy toward foreign companies has been quite open and friendly. Technological advantages have decided whether companies can succeed. If a company wants to seize a share of the market, it has to keep upgrading its products to remain competitive, and there is no need for anyone to force this process. The ability to create innovative technologies is how they gain market access. For instance, if cars from Germany, Japan and the US did not have their own qualities, it would be hard for them to succeed. It is innovation that persuades customers in the end.

The accusation the US has thrown at China shows that they have abandoned the basic free market principles. It also illustrates the concerns it has for its decaying innovation abilities. The US lacks confidence in its own competitiveness, so it tries to blame Chinese companies.

The fact is that many foreign companies have wanted to provide their technologies in order to get into the Chinese market. The foreign firms were able to set up joint ventures with their Chinese partners while availing of preferential policies, and could get their products into the domestic market as quickly as possible. Foreign companies that took advantage of this gained large profits with limited input. Stating that this is unfair is clearly just a smear. Foreign companies that are doing business in China understand that only good technology can open the market for them. That is the real nature of fair trade.

US President Donald Trump has claimed that the US will develop relations with countries that share similar values. But the doctrine of "America first" would appear to run against this. Such a selfish policy cannot compete with the value offered by multilateral cooperation. In this sense, the US could become isolated.

The Chinese government has released a white paper on the China-US trade war. In this document, China has revealed the complexity and importance of bilateral trade relations based on detailed data and facts.

Trade disputes must be mitigated with trade methods. Getting trade tangled with political or ideological issues can only lead to a dangerous predicament, and it will damage the future relations of the two countries as well as global economic development.

The author is a senior fellow with the Chongyang Institute for Financial Studies at Renmin University of China. bizopinion@globaltimes.com.cn

Posted in: **INSIDER'S EYE**

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What Stake China Has In American Intellectual Property

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Transcript

March 23, 2018 · 4:21 PM ET
Heard on All Things Considered

NPR's Audie Cornish speaks with Scott Kennedy, a specialist on China's economy at the Center for Strategic and International Studies about China's stake in American intellectual property.

AUDIE CORNISH, HOST:

Another U.S. sector that relies on the Chinese market is electronics. U.S. companies are pressured to share their industrial secrets if they want to do business in China. The White House says it's a form of intellectual property theft. President Trump argues that tariffs could recoup losses from China's IP theft. Scott Kennedy is a specialist on China's economy at the Center for Strategic and International Studies. Thanks for coming on the program.

SCOTT KENNEDY: Thank you.

CORNISH: The president has used the term theft to describe what's going on. Is it theft? Like, what are we looking at?

KENNEDY: So I think in some areas, we are looking at direct theft. In some areas, we're looking just at coerced pressure where things are, on paper, voluntary. But in reality, you see a lot of handing over of technology because there's really no other choice if you want to enter the Chinese market.

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CORNISH: How does that policy work? I'm an American company owner. I say I want to do business in China. Walk me through what the regulations are that would lead me to start to hand over some of my intellectual property.

KENNEDY: If you want to invest in China, produce in China, sell in China, you will need a Chinese partner that will share ownership of your company. You will need to contribute technology, patents, licenses to that joint venture, which you will share. And you will do R&D together in which the Chinese company will gain a stake in.

CORNISH: Can I ask you about one example?

KENNEDY: One example is a Massachusetts company that made semiconductor chips that are really important in wind power. And these chips were developed by them. They owned the IP. But their Chinese partners were able to essentially steal the technology out from under them, open up an alternative production facility and take the market and leave this American company with no market and no technology on its own that it controlled.

And that is not what happens to American companies every day in China. Usually it's less direct, less explicit. But the challenges of operating in China for American companies that have advanced technology are quite mighty.

CORNISH: It sounds crazy frankly 'cause they would never do that here in the U.S. - right? - share with a competitor. Is that market just that good that they need to break into it, will give up anything?

KENNEDY: China is the fastest growing, largest market on the planet ever in history. You take your product. Multiply it by 1.4 billion potential consumers. That's a big opportunity for anybody. General Motors sells more cars in China than anywhere else. Its profits come primarily from China now. Qualcomm - 65 percent of its market for its chips are in China now. So the structural power that China has without even lifting a finger puts companies on the defensive to need to comply.

CORNISH: China at times has said, look; we're going to crack down on theft of U.S. technology. But has there been any movement on that front?

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KENNEDY: Over the last 30 years, China has joined every international intellectual property rights agreement. They have laws for copyright, patent, trademarks. They have tried to strengthen implementation of those laws. Yet Chinese high-tech industrial policy is about acquiring technology. So you have a conflict between trying to improve their legal system on the one hand and achieve these very ambitious industrial policy targets on the other.

So the political signals that leading Chinese companies get is that if it's something that the Chinese government really has identified as very important to the national interests, the government may look the other way.

CORNISH: So when you look at the policy that this White House is putting forward, are tariffs the way to go? Is this the way to try and convince China to change its ways?

KENNEDY: I think that unilateral actions including tariffs, the WTO case the U.S. is going to file, the limits on Chinese investment could work, could put enough pressure on China to adapt. But we need to recognize that a trade war needs to be fought smartly, not just tough. And so we are potentially going to lose this trade war, which will leave Chinese industrial policy, including the protection of intellectual property, in a worse situation than we currently find ourselves.

CORNISH: Scott Kennedy is a specialist on China's economy at the Center for Strategic and International Studies. Thank you for coming in to speak with us.

KENNEDY: Happy to do so.

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Why is the U.S. accusing China of stealing intellectual property?

By Sunny Oh
Published: Apr 6, 2018 1:37 p.m. ET

Beijing's policies long a source of discontent



Win McNamee/Getty Images

U.S. Trade Representative Robert Lighthizer has led the probe into China's intellectual-property policies.

Since China first opened its markets, Beijing has been dogged by accusations that it forces U.S. firms to transfer technology to their Chinese business partners in return for access to the country's 1.4 billion citizens.

Those charges are in the spotlight again after the Trump administration detailed plans to slap tariffs on at least $50 billion of Chinese goods in an effort to punish Beijing for its technology transfer policies, stoking fears of a trade war. After Beijing retaliated with its own set of tariff plans, investors worried that a trade skirmish could turn into a trade war, with the S&P 500 SPX, -0.09% and the Dow Jones Industrial Average DJIA, -0.03% both negative for the year.

Opinion: Chinese stealing is a bigger problem than Chinese steel

As trade concerns looms over Wall Street, here's a guide to why intellectual property features so prominently in trade tensions between U.S. and China.

How large are the economic losses from intellectual property theft?

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The Commission on the Theft of American Intellectual Property estimates the annual costs from the loss of intellectual property ranges from $225 billion to $600 billion. Of this amount, it's unclear how much can be attributed to Chinese businesses.

In a 2018 survey conducted by the American Chamber of Commerce in China, more than half of members reported that leakage of intellectual property was a larger concern when doing business in China than elsewhere.

How does China acquire intellectual property?

American firms have to agree to set up a partnership, or joint venture, with a Chinese company to sell their goods in China, with technology transfer thrown into the bargain. Though this type of quid pro quo is formally disallowed by the WTO, analysts say such negotiations are usually conducted in secret.

A paper by the St. Louis Federal Reserve in 2015 estimated that half of the technology possessed by Chinese companies came from foreign firms.

It's not clear, however, if these joint venture arrangements are successful at putting Chinese firms on a level playing field with the rest of the world. Even after the advent of joint ventures, American and German automakers still outsell their Chinese competitors, although analysts say China is catching up.

National security experts say Chinese hackers have also long tried to steal trade secrets from U.S. defense contractors. This prompted former National Security Agency head Keith Alexander to describe Beijing's practices as "the greatest transfer of wealth in history."

But in 2016, FireEye, a U.S. cybersecurity firm, said breaches have seen a marked drop as Chinese hackers turned their attention to more traditional military targets elsewhere in Asia.

Then there's the sale of counterfeit goods in China. Third-party vendors on internet retail platforms owned by the likes of Alibaba have often sold counterfeit goods, according to the U.S. Trade Representative. Alibaba, however, points out it has been more proactive at removing infringing listings, with its founder Jack Ma labeling the problem as a "cancer."

How is the U.S. cracking down on China's practices?

The U.S. has threatened to implement up to $50 billion of tariffs against China through Section 301 of the Trade Act of 1974, meaning the White House does not have to go through the arbitration process ran by the World Trade Organization. This comes after the U.S. Trade Representative's probe into intellectual property theft in August 2017. But invoking Section 301 does mean the U.S. has to file a simultaneous complaint with the WTO.

WTO critics have shown frustration with what they see as an ineffectual and bureaucratic watchdog after China allegedly ran afoul of the organization's intellectual property rules in the past without serious repercussions.

The Committee on Foreign Investment in the United States, an inter-agency committee authorized to review transactions that could result in control of a U.S. business by a foreign entity, has torpedoed several proposed deals that would have seen Chinese firms buy or acquire a controlling stake in U.S. companies on the basis that technology sensitive to national security may be siphoned away.

But this could change, however, as Congress looks into expanding the committee's scope into more routine deals involving the transfer of technologies that don't have implications for national security.

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How strong is intellectual property law in China?

China is moving to strengthen intellectual property laws.

China granted a third of all new patents worldwide in 2015, and more and more overseas companies are looking to file patent-related cases in Chinese courts. A recent report by the Santa Clara University School of Law said that foreign firms filed 10% of the patent-related lawsuits in China, winning 70% of those cases and cutting against the widely-held belief that U.S. firms can't get a fair shake in China.

Academics and lawyers say patent infringement is still widespread, but highlight Beijing's resolve to strengthen its intellectual property laws, perhaps in recognition that domestic innovation is being held back by inadequate protections. This broader shift towards stiffer regulation also reflects China's ambition to climb up the value chain as it looks to develop homegrown brands in films, semiconductors and cars, that are often occupied by U.S., Japan and other advanced economies.

One source of complaint for foreign firms is that China also employs a first-to-file patent system, in other words, the first firm to file a trademark will receive it, whether or not they originated the product. This has sometimes allowed Chinese companies to sue American firms like Apple for patent infringement even though the allegedly imitated product was designed by the U.S. company.

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China wants to have its own Silicon Valley by 2035

By **Li Tao**, **Yujing Liu** and **Celia Chen** | Inkstone | February 19, 2019

China has announced ambitious plans to build its own "bay area" to rival Silicon Valley in technological might.

The Chinese government has pledged to turn the so-called Greater Bay Area, which comprises 11 cities in southern China, into a global tech and financial center.

The area is already the country's most economically dynamic region, containing the tech hub of Shenzhen, the financial center of Hong Kong and the gambling hub of Macau.

The initiative is part of China's overall push to shift away from low-end manufacturing and build an economy driven by consumption and innovation.

It also aims to bring the two former European colonies of Hong Kong and Macau, now semi-autonomous territories, into closer economic integration with the rest of China.

According to a blueprint released this week, the cluster of cities will over the next 15 years be integrated into a "world-class" region that rivals the San Francisco Bay Area or New York Metropolitan Area.

By 2035, the Chinese region is expected to have some of the world's top companies, best universities, busiest ports and most advanced technologies.

The Communist leadership regularly launches such top-down economic programs, in which national resources are poured into certain regions and sectors in order to achieve rapid growth.

Under the latest Bay Area initiative, the government has assigned roles for each city involved, from finance to innovation to tourism, and has promised policy support to make sure things go according to plan.

Catching up

Home to 70 million people, the Greater Bay Area has 10 times the population of the San Francisco Bay and more than six times that of the New York Metropolitan Area.

However, its GDP per capita is only about one fifth that of San Francisco and a quarter that of greater New York.

And despite being home to big-name tech companies like Tencent, Huawei and DJI, a large part of the Greater Bay Area economy is still dominated by traditional manufacturing.

Analysts say a lack of high-tech talent and insufficient top schools in the region are also dragging down its innovation ambitions.

While Silicon Valley pulls talents from a large number of top-ranked universities in California, most of China's best science and engineering schools are located in the northern and eastern parts of the country.

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Although Hong Kong has several world-renowned universities, most schools there do not have a science and technology focus.

Ouyang Liangyi, an associate professor at Peking University HSBC Business School in Shenzhen, says China's overall weakness in basic scientific research will also undermine the country's efforts to build its own Silicon Valley.

"Most of China's technological innovations are application-oriented, which needs support from foreign suppliers," said Ouyang.

"In areas such as chips... the development of the underlying technology is decided by the entire environment, not something that the Greater Bay Area alone can change."

In the meantime, several tech giants from the Greater Bay Area have gotten into trouble in the US due to worries concerning security and intellectual property theft.

Huawei, a leader in next-generation 5G communications technology headquartered in Shenzhen, has been accused by US prosecutors of stealing technologies from its American network operator T-Mobile.

ZTE, a telecoms equipment company also from Shenzhen, was fined more than $1 billion for export violations involving Iran and North Korea.

And in 2017, the US Army banned its members from using drones and software made by DJI, citing cybersecurity concerns.

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How ‘Made in China 2025’ became the real threat in a trade war

By JESSICA MEYERS | LOS ANGELES TIMES | APR 24, 2018 | 3:00 AM | | BEIJING

China unveiled its plan to dominate the world's most crucial technologies with little international fanfare, another vague, guiding principle in the labyrinth of Communist Party bureaucracy.

Three years later, it's at the core of a trade dispute with Washington that threatens to upend the global economy.

Made in China 2025 is a blueprint for transforming the country from a labor-intensive economy that makes toys and clothes into one that engineers advanced products like robots and electric cars. The Trump administration views it as an attempt to steal U.S. technology and control cutting-edge industries.

Officials aimed to temper the initiative this month when they announced potential tariffs on $50 billion in goods. But Chinese leaders consider the plan key to the country's development and refuse to alter its course.

"China is trying to achieve a clear goal and America wants to stop it," said Andrew Polk, co-founder of Trivium/China, a Beijing research firm. "And that's where the competition is."

Here's what China 2025 is all about and what it means for the trade war:

What's the objective?
The plan funnels billions into 10 industries, everything from biopharmaceuticals to aerospace and telecom devices. It calls for 70% of related materials and parts to be made domestically within a decade. A separate document details China's strategy to lead in artificial intelligence by 2030.

Officials modeled Made in China after a German initiative called Industrie 4.0, which envisions greater automation in manufacturing and "intelligent factories" that operate with wireless sensors. They didn't have much choice. The world's biggest population is aging and rising wages are sending low-tech factories to other countries.

"The labor supply is decreasing," said Ashley Qian Wan, China economist for Bloomberg Economics in Beijing. "And that's going to be a big problem for China."

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Why does China care about this so much?
When President Kennedy vowed in 1961 to send a man to the moon, more than 30 million people in China had just starved to death. People's Republic founder Mao Tse-tung closed universities for a decade while researchers invented the Internet in Silicon Valley. China sees itself as simply trying to catch up.

The country developed its first bullet train last year, a 248 mph vehicle named Fuxing, or rejuvenation. Engineers also built the country's first homegrown jetliner, an initial step toward filling Beijing's crowded airport with planes from China rather than America's Boeing or Europe's Airbus.

Officials portray the initiative as transparent and open to foreign companies. They dispel notions that it will monopolize domestic markets. America's dismissal of the plan reinforces a party narrative that the U.S. seeks to undermine China's resurgence. "We have good reasons to question the legality and legitimacy of many actions taken by the U.S. on the grounds of national security, like its plan to impose high tariffs on many industries of Made in China 2025," Chinese Foreign Ministry spokeswoman Hua Chunying told reporters this month. "Clearly, they are targeting something else."

Why is the U.S. concerned about it?
The Trump administration frets about the way China aims to achieve its 2025 ambitions. American businesses have long complained about the sacrifices they make to operate in the world's largest market, including requirements to partner with domestic companies and hand over trade secrets.

Officials fear these techniques will make it impossible for U.S. companies to compete in the world's most critical fields. They also worry massive Chinese government subsidies will lead to a global glut of products that push down prices and hurt U.S. businesses.

"There are things China listed and said, 'We're going to take technology, spend several hundred billion dollars, and dominate the world,'" U.S. Trade Representative Robert Lighthizer told senators at a March hearing. "And these are things that if China dominates the world, it's bad for America."

A lengthy U.S. report on China's intellectual property theft — which led to the most recent potential tariffs — mentioned the plan more than 100 times. Officials are exploring multiple ways to restrict Chinese investment in key industries. The administration recently banned ZTE, China's second-largest maker of telecom equipment, from buying American technology.

"Consensus is growing in Washington that the U.S. is in a race with China for technical leadership," Arthur Kroeber, managing director of Beijing research firm Gavekal Dragonomics, said he recently told clients. And some think "economic cold war is the answer."

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Is the Trump administration right?
President Xi Jinping recently told a room full of global investors that China would further open its economy. Officials last week said they would phase out rules that require car manufacturers like General Motors to find a local partner before opening factories in China. They plan to end foreign ownership requirements on electric vehicle makers this year.

This wouldn't mark the first time authorities vowed to shed their protectionist shield. The European Union Chamber of Commerce in China complained last year that foreign businesses were suffering from "promise fatigue."

The problem is China's high-tech ambitions include "plans to use instruments such as subsidized credit and market access restrictions," said David Dollar, a senior fellow at the Brookings Institution and former U.S. Treasury official in China. "It makes sense for the U.S. to oppose this practice."

But Chinese officials see an irony in efforts that try to maintain America's chokehold on innovation. Hua, the Foreign Ministry spokeswoman, likened the U.S. to a "bully — only it can have high tech and others cannot."

Neither side looks willing to bend. Recent talks to de-escalate the trade dispute reportedly collapsed over the 2025 plan.

"China views the overall system as inherently unfair because it was created by the current dominant power," Trivium's Polk said. "America should stop complaining and start designing its own industrial policy to counter China."

Meyers is a special correspondent.
Twitter: @jessicameyers
Kemeng Fan, Gaochao Zhang, and Nicole Liu in The Times' Beijing bureau contributed to this report.

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The race to 5G wireless tech is on. A report finds Americans may have an early lead.

By **Brian Fung** | Washington Post | February 19 at 2:44 PM

U.S. policymakers keep wringing their hands over a competition with China to build the world's first mass-market 5G wireless network. But a new report from Cisco may offer reasons to breathe easier for now.

By 2022, fifth-generation cellular networks will power as many as 9 percent of mobile data connections across North America, Cisco said, compared with 4 percent in Asia. The new projections were unveiled Tuesday as part of Cisco's annual Visual Networking Index report, which studies industry trends.

The report underscores the substantial work that countries like China face as they seek to out-develop Western nations. And it reflects U.S. policies that put the United States in a strong position to lead, said Cisco, which makes networking technology.

Proponents say 5G will offer download speeds faster than what many households receive on their home Internet connections. And, they say, 5G's reliability will unlock new capabilities such as self-driving cars, remote medicine and a thriving ecosystem of smart appliances that require a constant connection.

Although the Asia-Pacific region will be home to more than twice the number of 5G devices than North America by 2022, 5G connections will account for a tiny share of the mobile devices in that region, according to Cisco. 5G connections will account for a greater share of mobile devices in Western Europe, about 6.5 percent.

Tuesday marks the first time Cisco has dedicated an entire section in its mobile report to 5G technology.

"The U.S. has made a good start in changing policies to support the deployment of 5G, and as we look around the rest of the world, policy changes of the type we've seen here in the U.S. have not yet happened," said Mary Brown, senior director of government affairs at Cisco. "We do expect that's going to be changing over the next 12 to 18 months, and so the race to 5G is very real."

A head start in 5G penetration could be critical for determining which countries get to shape — and benefit from — the knock-on innovations in apps, services and other economic fruits of the technology, according to policy analysts. When the United States took the lead on 4G mobile technology, it gave rise to the app economy, which remains dominated by U.S.-based firms today, said Brown.

"The stakes with 5G are even higher," she said.

For now, a true 5G experience remains out of reach for the average consumer. The first 5G smartphones aren't expected until later this year; in the meantime, carriers such as AT&T and Verizon have been locked in a marketing war to convince customers that they're making rapid progress (though AT&T was recently sued for some of its promotional activities).

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Telecom executives, and many federal officials, have cited intense competition against global rivals as a reason to accelerate the spread of 5G in the United States with deregulation and policies favorable to the industry.

"U.S. leadership in 5G technology is a national imperative for economic growth and competitiveness," said Ajit Pai, chairman of the Federal Communications Commission, at a White House summit on the issue last year. "We cannot let today's red tape strangle the 5G future."

Last year, in a bid to grease processes at the local level, the FCC moved to limit how much cities could charge telecom companies for using publicly owned utility poles and required swifter decisions on infrastructure permits.

The plan was welcomed by industry groups as a crucial step toward building 5G but was assailed by critics who said it amounted to a massive corporate handout.

"This effectively transfers $2 billion from cities to carriers," Blair Levin, a former FCC chief of staff, wrote in a blog post last week. "In return, the FCC asks carriers for nothing."

Complicating the picture are ongoing concerns about the security of networking equipment from companies such as China's Huawei, which the Trump administration is expected to target with a possible executive order. The FCC, in a separate move, has proposed limiting federal funding to U.S. telecom companies that use Huawei's hardware. Policymakers worry that foreign manufacturers could secretly install spyware in their products that could allow other governments to eavesdrop on sensitive U.S. communications. Huawei's founder on Tuesday rejected those claims as speculation in an interview with CBS.

The uncertainty surrounding U.S. infrastructure policy, Washington's stance on foreign firms and the details of 5G technology that are still being hammered out could result in delays.

"We anticipate that some large scale commercial 5G deployments may not be executed until after the current forecast period (after 2022)," Cisco said in its report.

But even after considering those factors, North America will wind up ahead of the competition in 5G penetration by 2022, Cisco found.

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COUNCIL on FOREIGN RELATIONS

Why Does Everyone Hate Made in China 2025?

China's grand plan to bolster hi-tech industries at home is not receiving much love abroad. There's a good reason why.

Blog Post *by* Guest Blogger for Adam Segal

March 28, 2018



A man walks past a billboard at 2017 China International Robot Show in Shanghai Reuters:Aly Song

Lorand Laskai is a research associate in the Asia Studies Program at the Council on Foreign Relations. You can follow him @lorandlaskai.

On the same day that the Trump administration announced $60 billion in tariffs against China last week, the Office of the United States Trade Representative (USTR) dropped the results of its Section 301 investigation into China's unfair trade practices. The nearly 200-page report presents a searing indictment of China's disregard for intellectual property, discrimination against foreign firms, and use of preferential industrial policies to unfairly bolster Chinese firms. Interestingly, the report singles out one Chinese government initiative, in particular, as a prime example of Beijing's egregious behavior: Made in China 2025.

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Made in China 2025, originally approved by China's State Council in 2015, is mentioned or cited an astounding hundred and sixteen times. In contrast, China's Cybersecurity Law, which has caused a perennial headache for many U.S. multinationals, is only mentioned thirteen times. And for good reason. Beijing's grand plan to upgrade its manufacturing base has riled governments around the world, confirming their suspicion that China is not looking for a 'win-win' in trade relations as its overseas emissaries often insist. In the saga of the U.S.-China economic rivalry, Made in China 2025 is shaping up to be the central villain, the real existential threat to U.S. technological leadership.

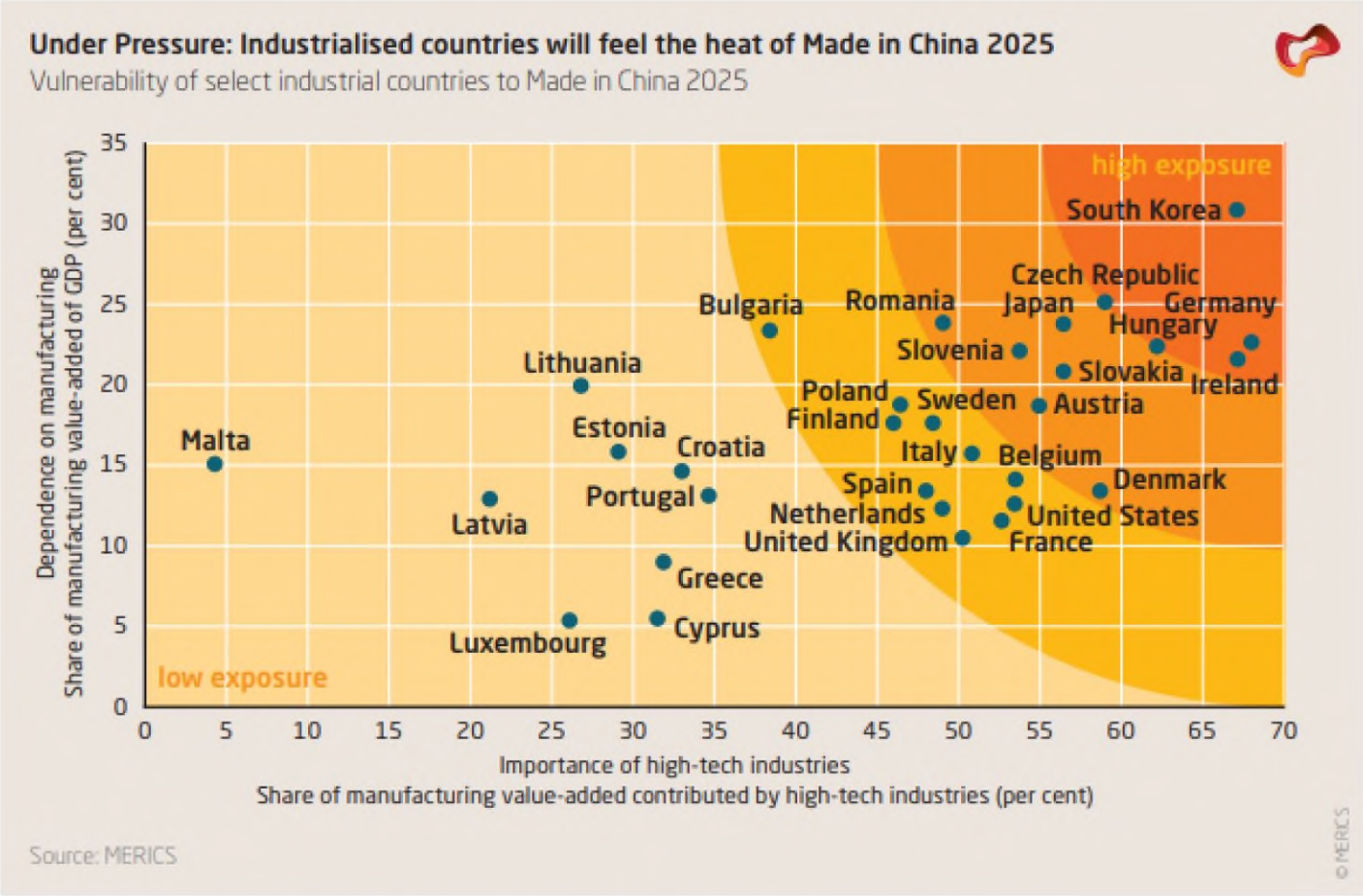
What is Made in China 2025? Made in China 2025 is a blueprint for Beijing's plan to transform the country into a hi-tech powerhouse that dominates advanced industries like robotics, advanced information technology, aviation, and new energy vehicles. The ambition makes sense within the context of China's development trajectory: countries typically aim to transition away from labor-intensive industries and climb the value-added chain as wages rise, lest they fall into the so-called "middle-income trap." Chinese policymakers have diligently studied the German concept "Industry 4.0," which shows how advanced technology like wireless sensors and robotics, when combined with the internet, can yield significant gains in productivity, efficiency, and precision.

However, China's intention through Made in China 2025 is not so much to join the ranks of hi-tech economies like Germany, the United States, South Korea, and Japan, as much as replace them altogether. Made in China 2025 calls for achieving "self-sufficiency" through technology substitution while becoming a "manufacturing superpower" that dominates the global market in critical high-tech industries. That could be a problem for countries that rely on exporting high-tech products or the global supply chain for high-tech components.

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Which countries will feel the heat of Made in China 2025? The Mercator Institute for China Studies (MERICS)

What's wrong with China setting quotas for self-sufficiency? For one, such quotas violate WTO rules against technology substitution. Made in China 2025 lays out targets for achieving 70% "self-sufficiency" in core components and basic materials in industries like aerospace equipment and telecommunication equipment by 2025. That could devastate countries like South Korea and Germany, where hi-tech sectors constitute a large share of industrial output and exports.

The supply chains for hi-tech products usually span across many borders, with highly specialized components often produced in one country and modified or assembled somewhere else. Rather than abiding by the free market and rule-based trade, China is intent on subsuming the entire global hi-tech supply chain through subsidizing domestic industry and mercantilist

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industrial policies. Semi-official documents lay out even more specific quotas for Chinese manufacturers. Officials at China's Ministry of Industry and Information Technology (MIIT) insist these targets are not official policy, though a report from the Mercator Institute for Chinese Studies argues that officials are using internal or semi-official documents to communicate targets to Chinese enterprises in order not to openly violate WTO rules.

How is Beijing acquiring advance technology for Made in China 2025? Equally problematic to Beijing's goal of "self-sufficiency" and becoming a "manufacturing superpower" is how it plans to achieve it. Chinese officials know that China lags behind in critical hi-tech sectors and hence are pushing a strategy of promoting foreign acquisitions, forced technology transfer agreements, and, in many cases, commercial cyber espionage to gain cutting-edge technologies and know-how.

While the Obama administration spent years pressuring Beijing to rein in commercial cyber espionage, Washington and other capitals are only beginning to grapple with the repercussions of Chinese investment and technology transfer agreements. Unlike cyber theft, neither is illegal per se. Surging Chinese investment in the United States and Europe have been a recurring story over the past few years. However, lawmakers are increasingly concerned that such investments, especially in high-tech sectors, are not just a product of market forces, but guided by Beijing as well.

Circumstantial evidence confirms this suspicion. Chinese investment in the United States and elsewhere, especially in hi-tech sectors, has skyrocketed since 2015. Often these investments evince a broader coordinated strategy. Take the example of Fujian Grand Chips, a purportedly private Chinese company that attempted to acquire German machine maker Aixtron in 2016. Shortly before it staged a public takeover of Aixtron, another Fujian-based company San'an Optoelectronics canceled a critical order from Aixtron on dubious grounds, sending its stock tumbling and presenting Fujian Grand Chips with an opportunity to swoop in. Both Fujian Grand Chip and San'an Optoelectronics shared a common investor: an important

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national semiconductor fund controlled by Beijing. The acquisition was stymied by an 11th-hour intervention by government officials but demonstrated how Beijing can drive investing abroad, often in a highly coordinated manner.

Technology transfer agreements and restrictive market practices in China present a similar problem. Foreign companies often enter agreements to transfer valuable intellectual property to Chinese partner in exchange for market access. These agreements can be exploitative and highlight the asymmetries in market access between China and the rest of the world. Speaking about Chinese takeovers of German firms, Germany's Economic Minister Sigmar Gabriel said Germany should not sacrifice "its companies on the altar of free markets" while China denies German firms equal access to invest in the Chinese market.

What can realistically be done? The keyword in Trump's recent tariffs against China is "reciprocity." That's the right approach. An Asia Society task force concluded last year the United States should urgently insist on reciprocity in the U.S.-China trade and investment relations, even if it adds tension to the relationship. However, a trade war, as Scott Kennedy points out, is no cakewalk, and it's unclear whether the administration has a clear idea of its desired end-game. Moreover, Trump is using a wrecking-ball when a more precise tool would have provided a better outcome. In addition to trade action against China, Trump has also announced a blanket tariff on foreign steel, which affects U.S. allies as well as China. While many allies have secured temporary exemptions to the tariff, Trump's pugilistic behavior is burning valuable goodwill. As Matthew P. Goodman and Ely Ratner argued in *Foreign Affairs*, many countries share Trump's desire to combat Chinese hi-tech mercantilism, but Trump is dividing allies rather than unifying them to confront China.

Instead, the administration should focus on the long-game of building a political consensus at home and abroad. That should include updating the Committee on Foreign Investment in the United States (CFIUS) to better vet Chinese investment into hi-tech sectors; using existing venues like the WTO to present a case against Chinese industrial policies; and rejoining the

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Trans-Pacific Partnership, which set high bars for intellectual property protection, labor standards, and safeguards against unfair competition from state-owned enterprises. Common sense investments at home should also be a priority. Investing in education, infrastructure, and basic science does not generate the same headlines as a trade war, but will do more to ensure the United States maintains its edge.

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China's Hidden Navy

By Gregory Poling | June 25, 2019 | foreignpolicy.com

View Original

The Chinese People's Liberation Army

The Spratly Islands, occupied by five different claimants, are the most hotly contested part of the South China Sea. Thanks to the harbors and supporting infrastructure Beijing constructed on its outposts there over the last five years, most vessels operating around the Spratlys are Chinese. And most of those are at least part-time members of China's official maritime militia, an organization whose role Beijing frequently downplays but that is playing an increasingly visible role in its assertion of maritime claims.

A small cohort of analysts continue to cast doubt on the existence and activities of the maritime militia. The best-intentioned offer alternative explanations for the curious behaviors of the Chinese fishing fleets, though those don't stand up to scrutiny. Other writers, especially those affiliated with Chinese institutions and state media, seek to present an alternate version of reality by artfully cropping satellite imagery, cherry-picking data, or simply ignoring the facts and attacking the motives of those presenting evidence of militia activities.

This is unsurprising—the purpose of employing a maritime militia is to keep aggression below the level of military force and complicate the responses of other parties, in this case chiefly the other claimants (Vietnam, the Philippines, Malaysia, and Taiwan) as well as the United States, by hiding behind a civilian facade. Without deniability, the militia loses much of its value. That gives China a strong incentive to dissemble and deny evidence of its actions. But that evidence speaks for itself.

The People's Armed Forces Maritime Militia is not a secret. Article 36 of the China Military Service Law of 1984, revised in 1998, calls for the militia "to undertake the duties related to preparations against war, defend the frontiers and maintain public order; and be always ready to join the armed forces to take part in war, resist aggression and defend the motherland." China's 2013 defense white paper enhanced the maritime militia's role in asserting sovereignty and backing up military operations. This is the naval analogue to China's larger and better-known land-based militia forces, which operate in all Chinese theater commands, supporting and under the command of the People's Liberation Army (PLA).

In 2013, Chinese President Xi Jinping visited the maritime militia in Tanmen township on Hainan, China's southernmost province, and labeled it a model for others to follow. Andrew Erickson, Conor Kennedy, and Ryan Martinson at the China Maritime Studies Institute at the U.S. Naval War College have spent years documenting the activities of the maritime militia, including extensive acknowledgment by Chinese authorities and many instances in which militia members have publicly discussed their activities.

A review of available remote sensing data by the Center for Strategic and International Studies and Vulcan Inc.'s Skylight Maritime Initiative, including infrared imaging, synthetic aperture radar, and high-resolution satellite imagery, shows that the largest number of vessels operating in the Spratly Islands belongs to the Chinese fishing fleet, which frequently numbers between 200 and 300 boats at Subi and Mischief Reefs alone. This is not by itself peculiar: China maintains the world's largest fishing fleet, and its distant water vessels operate around the globe due to overfishing and pollution of Chinese coastal waters. But the vessels operating in the Spratlys are not part of that distant water

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fleet—those boats are larger and head farther afield in the hunt for high-value migratory species. And at 800 nautical miles (about 920 miles) from the mainland, the Spratlys are too far for small and medium-sized Chinese fishing vessels to operate productively without being heavily subsidized.

Chinese fishing boats in the islands average more than 500 tons, well over the size legally required for boats undertaking international voyages to use Automatic Identification System (AIS) transceivers, which broadcast identifying information, headings, and other data about oceangoing vessels. But fewer than 5 percent of them actually broadcast AIS signals at any given time. This suggests a fleet intent on hiding its numbers and actions.

These large, modern vessels represent a stunning level of sunk capital costs but do not engage in much commercial activity. Frequent satellite imagery shows that the vessels spend nearly all of their time anchored, often in large clusters. This is true whether they are inside the lagoons at Subi and Mischief Reefs or loitering elsewhere in the Spratlys. Operating in such close quarters is highly unusual and certainly not the way commercial fishing vessels usually operate.

Light falling net vessels, which account for the largest number of Chinese fishing boats in satellite imagery of the Spratlys, very rarely have their fishing gear deployed. China's trawlers, meanwhile, almost never actually trawl; instead, satellite imagery and the AIS signals of those few trawlers regularly broadcasting both show that they spend most of their time at anchor. These unusual, and highly unprofitable, behaviors suggest that most of these supposed fishing boats are not making a living from fish.

When Chinese fishing vessels are not at Subi or Mischief Reefs, they are most often seen in satellite imagery anchored near Philippine- and Vietnamese-held outposts in the Spratlys. This is corroborated by the small number of AIS signals detected from Chinese ships. The most spectacular example of this behavior was the swarm of vessels from Subi Reef that dropped anchor between 2 and 5 nautical miles from Philippines-held Thitu Island as soon as Manila began modest upgrade work on that feature in December 2018. The number of vessels seen in satellite imagery peaked at 95 on Dec. 20, 2018, before dropping to 42 by Jan. 26. That presence continued into early June, when reportssuggested that China had begun to pull back the vessels. The exact number of ships fluctuated from day to day, but almost none broadcast AIS or deployed fishing gear, and they operated in much closer quarters than any commercial fishing vessels would.

The Armed Forces of the Philippines confirmed that it had monitored 275 individual Chinese vessels swarming near Thitu between January and March, and Manila filed protests with Beijing over their presence. Meanwhile satellite imagery from March to April showed another cluster of Chinese vessels displaying the same puzzling behavior around two other Philippine-held features: Loaita Cay and Loaita Island. In that case, some dropped anchor just half a nautical mile from the isolated Philippine facility on Loaita Cay.

The only explanation that can make sense of all of these behaviors is that most of these vessels engage, at least part-time, in the work of China's maritime militia. The job of that militia force has been well documented by sources as diverse as the U.S. Naval War College, reports from the Philippine military, and China's own official documents outlining the militia's role. On a day-to-day basis it serves as a logistics and surveillance arm of the PLA, ferrying supplies to Chinese outposts, monitoring and reporting on the activities of other claimants, and engaging in joint training exercises with the military and law enforcement. But they also move into more direct harassment of other nations' vessels when called up—maneuvering dangerously close to foreign naval, law

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enforcement, and civilian vessels, sometimes shouldering and ramming them, and in general making it unsafe for other parties to operate in areas contested by Beijing, all while the PLA and China Coast Guard are kept in reserve as an implicit threat with a level of deniability.

Some analysts have offered alternative explanations for the curious, unproductive behavior of these ships. But none of the theories stand up well to scrutiny.

One suggestion is that these vessels never have gear in the water because they are actually reef fishers engaged in harvesting high-value species such as sea cucumbers and giant clams. Relatedly, theorists posit that they don't broadcast AIS because they are too small, or too old, or because they know that harvesting endangered species is illegal under Chinese law and they want to hide their activities. Some have even argued that the flood of vessels around Thitu was due to a surge in demand for seafood ahead of China's Spring Festival.

But these explanations make little sense. The sizes and types of vessels are easily determined from satellite imagery. These fleets consist of large (over 160-foot) modern trawlers and falling net vessels, not the smaller (80- to 115-foot) motherships that accompany Chinese reef fishers around the Spratlys and other disputed features such as the Paracels and Scarborough Shoal, and certainly not the reef fishing boats themselves. And while reef fishing vessels average just 15 feet, they can be seen in satellite imagery; it would be immediately obvious if hundreds were operating around Thitu Island. There is plenty of sea cucumber harvesting in the Paracels—at Antelope Reef, for instance—and giant clam poaching has been well documentedacross the South China Sea. This is not that.

Another theory is that these vessels don't appear to be fishing because they are involved in transshipment, serving in a support role by purchasing catch from and providing supplies to other fishing boats in the area. That might fit if it was just some small percentage of the Chinese fleet involved. But the opposite is true: Most Chinese ships observed in the Spratlys don't appear to be commercially fishing. They can't all be support vessels; what would they be supporting?

A third hypothesis is that some of these vessels are simply passing through the Spratlys to fraudulently collect the fuel subsidies China offers for ships that operate in the contested waters. After securing their subsidy, the theory goes, these boats likely head for more productive fishing grounds beyond the region. This could be true for some small number of ships; it would be impossible to prove either way. But this cannot explain the long-term presence of hundreds of vessels anchored around Thitu and other features. And while only a small percentage of Chinese ships broadcast AIS in the Spratlys, those that do tend to spend months at a time there, mostly anchored.

The evidence that China is using hundreds of fishing vessels under the aegis of its publicly acknowledged maritime militia to assert claims and harass its neighbors in the Spratlys is considerable. By contrast, the alternative theories are severely lacking. No other convincing explanation has been offered for why so many fishing vessels are engaged for months at a time in activities that make little or no commercial sense, or why they are so intent on hiding their actions.

The maritime militia is the vanguard of China's assertion of claims to the waters of the South China Sea. It is the largest fleet operating in the area and is the most frequent aggressor toward both China's neighbors and outside parties like the United States when asserting international rights in waters claimed by Beijing. It operates as a nonuniformed, unprofessional force without proper training and outside of the frameworks of international maritime law, the military rules of engagement, or the multilateral mechanisms set up to prevent unsafe incidents at sea. The next

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violent incident to take place in the South China Sea is far more likely to involve the Chinese militia than the PLA or China Coast Guard, and it will lack the mechanisms for communication and de-escalation that exist between those professional services and their counterparts in other nations.

The only way to avoid an eventual crisis triggered by these paramilitary vessels is to convince Beijing to take them off the board. And the first step is to pull back the curtain of deniability, acknowledge that the evidence for their numbers and activities is overwhelming, and insist that the Chinese government be held accountable for their bad behavior.

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REUTERS INVESTIGATES | The China Challenge

China Challenge: Marshall Xi

By DAVID LAGUE in HONG KONG and BENJAMIN KANG LIM | Illustrations by CHRISTIAN INTON
Filed April 23, 2019, 11 a.m. GMT

How China is replacing America as Asia's military titan

Chinese leader Xi Jinping has refashioned the People's Liberation Army into a force that's rapidly closing the gap on U.S. firepower – and in some vital areas has surpassed it. American victory over China in a regional war is no longer assured.

In 1938, in the midst of a long campaign to bring China under Communist Party rule, revolutionary leader Mao Zedong wrote: "Whoever has an army has power."

Xi Jinping, Mao's latest successor, has taken that dictum to heart.

He has donned camouflage fatigues, installed himself as commander-in-chief and taken control of the two million-strong Chinese military, the People's Liberation Army. It is the biggest overhaul of the PLA since Mao led it to victory in the nation's civil war and founded the People's Republic in 1949.

Xi has accelerated the PLA's shift to naval power from a traditionally land-based force. He has broken up its vast, Maoist-era military bureaucracy. A new chain of command leads directly to Xi as chairman of the Central Military Commission, China's top military decision-making body. Operational leadership of naval, missile, air, ground and cyber forces has been separated from administration and training - a structure that Chinese and Western defense analysts say borrows from U.S. military organization.

The Chinese leader isn't just revolutionizing the PLA. Xi is making a series of moves that are transforming both China and the global order. He has abandoned reform architect Deng Xiaoping's injunction that China should hide its strength and bide its time. The waiting game is over. Xi's speeches are peppered with references to his "Chinese dream," where an ancient nation recovers from the humiliation of foreign invasion and retakes its rightful place as the dominant power in Asia.

The effort includes signature shows of soft power: Xi's multibillion-dollar "Belt and Road" program to build a global trade and infrastructure network with China at its center, and his "Made in China 2025" plan to turn the country into a high-tech manufacturing giant.

But the boldest stroke is his expansion of China's hard power, through his remaking of the PLA, the world's largest fighting force. At the core of this vision of national renewal is a loyal, corruption-free military that Xi demands must be prepared to fight and win.

His push to project power abroad was accompanied by a power play at home. Xi has purged more than 100 generals accused of corruption or disloyalty, according to the official state-controlled media.
A raw demonstration of his authority came when state television broadcast a laudatory documentary series about the PLA, "Strong Military." In one scene in the 2017 series, an elderly man sits in a military court at a desk marked "defendant," looking frail in a navy-blue civilian jacket. It is Guo Boxiong, a

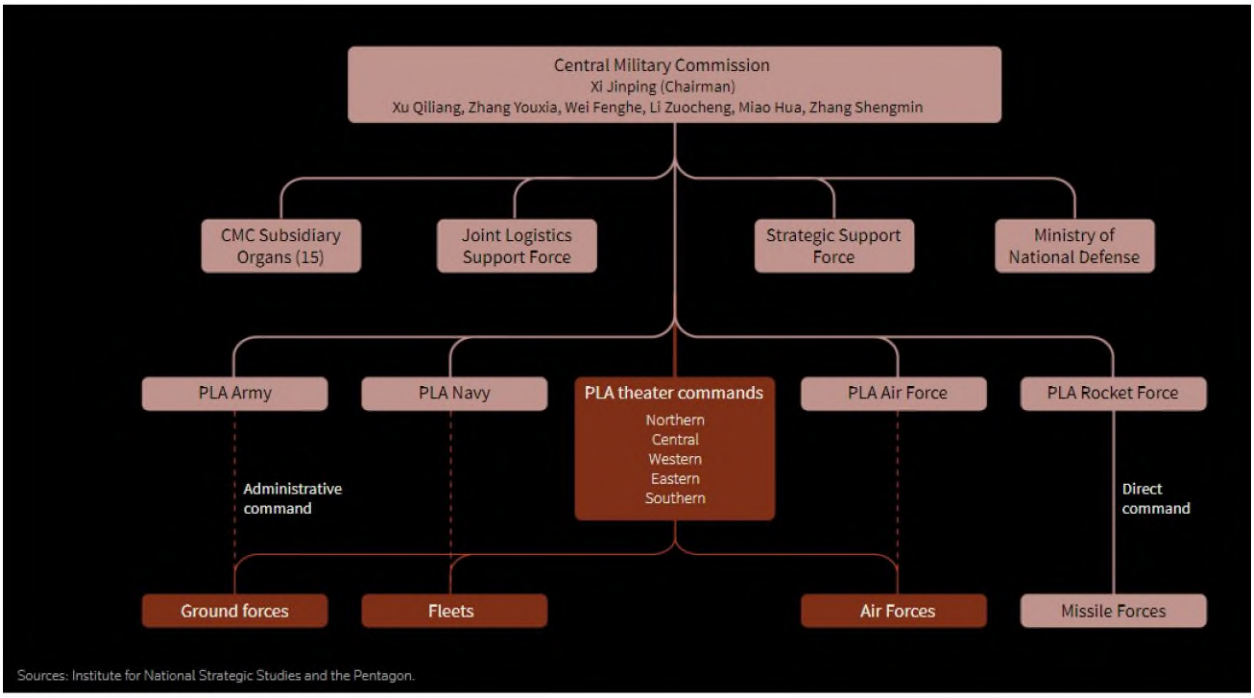
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former general and the most senior officer convicted in Xi's purge. He reads his confession to charges of bribery from a sheaf of papers gripped in both hands.

"The Central Military Commission dealt with my case completely correctly," says Guo, who had once served as vice-chairman of the body. "I must confess my guilt and take responsibility for it." Guo was sentenced to life in prison.



In a series of stories, Reuters is exploring how the rapid and disruptive advance of Chinese hard power on Xi Jinping's watch has ended the era of unquestioned U.S. supremacy in Asia. In just over two decades, China has built a force of conventional missiles that rival or outperform those in the U.S. armory. China's shipyards have spawned the world's biggest navy, which now rules the waves in East Asia. Beijing can now launch nuclear-armed missiles from an operational fleet of ballistic missile submarines, giving it a powerful second-strike capability. And the PLA is fortifying posts across vast expanses of the South China Sea, while stepping up preparations to recover Taiwan, by force if necessary.

For the first time since Portuguese traders reached the Chinese coast five centuries ago, China has the military power to dominate the seas off its coast. Conflict between China and the United States in these waters would be destructive and bloody, particularly a clash over Taiwan, according to serving and retired senior American officers. And despite decades of unrivaled power since the end of the Cold War, there would be no guarantee America would prevail.

"The U.S. could lose," said Gary Roughead, co-chair of a bipartisan review of the Trump administration's defense strategy published in November. "We really are at a significant inflection point in history."

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Roughead is no armchair theorist: A retired admiral, as former Chief of Naval Operations he held the top job in the U.S. Navy until 2011. His alarm reflects a growing view across the American defense establishment. In their report, he and his colleagues issued a dire warning. The United States faces a "national security crisis," principally arising from growing Chinese and Russian military power. "U.S. military superiority is no longer assured and the implications for American interests and American security are severe," the panel concluded.

It is clear that Xi wants to bring the era of U.S. dominance in Asia to an end. "In the final analysis, it is for the people of Asia to run the affairs of Asia, solve the problems of Asia and uphold the security of Asia," he said in a 2014 speech to foreign leaders on regional security.

China's Ministry of National Defense, the U.S. Indo-Pacific Command and the Pentagon did not respond to questions for this article or detailed summaries of its findings.

This account of Xi and the PLA - which despite the "army" in its name comprises all military branches - is based on interviews with 17 current and former military officers from China, the United States, Taiwan and Australia. Many would only speak on condition of anonymity. It draws on the accounts of Chinese officials and people with ties to the senior leadership in Beijing who have known Xi Jinping and his family for decades and are familiar with his career as he rose through the party and government bureaucracy. It also relies on Chinese government publications describing Xi's political thinking, his speeches and official documentaries showcasing his leadership of the military.

Xi rises through the ranks

In Washington, the world's pre-eminent military power is mobilizing to respond. After decades of seeking engagement in the expectation that Beijing would become a cooperative partner in world affairs, the United States is treating China as a strategic competitor bent on displacing it as Asia's dominant force.

Largely in reaction to this challenge, Washington is boosting defense spending, rebuilding its navy and urgently developing new weapons, particularly longer range conventional missiles. It is expanding military ties with other regional powers, including Japan, South Korea, Taiwan, Australia, Singapore and India. And it's conducting an international diplomatic and intelligence campaign to counter China's cyber-attacks, traditional espionage and intellectual property theft. This campaign includes efforts to contain the global reach of Chinese telecom companies Huawei and ZTE Corp.

The confrontation comes as the administration of President Donald Trump is waging a tariff war aimed at reducing China's massive trade surplus with the United States. However the trade conflict is resolved, a graver risk is the possibility that the deeper tensions could boil over into an armed clash between Beijing and Washington and its allies in the hotly contested maritime zones off the Chinese coast.

The rise of the PLA is not all Xi's doing. Long before he took power, the military had been transformed from the massive but rudimentary land force that swept Mao and his comrades, including Xi's father, to victory over the Nationalists in 1949. Decades of steep increases in defense spending paid for an arsenal of high technology weapons; millions of soldiers were demobilized. But corruption became endemic.

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Xi's two predecessors, Jiang Zemin and Hu Jintao, were civilians who took office without a network of support among PLA brass. They fostered loyalty through patronage, pay rises and budget increases, according to Chinese and Taiwanese analysts and retired officers. Under the weak leadership of Hu in particular, they say, senior officers exploited their positions to siphon off money, particularly from the logistic and equipment budgets. Rank buying became rampant.

The military hierarchy Xi inherited had become a law unto itself under Hu, according to Li Nan, a scholar of the Chinese military at the National University of Singapore. "It was out of control, in a sense," said Li. "Now the power is centralized in the hands of Xi Jinping."

Xi, a so-called princeling, grew up as a member of China's Communist Party aristocracy, even though his family suffered separation and persecution in Mao's chaotic Cultural Revolution. His late father, Xi Zhongxun, was a revolutionary military leader who became a top government official in the early years of Communist rule. He was later purged in Mao's upheavals, before emerging a key leader of China's market reforms in the 1980s.

Xi's dramatic accumulation of power was unexpected. He took a low profile as he slowly worked his way up the Communist Party and state bureaucracy, according to multiple Chinese familiar with his early career.

His first job out of university in 1979 was serving in a junior post as a uniformed aide to General Geng Biao, then minister of defense. Xi's official biography records this three-year posting as "active duty." In this role, he had access to classified military documents, including files on the 1979 Chinese invasion of Vietnam, according to sources with ties to the leadership. He had to memorize hundreds of telephone numbers and was not allowed to rely on a telephone book, in case it was lost or stolen, they said.

He then began a series of provincial government and party postings. In these roles, his performance was relatively unremarkable. As governor of the southeastern Province of Fujian, for instance, he was obsessed with the bureaucratic routine of political study sessions where officials review Communist Party documents and speeches of senior leaders, according to people who knew him at the time.

And he was far from universally popular. He finished last in elections for alternate members of the party's 200-strong Central Committee during the 15th Communist Party Congress in 1997.

This nondescript record appears to have worked in his favor. During his period as China's paramount leader, President Jiang Zemin handpicked Xi for senior office because the younger man was perceived to lack ambition, according to sources with close ties to the Chinese leadership. Xi was also thought to be a pliable candidate because he lacked a power base, one source said, speaking on condition of anonymity.

But as China's top leader, he has shown a willingness to impose radical change at the top of the party, government and military.

"When I talk to my mainland friends, they all say he is a risk taker," said Andrew Yang Nien-Dzu, former defense minister of Taiwan. "You never know what his next move will be."

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Xi tames the military

From the beginning, Xi's corruption purge and promotion of loyal officers made it clear he had big plans for the PLA. Then, in mid-2015, he cut 300,000 mostly non-combat and administrative personnel before launching a sweeping overhaul of the military structure.

He broke up the four sprawling, Maoist-era "general departments" of the PLA that had become powerful, highly autonomous and deeply corrupt, said Li from the National University of Singapore. Xi replaced them with 15 new agencies that report directly to the Central Military Commission he chairs.

He also scrapped the seven geographically based military regions and replaced them with five joint-service theater commands. These new regional commands, comparable to those that govern the U.S. armed forces, are responsible for military operations and have a strong focus on combining air, land, naval and other capabilities of the Chinese armed forces to suit modern warfare.

Xi also promoted favored commanders, many of them officers he knew in Fujian and Zhejiang provinces, where he served the bulk of his early career as an official, according to Chinese and Western observers of the PLA. Others hail from his home province of Shaanxi or are fellow princelings.

At the 19th Party Congress in October 2017, Xi further tightened his grip over the top military leadership, paring the Central Military Commission from 11 members to seven and stacking it with loyalists. Xi knew most of them from Shaanxi and Fujian.

As he burnishes his military credentials, Xi draws on his early service in uniform. In speeches to military audiences, he describes himself as a soldier-turned-official, according to reports in the state-controlled media. In distinctive PLA camouflage fatigues, cap and combat boots, he has overseen some of the biggest military parades since the 1949 Communist victory. In the most recent of these displays, Xi has taken the salute from the troops without sharing the podium with the usual line-up of fellow party leaders and elders.

In a massive naval exercise in April last year, Xi boarded the guided-missile destroyer Changsha to review the Chinese fleet of 48 warships in the South China Sea. State-run television showed the navy commander, Vice Admiral Shen Jinlong, and navy political commissar, Vice Admiral Qin Shengxiang, standing to attention as they reported to Xi and saluted. Xi then gave the order for the exercise to proceed.

Both navy chiefs are Xi protégés. Shen has been rapidly promoted under Xi, leapfrogging other, more senior officers, according to Chinese and Western analysts. Qin had worked closely with the Chinese leader in a top post in the Central Military Commission before his promotion in 2017 to his navy role, China's official military media reported.

Xi was also in fatigues again in July 2017 at a massive military parade to mark the 90th anniversary of the PLA at the Zhurihe training ground in Inner Mongolia. He took the salute from the parade commander, General Han Weiguo, an officer who served in Fujian while Xi was a party and government official in the province. Han has enjoyed a meteoric rise under Xi, being promoted to command China's ground forces shortly after this parade.

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"Xi Jinping is obsessed with military parades," said Willy Lam Wo-lap, a veteran observer of personnel movements in China's military and political elites and a professor at the Chinese University of Hong Kong. "He loves these demonstrations of raw power."

As part of Xi's martial image-building, the party's propaganda machine portrays him as the leader responsible for a decisive pivot in China's recovery from foreign conquest and colonial domination that began with the First Opium War in the mid-19th Century.

In the opening scenes of the "Strong Military" documentary, Xi is shown boarding the guided missile destroyer Haikou at Shekou port on December 8, 2012, and sailing into the South China Sea for the first time since becoming party and military chief that year. As Xi looks to the horizon through binoculars, the narrator says: "As the warship pierces the waves, Xi Jinping peers toward a vision obscured in the mist of history when, 170 years ago, Western powers came from the sea to open the door to China, beginning a bitter nightmare for ancient China."

The nightmare ends, according to the documentary, with the Communist victory under Mao and the periods of growing economic and military power under former leaders Deng, Jiang and Hu. With Xi in charge, the series shows, a heavily armed China is poised to recover its former glory.

Propaganda aside, Xi is proving far more assertive than his most recent predecessors in employing China's new military power. In 2013, China began dredging and island-building in the disputed Spratly Islands in the South China Sea, an area in which Beijing has competing territorial claims with the Philippines, Malaysia, Taiwan, Vietnam and Brunei.

Xi personally directed these moves, according to a July 2017 commentary in Study Times, the official mouthpiece of the Communist Party's Central Party School. "It is the equivalent of building a Great Wall at sea," the commentary said.

Extensive fortification of these outposts, including missile batteries, means that China has virtually annexed a vast swathe of this ocean. Ahead of his May 30 appointment to head the U.S. Indo-Pacific Command, Admiral Philip Davidson told a Congressional committee that China was now capable of controlling the South China Sea in all scenarios "short of war."

Xi is also stepping up military pressure on Taiwan, Japan and India. Alongside a massive arsenal of missiles capable of striking Taiwan, Chinese naval and air forces conduct increasingly complex exercises that regularly encircle the self-governing island.

These exercises are designed to intimidate Taiwan and wear down its forces which must respond to these drills, according to some Taiwanese defense analysts. "They are obviously applying a lot of coercive power over Taiwan," said Yang, the former Taiwan defense minister. Beijing regards Taiwan as a renegade province and is determined to bring it under mainland control.

In response to questions from Reuters, Taiwan's Defense Ministry said it would continue to maintain surveillance and deploy aircraft and warships to "ensure the safety of our nation's air and sea territory."

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Chinese naval and air forces are also increasing the tempo of deployments, exercises and patrols through the Japanese island chain. Japan's annual military White Paper last year said China's "unilateral escalation" of activities around Japan was arousing strong security concerns. Japanese interceptors scrambled 638 times in the past year against Chinese aircraft, the government reported this month, up almost 30 percent from the year before.

"China has expanded and intensified military activities not only in the East China Sea, but also in the Pacific Ocean and the seas around Japan," the Japanese Defense Ministry said in response to questions from Reuters. "These activities appear aimed at improving operational capability and bolstering China's presence."

Despite these assertive moves, there are still questions from inside the PLA about the capacity of Chinese forces to compete with the United States and other advanced military powers. In numerous published commentaries, Chinese officers and strategists point to the PLA's lack of experience in conflict, technological shortcomings and failure to introduce effective command and control.

Xi's power grab and bold agenda also carry great risk for him personally, the party and China. There has been widespread speculation in China that the corruption crackdown in the military and a parallel purge of party and government officials is at least in part Xi's response to a vicious, behind-the-scenes power struggle.

Rare evidence of this surfaced at a key gathering of top officials. On the sidelines of the 19th Party Congress in October 2017, Liu Shiyu, then China's chief stock market regulator, accused a group of senior officials deposed in the purge of plotting a coup, including the disgraced former military chief Guo Boxiong. Earlier, the official military newspaper hinted at similar accusations, without citing evidence. Guo, who was imprisoned on corruption charges, could not be reached for comment. The Chinese government has not commented further on this allegation.

In bringing down so many powerful military and party leaders and their factions, Xi has made many dangerous enemies, say people with ties to the leadership. And steep increases in military spending will become more difficult to sustain if the growth of the debt-burdened Chinese economy continues to slow.

Still, Xi shows no sign of toning down his drive to galvanize the Chinese military. On October 25, he toured the Southern Theater Command in the city of Guangzhou, the headquarters responsible for the contested South China Sea. State television showed Xi in fatigues and combat boots, striding through the command post with senior brass. Xi, state media reported, told officers to concentrate on "preparing for war and combat."

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REUTERS INVESTIGATES | The China Challenge

China Challenge: Rocket Man

By DAVID LAGUE in ZHUHAI, China, and BENJAMIN KANG LIM | Graphics by WEIYI CAI, HAN HUANG and SIMON SCARR | Illustrations by CHRISTIAN INTON

Filed April 25, 2019, 11 a.m. GMT

New missile gap leaves U.S. scrambling to counter China

Under Xi Jinping, Beijing has elevated its missile forces to a point where many rockets in the Chinese arsenal now rival or outperform those of the United States. This dramatic shift could render American carriers – the backbone of U.S. military supremacy – obsolete in a conflict with China.

China's powerful military is considered to be a master at concealing its intentions. But there is no secret about how it plans to destroy American aircraft carriers if rivalry becomes war.

At November's biennial air show in the southern city of Zhuhai, the biggest state-owned missile maker, China Aerospace Science and Industry Corporation Ltd, screened an animation showing a hostile "blue force," comprising an aircraft carrier, escort ships and strike aircraft, approaching "red force" territory.

On a giant screen, the animation showed a barrage of the Chinese company's missiles launched from "red force" warships, submarines, shore batteries and aircraft wreaking havoc on the escort vessels around the carrier. In a final salvo, two missiles plunge onto the flight deck of the carrier and a third slams into the side of the hull near the bow.

The fate of the ship is an unmistakable message to an America that has long dominated the globe from its mighty aircraft carriers and sprawling network of hundreds of bases. China's military is now making giant strides toward replacing the United States as the supreme power in Asia. With the Pentagon distracted by almost two decades of costly war in the Middle East and Afghanistan, the Chinese military, the People's Liberation Army (PLA), has exploited a period of sustained budget increases and rapid technical improvement to build and deploy an arsenal of advanced missiles.

Many of these missiles are specifically designed to attack the aircraft carriers and bases that form the backbone of U.S. military dominance in the region and which for decades have protected allies including Japan, South Korea and Taiwan.

Across almost all categories of these weapons, based on land, loaded on strike aircraft or deployed on warships and submarines, China's missiles rival or outperform their counterparts in the armories of the United States and its allies, according to current and former U.S. military officers with knowledge of PLA test launches, Taiwanese and Chinese military analysts, and technical specifications published in China's state-controlled media.

China has also seized a virtual monopoly in one class of conventional missiles – land-based, intermediate-range ballistic and cruise missiles.

Under the Intermediate-Range Nuclear Forces Treaty, a Cold War-era agreement aimed at reducing the threat of nuclear conflict, the United States and Russia are banned from deploying this class of missiles,

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with a range between 500 and 5,500 kilometers (3,418 miles). But Beijing, unrestrained by the INF Treaty, is deploying them in massive numbers.

This includes so-called carrier killer missiles like the DF-21D, which can target aircraft carriers and other warships underway at sea at a range of up to 1,500 kilometers, according to Chinese and Western military analysts. If effective, these missiles would give China a destructive capability no other military can boast. China's advantage in this class of missiles is likely to remain for the foreseeable future, despite U.S. President Donald Trump's decision in February to withdraw from the treaty in six months.



China is also making rapid strides in developing so-called hypersonic missiles, which can maneuver sharply and travel at five times the speed of sound (or even faster). Currently, the United States has no defenses against a missile like this, according to Pentagon officials.

China's Ministry of National Defense and China Aerospace Science and Industry Corporation did not respond to questions from Reuters about Beijing's missile capabilities. The U.S. Indo-Pacific Command and the Pentagon had no comment.

China's growing missile arsenal hasn't yet been proven in a real-world clash, and some Chinese officials play down their advances. But under the Trump administration, Washington has come to view China as a rival determined to displace the United States in Asia. This modern-day missile gap, the administration believes, is emerging as one of the biggest dangers to American military supremacy in Asia since the end of the Cold War. The Pentagon is now scrambling for new weapons and strategies to counter the PLA's rocket arsenal.

"We know that China has the most advanced ballistic missile force in the world," said James Fanell, a retired U.S. Navy captain and former senior intelligence officer with the U.S. Pacific Fleet. "They have the capacity to overwhelm the defensive systems we are pursuing."

Fanell was sidelined by the Pentagon ahead of his 2015 retirement, after warning about the Chinese build-up at a time when President Barack Obama was seeking cooperation with Beijing. Today, Pentagon

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policy hews more closely to his views that China intends to displace the United States as Asia's dominant power.

Chinese military brass agree they can now keep American carriers at bay. Six people in China interviewed by Reuters, including retired PLA officers and a person with ties to the Beijing leadership, said China's enhanced missile capability was a great leveler and would serve to deter the United States from getting too close to Chinese shores.

"We cannot defeat the United States at sea," a retired PLA colonel said in an interview. The United States has 11 aircraft carriers and China has just two. "But we have missiles that specifically target aircraft carriers to stop them from approaching our territorial waters if there were conflict."

A person with ties to the Chinese leadership who once served in the military had a similar message: "If U.S. aircraft carriers come too close to our coastlines in a conflict, our missiles can destroy them."

The Rocket Force

Xi Jinping, who has seized direct control of the world's largest fighting force, has played a pivotal role in the ascendancy of Chinese missile forces. This series, "The China Challenge," examines how Xi is transforming the PLA and challenging U.S. supremacy in Asia. He has delivered a powerful boost to the prestige and influence of the elite unit responsible for China's nuclear and conventional missiles, the PLA Rocket Force.

The Chinese leader has described the missile forces as a "core of strategic deterrence, a strategic buttress to the country's position as a major power and a cornerstone on which to build national security." Xi has brought senior missile force veterans into his closest circle of military aides as he has consolidated his grip on the PLA with a sweeping purge of senior officers accused of corruption or disloyalty.

The Rocket Force has always enjoyed strong support from the ruling Communist Party. But under Xi, the once secretive unit, formerly known as the Second Artillery Corps, has been thrust into the limelight. Since he took power in 2012 with a pledge to rejuvenate China as a great power, the Rocket Force's latest nuclear and conventional missiles have played a starring role at some of the biggest military parades held in the Communist era.

In one of these displays, in 2015, the designations of new missiles, including the "carrier killer" DF-21D, were painted on the sides of the projectiles in big white letters. The bold labels were aimed directly at foreign audiences, according to Western military analysts monitoring the parade in Beijing. At a parade Xi presided over to mark the 90th anniversary of the PLA in 2017, missiles were also prominently displayed.

This elaborate, choreographed showcasing of the newest and most powerful missiles has provided a backdrop for Xi as he burnishes his credentials as China's supreme military leader. Coverage of test launches, new warheads and technical breakthroughs dominate the state-controlled military media.

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But it's not mere theater. This concerted advertising of China's ability to deliver long-range conventional strikes without risking aircraft, ships or casualties is a key element of PLA strategy under Xi. Foreign military analysts say it sends a signal that China has the capacity to resist interference as it expands control over vast swathes of the South China Sea, intensifies naval and air sorties around Taiwan, and extends operations into territory it disputes with Japan in the East China Sea.

To be sure, while China's missile fleet has indisputably grown more formidable, the reliability, accuracy and payloads of its weapons have yet to be tested in battle. China hasn't fought a war since invading Vietnam in 1979. The U.S. arsenal of air and sea-launched missiles, by contrast, has been tried and proven repeatedly in wars over the past two decades.

It is also unknown if the PLA missile systems could survive electronic, cyber and physical attacks on launch facilities, guidance systems and command-and-control centers. Military analysts point out that there is still some doubt about whether China has mastered the know-how that would allow a "carrier killer" ballistic missile to detect, track and hit a moving target far from the Chinese coast.

U.S. military commanders and PLA watchers also acknowledge that there could be elements of subterfuge involved in the publicity about Chinese missiles. Deception is traditionally a key element of Chinese military strategy. The PLA is well aware that America and other potential rivals would be closely monitoring their test sites, according to satellite imagery specialists.

Some retired PLA officers who spoke to Reuters played down the capability of China's missiles.

"U.S. missiles are superior to ours in terms of quality and quantity," the former PLA colonel told Reuters, speaking on condition of anonymity to discuss a sensitive topic with the foreign media. "If we were truly more advanced than the United States," said a Chinese military analyst, "we would have liberated Taiwan."

Still, current and former U.S. military officials say they are convinced from close monitoring of China's numerous test firings that PLA missiles are a genuine threat.

The range war

What makes Chinese missiles so dangerous for the United States and its Asian allies is that the PLA is winning the "range war," according to Robert Haddick, a former U.S. Marine Corps officer and now a visiting senior fellow at the Mitchell Institute for Aerospace Studies based in Arlington, Virginia. While the United States was taking what Haddick describes as a "long holiday" from missile development in the aftermath of the Cold War, China was shooting for distance, developing missiles that can fly further than those in the armories of the United States and its Asian allies.

The Pentagon has begun to publicly acknowledge that in missiles, at least, China has the upper hand. "We are at a disadvantage with regard to China today in the sense that China has ground-based ballistic missiles that threaten our basing in the Western Pacific and our ships," the former commander of U.S. forces in the Pacific, Admiral Harry Harris, said in testimony before the U.S. Senate Armed Services Committee in March last year.

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At the time, Harris explained that the United States was unable to counter with similar missiles because of the 1987 INF Treaty with Russia, which banned these weapons.

The treaty constraints have left the United States with no equivalent to weapons like China's DF-26 ballistic missile, which has a range of up to 4,000 km and can strike at the key U.S. base at Guam. China says the missile has a carrier-killer variant that can hit a moving target at sea. U.S. bases in South Korea and Japan are within range of another PLA projectile, the CJ-10 land attack cruise missile, which has a range of about 1,500 km, according to Pentagon estimates.

However, the Trump administration appears to be clearing the way for the United States to compete. On Feb. 1, Trump announced Washington would withdraw from the treaty, accusing Moscow of breaching the agreement. He said in a statement that the U.S. would quit in six months unless Russia returned to compliance. Trump also said that China had more than 1,000 missiles of the range covered by the INF Treaty. He added that the U.S. would now develop a ground-launched conventional missile that would have been banned under the treaty. This could help offset China's advantage, military experts say, but it will take time, probably years, for the U.S. to develop and deploy these weapons.

China criticized Trump's announcement, with Foreign Ministry spokesman Geng Shuang saying the treaty was important in "safeguarding global strategic balance and stability." Geng, however, didn't mention the PLA's own arsenal of these weapons or that China itself isn't party to the pact. He said China opposed negotiating a new treaty that would cover other nations as well as Russia and America.

This missile gap portends a military upheaval. Some powerful PLA anti-ship missiles now far outrange the strike aircraft deployed on U.S. carriers. That means American military planners are grappling with a scenario that until recently didn't exist: U.S. carriers could be obsolete in a conflict near the Chinese mainland. If forced to operate outside the range of their aircraft when approaching China, the nuclear-powered leviathans would be far less effective. Sail too close and they would be vulnerable.

Since the end of the Cold War, the U.S. Navy has been able to use its carriers to bludgeon weaker enemies, approaching close enough to launch air strikes, confident that the giant warships are untouchable. Today, in the event of conflict with China in East Asia, Pentagon planners and other regional militaries say they are wrestling with how to respond to something they haven't seen since World War Two: a return to highly contested warfare at sea.

For the U.S. military, one fear is that swarms of cheap, expendable Chinese missiles have the potential to neutralize the most expensive warships ever built. China does not publish the cost of its missiles. A modern version of the subsonic, Cold War-vintage Harpoon, the mainstay anti-ship missile of the United States and its allies, costs $1.2 million, according to the U.S. Navy. Western military officials assume China's lower manufacturing costs would mean it could build similar missiles for less. The latest U.S. carrier, the USS Gerald R. Ford, cost about $13 billion to build – about 10,000 times the price of the Harpoon.

A hesitant U.S.

For more than half a century since China's ruling Communist Party took power in 1949, a vast but technologically backward PLA was largely confined to the Asian mainland and coastal waters. A small

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force of nuclear warheads aimed at deterring a first strike comprised the only serious long-range weapons in the PLA arsenal. For most of that period, the United States and other foreign navies exercised, patrolled, snooped and routinely sailed in the waters off the Chinese coast, much as they did throughout the colonial period when China was powerless to stop foreign encroachment on its territory.

The threat from China's new missiles, along with rapidly increasing numbers of PLA navy submarines, means warships from the United States and other foreign navies now patrol hesitantly and infrequently in some key waterways close to the Chinese mainland and Taiwan, according to serving American officials and veterans of U.S. navy operations in Asia.

China's rulers have never made public the number of missiles the PLA possesses. But the Communist Youth League, the youth arm of the Communist Party, disclosed some figures on its official Twitter-like Weibo account in October 2016. China's Rocket Force boasts 100,000 men and possesses about 200 intercontinental ballistic missiles, about 300 medium-range ballistic missiles, 1,150 short-range ballistic missiles and 3,000 cruise missiles, the Youth League said.

According to U.S. and other Western estimates, China has about 2,000 conventional missiles that would fall within the terms of the INF missile treaty - enough to launch saturation attacks on air bases, ports or critical infrastructure in Japan, South Korea or Taiwan.

Apart from weapons covered by the INF Treaty where China has a monopoly, the PLA has other missiles in its arsenal that outperform their U.S. counterparts. These include two supersonic anti-ship cruise missiles, the YJ-12, with a range of 400 km, and the YJ-18, which can hit targets up to 540 km away.

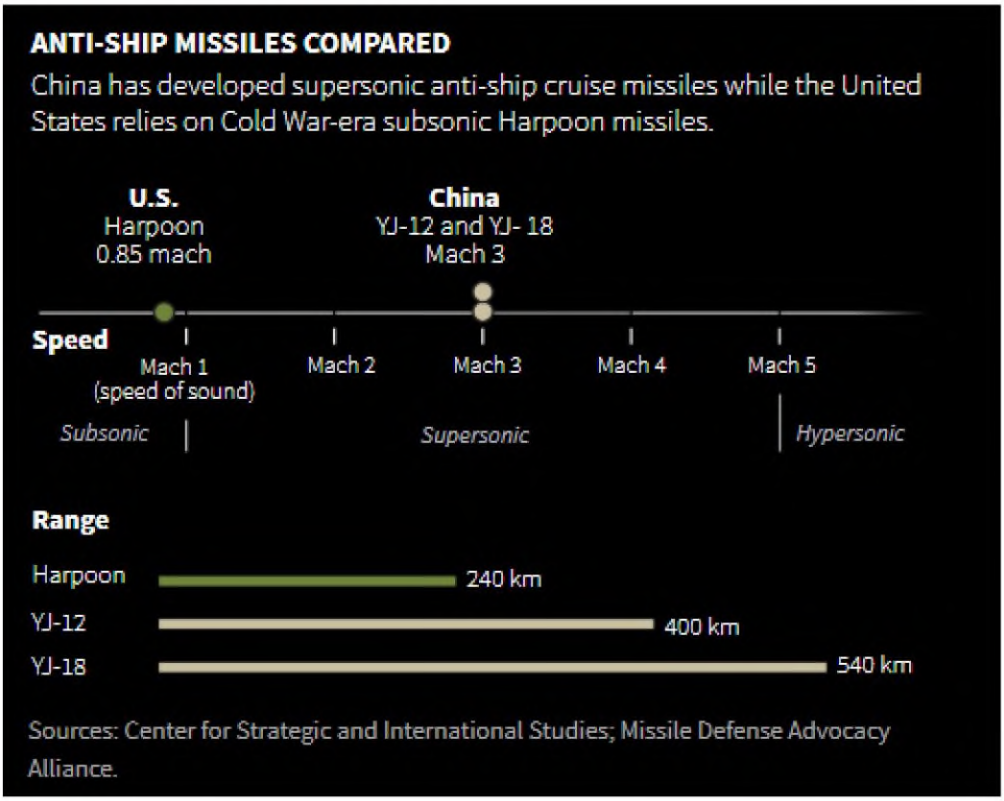
To counter these missiles, the United States relies on its subsonic, Harpoon anti-ship missile which has been modified to give it a maximum range of about 240 km. "That is a very big gap," said Haddick, who is also an adviser to the U.S. Special Operations Command. "China's anti-ship missile capability exceeds those of the United States in terms of range, speed and sensor performance."

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As part of a sweeping reorganization of the Chinese armed forces, Xi in late 2015 elevated the missile force to the level of a service alongside the army, navy and air force. In a ceremony widely covered in the state-controlled media, the Second Artillery Corps was renamed the PLA Rocket Force. Two veterans of this force, General Wei Fenghe and General Zhang Shengmin, now sit on the Communist Party's Central Military Commission, the supreme military control body that is chaired by Xi.

Another Rocket Force veteran, General Gao Jin, is seen as a rising star of the Chinese military. When the missile force was rebadged, Gao was appointed to head a new branch of the PLA, the Strategic Support Force, which is responsible for cyber, electronic and space warfare. Gao has been a key figure in the transition of the Rocket Force from its origins as primarily a nuclear deterrent to its current dual role of both nuclear shield and spearhead of the PLA's conventional strike capability, according to U.S. and Chinese military analysts.

For the United States and its regional allies, a top priority is to wrest back the lead in the range war. Extra performance is being squeezed out of old U.S. air and sea-launched missiles. Boeing is upgrading the Harpoon anti-ship missile. An anti-ship variant of Raytheon's venerable Tomahawk land attack cruise missile - with a range in excess of 1,600 km - is undergoing tests.

The U.S. Navy is working to add range to carrier strike aircraft, and new weapons are in the pipeline. Lockheed Martin said in December that it had delivered the first of its new, long-range anti-ship missiles to the U.S. Air Force after a series of successful tests. This stealthy missile could also be deployed on warships.

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A Pearl Harbor-style attack

Meanwhile, China continues to improve its firepower. Two sets of satellite images on Google Earth, taken three years apart, show how China's Rocket Force is testing its growing arsenal.
In one, the distinctive shape of a jet fighter is clearly visible on what appears to be a mock airstrip in a remote Chinese desert. The images, captured in mid-2013 over the far west of China, show the outline of a delta-wing aircraft at the southern end of the runway. Images taken in late 2016 tell a different story. The wings and tail section are strewn at odd angles in a pile of wreckage.



"That plane looks like it has been shot at," said Sean O'Connor, a former U.S. Air Force intelligence analyst who now works as a principal research analyst at Jane's, the defense information company.

The replica runway, pockmarked at one end with impact craters, is part of what O'Connor and other satellite imagery analysts have identified as a PLA missile test range. Here and at other remote sites in western China, the PLA has been blasting missiles at what appear to be simulated targets of air bases, fuel depots, ports, ships, communication hubs, radar arrays and buildings.

Some of the mock-ups appear to mimic targets in Japan and Taiwan. Satellite images of the test range with the mock airstrip also suggest China is rehearsing strikes on the key U.S. Navy base at Yokosuka in Japan and other important facilities, according to a 2017 report from two U.S. Navy officers, Commander Thomas Shugart and Commander Javier Gonzalez.

The two officers identified a mock target that appeared to be a mirror image of the inner harbor at Yokosuka base, home port for the U.S. carrier USS Ronald Reagan and its battle group. In their report for the Center for a New American Security, a Washington-based research group, the two officers said the target had outlines of angled piers similar to those at Yokosuka and the shapes of three warships about the same size as the U.S. destroyers based at the port.

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The scenario Shugart and Gonzalez laid out evokes the darkest moment in American naval history. The mock-up, they wrote, could be interpreted as a rehearsal of a Pearl Harbor-style surprise attack. That paralyzing blow sank or damaged key elements of the American fleet, killed more than 2,300 Americans and plunged the United States into World War Two. But the Japanese failed to sink the American aircraft carriers normally based at Pearl Harbor because they were at sea.

In the animation at the recent Chinese airshow in Zhuhai, the “red force” doesn’t make the same mistake. After red force missiles strike the blue force carrier, the animation concludes with the words: “The defensive counter-attack operation has gotten the expected results.”

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China Challenge: Ruling the Waves

By DAVID LAGUE in ZHUHAI, China, and BENJAMIN KANG LIM | Graphics by WEIYI CAI, HAN HUANG and SIMON SCARR | Illustrations by CHRISTIAN INTON

Filed April 30, 2019, 11 a.m. GMT

China's vast fleet is tipping the balance in the Pacific

The Chinese navy, which is growing faster than any other major fleet, now controls the seas off its coast. Once dominant, the United States and its allies sail warily in these waters. A former U.S. naval officer says China's advances have caught America napping.

A generation ago, from mid-1995 into early 1996, China lobbed missiles in the waters around Taiwan as the self-governing island prepared to hold its first fully democratic presidential election. Washington forcefully intervened to support its ally, sending two aircraft carrier battle groups to patrol nearby. The carriers, then as now the spearhead of American power, intimidated Beijing. The vote went ahead. The missiles stopped.

Today, with tension again running high, Washington still backs Taiwan. Chinese President Xi Jinping on January 2 renewed Beijing's longstanding threat to use force if necessary to restore mainland control over the island. But the United States is now sending much more muted signals of support.

On Sunday, American ships sailed through the Taiwan Strait. This was the seventh passage of U.S. warships through the narrow, strategically sensitive waterway since July. Each time, though, just two U.S. vessels have ventured through; this week, it was a pair of destroyers. No powerful flotillas and certainly no aircraft carriers. It has been more than 11 years since an American carrier traversed the Taiwan Strait.

"The Trump administration faces a dilemma," said Chang Ching, a retired Taiwan naval captain and researcher at the Taipei-based Society for Strategic Studies. "They want to send smart, calibrated signals to Beijing without causing an overreaction or misunderstanding."

This caution is typical of the restraint the U.S. and allied navies, including Japan and Australia, now display in international waters near the Chinese coast, according to more than 10 current and former senior U.S. and Western military officials.

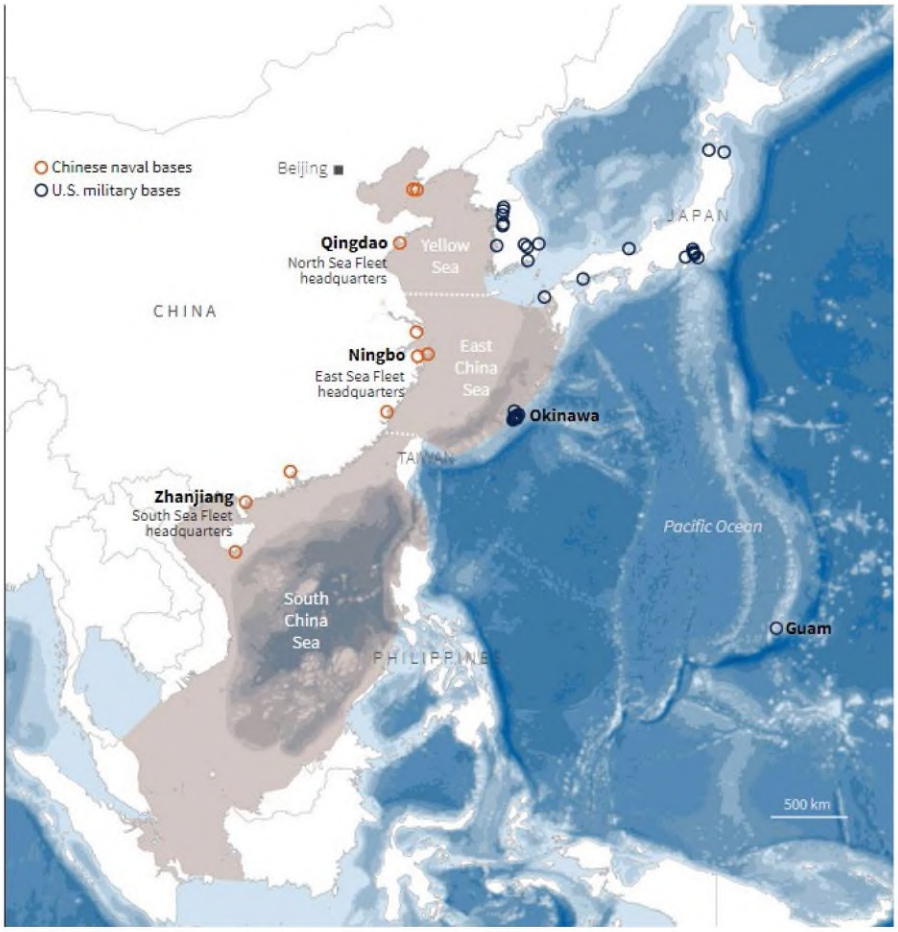
China now rules the waves in what it calls the San Hai, or "Three Seas": the South China Sea, East China Sea and Yellow Sea. In these waters, the United States and its allies avoid provoking the Chinese navy.

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Sources: Federation of American Scientists (FAS); U.S. Navy; United States Forces Japan; United States Forces Korea; U.S Department of Defense; Marine Regions, Flanders Marine Institute; Natural Earth

In just over two decades, the People's Liberation Army (PLA), the Chinese military, has mustered one of the mightiest navies in the world. This increased Chinese firepower at sea - complemented by a missile force that in some areas now outclasses America's - has changed the game in the Pacific. The expanding naval force is central to President Xi Jinping's bold bid to make China the preeminent military power in the region. In raw numbers, the PLA navy now has the world's biggest fleet. It is also growing faster than any other major navy.

"We thought China would be a great pushover for way too long, and so we let them start the naval arms race while we dawdled," said James Holmes, a professor at the U.S. Naval War College and a former U.S. Navy surface warfare officer.

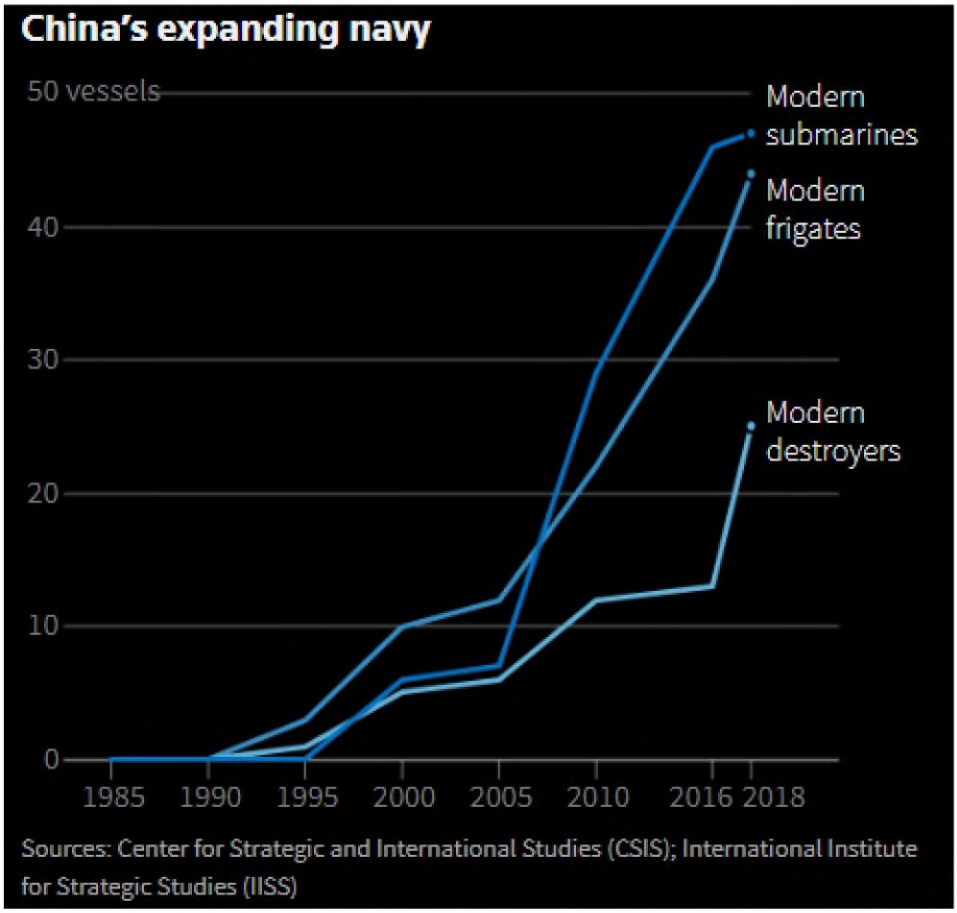
China's Ministry of National Defense, the U.S. Indo-Pacific Command and the Pentagon did not respond to questions from Reuters.

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For the United States, the stakes are now much higher in any operation to support its regional allies, including Japan and Taiwan. America now faces daunting obstacles to any efforts to reinforce heavily outgunned Taiwan in a crisis. Beijing regards Taiwan as a renegade province and is currently building an amphibious force that could give it the capacity to launch an invasion of the island.

Senior Asian defense and security officials say the PLA's naval advances have introduced a new uncertainty in such scenarios: If Beijing can sow serious doubt about whether Washington will intervene against China, it would undermine the value of U.S. security guarantees in Asia.

In November, a bipartisan commission set up by Congress to review the Trump administration's national defense strategy reported that in a war with China over Taiwan, "Americans could face a decisive military defeat."

As China gains confidence that it can dominate its near seas, it intends to challenge the dominance of the U.S. Navy in distant waters, too, in the Western Pacific and Indian Ocean, according to U.S and Chinese military officials.

Satellite imagery of Chinese dockyards, reports in China's state-controlled media and assessments of U.S. and other foreign naval experts show the PLA navy is expanding as fast as shipyards can weld hulls together. This emerging blue water fleet was just a dream for the early commanders of the communist

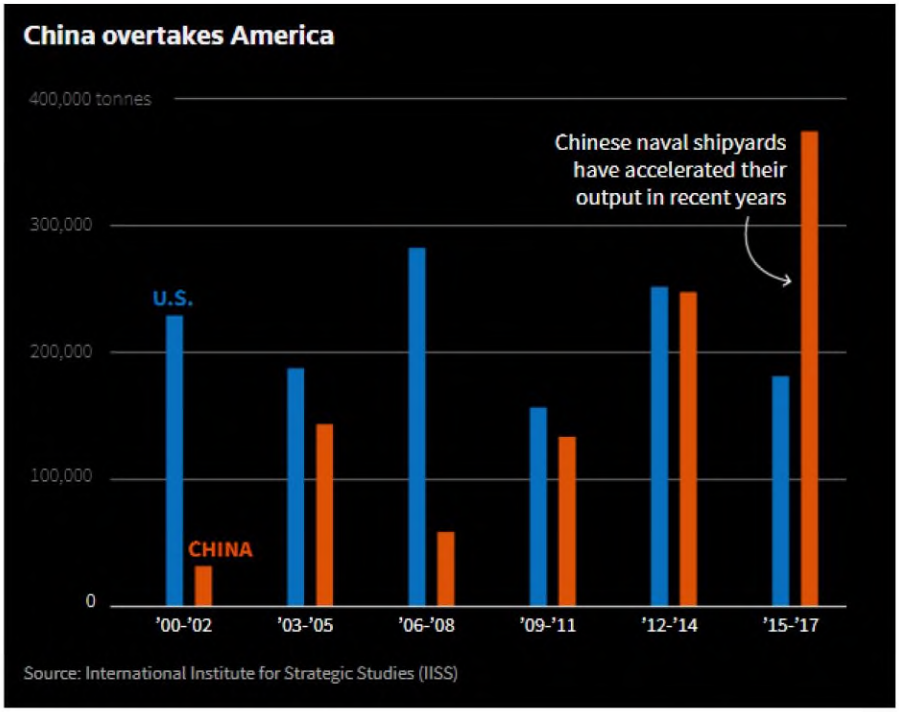
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navy born in 1949, during the closing stages of the nation's civil war. Then, the People's Liberation Army assembled a motley collection of conscripted fishing boats and vessels defecting from the Nationalists.

Since 2014, China has launched more warships, submarines, support ships and major amphibious vessels than the entire number of ships now serving in the United Kingdom's fleet, according to an analysis from the London-based International Institute for Strategic Studies published in May last year. Between 2015 and 2017, China launched almost 400,000 tonnes of naval vessels, about twice the output of U.S. shipyards in that period, the IISS said.



The PLA navy now has about 400 warships and submarines, according to U.S. and other Western naval analysts. By 2030, the Chinese navy could have more than 530 warships and submarines, according to a projection in a 2016 U.S. Naval War College study.

A shrunken and overworked U.S. Navy, which has ruled the oceans virtually unchallenged since the end of the Cold War, had 288 warships and submarines at the end of March, according to the Pentagon.

Globally, the U.S. Navy remains the dominant maritime force, the power that keeps the peace and maintains freedom of navigation on the high seas. Chinese military and political figures say that while their nation's fleet has more ships, America has more powerful ones, and overall supremacy at sea.

"The Chinese navy is at least three decades behind the United States," a retired Chinese naval officer told Reuters, requesting anonymity. "It is too early for the United States to fret."

China, however, has established dominance in the waters closest to its coast.

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REUTERS INVESTIGATES | The China Challenge

Ending China's humiliation

The regular, highly publicized launch of new warships is a powerful political weapon for Xi Jinping. For a domestic audience, modern aircraft carriers, destroyers and submarines are hard evidence that what Xi describes as the "Chinese dream," his vision of a strong, rejuvenated nation, is becoming reality.

Almost immediately after taking power in late 2012, Xi began a series of high profile visits to naval bases and voyages at sea on sleek, new warships. In documentary footage and news reports, he is piped aboard to the salutes of immaculately turned out officers and crew. Underway, he peers into the distance from the bridge through bulky naval binoculars, climbs ladders between decks and shares meals with sailors.

Last spring, he watched a giant exercise in the South China Sea, where a flotilla of 48 warships assembled in formation. Half of these vessels had been commissioned since Xi took power, state-controlled media reported. The highlight was the launch of jet fighters from China's first aircraft carrier: the 60,000-tonne Liaoning, a refurbished Soviet-era flat top that has served as a test bed for carrier operations. The Chinese navy has launched a second carrier as well, which is now in sea trials and expected to join the fleet this year, according to U.S. officials.

A key message in the official coverage of Xi's voyages: A vigilant navy under his command will guard against a repeat of the century of humiliation that began with the First Opium War in 1839, and during which European colonial powers and Japanese invaders took cruel advantage of a vulnerable China.

Every Chinese school child learns that China's suffering arose partly because of the lack of a modern navy. Infamously, in the final years of the Qing Dynasty, the Empress Dowager diverted funds earmarked for naval modernization to building a new Summer Palace. This contributed to China's heavy defeat in the 1894-95 war with Japan, in which a rising Japanese navy smashed the Chinese fleet.

While Beijing's repeated references to these past humiliations have propaganda value, invasion is now regarded as a highly unlikely threat, according to military strategy documents published by the Chinese government. Instead, China needs to prepare for high intensity conflict in its near seas, these documents say.

It is not spelled out exactly how these conflicts would arise. But officers from the U.S. and other foreign militaries say they have no doubt Beijing is referring to clashes over Taiwan or disputed territories in China's near seas. This strategy is driving a shift away from Beijing's traditional emphasis on land forces. It marks a historic transformation for an ancient continental power that for millenia feared armies encroaching overland from the north and west.

Xi has elevated the status of the navy within what is the world's biggest military. In an unprecedented move for what has been an army-dominated force, a senior naval officer, Vice Admiral Yuan Yubai, was appointed in 2017 to head China's Southern Theater Command, one of the country's five regional commands.

Under Xi, the Communist Party has also opened the funding tap. Between 2015 and 2021, total military outlays are projected to jump 55 percent from $167.9 billion to $260.8 billion, according to a report last

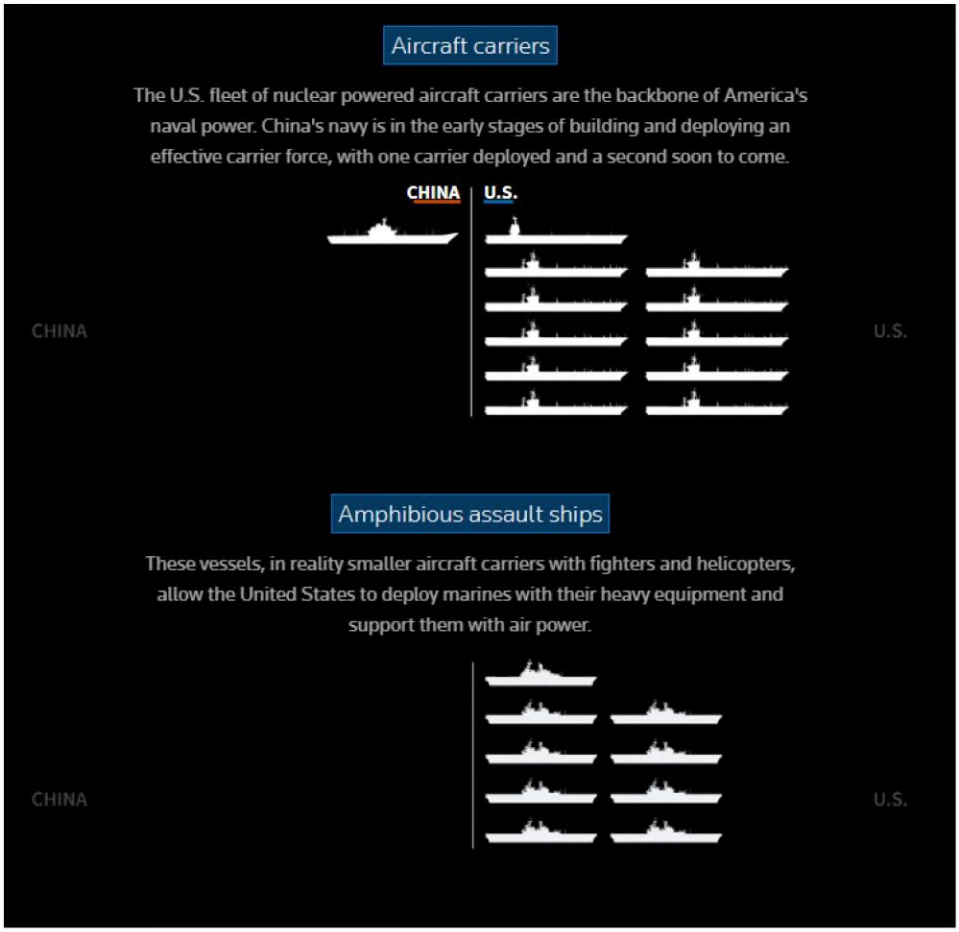
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year that the U.S.-China Economic and Security Review Commission ordered from Jane's By IHS Markit, a defense information company. Over the same period, the navy's share of this budget is expected to increase 82 percent, from $31.4 billion to $57.1 billion, the report said.

The Chinese leader has set a clear direction for the navy to become a truly global force that would protect the country's vast seaborne trade and expanding international interests. In its 2015 White Paper on defense, China said its navy would gradually shift its focus from defending its offshore waters to operations in the open seas.

For now, many of China's warships are smaller vessels, including a big fleet of fast missile-attack craft. But Chinese shipyards are launching surface warships that are closing the gap in size, quality, and capability with the best of their foreign counterparts, according to interviews with veterans of the U.S., Taiwanese and Australian navies. China's big fleet of conventional and nuclear submarines is also improving rapidly, they say.



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Missile submarines

The role of these big, nuclear-powered submarines is to patrol undetected in the ocean depths. They can launch nuclear attacks with their ballistic missiles. The U.S. has converted four of these vessels so they can fire conventionally armed cruise missiles against land targets.



Attack submarines

These versatile vessels are designed to attack surface ships and other submarines with torpedoes or missiles. The entire U.S. fleet is nuclear powered while most of China's rapidly expanding force is made up of smaller, stealthy diesel-electric submarines.



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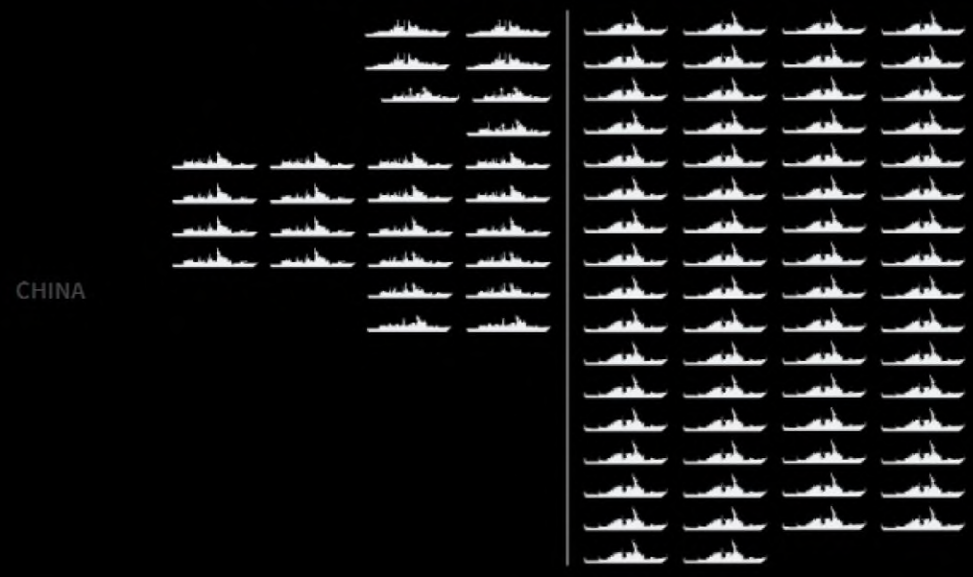
Cruisers

China is poised to begin commissioning the first four of its Type 055 cruisers, powerful surface warships that will boost its fleet. The first of these vessels has completed most of its sea trials.



Destroyers

These are fast and maneuverable warships that perform multiple roles including escorting aircraft carriers, surface warfare, air and missile defense and anti-submarine warfare. China is expanding its fleet.



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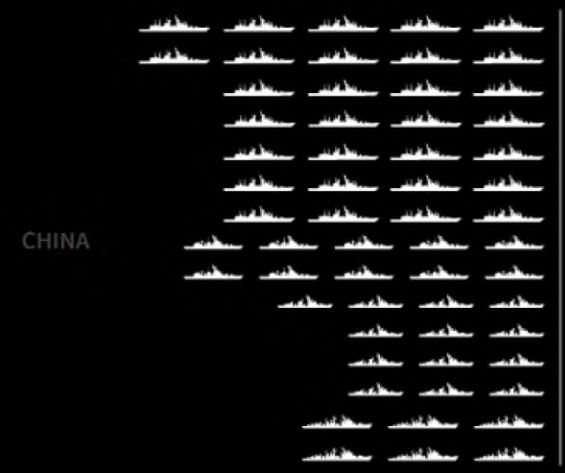
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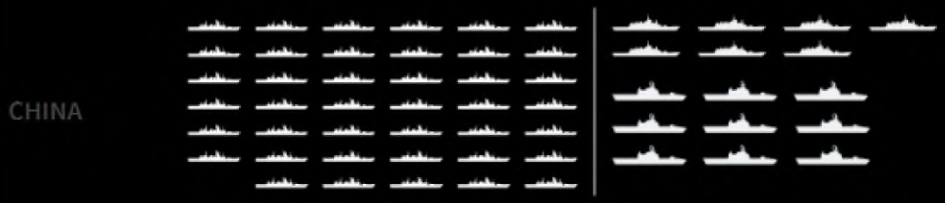
Frigates

China has a monopoly on this class of smaller, versatile warship that can be used for escorting other ships, air defense and anti-submarine warfare. Chinese shipyards are launching these ships at a rapid rate.



Corvettes

China has an expanding fleet of these smaller, missile-armed warships designed for operations closer to the mainland coast. The U.S. Navy's fleet of littoral combat ships is designed to perform a similar role.



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By 2020, the PLA navy will boast more big surface warships and submarines than the Russian navy, the former head of the U.S. Pacific Command, Admiral Harry Harris, told a congressional committee last year. Some American naval experts believe China could achieve rough parity with the U.S. Navy in numbers and quality of major surface warships by 2030.

Crucially, the Chinese navy already has an edge in hitting power, according to senior officers from the U.S. and other regional navies. The best Chinese destroyers, frigates, fast attack craft and submarines are armed with anti-ship missiles that in most cases far outrange and outperform those on U.S. warships, these officers say.

A different war

This firepower explains why Washington keeps its carriers at a distance. The last U.S. carrier to pass through the Taiwan Strait was the now-decommissioned USS Kitty Hawk, which made a transit with its battle group in late 2007 after being denied a port visit to Hong Kong.

The U.S. Navy and other foreign navies still sail near the Chinese mainland. But they avoid overt shows of force that would increase the risk of clashes with modern Chinese warships and submarines. Retired U.S. Navy carrier-fleet officers say that in recent years the Pentagon has also avoided sending carriers to the Yellow Sea between the Korean Peninsula and the Chinese mainland, amid repeated Chinese warnings.

An example of China's determination to control its near waters came this month, when a French warship passed through the Taiwan Strait. After the April 6 transit of the frigate Vendemiaire, China informed Paris that France was no longer welcome to attend celebrations last week to mark the 70th anniversary of the founding of the Chinese communist navy, U.S. officials told Reuters.

Veteran U.S. Navy officers predict any serious conflict with China off its coast would be bloody. The United States and its allies would risk heavy losses and possible defeat, they say.

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This type of conflict would be vastly different from the wars the United States has been fighting in the Middle East and Afghanistan. There, America enjoyed unchallenged air and sea superiority and unimpeded logistics, said Gary Roughead, co-chairman of a 2018 review of the Trump administration's defense strategy. Today, heavy damage to or losses of American warships or major bases is a real but underappreciated possibility for the United States in a conflict with China, said Roughead, the former Chief of Naval Operations, the top job in the U.S. Navy. "We have not thought about the significant capital losses that will occur – and the American people not being prepared for that," he said in an interview with Reuters. "Those are significant factors in the win-loss equation."

Chinese military veterans and people with ties to the ruling Communist Party leadership say China's new naval muscle is defensive in nature. It is essential, they say, to counter a hostile United States that sees China as an enemy.

"Without air and sea domination, Chinese naval vessels will just be targets in the event of conflict," said a retired PLA officer. "For Southeast Asian neighbors, China's navy may be intimidating, but its prowess is limited to waters near the country's shores and too early to be a force to be reckoned with in the open sea."

The PLA navy is growing and improving, and in sheer numbers of vessels, exceeds its American rival. But China still falls well short of overall U.S. naval power. With 11 aircraft carriers, 88 powerful surface warships and 69 nuclear-powered submarines, America deploys the mightiest fleet and is likely to maintain a technological edge for some time, according to U.S. and Chinese military officials.

In response to the challenge from China and a resurgent Russian navy, the Pentagon is rebuilding its fleet and accelerating development of new weapons, including the urgent introduction of longer-range missiles. The United States aims to deploy a 355-strong fleet by 2034, according to the Trump administration's 2020 budget proposal documents. And key U.S. allies Japan, South Korea and Australia are upgrading their navies with new, advanced warships and submarines.

China also faces challenges in its drive to become a global naval power. Chinese and foreign naval experts warn that Beijing faces a colossal funding burden as it adds multiple warships to its fleet. Typically, navies wind up paying the initial price of building a warship three times over its service life, if maintenance and refitting costs are included, according to shipbuilders.

In some vital naval technologies, China is struggling to catch up. Chinese shipyards still rely on foreign suppliers for some engines, weapons and sensors, according to global arms trade registers. High-profile arrests of suspected Chinese spies accused of stealing military secrets in the United States suggest China's navy has shortcomings in radars, underwater sensors and other electronic technologies.

The PLA navy is well behind the U.S. and other navies in anti-submarine warfare, a serious deficiency, according to Chinese and Western military experts. Most Western military analysts also believe the Chinese navy lacks the amphibious capability to invade Taiwan - the vessels and skills to reach the island by sea and then put boots on the ground.

However, when it comes to dominating its near seas, China doesn't need to match the U.S. ship-for-ship. The U.S. Navy is a globe-spanning force with offshore bases and multiple missions, including supporting

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Middle East operations, bolstering European allies, countering Russia's naval revival and safeguarding global shipping routes. To do this job, the U.S. Navy has to dominate virtually all the world's oceans.

In contrast, the entire Chinese fleet is based on the mainland coast. This means it has the advantage of being the home team. Without major global military responsibilities, the PLA navy can concentrate virtually all its forces in its coastal waters, flooding the zone inside what Beijing refers to as "the first island chain": the arc that runs through the nearby major islands of the Japanese archipelago, Taiwan, the Philippines and Borneo.

In a conflict in these near seas, the Chinese mainland would function as a vast, unsinkable aircraft carrier. China's warships would be close to logistical support and the firepower of land-based missiles and strike aircraft. These forces would seek to overwhelm enemy warships with volleys of missiles and torpedoes from multiple directions, U.S. and Chinese military analysts say.



Most of this firepower was unavailable to Beijing when President Bill Clinton deployed the two carrier battle groups off Taiwan in early 1996. China's obsolete navy, geared for coastal defense, was powerless to respond, and Beijing could only watch helplessly as the Taiwanese vote went ahead.

This humiliation was a turning point, Chinese and Western navy officers say. Stung, China ordered from Russia two powerful destroyers armed with supersonic anti-ship missiles that could take out American carriers and other warships. Two more arrived later from a subsequent order.

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Building an armada

Then China's naval shipyards started cranking. Satellite imagery of the key yards at Shanghai, Dalian, Guangzhou and Wuhan show them almost continuously crowded with warships and submarines at different stages of construction. Since June 2017, Chinese shipyards have launched four heavily armed Type 055 cruisers, which U.S. and Chinese military officials say are a match for any modern warship.

Multiple warships can be seen under construction in one section of the Jiangnan Shipyard in Shanghai in April 2018, including Type 055 cruisers and Type 052D destroyers, advanced surface warships armed with long-range missiles for attacking naval and airborne targets. The first Type 055 cruiser, the 10,000-tonne Nanchang, has completed most of its sea trials and will soon join the fleet, the Chinese military said on April 25. It will deliver a major boost to China's naval firepower when fully operational.

And the PLA is building a force of modern, amphibious heavy-lift vessels that in time could allow Beijing to mount a landing on Taiwan or disputed territories such as the Japanese-controlled Senkaku Islands, known as the Diaoyu Islands in China. The PLA is also training an expanded force of marines for amphibious landings. China's marines are expected to be a 30,000-strong force by 2020, according to the Pentagon's annual report on Chinese military power released in August.

On February 27, China's second aircraft carrier put to sea from Dalian for its fifth round of sea trials, according to reports in the official media.

With the still unnamed carrier close to joining the fleet, the PLA navy celebrated its anniversary on April 23 with a multinational naval display off the North Sea Fleet headquarters at Qingdao. Xi Jinping was on hand as the Nanchang made its first public appearance with the fleet.

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China Challenge: Nuclear Secrets

By GREG TORODE and DAVID LAGUE| Graphics by WEIYI CAI, HAN HUANG and SIMON SCARR | Illustrations by CHRISTIAN INTON

Filed May 2, 2019, 11 a.m. GMT

PLA's furtive underwater nukes test the Pentagon

Until recently, China lacked a reliable nuclear second-strike capability. Its ballistic missile submarines, which can deliver a nuclear weapon, are changing that. Now, the United States is pursuing these subs in a cat-and-mouse contest reminiscent of the Cold War.

Recent visitors to the bay surrounding a submarine base on the southern coast of China's Hainan Island describe a curious nocturnal phenomenon. Powerful spotlights are sometimes trained directly on the ocean frontages of neighboring hotels at night, making visibility out to sea virtually impossible. Some of the lights are mounted on land and others on passing naval patrol boats.

"The effect is incredible," said one recent visitor. "The glare is so great you can hardly stand it on the balcony. You go inside and draw the curtains tight."

The blinding lights cannot obscure something of intense interest to the world's military intelligence agencies: evidence that China has made a breakthrough in its drive to rival America and Russia as a nuclear arms power.

Satellite imagery reveals the regular presence of nuclear-powered ballistic missile submarines at the strategic base near the resort city of Sanya. Specialized surface warships and aircraft designed to protect the subs are prowling key waterways off the coast. Facilities at the base appear to have been built to store and load ballistic missiles. Antenna arrays that support the hunt for foreign submarines have appeared on Chinese-held islands in the hotly contested South China Sea. And a veteran submariner has been appointed to command Chinese forces in the south of the country.

Taken together, this means China has a force of missile submarines that can launch nuclear attacks from beneath the waves and now appear to be heading out on patrols, according to serving and retired naval officers, diplomats and security analysts. That gives Beijing something it has until recently lacked: a more reliable "second strike" capability if its land-based nuclear arsenal comes under attack.

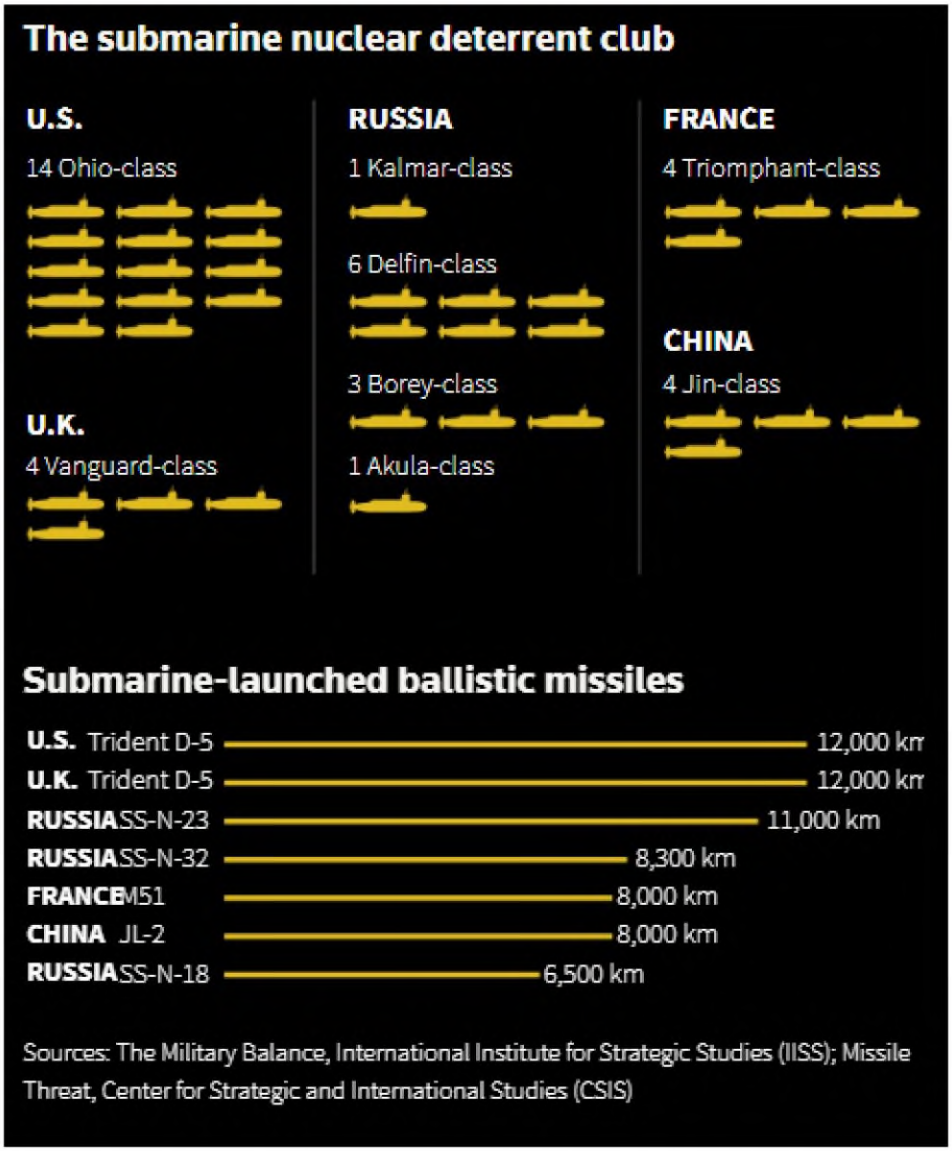
After six decades of battling to master complex and challenging subsea military technologies, China has joined the United States, Russia, the United Kingdom and France in the nuclear ballistic missile submarine club. In its most explicit assessment so far of this Chinese capability, the Pentagon in its latest annual report on China's military, published in August, said that Beijing now has a "credible" and "viable" sea-based nuclear deterrent.

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An effective fleet of nuclear ballistic missile submarines, known as SSBNs, marks a dramatic boost to China's nuclear capabilities. Each of China's four Jin-class submarines is armed with up to 12 ballistic missiles that can carry a nuclear warhead with an estimated range of 7,200 kilometers (about 4,500 miles), according to the Pentagon. That would put the United States within striking distance from the Western Pacific. Analysts at the Washington-based Center for Strategic and International Studies estimate these missiles could fly at least 8,000 kilometers. The U.S. believes China has up to 100 nuclear missiles based on land.

Beijing's enhanced nuclear capability is one of the hallmarks of Chinese leader Xi Jinping's ambitious revamping of the People's Liberation Army (PLA), the world's largest fighting force. China's nuclear submarine fleet, Western strategists say, has added to the challenge that the increasingly powerful Chinese military poses to U.S. dominance in Asia.

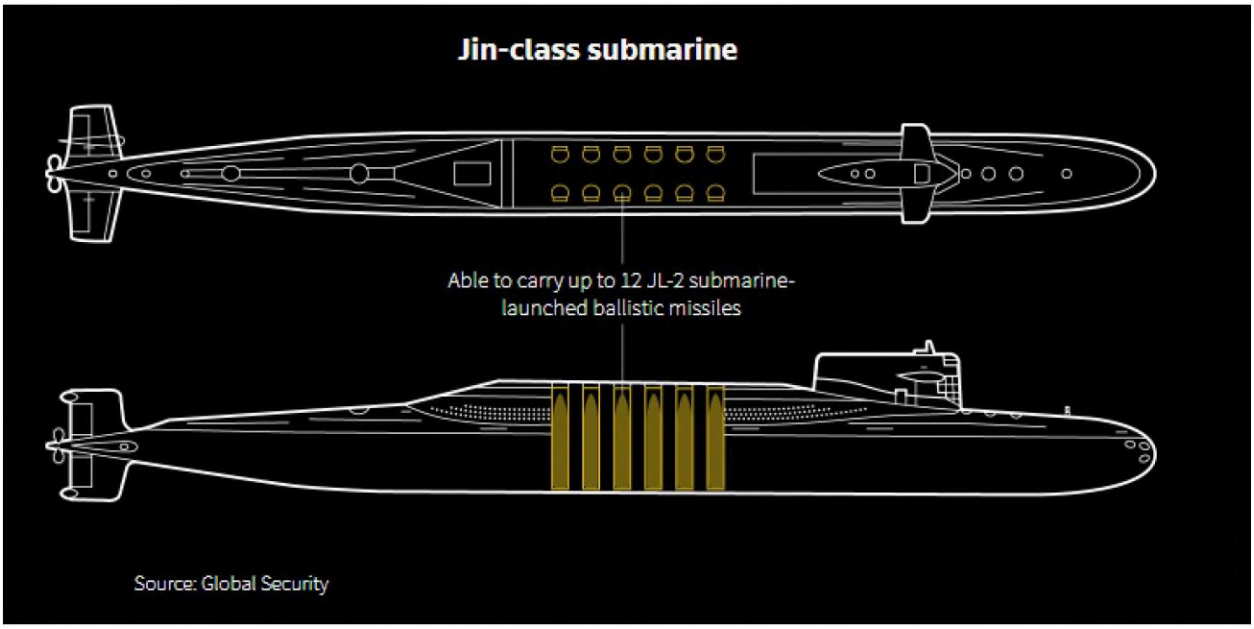
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"The opposing side can never be exactly sure that it knows where all of the submarines are," said Peter Horobin, a retired Australian submarine commander and veteran of the Cold War battles to detect and monitor Soviet subs.

China's Ministry of National Defense, the U.S. Indo-Pacific Command and the Pentagon did not respond to questions from Reuters.



It is still unclear if the Chinese are deploying fully armed submarines to maintain a round-the-clock deterrent, as the other ballistic missile submarine powers do. Some analysts doubt China has advanced that far.

But the United States and its allies are behaving as if China has. Western military officials say privately that in operational terms, America and its allies - including Japan, Australia and the United Kingdom - are already attempting to track the movements of China's missile submarines as if they are fully armed and on deterrence patrols.

Asked about their role in tracking Chinese subs, Japan and the United Kingdom said they don't comment on operational details.

"China's military modernization is consistent with its rapid economic growth," the Australian Department of Defense said. "As with all countries, we encourage China to be transparent about its military capabilities and strategic intentions to provide greater assurance to its neighbors."

Growing stockpile

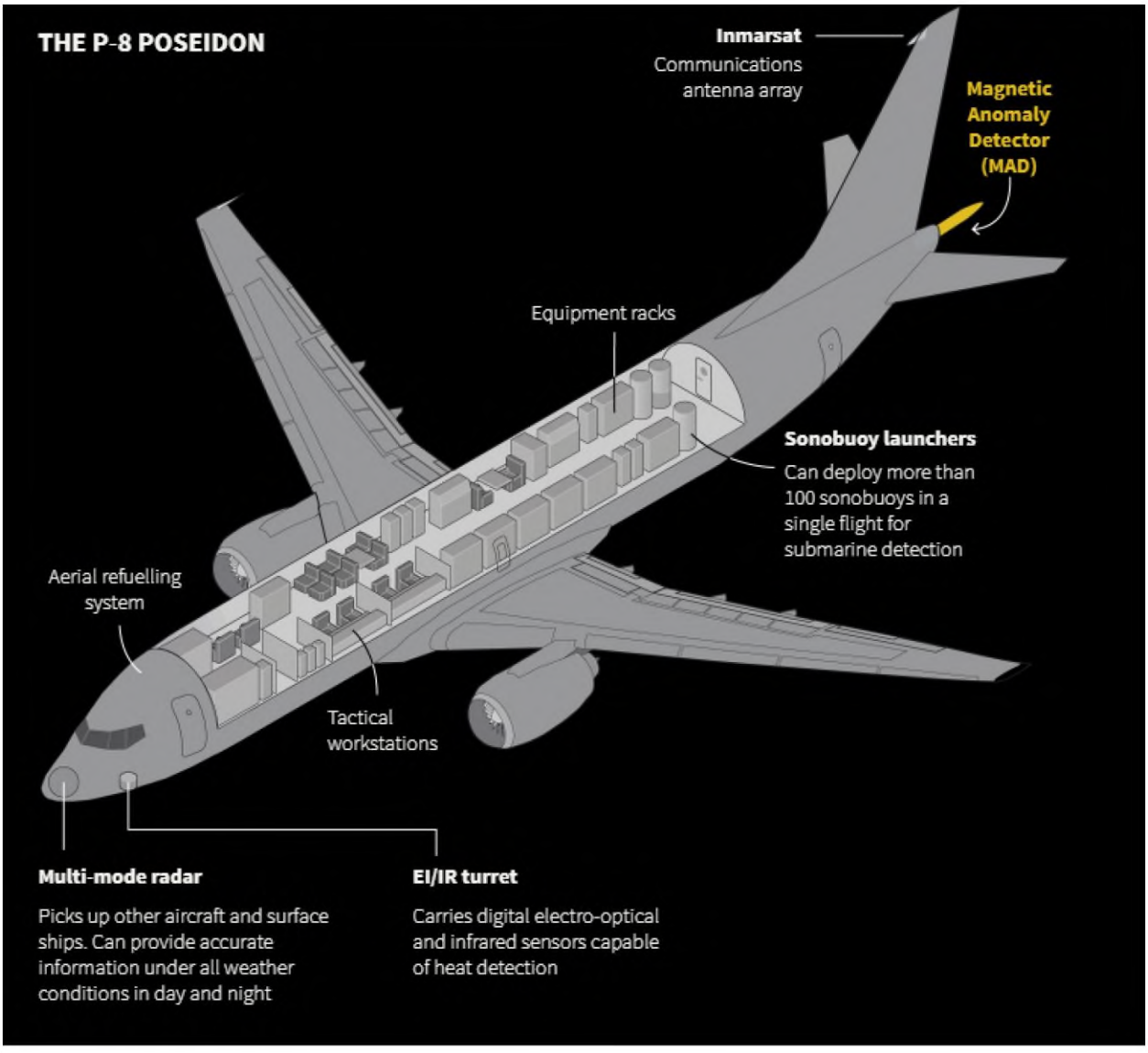
"An armed Jin-class SSBN will give China an important strategic capability that must be countered," Admiral Harry Harris, then head of the U.S. Pacific Command, told a congressional committee last year.

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That response appears to be happening. The United States and its allies are expanding their anti-submarine naval deployments across East Asia. This includes stepped-up patrols of America's advanced, sub-hunting P-8 Poseidon planes out of Singapore and Japan.

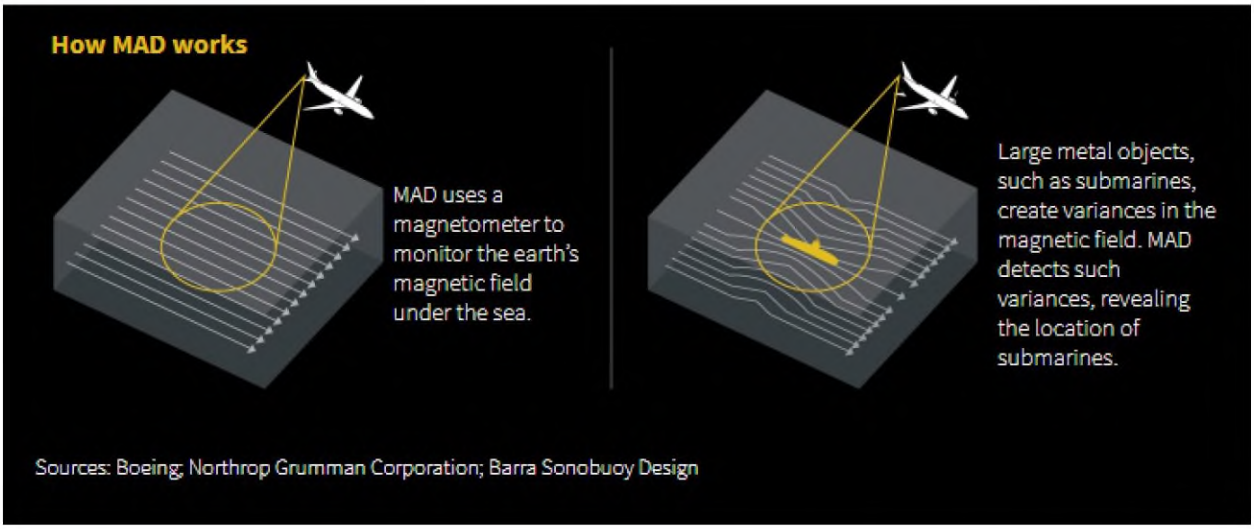


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With its relatively small force of nuclear missiles, Beijing has always worried that it might be vulnerable to a debilitating first strike. These fears were magnified as Chinese military planners watched Washington employ precision-guided weapons in conflicts like the Gulf wars, Afghanistan, Syria and the Balkans.

As it strengthens and improves its nuclear arsenal, Beijing is the only major nuclear power to be adding warheads to its stockpiles. China is developing an air-launched ballistic missile and plans to build a long-range stealth bomber capable of carrying nuclear weapons. With the sea-based second-strike deterrent in place, those programs suggest Beijing eventually intends to field a triad of air, sea and land-based nuclear weapons like the United States and Russia.

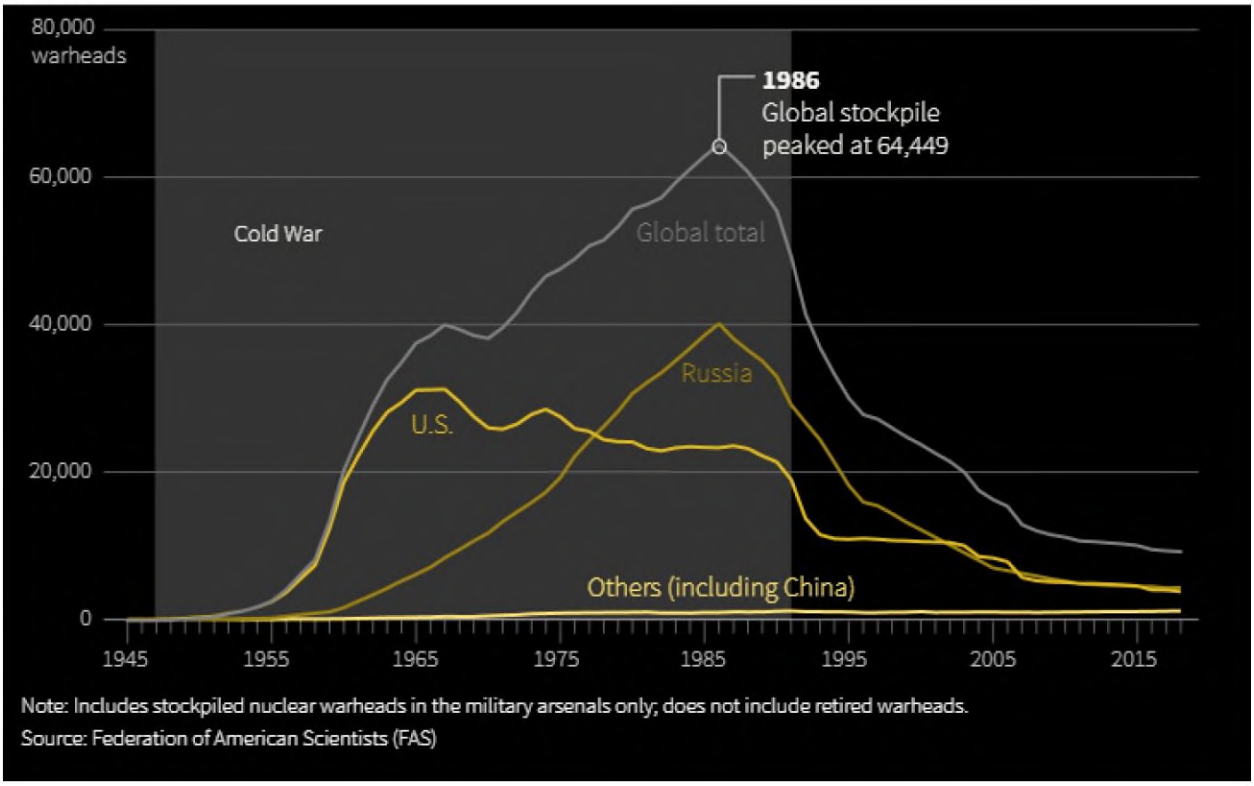
In the past two decades, the PLA Rocket Force, the service which controls China's nuclear and conventional missiles, has invested heavily in expanding its stockpile of nuclear warheads and boosted the range and accuracy of the missiles that deliver them. It has also hardened the protection of its silo-based nuclear weapons, according to reports in China's state-controlled media. The Pentagon and official Chinese military publications have reported that China has also deployed modern, road-mobile missiles that are more difficult for an adversary to find and attack.

Still, China lags far behind the United States and Russia in overall nuclear firepower. The Stockholm International Peace Research Institute estimates that China has a total of 280 nuclear warheads. China does not disclose how many of its warheads are deployed and ready for conflict. The United States has 1,750 deployed warheads and Russia 1,600, the institute's 2018 report said. The United States and Russia each have thousands more warheads held in stockpiles, according to the report.

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Hans Kristensen, director of the Nuclear Information Project of the Washington-based Federation of American Scientists, said he had yet to see hard intelligence suggesting China had placed fully armed ballistic missiles on its submarines at sea, despite the intense activity. Just because the submarines exist, he said, "that doesn't mean that they have the weapons aboard the vessels."

While acknowledging that China has significantly enhanced its nuclear deterrence, the Pentagon isn't convinced that Chinese subs are yet conducting around-the-clock patrols. In a January report, the Pentagon's Defense Intelligence Agency said the Chinese navy would need a minimum of five Jin-class submarines to maintain a continuous nuclear deterrence at sea. China now has four.

Undersea duels

A fleet of nuclear missile submarines hidden in the vast expanses of the ocean would help offset Beijing's nuclear shortcomings, say Chinese and Western strategists.

Chinese naval designers and nuclear technicians have been working to build a force of nuclear missile submarines since the late 1950s. A single vessel was launched in the 1980s, but it was never fully operational. This submarine served as a test bed as Chinese technicians and designers struggled to overcome problems with nuclear propulsion technology, missiles and excessive noise that would have made the vessels easier for an adversary to detect and target.

To maximize its second-strike capability, China's missile subs would need to be stealthy enough to go undetected as they sail to their patrol areas in the open ocean. U.S. and other foreign naval analysts say

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the Jin-class submarines are a sharp improvement over China's earlier efforts, but they remain less stealthy than their U.S., Russian, French and British counterparts.

The sub fleet's vulnerability to detection also explains China's extreme sensitivity to the surveillance operations of the United States and its allies in these waters. A Chinese destroyer sailed within 45 meters of the American destroyer USS Decatur in late September, as the American warship patrolled in the Spratlys, a highly contested island chain where China has expanded its foothold in recent years. It was the latest in a series of close encounters in the past decade.

China now appears to be on guard against foreign subs attempting to detect and shadow its ballistic missile fleet. As China's Jin-class vessels put to sea, they appear to be flanked by protective screens of surface warships and aircraft on station to track foreign submarines, according to military officers and analysts familiar with allied surveillance of the Chinese coast.

Serving and former senior naval officers also point to the extensive, frequent deployments of the Chinese navy's latest Type 056A corvettes into key waters south of Japan and east of the Philippines. The Type 056A is China's most advanced submarine hunter. It is able to tow sonar arrays and other listening equipment deep beneath the surface to detect enemy submarines – advanced technology that China did not have just five years ago.

China has also installed an array of sensors, antennas and satellite communications installations on islands in the Spratlys, according to the International Institute for Strategic Studies. The PLA is tracking the foreign undersea hunters from the air, too. It has formed a squadron of Y-8GX6 aircraft on Hainan with the ability to comb vast areas of the sea surface for magnetic anomalies. The turboprop planes have already been seen landing on Woody Island, China's key offshore holding in the South China Sea. These patrols are not the infrequent exercises of the past, but now near-constant deployments, shadowing foreign warships as well.

"We're looking at them looking for us," said one Western military attache.

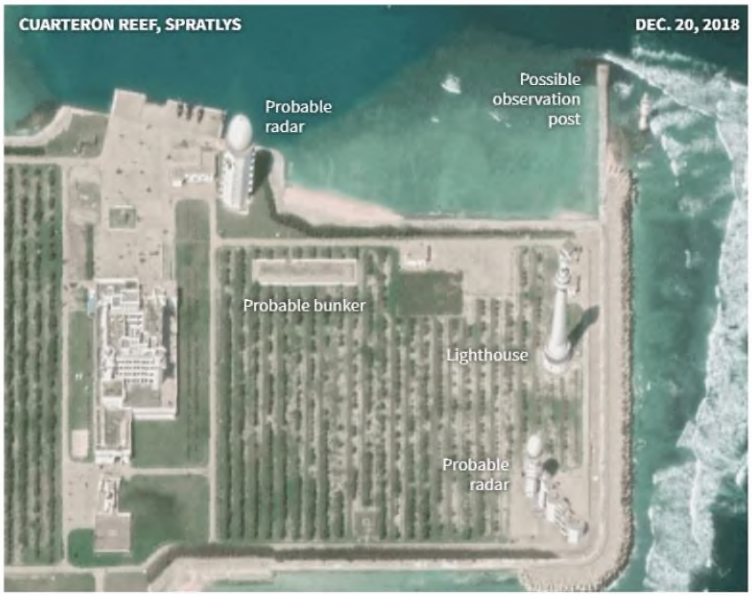
The submarine base near Sanya is now under direct control of the Central Military Commission, the top military decision-making body, chaired by Xi Jinping himself. The new communications installations in the South China Sea have helped knit together the new command structure, allowing tighter control from Beijing, right down to individual vessels.

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In 2017, Beijing appointed a veteran submariner, Vice Admiral Yuan Yubai, to head the Southern Theater Command, which is responsible for the South China Sea. His promotion was a clear indication of the importance China attaches to supporting nuclear sub operations, according to Chinese naval experts. Yuan is the first naval officer to head a command of this type, a promotion that's part of a sweeping overhaul of the military structure by Xi Jinping.

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Furtive force

Commercial satellite images of the submarine base give insight into the furtive force stationed there. They appear to show missile submarines regularly tied up alongside long piers in the harbor. Satellite images from Google Earth in June last year show what appear to be three Jin-class missile submarines at the base.

The vessels have a distinctive shape, with a hump-like structure that houses the missile tubes behind the sail, the vertical structure that rises from a submarine's hull. Clearly visible in the images: a partially submerged entrance to what appear to be underground submarine pens, beneath a hill next to the harbor.

Construction at the base near Sanya also points to the PLA's ability to stealthily arm submarine-launched missiles with nuclear warheads.

Western intelligence analysts familiar with satellite imagery of the area say a covered railway has been completed that runs into a hillside bunker – the suspected warhead arsenal. The railway in turn is linked by tunnels to the pens built for the submarines. This, they say, means the missiles can be armed and loaded on the submarines – without detection.

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The 5G Fight

By CASSELL BRYAN-LOW, COLIN PACKHAM, DAVID LAGUE, STEVE STECKLOW and JACK STUBBS

Filed May 21, 2019, noon GMT

Hobbling Huawei: Inside the U.S. war on China's tech giant

For months, Australia warned the United States about the destructive capacity of 5G technology. Now, America is aggressively campaigning against Chinese telecom champion Huawei, fearful Beijing's domination of 5G could be used for espionage and sabotage.

CANBERRA

In early 2018, in a complex of low-rise buildings in the Australian capital, a team of government hackers was engaging in a destructive digital war game.

The operatives – agents of the Australian Signals Directorate, the nation's top-secret eavesdropping agency – had been given a challenge. With all the offensive cyber tools at their disposal, what harm could they inflict if they had access to equipment installed in the 5G network, the next-generation mobile communications technology, of a target nation?

What the team found, say current and former government officials, was sobering for Australian security and political leaders: The offensive potential of 5G was so great that if Australia were on the receiving end of such attacks, the country could be seriously exposed. The understanding of how 5G could be exploited for spying and to sabotage critical infrastructure changed everything for the Australians, according to people familiar with the deliberations.

Mike Burgess, the head of the signals directorate, recently explained why the security of fifth generation, or 5G, technology was so important: It will be integral to the communications at the heart of a country's critical infrastructure - everything from electric power to water supplies to sewage, he said in a March speech at a Sydney research institute.

Washington is widely seen as having taken the initiative in the global campaign against Huawei Technologies Co Ltd, a tech juggernaut that in the three decades since its founding has become a pillar of Beijing's bid to expand its global influence. Yet Reuters interviews with more than two dozen current and former Western officials show it was the Australians who led the way in pressing for action on 5G; that the United States was initially slow to act; and that Britain and other European countries are caught between security concerns and the competitive prices offered by Huawei.

The Australians had long harbored misgivings about Huawei in existing networks, but the 5G war game was a turning point. About six months after the simulation began, the Australian government effectively banned

Huawei, the world's largest maker of telecom networking gear, from any involvement in its 5G plans. An Australian government spokeswoman declined to comment on the war game.

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After the Australians shared their findings with U.S. leaders, other countries, including the United States, moved to restrict Huawei.

The anti-Huawei campaign intensified last week, when President Donald Trump signed an executive order that effectively banned the use of Huawei equipment in U.S. telecom networks on national security grounds and the Commerce Department put limits on the firm's purchasing of U.S. technology. Google's parent, Alphabet, suspended some of its business with Huawei, Reuters reported.

Until the middle of last year, the U.S. government largely "wasn't paying attention," said retired U.S. Marine Corps General James Jones, who served as national security adviser to President Barack Obama. What spurred senior U.S. officials into action? A sudden dawning of what 5G will bring, according to Jones.

"This has been a very, very fast-moving realization" in terms of understanding the technology, he said. "I think most people were treating it as a kind of evolutionary step as opposed to a revolutionary step. And now that light has come on."

The Americans are now campaigning aggressively to contain Huawei as part of a much broader effort to check Beijing's growing military might under President Xi Jinping. Strengthening cyber operations is a key element in the sweeping military overhaul that Xi launched soon after taking power in 2012, according to official U.S. and Chinese military documents. The United States has accused China of widespread, state-sponsored hacking for strategic and commercial gain.

If Huawei gains a foothold in global 5G networks, Washington fears this will give Beijing an unprecedented opportunity to attack critical infrastructure and compromise intelligence sharing with key allies. Senior Western security officials say this could involve cyber attacks on public utilities, communication networks and key financial centers.

In any military clash, such attacks would amount to a dramatic change in the nature of war, inflicting economic harm and disrupting civilian life far from the conflict without bullets, bombs or blockades. To be sure, China would also be vulnerable to attacks from the U.S. and its allies. Beijing complained in a 2015 defense document, "China's Military Strategy," that it has already been a victim of cyber-espionage, without identifying suspects. Documents from the National Security Agency leaked by American whistleblower Edward Snowden showed that the United States hacked into Huawei's systems, according to media reports. Reuters couldn't independently verify that such intrusions took place.

However, blocking Huawei is a huge challenge for Washington and its closest allies, particularly the other members of the so-called Five Eyes intelligence-sharing group – Britain, Canada, Australia and New Zealand. From humble beginnings in the 1980s in the southern Chinese boom town of Shenzhen, Huawei has grown to become a technology giant that is deeply embedded in global communications networks and poised to dominate 5G infrastructure. There are few global alternatives to Huawei, which has financial muscle – the company reported revenue for 2018 jumped almost 20 percent to more than $100 billion – as well as competitive technology and the political backing of Beijing.

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"Restricting Huawei from doing business in the U.S. will not make the U.S. more secure or stronger," the company said in a statement in response to questions from Reuters. Such moves, it said, would only limit "customers in the U.S. to inferior and more expensive alternatives."

For countries that exclude Huawei there is a risk of retaliation from Beijing. Since Australia banned the company from its 5G networks last year, it has experienced disruption to its coal exports to China, including customs delays on the Chinese side. In a statement, China's foreign ministry said it treated "all foreign coal equally" and that to assert "China has banned the import of Australian coal does not accord with the facts."

Tension over Huawei is also exposing divisions in the Five Eyes group, which has been a foundation of the post-Second World War Western security architecture. During a trip to London on May 8, U.S. Secretary of State Mike Pompeo issued a stark warning to Britain, which has not ruled out using Huawei in its 5G networks. "Insufficient security will impede the United States' ability to share certain information within trusted networks," he said. "This is exactly what China wants; they want to divide Western alliances through bits and bytes, not bullets and bombs."

Huawei's 74-year old founder, Ren Zhengfei, is a former officer in China's military, the People's Liberation Army. "Mr. Ren has always maintained the integrity and independence of Huawei," the company said. "We have never been asked to cooperate with spying and we would refuse to do so under any circumstance."

In an interview with Reuters at the company's headquarters in Shenzhen, Eric Xu, a deputy chairman, said Huawei had not allowed any government to install so-called backdoors in its equipment - illicit access that could enable espionage or sabotage - and would never do so. He said 5G was more secure than earlier systems.

"China has not and will not demand companies or individuals use methods that run counter to local laws or via installing 'backdoors' to collect or provide the Chinese government with data, information or intelligence from home or abroad," the Chinese foreign ministry said in a statement in response to questions from Reuters.

Washington argues that surreptitious backdoors aren't necessarily needed to wreak havoc in 5G systems. The systems will rely heavily on software updates pushed out by equipment suppliers - and that access to the 5G network, says the United States, potentially could be used to deploy malicious code.

So far, America hasn't publicly produced hard evidence that Huawei equipment has been used for spying.

Asked whether the United States was slow to react to potential threats posed by 5G, Robert Strayer, the State Department's lead cyber policy diplomat, told Reuters that America had long been concerned about Chinese telecom companies, but that over the past year, as 5G loomed closer, "we were starting to talk more and more with our allies." Banning Huawei from 5G networks remains "an end goal," he said.

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The tech threat

The West has long harbored concerns about Chinese telecom equipment. In 2012, a U.S. House Intelligence Committee report concluded Chinese tech companies posed a national security threat. Huawei denounced the finding.

Despite such concerns, the U.S. government's response to the threats posed by 5G only took shape more recently.

In February 2018, Malcolm Turnbull, then prime minister of Australia, flew to Washington D.C. Even before Australia's eavesdropping agency had run its war game, Turnbull was already raising red flags in Washington. A former technology entrepreneur, he believed 5G presented significant risks and wanted to press allies to act against Huawei.

"He was warning about how important 5G networks would be and the security risks we all needed to think about around countries that had capability, form and intent, as well as coercive laws," a senior Australian source told Reuters.

A spokesman for Turnbull declined to comment.

Turnbull and his advisers met U.S. officials, including Kirstjen Nielsen, then U.S. secretary of homeland security, and Michael Rogers, then head of the U.S. National Security Agency, the U.S. signals-intelligence operation. The Australians said they believed Beijing could compel Huawei to do its bidding and that this posed a threat should tensions with China rise in the future, said two of the Australian officials familiar with the meeting.

The U.S. officials were receptive to the Australian message, but imposing restrictions on the world's largest maker of mobile network gear didn't appear to be a high priority, according to the two Australian officials. "They didn't share our concern with the same urgency," said one.

Rogers declined to comment. A Department of Homeland Security official did not elaborate on the meeting, but said the agency works closely with Australia on security issues and that "China will continue to use cyber espionage and bolster cyber-attack capabilities to support its national security priorities."

5G technology is expected to deliver a huge leap in the speed and capacity of communications. Downloading data may be up to 100 times faster than on current networks.

But 5G isn't only about faster data. The upgrade will see an exponential spike in the number of connections between the billions of devices, from smart fridges to driverless cars, that are expected to run on the 5G network. "It's not just that there will be more people with multiple devices, but it will be machines talking to machines, devices talking to devices – all enabled by 5G," said Burgess, the Australian Signals Directorate chief, in his March address.

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This configuration of 5G networks means there are many more points of entry for a hostile power or group to conduct cyber warfare against the critical infrastructure of a target nation or community. That threat is magnified if an adversary has supplied equipment in the network, U.S. officials say.

Huawei said in its statement that the company does "not control in any way the networks in which our equipment is deployed by our clients. The US and Australian allegations are fanciful and are not rooted in any evidence at all."

In July 2018, Britain delivered a blow to Huawei. A government-led panel that includes senior intelligence officials said it was no longer fully confident it could manage national security risks posed by the Chinese telecom equipment giant.

That panel oversees the work of a laboratory that was set up by the British government in 2010 and is funded by Huawei to vet the company's equipment used in the UK. The facility was established because even then Huawei was perceived as a security risk. The oversight panel said serious problems it had identified with Huawei's engineering processes "exposed new risks in the UK telecommunication networks and long-term challenges in mitigation and management."

That report was a "bombshell," shaping how the Americans viewed the Huawei 5G risk, said one U.S. official.

U.S. officials also point to Chinese laws enacted in recent years that they say could compel individuals and companies to assist the Chinese government in conducting espionage.

China's foreign ministry called this portrayal by U.S. officials of Chinese legislation "a misreading and a wanton smearing of relevant Chinese laws," adding: "Trying to smear others to wash oneself clean is futile."

The West awakes

Through the middle of last year, the Australians continued to apprise other countries of their worries about 5G. "We were sharing our concerns about security with many allies, not just the U.S. and not just the traditional partners," said one of the senior Australian officials. "We shared our thoughts with Japan, Germany, other European countries and South Korea."

In Washington, the administration began imposing restrictions on Huawei. In August, Trump signed a bill banning federal agencies and their contractors from using equipment from Huawei and ZTE Corp, another Chinese telecom equipment maker. Huawei has since filed a lawsuit in federal court in Texas challenging the ban.

In late August, the Australians went further: They banned companies that didn't meet their security requirements, which included Huawei, from supplying any equipment for the country's 5G network, whether run by the government or by private firms.

Australia's decision, China's Foreign Ministry said in a statement, "has no basis in fact, and is an abuse of 'national security' standards. China urges the Australian side to abandon Cold War thinking and

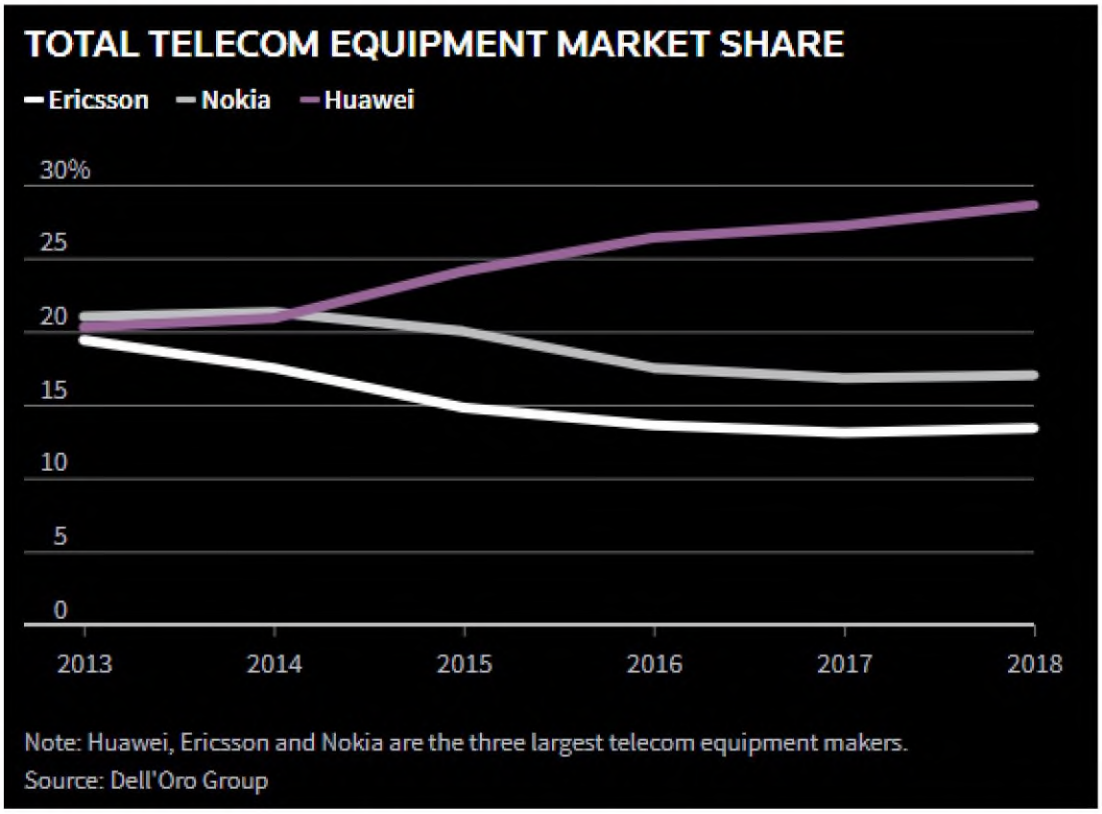
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ideological prejudices, and provide a fair, transparent, non-discriminatory environment for Chinese companies."

In November, New Zealand's intelligence agency blocked the country's first request by a telecom service provider to use Huawei kit for a 5G network, citing national security concerns.



Like the Australians and Americans, British security officials had concerns over China's potential use of Huawei as a channel for conducting espionage. But the options are limited. Huawei is one of only three major global companies that analysts say can supply a broad range of advanced mobile network equipment at scale. The other two are Ericsson and Nokia. And Huawei has a reputation among telecom operators for supplying cost-effective equipment promptly.

Nevertheless, British security officials were becoming increasingly frustrated with what they viewed as Huawei's failure to fix software flaws in its equipment, particularly discrepancies in the source code – the programs' underlying set of instructions. This problem means the laboratory near Oxford set up to vet Huawei equipment can not even be sure that the code it is testing is exactly the same as the code Huawei deploys in its real-world equipment. This makes it difficult to provide safety assurances about the company's gear.

British officials say the array of flaws could be exploited by China, as well as other malevolent actors. Ian Levy, a British security official who oversees the UK's review of Huawei equipment, told Reuters the company's software engineering is like something from 20 years ago. "The chance of a vulnerability with a Huawei piece of kit is much higher than other vendors," he said.

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The company said it has pledged to spend at least $2 billion "over the next five years" to improve its software engineering capabilities.

British ministers have agreed to allow Huawei a restricted role in building parts of its 5G network, but the government has yet to announce its final decision. The European Union has left it to individual governments to decide whether to ban any company on national security grounds. Some European security officials say banning one supplier doesn't address the broader issue of the risks posed by Chinese technology in general.

Huawei fights back

As the tensions between the West and Huawei intensified through last year, they suddenly took a personal turn. U.S. law enforcement officials had for some time been investigating links between Huawei and Iran, including the involvement of Meng Wanzhou, Huawei's chief financial officer, who is the daughter of the company's founder. The probe followed Reuters stories in 2012 and 2013 that revealed links between Huawei, Meng and another company that allegedly attempted to violate U.S. sanctions on Iran.

When U.S. officials became aware that Meng would be travelling through Vancouver in December, they pounced, asking Canada to detain her on allegations of bank and wire fraud. Meng remains free on bail in Canada while the U.S. government tries to have her extradited. Huawei said in its statement that Meng "is not guilty of the charges she faces," and that they are "politically motivated."

The Huawei conflict isn't only about U.S.-China superpower rivalry: The activities of Meng and Huawei were under scrutiny by U.S. authorities long before Trump began a trade war with China, according to interviews with people familiar with those probes. But there is no doubt the wider showdown with Huawei has now become intensely geopolitical.

In recent months, the U.S. has ramped up diplomatic efforts to urge allies to sideline Huawei. 5G is a "game-changing technology with implications across all aspects of society from business, government, military and beyond," Gordon Sondland, U.S. ambassador to the European Union, told Reuters in February. "It seems common sense to me to not hand over the keys to your entire society to an actor that has ... demonstrated malign conduct."

Asked whether there is evidence of Huawei equipment having been used for espionage, Sondland said "there is classified evidence." He declined to expand on the nature of the material beyond saying there was no doubt that Huawei had "the capability to hack a system" and "the mandate by the government to do so upon request."

Pompeo has publicly gone further than most U.S. officials by directly linking the company to Beijing. "Huawei is owned by the state of China and has deep connections to their intelligence service," he said in March. "That should send off flares for everybody who understands what the Chinese military and Chinese intelligence services do."

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Huawei has repeatedly denied it is controlled by the government, military or Chinese intelligence services. "U.S. Secretary of State Pompeo is wrong," the company said in its statement, adding that it is owned by its employees.

While Huawei was initially muted in its public response, it too has become more combative. In late February, the company confronted the United States at a major annual gathering of mobile industry executives in Barcelona, where Huawei's red logo was ubiquitous. Top American officials arrived intent on warning government and industry representatives off Huawei. But the company had flown in a team of senior executives to offer customers and representatives of European governments reassurance in the face of the U.S. accusations.

In a keynote speech, Guo Ping, a deputy chairman at Huawei, took aim at America's own spying operations. "Prism, Prism on the wall. Who's the most trustworthy of them all?" he said. Guo was referring to a mass U.S. foreign-surveillance operation called Prism that was disclosed by former NSA contractor Snowden. The barb drew laughter from the audience.

Europeans pushed back, too. During one closed-door session, senior representatives from European telecom operators pressed a U.S. official for hard evidence that Huawei presented a security risk. One executive demanded to see a smoking gun, recalled the U.S. official.

The American official fired back: "If the gun is smoking, you've already been shot. I don't know why you're lining up in front of a loaded weapon."

Additional reporting: Charlotte Greenfield in Wellington; Yoshifumi Takemoto in Tokyo; Jonathan Weber; Sijia Jiang; Ben Blanchard and Gao Liangping in Beijing.

Trapped between America and China

By ANDRIUS SYTAS in VILNIUS

Many European countries have strong economic ties to China, and industry executives remain attracted to Huawei's low-cost products. Unlike the United States, which only accounts for a small proportion of Huawei's revenues, Europe already uses a lot of Huawei equipment in its existing networks.

In March, Germany, which is one of Huawei's largest European markets, said it would not ban the company from its 5G networks, but would instead tighten security criteria for Huawei and all other vendors.

The United States has also pressed the Baltic state of Lithuania, which is a member of NATO. At a meeting in March, the U.S. ambassador encouraged Lithuania's prime minister to take action against Huawei, saying the company's 5G equipment could create a vulnerability for allied troops, according to a Lithuanian official familiar with the meeting.

"The United States advocates for secure telecoms networks and supply chains that are free from suppliers subject to foreign government control or undue influence that poses risks of unauthorized access and malicious cyber activity," said a spokeswoman at the U.S. embassy in Lithuania.

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But Lithuania, which depends on the United States for military backing, doesn't want to ban Huawei, said the official familiar with the meeting. It likes Huawei's prices and doesn't want to upset China. The result, said the official, is that Lithuania is "looking for ways to ban Huawei without actually enacting a ban on Huawei."

The United States and its allies were derelict in not developing a 5G supplier, former Australian Prime Minister Malcolm Turnbull said in a speech in London in March. "With the benefit of hindsight it beggars belief that the countries which pioneered wireless technology – the United States, the UK, Germany, Japan and with wifi, Australia have got to the point where none of them are able to present to one of their own telcos a national, or a Five Eyes, champion in 5G," he said.

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Xi Jinping wants China's armed forces to be "world-class" by 2050

By economist.com | June 27, 2019

OVER THE past decade, the People's Liberation Army (PLA) has been lavished with money and arms. China's military spending rose by 83% in real terms between 2009 and 2018, by far the largest growth spurt in any big country. The splurge has enabled China to deploy precision missiles and anti-satellite weapons that challenge American supremacy in the western Pacific. China's leader, Xi Jinping, says his "Chinese dream" includes a "dream of a strong armed forces". That, he says, involves "modernising" the PLA by 2035 and making it "world-class"—in other words, America-beating—by mid-century. He has been making a lot of progress.

Organisational reforms may be less eye-catching than missiles that fly at Mach 5, unmanned cargo planes and electromagnetically powered superguns (all of which China has tested in the past year). Yet Mr Xi has realised that there is little point in grafting fancy weapons onto an old-fashioned force. During the cold war the PLA evolved to repel the Soviet Union and America in big land wars on Chinese soil. Massed infantry would grind down the enemy in attritional battles. In the 1990s Chinese leaders, alarmed by American prowess in the Gulf war of 1991, decided to focus on enhancing the PLA's ability to fight "local wars under high-technology conditions". They were thinking of short, sharp conflicts on China's periphery, such as over Taiwan, in which air and naval power would be as important as ground forces. Mr Xi decided that winning such wars required changing the armed forces' structure. He has done more in the past three years to reform the PLA than any leader since Deng Xiaoping.

Mr Xi's principal aim is to increase "jointness". This term, borrowed from Western military jargon, refers to the ability of different services—army, navy and air force—to co-operate on the battlefield quickly and seamlessly. Jointness is especially important for fighting wars that break out abroad. It can be difficult for commanders at national headquarters to choreograph soldiers, sailors and pilots from a great distance. The different services must be able to work together without instruction from on high.

China's model is the United States, which—under the Goldwater-Nichols Act of 1986—drastically reformed its own armed forces in order to achieve this goal. The Pentagon carved up the globe into "combatant commands". No longer would services squabble among themselves. All soldiers, sailors and pilots in a given area, such as the Persian Gulf or the Pacific, would take orders from a single officer.

Mr Xi has followed suit. Before his reforms, army and navy commanders in the country's seven military regions would report to their respective service headquarters, with little or no co-ordination. In February 2016 Mr Xi replaced the regions with five "theatres", each under a single commander (see map). The eastern one based in Nanjing would prepare for war with Taiwan and Japan, for instance. The sprawling western theatre, in Chengdu, would handle India. The southern one in Guangzhou would manage the South China Sea.

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Operational focus of theatre commands

Northern	Korean peninsula, Russia
Central	Security of Beijing, strategic reserve
Eastern	Taiwan, Japan, East China Sea
Southern	South-East Asia, South China Sea
Western	Central Asia, India, terrorism in Xinjiang

Source: IISS

The Economist

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As well as these geographic commands, two others were formed in 2015, each aimed at an American vulnerability. American forces depend on communications via satellites, computer networks and other high-tech channels. So Mr Xi created a new Strategic Support Force to target these systems. It directs space, cyber, electronic and psychological warfare. In 2018 it conducted exercises against five PLA units in what the Pentagon called a "complex electronic warfare environment". American military power in Asia also depends on a network of bases and aircraft carriers. Mr Xi took aim at these by establishing a new service called the PLA Rocket Force—an upgrade of what was previously known less rousingly as the Second Artillery Corps.

He has also been trimming the armed forces' bloated ranks, though they remain over 2m-strong. Since 2015 the PLA has shed 300,000 men, most of them from the land forces, which have lost one-third of their commissioned officers and shrunk from 70% of the PLA's total strength to less than half (though happily the army has kept its dance troupes, which it had been told it would lose). By contrast, the marines are tripling in size. Navy and air-force officers have gained more powerful posts, including leadership of two theatre commands. This reflects the PLA's tilt towards the seas—and the skies above them.

It is hard to tell whether the new PLA is more proficient on the battlefield. China has not fought a war in four decades. The last Chinese soldiers with experience of a large-scale conflict—a war with Vietnam in 1979—will retire shortly.

But there is evidence that the PLA is getting better at jointness. Some of China's growing number of forays beyond its borders, notably bomber flights around Taiwan and over the South China Sea, indicate increasing co-ordination between air and naval forces. "We see a lot of joint exercises to work out kinks in the system and get the services used to working with each other," says Phillip Saunders of the National Defence University in Washington, DC. Chinese war games were once highly scripted affairs. Now officers are assessed on the realism of their training, says Meia Nouwens of the International Institute for Strategic Studies in London. Before Mr Xi's reforms the "blue team", which simulates an adversary, would always ritually lose large-scale annual exercises known as "Stride" in Inner Mongolia. Now they usually win.

But China's troops may still be ill-prepared for complex warfare. In America promotions depend on officers' ability to work with other services. Their Chinese counterparts often spend their entire careers in one service, in one region and even doing the same job. Political culture is another problem. "The structures that China is trying to emulate are based on openness, on delegation of authority and collaboration," notes Admiral Scott Swift of MIT, who retired last year as commander of America's Pacific Fleet. He says modern warfare requires decentralised decision-making because cyber and electronic warfare can sever communications between commanders and units. "Militaries that are founded on democratic principles are going to be much more adept at adapting to that environment," Admiral Swift suggests.

Mr Xi is an authoritarian who strives for centralised control. His predecessor, Hu Jintao, did not have a tight grip on the PLA, says Mr Saunders. That is because Mr Hu's own predecessor, Jiang Zemin, had appointed the two vice-chairmen of the Central Military Commission, a powerful body that oversees the armed forces. They stayed throughout Mr Hu's tenure, frustrating any efforts to reform the PLA and curb its endemic corruption and ill-discipline.

Mr Xi is determined not to suffer the same fate. His anti-corruption purges have ensnared more than 13,000 officers (three serving generals were demoted in June, according to the *South China Morning Post*, a newspaper in Hong Kong). Mr Xi slimmed down the military commission from 11 to

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seven members, kicking off the service chiefs and adding an anti-graft officer. The body was also given control of the paramilitary People's Armed Police, which in turn absorbed the coast guard.

Predictably, the restructuring has generated resentment. Senior officers are irked at losing privileges. Demobilised soldiers sometimes take their grievances to the streets—one reason why Mr Xi founded a ministry of veterans' affairs in 2016. But, says Ms Nouwens, younger ranks benefit from merit-based promotion, take pride in the growing prominence of the PLA in Chinese film and television, and admire Mr Xi's "great rejuvenation of the Chinese nation". They will have an opportunity to show off on October 1st when a huge military parade will be staged in Beijing to mark the 70th anniversary of Communist rule. It will be the first such show in the capital since Mr Xi launched his reforms. Expect a world-class performance.

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China Economy

China's social credit system shows its teeth, banning millions from taking flights, trains

Annual report shows the businesses and individuals added to trustworthiness blacklist as use of the government system accelerates

System aims to pressure citizens to avoid bad behaviour, although human rights advocates argue it does not take into account individual circumstances

Topic | China Society

He Huifeng | South China Morning Post | Updated: Tuesday, 19 Feb, 2019 10:39am

Millions of Chinese individuals and businesses have been labelled as untrustworthy on an official blacklist banning them from any number of activities, including accessing financial markets or travelling by air or train, as the use of the government's social credit system accelerates.

The annual blacklist is part of a broader effort to boost "trustworthiness" in Chinese society and is an extension of China's social credit system, which is expected to give each of its 1.4 billion citizens a personal score.

The social credit system assigns both positive and negative scores for individual or corporate behaviour in an attempt to pressure citizens into behaving.

Human rights advocates, though, worry that the arbitrary system does not take into account individual circumstances and so often unfairly labels individuals and firms as untrustworthy.

Over 3.59 million Chinese enterprises were added to the official creditworthiness blacklist last year, banning them from a series of activities, including bidding on projects, accessing security markets, taking part in land auctions and issuing corporate bonds, according to the 2018 annual report released by the National Public Credit Information Centre.

The centre is backed by the National Development and Reform Commission, China's top economic planner, to run the credit rating system.

According to the report, the authorities collected over 14.21 million pieces of information on the "untrustworthy conduct" of individuals and businesses, including charges of swindling customers, failing to repay loans, illegal fund collection, false and misleading advertising, as well as uncivilised behaviour such as taking reserved seats on trains or causing trouble in hospitals.

About 17.46 million "discredited" people were restricted from buying plane tickets and 5.47 million were restricted from purchasing high-speed train tickets, the report said.

Besides restrictions on buying tickets, local authorities also used novel methods to put pressure on untrustworthy subjects, including preventing people from buying premium insurance, wealth management products or real estate, as well as shaming them by exposing their information in public.

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A total of 3.51 million untrustworthy individuals and entities repaid their debts or paid off taxes and fines last year due to pressure from the social credit system, the report said.

The report highlighted untrustworthy problems at peer-to-peer (P2P) lending platforms and recent high-profile scandals in medical care that have caused public anger.

A total of 1,282 P2P operators, more than half located in Zhejiang, Guangdong and Shanghai, were placed on the creditworthiness blacklist because they could not repay investors or were involved in illegal fundraising.

Quanjian was accused of making false marketing claims about the benefits of a product that a four-year-old cancer patient drank, while Changsheng, the major Chinese manufacturer of rabies vaccines, was fined US$1.3 billion in October after it was found to have fabricated records.

Lawyers worry that the accelerated use of the creditworthiness system will violate an individuals right to privacy.

“Many people cannot pay their debt because they are too poor but will be subject to this kind of surveillance and this kind of public shaming,” a lawyer said. “It violates the rights of human beings.”

Source URL: https://scmp.com/economy/china-economy/article/2186606/chinas-social-credit-system-shows-its-teeth-banning-millions

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This article appeared in the South China Morning Post print edition as: Millions labelled as untrustworthy and banned from travel

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POLITICS

Florida Sen. Rubio Takes Up The Cause Of Uighur Minority In China

LISTEN · 4:41 QUEUE Download Transcript

September 7, 2018 · 5:02 AM ET
Heard on Morning Edition

Steve Inskeep talks to GOP Sen. Marco Rubio about the crackdown on the Uighur minority. Rubio has long called for investigations into alleged abuse of the Muslim minority in Xinjiang province.

STEVE INSKEEP, HOST:

So much is happening that it's easy to miss the news of up to 1 million people in Chinese prison camps.

RACHEL MARTIN, HOST:

The United Nations delivered that news recently. China has sent up to 1 million Uighurs and other Muslim minorities to mass internment camps. That's a population roughly equal to the entire state of Montana or of Rhode Island, taken into custody. They're required to swear loyalty to China's president and renounce their faith.

INSKEEP: The Chinese government denies all this, we should say. Although they acknowledged that some Islamic extremists have been detained. Some U.S. lawmakers

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say they want sanctions against Chinese officials. One of those lawmakers is Republican Senator Marco Rubio of Florida.

MARCO RUBIO: If I told you that somewhere on this planet over a million people have been incarcerated, and have had to undergo what they sort of - efforts to strip them of their identity, their faith. That in pursuit of that goal, they have intimidated family members living within the United States and all over the world with threats about what would happened to their family back home if they didn't return. You would say, that's an outrage.

INSKEEP: How are people in the United States being intimidated?

RUBIO: Well, they'll go to a family member that's here. And they'll tell them that we know where your brother, your sister, your children, your husband, someone you love, we know where they are. And they arrest them until you agree to return, especially if you're out there as a journalist speaking or reporting about this. We had a lady give testimony at the joint commission that we have with the House on China, and talked about how her family members, including her parents, were jailed for an extended period of time because she was speaking out about the conditions on the ground.

INSKEEP: The Chinese government says, of course, they're trying to fight terrorism in a majority Muslim part of the country. Has the United States lost some credibility in criticizing China on that issue because of the way that President Trump has spoken about Muslims and policies he's pursued?

RUBIO: I think the president's policies have been largely geared towards banning entry from countries who don't have visa systems that can be verified, but...

INSKEEP: He started calling for a ban of all Muslim entry into the United States.

RUBIO: Well, but in the end, I mean, I think you're talking about in degree and scale here. It's not even comparable. No one here is being re-educated, jailed or forced to recant or change their faith. There is a big difference between rhetoric that we may or may not like and not agree with, versus the jailing of human beings and forcing them to abandon their identity.

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INSKEEP: What leverage does the United States have to push China to change its behavior toward its own people?

RUBIO: Well, we know two things. No. 1, China doesn't like international condemnation. And we have a very loud voice on the global stage, and we should use it. And the other action that we can take is to implement global Magnitsky.

INSKEEP: Let's remind people. The Magnitsky Act allows the United States to sanction individuals suspected of human rights violations.

RUBIO: Human rights violations, correct. And we should use that tool to name and sanction individuals responsible for the implementation of this policy in that region.

INSKEEP: Does the United States have less leverage over China than it might otherwise because more than 20 years ago, the U.S. got China into the World Trade Organization? We do a lot of business with them. They can always look at the United States and say, hey, we're making money. You're making money. Shut up.

RUBIO: Yeah. I think there was a huge mistake made. And not so much just that, but there was a perception that prosperity would lead to a political opening. That has proven to be a catastrophic miscalculation. China has assumed all of the benefits of being involved in the global trade, and economic order, and even political order, but none of the responsibilities of it. And it's gone basically unchallenged for the better part of 20 years in that regard.

INSKEEP: Is it harder for you to get heard when you talk about those principles, given that there is a president who is so much louder who talks about power and talks about human rights in a very different way if he addresses them at all?

RUBIO: Well, somewhat. I mean, obviously -

INSKEEP: Just - likes authoritarians, doesn't seem concerned with freedom of the press.

RUBIO: Well, look. It would always be great to have a president who uses the pulpit and the megaphone of that office to highlight human rights. And Reagan did. Reagan

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did that quite often. In fact, he always linked human rights to the broader challenge of communism. But I also don't want to overlook the work that Sam Brownback is doing, and the work many people in the State Department are doing every day to highlight these issues.

And I also want to recognize that human rights is a tough issue in the daily life of Americans to really make a priority. Because while Americans are the most compassionate people in the world, there are millions of Americans who have a job. But that job doesn't pay what it once did compared to today's cost of living. So it's not that people don't care. I think they do that at a human level. But at a practical, political level, human rights has never been a top issue in this country - either the focus of politicians or the focus of the media.

INSKEEP: Senator Rubio, thanks very much.

RUBIO: Thank you.

INSKEEP: It's been a pleasure talking with you.

RUBIO: Thanks.

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Inkstone index: China's super app

By Alan Wong | Inkstone | February 13, 2019

In the Inkstone index, we break down China into the simplest possible chunk: a single number. What can one number tell us about China? Quite a lot.

1 billion: the number of active WeChat accounts.

When Apple launched the App Store and began offering apps for all the tasks you can conceivably accomplish on your phone, the American company's trademarked slogan was, "There's an app for that."

In China, things are a bit different. You can do more or less everything using just one mega-app: WeChat.

The app is China's most prominent social platform, packed with features like food delivery, travel booking and ride-hailing.

You can, of course, use WeChat to pay for things, or even give out red envelopes, digital cash gifts commonly handed out during Lunar New Year.

WeChat in China is as prevalent as Facebook is in the United States, and it arguably has fingers in more pies in society than its American counterpart.

The all-in-one nature of the app puts its developer Tencent in a uniquely powerful position. But with great power, they say, comes great responsibility.

For example, WeChat is required to carry out information censorship in strict accordance with the Chinese government's orders. Or else.

https://www.inkstonenews.com/tech/inkstone-index-chinas-everything-app-wechat/article/3000796

ALAN WONG
Alan is editor at Inkstone. He was previously a digital editor for The New York Times in Hong Kong.

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RFA Radio Free Asia

Pelosi Signals Strong US Congress Concern Over Uyghur Political 'Re-education Camps'

2019-02-13



U.S. House Majority Speaker Nancy Pelosi speaks at an event commemorating 60 years of exile by Tibetan spiritual leader the Dalai Lama in Washington, Feb. 12, 2019.
RFA

U.S. House Speaker Nancy Pelosi wants Washington to "call out" Beijing for its mass incarceration of ethnic Uyghurs in northwest China's Xinjiang Uyghur Autonomous Region (XUAR), signaling strong concern in Congress, where legislation has been introduced to hold those responsible to account.

Speaking at an event in Washington on Tuesday commemorating 60 years of exile by Tibetan spiritual leader the Dalai Lama, Pelosi said she had talked with U.S. Secretary of State Mike Pompeo at the conclusion of the U.S. National Prayer Breakfast on Feb. 7 and urged him to bring up the issue of China's political "re-education camps" in the XUAR with his counterparts in Beijing.

"When I went to the Prayer Breakfast the other day, [U.S. President Donald Trump] talked about religious freedom, and we all applauded ... But afterwards, I went up to Secretary Pompeo and I said, 'how come we're not talking about the Uyghurs?' and he

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said, 'we should—let's drum it up,'" Pelosi said.

She said that the camps, where more than 1 million Uyghurs and other Muslim minorities accused of harboring "strong religious views" and "politically incorrect" ideas are believed to have been held since April 2017, are relevant to the situation in Tibet because Tibetans have endured "decades of repression of religion," and Chinese authorities are now using the same tactics of cultural eradication in the XUAR.

"What has been happening in Tibet now is happening in the Uyghur region of China, and it has to be called out," Pelosi warned.

"A million Uyghurs in [what is] effectively prison labor camps for the same purpose ... assimilation. They want to purge the great individuality of the ... culture there."

According to Pelosi, Washington is obligated to bring up the Uyghur issue, and other examples of religious repression, with Beijing, and "shouldn't hesitate because of any commercial interest with China."

"If we don't, we lose all moral authority to speak about human rights any place in the world," she added.

Post editorial

Pelosi's comments came on the same day that the *Washington Post* published an opinion piece by its editorial board calling on the international community to "demand justice" for the Uyghurs and other Muslims detained in camps in the XUAR.

The *Post* cited a rare statement of criticism against China from a majority Muslim nation issued by Turkey over the weekend, urging authorities to close the camps, and saying it had been prompted to act, in part, by reports of the death in prison of prominent Uyghur musician Abdurehim Heyit, who had served two years of an eight-year jail sentence "for one of his songs."

On Sunday, Chinese state media published a video online that purportedly shows Heyit alive, and in which the musician claims he is "in the process of being investigated for allegedly violating the national laws," and China's embassy in Ankara called Turkey's statement "completely against the truth."

But the *Post's* editorial board noted that other nations, "fearful of Chinese bullying and eager to preserve economic ties, have been slow to condemn or even acknowledge this ongoing crime against humanity," and urged additional governments to speak out against what it called "cultural genocide" in the XUAR.

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"China must be held to account" for crimes against the Uyghurs, the article said, adding that "the time has come for the rest of the world to demand admission to the camps, in search of a lost Uyghur musician and more than 1 million others."

Proposed legislation

The *Post* specifically mentioned the bipartisan "Uyghur Human Rights Policy Act," put forward last month by U.S. Senators Marco Rubio of Florida and Bob Menendez of New Jersey, which would dedicate new resources from the U.S. State Department, FBI, and other intelligence agencies to documenting abuse of Uyghurs and other ethnic Muslims in the XUAR, as well as Beijing's intimidation of U.S. citizens and residents on American soil.

The "Uyghur Human Rights Policy Act" would require the Director of National Intelligence to issue a report in coordination with the State Department on the security threat posed by China's crackdown on the Uyghurs, as well as a list of Chinese companies involved in the construction and the operation of re-education camps in the XUAR.

The act calls for "high-level U.S. engagement" on the issue, as well as the application of travel and financial sanctions against Chinese officials who are responsible for the policies in the XUAR under the Global Magnitsky Human Rights Accountability Act.

Last month marked the second time legislation aimed at holding China accountable for its treatment of the Uyghurs was proposed, following the announcement of a similar act in November 2018, which was not taken up by the Senate before the end of the congressional session.

At the time, China's Ambassador to the U.S. Cui Tiankai threatened retaliation if Washington sanctions Beijing over human rights abuses in the XUAR, telling Reuters news agency in an interview that China is working to "re-educate" terrorists and should not be punished for what he suggested is a more humane approach to counter-terrorism.

Global Magnitsky Act

U.S. financier Bill Browder, whose campaign to ensure Russian officials involved in the 2008 death in custody of Russian tax lawyer Sergei Magnitsky were held accountable led to Congress passing the Magnitsky Act in 2012, said Wednesday that sanctioning Chinese officials under the Global Magnitsky Act—an extrajudicial expansion of the legislation—is the best way to begin holding Beijing responsible for its policies in the

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XUAR.

Speaking to RFA's Uyghur Service, the founder and CEO of Hermitage Capital Management called sanctions "the first step in creating consequences," as those responsible for organizing the camps "may find themselves a little more uncomfortable about it if all of a sudden there are punishments for them."

"The Magnitsky Act is no ultimate solution for this, but it's better than the current situation, which is that they just do it without any penalty," he said.

"The two things that need to happen are transparency and punishment ... We need as much information as we can get about what's going on so that the world can react, and then the world should react with punishments starting with the Magnitsky Act and other types of sanctions as they're available."

According to Browder, the threat of sanctions to lower level officials overseeing the camps would have a powerful impact on the system.

"Let's say the U.S. and Canada sanction the top 15 officials involved in this," he said.

"This will scare thousands of other officials supporting them, and it may loosen the grip or lessen the terror, because they don't want to end up becoming sanctioned as well."

In order to pass the supporting legislation, he said, the Uyghur exile community needs to win "the information war" with China and ensure that individual cases are being heard.

"The key is to find the cases that are the most urgent and get as much information out about them as you can," he said.

"At the end of the day, the West can only react if they have information. And the more information, the more outrage, and the more outrage, the more consequences."

Camp network

Though Beijing initially denied the existence of re-education camps, Shohrat Zakir, chairman of the XUAR, told China's official Xinhua news agency in October 2018 that the facilities are an effective tool to protect the country from terrorism and provide vocational training for Uyghurs.

Reporting by RFA's Uyghur Service and other media organizations, however, has shown that those in the camps are detained against their will and subjected to political

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indoctrination, routinely face rough treatment at the hands of their overseers, and endure poor diets and unhygienic conditions in the often overcrowded facilities.

Adrian Zenz, a lecturer in social research methods at the Germany-based European School of Culture and Theology, has said that some 1.1 million people are or have been detained in the camps—equating to 10 to 11 percent of the adult Muslim population of the XUAR.

In November 2018, Scott Busby, the deputy assistant secretary in the Bureau of Democracy, Human Rights and Labor at the U.S. Department of State, said there are "at least 800,000 and possibly up to a couple of million" Uyghurs and others detained at re-education camps in the XUAR without charges, citing U.S. intelligence assessments.

Citing credible reports, U.S. lawmakers Marco Rubio and Chris Smith of the bipartisan Congressional-Executive Commission on China recently called the situation in the XUAR "the largest mass incarceration of a minority population in the world today."

Reported by Joshua Lipes and Gulchehra Hoja for RFA's Uyghur Service.

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CHINA-UNITED STATES EXCHANGE FOUNDATION 中美交流基金會

US-CHINA TRADE AND ECONOMIC RELATIONS FORUM: WHAT NOW, WHAT NEXT

An Objective Analysis of the "Losses" Alleged by the United States in its Trade with China

Jul 09 , 2019

Remarks by Zeng Peiyan, Chairman of CCIEE

Mr Tung Chee-hwa,
Ladies and gentlemen,

Good morning! It gives me great pleasure to meet with new and old friends in the beautiful city of Hong Kong and have exchange of views on China-US trade relations.

Since last year, the US government has kept escalating its trade frictions with China and seriously undermined the growth prospect of the two countries and the world. The Chinese government has advanced with maximum sincerity its trade talks with the US, hoping that the two sides can address mutual concerns. Not long ago, the two presidents, during their meeting in Osaka, steered the course for the bilateral ties in the coming future as they reached important consensus and reaffirmed that the two countries will jointly promote China-US relations featuring coordination, cooperation and stability. They agreed to resume trade negotiations on the basis of equality and mutual respect, laying a solid foundation for smooth growth of China-US relations.

As President Xi Jinping pointed out, fundamentally speaking, China-US economic cooperation and trade are in nature for mutual benefits and win-win progress. China and the US enjoy massive convergence of interests. Therefore, the two countries should become good partners. This is conducive to China, to the United States and the whole world. In today's world of economic globalization, relations between different economies have changed from the past, becoming highly interdependent and interwoven. Not long ago, some people in the US alleged that due to its trade deficit with China, the US has suffered losses. Such a view is lopsided and lagging behind the development of the times. It makes no sense if you carefully analyze it. In the global industrial chain and value chain, factors such as goods, technology, human resources and capital have realized large-scaled cross-border movement, realizing a greater market, exchange, circulation and balance of global factors, substantially increasing the efficiency of factor allocation and promoting global economic prosperity. Therefore, in such an era of globalization, new ideas must be adopted to make calculations from the perspective of global factor movement rather that purely from the perspective of trade in goods. Benefits of trading parties depend on their comparative advantages in factors such as their natural endowment, capital accumulation, level of science and technology, development of industries and quality of labor force as well as their models and ways on participating in trade. I would like to make an analysis for your reference from three aspects.

I. The inevitability of US trade deficit

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There has been a long history of the US trade deficit, which is closely linked to the dominance of the US dollar in the international monetary system, the domestic imbalance due to low savings and high consumption, the adjustment of its industrial structure and transfer of manufacturing overseas from the US.

1. The dominance of the US dollar as an international currency is the major reason that determines the long-term trade deficit of the US. The US trade deficit and the dominance of the US dollar are the two sides of a coin. As a dominant international currency, the US dollar must meet the ever-growing need for trade and reserve in international trade and world economic development. Countries have to rely on their exports to the US for US dollars. After the Second World War, the US ran trade surplus for a long time until the early 1970s when the US dollar was unhooked from gold and the Bretton Woods system disintegrated. The US then began to run goods trade deficit which kept expanding. In the 1980s, the annual average trade deficit exceeded US$80 billion and grew to around US$170 billion in the 1990s. Since the beginning of this century, it has kept growing to an annual average of over US$ 600 billion. In the meantime, dollars held by other countries have kept growing. The share of the US dollar in global trade and payment settlement is around 40% and its share in global foreign exchange reserve has remained for years over 60%.

2. The imbalance between consumption and savings within the US is the key reason for its trade deficit. The US is a consumption-oriented society. Personal consumption spending accounts for nearly 70% of GDP and the overall saving rate has kept at less than 20%. As a result, the imbalance between the low savings and high consumption needs to be offset by foreign trade. In 1960s, the overall saving rate in the US was around 23%. Then it has shown a downward trend. In recent years, the annual average savings rate has been around 18%, down by nearly five percentage points. In the same period, the annual average share of US goods trade surplus in its GDP changer from 0.6% to a deficit of 3.8%. It's a difference of 4.4 percentage points, nearly the same as the decline of the overall saving rate.

3. The adjustment of industrial structure in the US is an important reason for its trade deficit. In the second half of the last century, the United States started to pursue the growth of the service sector with greater value added. And also due to the impact of rising costs of labor and other factors and more environmental restrictions, the US started moving its manufacturing overseas. Since 1960, the share of manufacturing has declined from 25% to 11% and the share of the service sector has risen from 64% to 80%. The domestic production capacity of the US cannot meet the growing demands for industrial and consumer goods. So it has to rely on imports. As to the decrease in working population in manufacturing and the widening income gap, these are the results from systemic deficiencies within the US.

4. The US restriction on high-tech exports to China is the policy reason for its widening trade deficit with China. For decades, the US has kept restricting the high-tech exports to China, formulating the Export Control Act and relevant system and framework focusing on exports of key technology and products. In 2018, the US high-tech exports to China valued only US$ 39.1 billion, accounting for only 10.6% in its total high-tech exports, less than a quarter of China's exports of high-tech

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products to the US. Scholars estimate that if the US eased the restrictions to the level of its high-tech exports to France, its trade deficit with China would go down by 35%.

II. A comprehensive and objective view of the figure of the US trade deficit with China

As globalization is evolving into depth, the mode, model and structure of the international trade have undergone profound changes, turning from focusing on trade in goods to giving equal importance to trade in goods and trade in services, from focusing on trade in final goods to trade in intermediate goods. The lopsided views of only looking at trade in goods without trade in services, only looking at total trade volumes without value added or only looking at the international trade from the perspective of GDP without GNP cannot fully reflect the broader picture of international trade.

1. Both trade in goods and trade in services must be taken into account. The volume of trade in services and exports of the US have for long ranked the first globally while China has been the 3rd largest export market of services for the US. In China-US trade, though US runs a deficit in trade in goods, it enjoys surplus in trade in services. Generally, trade in service has two types: cross-border trade in service and commercial presence. Cross-border trade in services includes cross-border provision of services and overseas consumption. In 2018, the US service trade surplus with China reached US$40.53 billion. Business presence refers to sales of services by organizations set up by foreign companies in the host country. In 2016, the US surplus in this aspect was US$46.8 billion and the figure for 2018 is even bigger. Based on such estimation, when the above two types are combined, the US trade surplus with China has amounted to nearly US$ 100 billion, able to markedly offset its deficit with China in trade in goods.

3. The US deficit with China in essence is to large extent its total deficit with whole East Asia. With globalized division of labor, exports from a country include products from many other countries. An accounting method based on value added in trade can better reflect the actual trade of one country. In Chinese goods exports to the US, over half of them are intermediate goods from processing trade, most of which are from economies in East Asia such as Japan and the ROK. Take an iPhone sold at US$999 in the US, most of its parts are from over 100 suppliers in countries like Japan and the ROK while China gains only US$55 in the whole production and 3 dollars for the workers' wage. Therefore, if calculated with the traditional method, the US trade deficit with China would be seriously overestimated. According to the statistics of the Ministry of Commerce of China, calculated with the method of value added in trade, in 2018 the US trade deficit with China was US$182.7 billion, down nearly 43% compared with that made with the traditional method.

3. From the perspective of GNP, the US has gained more benefits than China from the bilateral trade. The current statistical method for trade is based on GDP. However, under globalization, such a method is lagging behind the realities. In calculating China-US trade volume, a method based on GNP should be taken to include the business revenues of enterprises from their operation in the other country. According to the statistics of US BEA, in 2016, the branches of American companies in China sold goods and services valued at US$400 billion (including part of goods and services imported from the United States). If these enterprises were based in the US, their sales in China

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would be regarded as exports. So if the bilateral cross-border trade in goods and trade in services are included, the US has gained more benefits from the bilateral trade.

4. The statistics of US trade deficit with China have long been overestimated. The joint study made by the Chinese Ministry of Commerce and the US Department of Commerce has shown that the US statistics of its trade deficit with China have long been overestimated by around 20%. The overestimated part mainly includes two aspects: one is that the US has included the transit trade through other counties and regions such as Hong Kong. The other is that due to the existence of international intermediary traders, the selling prices of Chinese exporters are different from the buying prices of US importers, hence the difference in the statistics made by the Chinese and US Customs.

III. The US has gained a lot of tangible benefits in its trade with China

For years, the US has not suffered losses in its trade with China. Instead, it government, businesses and household have gained a lot of tangible benefits.

1. The US has gained massive international coinage tax thanks to the dominance of the US dollar. The production of a one-hundred US dollar note costs only several cents, but other countries need to provide real products and services worth 100 US dollars to get this one-hundred dollar note. The difference is the international coinage of the US. It has been estimated that between 2011 and 2018, US dollars circulated outside the US grew annually by around 55 billion. By the end of 2018, the US dollars circulated outside the US reached 1.0256 trillion dollars. In addition, foreign exchange reserves held by other countries in US dollars exceeded US$6.7 trillion by the first quarter of 2019.

2. China-US trade has provided a large number of affordable quality products to US consumers. The imports of Chinese products have lowered prices and residents' living costs in the US. Every household in the US has saved much spending as a result. A research made by Oxford Economic Institute has shown that imports from China to the US have cut the living cost of every American household by 1-1.5 percent. According to the estimates by American institutions such as Peterson International Economic Institute, the 25% tariff levied on 250 billion of Chinese products exported to the US will increase the annual spending of every household by US$500-800. If all the Chinese exports to the US are levied by 25% tariff, every American household will have to raise their spending by around US$2,000.

3. US companies has made rich returns from the Chinese market. China is one of the major retail markets in the world. Through their trade with and investments in China, US companies have shared the dividends of China's development. For instance, business turnover of Boeing from the Chinese market made up for 13% of its global total. The percentages for Apple and Qualcomm were 20% and 66% respectively. In addition, profit margins for American companies have been high in the Chinese market. For example, Nike's EBIT in China is 35.2%, high by a dozen percentage points than in North America and Europe. According to the survey of AmCham China, in all the companies they surveyed, 64% of them had their EBIT in China higher or equal to their global EBIT.

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4. China has provided a large amount of low-cost dollar capital to the US. China's trade surplus for years has mainly returned to the US through the US treasury bonds, providing low-cost capital for the US economic development and advanced its prosperity. By the end of March 2019, China held around US$1.12 trillion, the largest foreign holder of the US treasury bonds. The average yield of the US treasury bonds is 2-3%, but the average return rate of US multinationals from their overseas investment is several folds of it. Even for World Bank which focuses on providing development aids, its floating lending interest in the US dollar reaches around 2.8%-3.7%. Market-based interest in the US is even higher. The average yield for 10-15 years corporate bonds is around 4%, while the base lending interest of banks is 5.5%.

Ladies and gentlemen,

Certainly, trade is mutually beneficial. China-US trade has also helped drive China's economic growth, created more jobs, advanced industrial development and contributed to China's reform and opening-up. China's economy has been deeply integrated into globalization and in the meantime, facilitated the economic development of Asia and the world. The US should put the issue of trade deficits into perspective. It should not only emphasize deficits in trade in goods. Instead, it should take a comprehensive view of the reasons for trade deficits as well as its gains and losses. Its policies and measures must be taken on the basis of objective analysis. Simply levying tariffs will only be counterproductive.

As President Xi Jinping rightly pointed out, China and the US will both benefit from cooperation and both get hurt from confrontation. Cooperation is better than friction and dialogue is better than confrontation. The two presidents agreed during their meeting in Osaka to restart the trade consultations on the basis of equality and mutual respect. This is a good signal. We hope that both sides will respect each other's core interest and address each other's reasonable concerns so as to implement the principle and follow the direction set by the two presidents to reach a mutually acceptable trade agreement by working practically for progress and meeting each other half way. This will have not only historic significance for bilateral trade ties, but also demonstrative meaning for international trade and cooperation. I hope that all of you, as people of wisdom and vision, will share your constructive views, make positive voices and contribute to maintaining the stability of the international trading system.

Thank you.

(Note: this is the unofficial translation of the speech, which was delivered in Chinese. Find the Chinese version HERE)

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Summary

U.S.-China economic ties have expanded substantially since China began reforming its economy and liberalizing its trade regime in the late 1970s. Total U.S.-China merchandise trade rose from $2 billion in 1979 (when China's economic reforms began) to $636 billion in 2017. China is currently the United States' largest merchandise trading partner, its third-largest export market, and its biggest source of imports. In 2015, sales by U.S. foreign affiliates in China totaled $482 billion. Many U.S. firms view participation in China's market as critical to their global competitiveness. U.S. imports of lower-cost goods from China greatly benefit U.S. consumers. U.S. firms that use China as the final point of assembly for their products, or use Chinese-made inputs for production in the United States, are able to lower costs. China is also the largest foreign holder of U.S. Treasury securities (at $1.2 trillion as of April 2018). China's purchases of U.S. debt securities help keep U.S. interest rates low.

Despite growing commercial ties, the bilateral economic relationship has become increasingly complex and often fraught with tension. From the U.S. perspective, many trade tensions stem from China's incomplete transition to a free market economy. While China has significantly liberalized its economic and trade regimes over the past three decades, it continues to maintain (or has recently imposed) a number of state-directed policies that appear to distort trade and investment flows. Major areas of concern expressed by U.S. policymakers and stakeholders include China's alleged widespread cyber economic espionage against U.S. firms; relatively ineffective record of enforcing intellectual property rights (IPR); discriminatory innovation policies; mixed record on implementing its World Trade Organization (WTO) obligations; extensive use of industrial policies (such as subsidies and trade and investment barriers) to promote and protect industries favored by the government; and interventionist policies to influence the value of its currency. Many U.S. policymakers argue that such policies adversely impact U.S. economic interests and have contributed to U.S. job losses in some sectors.

The Trump Administration has pledged to take a more aggressive stance to reduce U.S. bilateral trade deficits, enforce U.S. trade laws and agreements, and promote "free and fair trade," including in regard to China. On March 8, 2018, President Trump announced a proclamation imposing additional tariffs on steel (25%) and aluminum (10%), based on Section 232 national security justifications (China is the world's largest producer of both of these commodities). On April 1, China announced that it had retaliated against the U.S. action by raising tariffs (from 15% to 25%) on various U.S. products, which together totaled $3 billion in 2017. On March 22, President Trump announced that action would be taken against China under Section 301 over its IPR policies deemed harmful to U.S. stakeholders. In addition, he stated that he would seek commitments from China to reduce the bilateral trade imbalance and to achieve "reciprocity" on tariff levels. On June 15, the United States Trade Representative (USTR) announced a two-stage plan to impose 25% ad valorem tariffs on $50 billion worth of Chinese imports. Under the first stage, U.S. tariffs would be increased on $34 billion worth of Chinese products and effective July 6. For the second stage, the USTR proposed increasing tariffs on $16 billion worth of Chinese imports, mainly targeting China's industrial policies. China released its own two-stage list of counter-retaliation of equal magnitude. President Trump then threatened 10% ad valorem tariffs on another $400 billion worth of Chinese products. On July 6, the Trump Administration implemented the first round of tariff increases and China retaliated in kind. These tit-for-tat actions threaten to sharply reduce U.S.-China commercial ties, disrupt global supply chains, raise import prices for U.S. consumers and importers of Chinese inputs, and diminish economic growth in the United States and abroad.

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How China Really Sees the Trade War

By Andrew J. Nathan | June 27, 2019 | foreignaffairs.com

When Presidents Xi Jinping and Donald Trump meet on the margins of the G-20 summit in Osaka later this week to seek a trade deal, Xi is likely to soften the customary formality of Chinese diplomacy by calling the U.S. president "my friend." Beneath the cordial surface, however, Xi will yield nothing. Trump must then decide whether to accept the Chinese offer that has been on the table ever since early 2017 and end the trade war or to allow the U.S. and Chinese economies to drift further toward decoupling.

"We're going to win either way," Trump likes to say. But according to two Chinese colleagues who contributed to this article but cannot attach their names, Beijing policymakers believe he is either misinformed or bluffing.

CHINA'S BOTTOM LINE

The basic Chinese position on the trade war has not changed since 2017. Under its proposal, China would buy more U.S. products in an effort to narrow the trade deficit, and it would reaffirm its long-standing commitment to the legal protection of intellectual property rights. But if foreign firms voluntarily decide to share trade secrets with Chinese firms in order to gain access to the Chinese market—a practice the United States characterizes as "coercive transfer"—China would do nothing to interfere. China would continue on its established trajectory of opening its market to foreign banks and businesses, but it would not accelerate the pace of opening. Its currency would remain pegged to a basket of foreign currencies, and Beijing would not artificially deflate it, since China sees no benefit to a currency war. The Chinese government has already lowered the volume of propaganda about its Made in China 2025 program, which pushes for Chinese dominance of modern technologies such as robotics and artificial intelligence. But it is not willing to ramp down the research and development projects that form the substance of that program. In short, China has offered to change nothing structural in its development model, but it is willing to grant Trump a nominal victory he could use in the 2020 presidential campaign.

At the start of negotiations, the Chinese side believed that Trump was likely to accept their offer, following the advice of administration figures such as Treasury Secretary Steven Mnuchin and Trump whisperers such as gambling magnate Steve Wynn. But then the Chinese watched as hard-liners such as trade adviser Peter Navarro and U.S. Trade Representative Robert Lighthizer got the president's ear. The two men persuaded Trump that only fundamental changes to the Chinese economic model would enable the United States to maintain its position as the world's leading economy. The strong U.S. economy and stock market also emboldened Trump to take a tougher position. In April, the American negotiators therefore submitted a draft agreement demanding that China stop giving special support to its state-owned enterprises, allow U.S. firms to serve the Chinese market without sharing industrial technology with Chinese partners, amend Chinese laws that were inconsistent with the U.S. demands, and allow Washington to establish an office in Beijing to monitor China's compliance. The Trump team offered to lift U.S. tariffs step by step upon proof that China had met the terms of the agreement. The Chinese side balked and struck many of the U.S. demands from the draft accord. The Americans accused them of going back on the deal.

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Two years of U.S. pressure and 11 rounds of negotiations have failed to change the Chinese bottom line.

In a little-noticed interview with Chinese media on May 10, the day that trade talks broke off, the chief Chinese negotiator, Vice Premier Liu He, acknowledged that the Chinese side had crossed out many of the provisions the Americans had added. It was reasonable to do so, he said. "Nothing is final before a deal is closed. So we don't agree with the U.S. characterization that we 'reneged.'"

Liu also spelled out the three issues that, in China's view, had stymied the talks. First, China wanted all punitive tariffs lifted before the agreement was finalized, not in stages during its implementation. China would not compromise with a stick held over its head. Second, the Americans had tried to reinterpret—and make more generous—an offer to increase imports that Xi had made in 2018. But the offer, Liu said, "could not be changed lightly." Finally, China wanted the text of the agreement to be "balanced," as "all countries have their dignity."

China would not give up control over its economy. All Chinese leaders negotiate under the shadow of the "unequal treaties," lopsided agreements China was coerced into signing with Western powers in the nineteenth century. Decades of rapid economic development have not healed the wounds of what are known in China as the "hundred years of humiliation." Xi will only sign an agreement that is based on the principles of equality and reciprocity. In a subsequent and more hawkish white paperpublished at the beginning of June, Beijing reiterated that "China will not compromise on major issues of principle" and blamed the United States for the collapse of the talks, accusing it of changing its position three times since early 2018.

XI'S CONFIDENCE

Although U.S. officials claim that China needs a deal more than the United States does, Xi believes that China has the stronger negotiating position. U.S. tariffs have hurt the Chinese economy much less than the Trump administration seems to believe. Even though the tariffs are forcing retailers to charge American consumers more for Chinese goods, importers cannot find other sources for many of the products Americans want to buy. Chinese exports to the United States fell by just 4.8 percent in the first five months of 2019. Over the same period, Chinese exports to the European Union—China's number one trading partner—rose by 14.2 percent and imports from the EU went up by 8.3 percent, while the Association of Southeast Asian Nations replaced the United States as China's second-largest export market. The EU-China Bilateral Investment Agreement, which comes into force in 2020, will further strengthen China's trading relationship with Europe. In Asia, China and 15 other Pacific nations are set to sign a new trade deal, the Regional Comprehensive Economic Partnership, in late 2019 or early 2020. China's trillion-dollar Belt and Road Initiative is opening up markets for Chinese exports throughout Asia, Africa, and the Middle East.

At the same time, the trade war is doing more damage to the U.S. economy than the Trump administration seems to realize. While raising tariffs on U.S. goods, China has reduced them on imports from other trading partners. U.S. exports to China dropped by more than 26 percent in the first five months of 2019. In many sectors, such as agriculture, the damage is probably permanent, as China has quickly found new suppliers, such as Argentina and Brazil. The Chinese market has become crucial for many large U.S. companies. General Motors, for instance, now sells more cars in China than in the United States. Because some of these cars are made in China, their sales are not captured as U.S. exports, but their profits come back to Detroit. In 2017, according to Chinese statistics, U.S. companies generated some $700 billion of revenue in China, with net profits of more

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than $50 billion. Many U.S. companies are already reporting or projecting lower earnings as a result of the trade war.

China has many ways besides tariffs to inflict pain on the U.S. economy. These include tightening audit requirements for U.S. companies in China, toughening up quarantine and safety inspections for U.S. imports, and intensifying the regulation of U.S. financial institutions operating in China. China has already limited the export of rare earth minerals, essential in the production of high-tech electronics, to the United States. And it has drawn up a preliminary list of large U.S. companies to be deemed "nonreliable," although what sanctions those on the list will face is not yet clear. At the same time, China has made life easier for British, French, German, and Japanese companies. The People's Bank of China has steadily reduced its holdings of U.S. Treasury bonds, thus gradually constraining Washington's ability to finance its deficit at low interest rates. Even North Korea has come into the picture: Xi's visit to Pyongyang last week was timed to remind the U.S. side that China can help or hurt the United States not only economically but strategically as well.

Beijing believes that democracy makes the United States far more vulnerable to the political effects of the trade war than authoritarian China. Workers will be harder hit by tariffs in the United States, where the social safety net will do little to cushion the blow, than in China, where the state-dominated economy can create new jobs for laid-off workers. Farm and manufacturing states are crucial to Trump's chances of winning a second term in next year's election, whereas Xi has no such worry. As the Chinese point out, two years of U.S. pressure and 11 rounds of negotiations have failed to change the Chinese bottom line. Xi may wind up making Trump an offer in Osaka that is actually less generous than his offer two years ago.

Most Read Articles

Despite their assessment of U.S. weakness, the Chinese do not necessarily expect Trump to accept their offer. He certainly could do so and proclaim victory. But he may feel backed into a corner by the hard-line negotiating position to which he has committed himself. Beijing also knows that Trump faces conflicting pressures from his advisers, and whom he may listen to at any particular time is hard to predict. The Chinese believe that Navarro and perhaps Lighthizer see economic decoupling not as a risk of the trade war but as its goal.

For their part, the Chinese see no benefit—and some downside—to decoupling. Huawei and other Chinese tech giants depend on U.S. manufacturers for high-end chips and other components that power their 5G network gear; the United States is proposingto cut off China's access. In response, Xi has ordered Huawei and other firms to speed up research and development on crucial technologies such as core chips, operating systems, high-performance computing, mobile communication equipment, quantum communication equipment, and AI sensors.

Like the trade hard-liners in the Trump administration, Xi takes a long view of the trade war. Sources in China quote him as saying that as China rises, it must expect 30 years of "containment and provocation" from the United States, lasting until 2049—the hundredth anniversary of the establishment of the People's Republic of China—when he expects China to surpass the United States in economic and military strength. In the service of that goal, China has long tried to diversify its markets, sources of energy and raw materials, and investment targets, as it works toward self-sufficiency in advanced technology and manufacturing. Trade war or no trade war, decoupling or no decoupling, China is on the path to economic independence from the United States.

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How Chinese state media is spinning its slowing economy

By Orange Wang | Inkstone | February 11, 2019

China's economic slowdown is hitting the country hard, with a series of economic indicators revealing that the US-China trade war is really starting to hurt.

But if you only read China's state media, you might be forgiven for thinking that 2019 is looking rosy for the world's second-largest economy.

Here's how Chinese state news outlets are reporting the news, compared to a sample of foreign media.

Gross domestic product

Why it matters: This is the headline figure generally viewed as a barometer for the overall health of an economy. The rate at which it increases is commonly described as "economic growth."

The facts: China's economy grew at 6.6% in 2018, its slowest growth rate since 1990 and down from 6.9% in 2017.

> **CHINA**
> Headline, People's Daily: Exceeded 90 trillion yuan! China's economy reached new heights
>
> Excerpt: "The estimated size of China's GDP in 2018 was 90.0309 trillion yuan [$13 billion], exceeding the historic mark of 90 trillion yuan for the first time, and remaining the second-largest in the world. The annual growth rate of China's GDP was 6.6% in 2018, achieving the growth goal of 6.5%. The Chinese economy contributed nearly 30% of global economic growth, and continued to be the largest contributor to global growth."
>
> **AUSTRALIA**
> Headline, Australian Financial Review: China's economy faces its toughest year in more than a decade
>
> Excerpt: "China's economy faces its toughest year in more than a decade with some economists warning true growth will fall as low as 4% as deteriorating consumer confidence, a slowing manufacturing sector, and Donald Trump's tariffs take their toll on Australia's biggest trading partner."

Birth rate

Why it matters: Fears over a falling birth rate feed into long-term anxieties about China's shifting demographics. An aging population with fewer people in the workforce is set to hit the economy hard.

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The facts: New births in China fell to 15.23 million last year, the lowest since China relaxed its one-child policy in 2016. This is down from 17.86 million in 2016 and 17.23 million in 2017, according to official data.

CHINA
Headline, Xinhua News Agency: China's population is still in a relatively stable period of growth

Excerpt: "Li [Xiru, head of the population and employment statistics department at the National Bureau of Statistics] said the 'comprehensive two-child policy' has played a positive role in raising the fertility level, the number of second babies has largely offset the impact from declining numbers of first-born children.

He added that China still has a demographic dividend, with sufficient labor resources, even though the working age population has declined and the population is aging."

IRELAND
Headline, The Irish Times: China's birth rate falls to lowest level in 60 years

Excerpt: "The number of babies born in China dropped to the lowest level in almost 60 years in 2018, a sign the birth rate is slowing in the world's most populous nation despite efforts to encourage more children."

Unemployment

Why it matters: Keeping the jobless rate in China low is a key priority for the government in Beijing, given that mass job losses could lead to social unrest.

The facts: China's surveyed unemployment rate in urban areas stood at 4.9% in December 2018, 0.1% lower than in December of the previous year, according to data from the NBS. That's compared to 4% in the US.

CHINA
Headline, CCTV: New changes in China's employment – read about China's annual economic achievements

Excerpt: "China's job market maintained its stable development over the last year. The number of new jobs in urban areas hit a record high, boosting economic growth and underpinning social stability. The employment situation was improved thanks to better economic fundamentals. Over the past year, the structure of the Chinese economy continued to improve while the quality and efficiency kept rising, generating more jobs, stabilizing employment, and driving the optimization of job quality."

USA
Headline, The Diplomat: China's slowdown is starting to hit where it hurts: Employment

Excerpt: "The growing downward pressure on China's domestic economy has made the employment situation particularly grim.

The reality confirms the grim employment situation in China. The internet industry is experiencing a downturn at the moment. Baidu, Alibaba, and Tencent, China's internet

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giants, are a desirable place for jobseekers. But since September, the news of Alibaba scaling back its campus recruitment programme has caused an uproar on the internet. At the same time, news spread that Baidu and JD.com have stopped social recruitment and that Tencent will lay off about 6,000 of its staff." [Alibaba also owns Inkstone.]

Trade

Why it matters: China has, since July 2018, been engaged in a tit-for-tat tariff war with the United States. Trade data, which measures the country's exports and imports, is therefore keenly watched.

The facts: In December, China's total exports fell to $221.25 billion, down 1.4% from November and 4.4% from the same month in 2017, according to data from China's General Administration of Customs.

However, overall Chinese exports for 2018 were the largest in seven years and the trade surplus with the US reached a record high, boosted by strong gains in the first half of the year and the effects of order front-loading in the second half.

CHINA
Headline, Xinhua News Agency: Exceeded 30 trillion yuan! China's foreign trade volume hit a record high in 2018

Excerpt: "China's foreign trade volume reached a record high in 2018, increasing 9.7% from the previous peak posted in 2017.

The country is expected to keep its position as the world's largest trader of goods, said Li Kuiwen, spokesman for China's customs administration. Li said the Chinese government had taken effective measures in the last year to support the stable development of foreign trade and is coping with deep changes in the external situation. 'Foreign trade remains stable and has seen advances,' he said."

UK
Headline, Reuters: China's exports shrink most in two years, raising risks to global economy

Excerpt: "China's exports unexpectedly fell the most in two years in December, while imports also contracted, pointing to further weakness in the world's second-largest economy in 2019 and deteriorating global demand. Adding to policymakers' worries, data on Monday also showed China posted its biggest trade surplus with the United States on record in 2018, which could prompt US President Donald Trump to turn up the heat on Beijing in their bitter trade dispute."

Retail Sales

Why it matters: As China attempts to shift its growth model from one that is powered by trade, investment and infrastructure, to one built on domestic consumption, these figures are a barometer of how that policy move is progressing.

The facts: The annual retail sales of consumer goods grew 9% in 2018, slower than the growth rate for 2017, which was 10.2%.

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CHINA
Headline, Xinhua News Agency: Building a powerful home market: how consumer spending spurs economic growth

Excerpt: "China's annual retail sales moved above the 38 trillion yuan [$5.5 trillion] mark in 2018, reaffirming the position of consumer spending as the primary engine for economic growth. Final consumption expenditure contributed 76.2% of GDP growth last year, up 18.6 percentage points on 2017.

Consumer spending has been the number one driving force of economic growth for five consecutive years, exceeding investment and exports. Consumers are spending more on services, which will make the size of the consumer market larger and upgrade the market structure."

UK
Headline, The Guardian: Cautious consumers feel the pinch as Chinese economy slows

Excerpt: "For the many businesses that depend on the spending power of China's middle class, winter has already arrived. After decades of breakneck growth, the world's second largest economy is slowing down, and Chinese consumers are feeling the pinch."

https://www.inkstonenews.com/business/how-chinese-state-media-reporting-its-slowing-economy-vs-overseas-press/article/3000750

ORANGE WANG
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COMMENTARY

Partners or Rivals? the Future of the US - China Economic Relationship

By Simon Lester | CATO Institute | 8/28/2018

This article appeared on China-US Focus on August 28, 2018.

It seems so long ago now, but towards the end of the Obama administration, government officials from the United States and China were working diligently to try to conclude a bilateral investment treaty (BIT). There was some uncertainty about whether the two governments would reach an agreement, as well as whether the U.S. Congress would ratify the treaty, but nevertheless, these two leading economic powers were working together towards a joint vision in an important area of global economic governance. If the United States and China could develop a shared view of international economic law and policy, the global economy was sure to benefit.

Fast forward to today. Any hope of a joint U.S.-China vision of economic relations or governance seems lost. The rhetoric has intensified in the United States; with a clear bipartisan consensus for a tougher approach on China. President Trump may be leading the charge, but there are many members of Congress pressing him to go faster.

The U.S.-China trading relationship will be central to the global economy for years to come, and it is important for that relationship to be a positive one.

In the area of foreign investment, the BIT has been shelved amidst fears that China will acquire critical technologies and threaten the status of the United States as the leading player in advanced industries. Several major Chinese investments have been rejected by the Committee on Foreign Investment in the United States (CFIUS), and Chinese investment in the United States has dwindled. Recently, Congress passed legislation expanding the scope of foreign investment transactions covered by CFIUS review, which also imposes additional restrictions on the export of technology to China. While the recent decline of Chinese investment in the United States was attributable to a number of factors beyond CFIUS, a stricter review of foreign investment transactions will certainly aggravate the situation. Worse still, such a move is likely to provoke China to do something similar in its own market. China is already reported to be drafting rules that would link a national security review to strategic foreign investments in publicly listed companies. Whatever trend there may have been towards openness to foreign investment and an agreed set of bilateral rules on investment has been reversed.

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Economic tension is even more pronounced in the trade policy world. The United States and China are locked in an escalating battle over trade restrictions, with both sides now raising tariffs. Each one claims that the other is undermining the rule of law, and neither side seems ready to back down.

Watching the deterioration of the relationship, it is easy to feel helpless. What can be done to force these two large countries to swallow their pride and tone down the rhetoric and ease trade and investment restrictions?

In the past, we have called for a comprehensive free trade agreement between the United States and China, but perhaps that is too much to ask for right now. Nevertheless, the two sides need some way to escape the current path of unilateralism and restrictions.

Last summer, the two agreed to a 100-Day Action Plan that eased restrictions in certain sectors in each other's markets. Something similar now could help get things back on track; any small step in the right direction would be positive.

More broadly, in order to reverse the decline in their relationship and the negative economic consequences that have resulted, the United States and China need to have the rule of law govern their relationship once again. Currently, when it comes to the U.S.-China relationship, the multilateral rule of law through the WTO is weak, and the bilateral rule of law barely exists. Both these things need to be improved.

The WTO system helps maintain the basic principles and overall order for international trade. If the two largest nations abandon the system, others may follow suit. To prevent that from happening, both the United States and China should respect their international obligations, and resort to the dispute settlement mechanism rather than taking unilateral action against perceived violations. In addition, where the rules are lacking, the two countries should take the lead and negotiate new ones. In this regard, China's spectacular economic growth in recent years means that it is wealthy enough to liberalize its trade.

In the bilateral context, both the United States and China should recognize that they both benefit from a healthy relationship governed by clear rules. The ongoing tariff war has disrupted trade and imposed large costs to businesses in particular sectors as well as the overall economy. Abandoning the tariff war and agreeing to rules that better govern the bilateral relationship (such as an investment treaty, free trade agreement, or sectoral agreements), would be of great value.

In addition, the two governments need to recognize the value of other strong economies outside their borders. Healthy competition increases productivity and efficiency, and as long as China is willing to fully comply with its international obligations, the United States should not be overly concerned about U.S. companies operating in China or about the legitimate transfer of technology. The world, not just China, will benefit from the full utilization and development of advanced technology. Chinese industrialization is something to be encouraged, not feared. At the same time, China must agree to compete

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pursuant to the rules. Certain practices clearly cross a line (cybertheft is one of the best examples), and in order to address the growing perception that it is cheating, China should take additional precautions to behave in accordance with international norms. For example, elements of the Made in China 2025 program appear to encourage the use of domestically produced components as inputs for some final products. China should make clear that the government will not play a role in directing sales and purchases that distort the market through this program. At the same time, other governments should file complaints against China at the WTO on these measures where appropriate.

At the moment, the Trump administration does not appear willing to adjust its approach. It is not clear when and if it will. A meeting by mid-level officials in August did not make much progress, and the next opportunity for high-level discussion may be in November at the APEC and G20 meetings. Whether a resolution can be achieved, at those meetings or elsewhere, may depend on how much pain the U.S. economy experiences from the trade war. Unfortunately, it is possible that nothing will change until a new administration is in place.

But China is also an actor in this relationship, and it can propose new terms itself. For example, it could respond to U.S. complaints about regulatory barriers, subsidies, and an opaque administrative environment with proposals to liberalize (in exchange for something else of course, such as better treatment in anti-dumping proceedings and relaxing U.S. export controls).

The U.S.-China trading relationship will be central to the global economy for years to come, and it is important for that relationship to be a positive one. We are in the midst of a contentious period and at the moment, it is difficult to see how things can improve. But there is still room for the two governments to work together, if their leaders choose to do so. There will always be an element of rivalry in this relationship, as is natural with two competing economic powers of this size. But there are plenty of opportunities for partnership as well, and occasional collaboration is important for the relationship and for the global economy more broadly. Without it, as we have seen, the relationship can quickly devolve into restriction and retaliation. Both countries need to start looking for opportunities to cooperate rather than clash, before too much harm is done.

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CHINA-UNITED STATES EXCHANGE FOUNDATION 中美交流基金會

US-CHINA TRADE AND ECONOMIC RELATIONS FORUM: WHAT NOW, WHAT NEXT

The Current Status of the US-China Trade Relationship: A Pro-Trump Perspective

Jul 09 , 2019

Keynote Remarks by Edwin J. Feulner, Ph.D.

Chairman, Asian Studies Center, The Heritage Foundation

Thank you very much. It's a humbling experience to follow Prime Minister Fukuda who reminds us that public policy issues such as those we will be considering here are not something new in the international arena. Hopefully we will be able to discover new ways that we can all work together to try and resolve at least some of the more contentious issues that confront us at the moment.

Excellencies, ladies and gentlemen I thank you very much for inviting me to be here with you today. Our focus of this important conference is on the U.S. China economic relationship. And I'm honored to be able to share my perspectives today. I have written my remarks down in order to force myself to stay focused and to refrain from discussing other interesting but perhaps items which would be a distraction of what we are primarily here to discuss.

First, a note about my personal commitment to a strong U.S.-China economic relationship. In 1999 as the president of the Heritage Foundation, I convened a public gathering at Washington's National Press Club of the heads of seven of the most influential bipartisan and broadly ideological think tanks in Washington (Brookings, American Enterprise, CSIS, Cato Institute, etc). And we all jointly proclaimed to the Congress and to the American people at that meeting that we were unified in our belief that China should join the WTO, that it made perfectly good sense and that it would begin to encourage compliance with international standards of good economic behavior on the Chinese part. While that message was heard, I suspect in the hearing of that message, the fact that some think tank guys got up and talked about it was probably lost. At least we are on the right side of history at that time. And since then, I've been an enthusiastic supporter of resolving issues in the bilateral economic relationship between our two sides. I say this because as I talk about some of the more contentious issues that we will be discussing, I will not accept a label as Feulner is anti-trade or Feulner is anti-U.S. China trade because this is just not true.

Let me share other note for my personal past activities. I was honored to chair Candidate Trump's and President-elect Trump's domestic policy team during the 2016-2017 transition from the Obama administration to the Trump administration. I remain a supporter of President Trump. I suspect I will be one of the very few participants in this conference speaking from that perspective. But I think it is a perspective that everyone here should be aware of and should be realistic about.

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And if anyone is taking notes, I guess the one, the most significant takeaway that I would give you from my remarks today is the following: no matter what the outcome of the 2020 presidential election is, I caution my Chinese friends and for that matter, everyone who is here that wishing for the end of the Trump administration, so that things can go back to normal is not a viable strategy. Frankly, I believe that the president-elect or the president-reelect from either political party will not revert to a pre-Trump position on the China-U.S. economic relationship.

I will give you some reasons why I believe that.

These are incidents that perhaps have not made the local media but I'm sure they are there for those who follow the bilateral economic relationship in detail. Just late last month, it was Senator Mark Warner, a democrat from the state of Virginia, who together with Senator Marco Rubio a republican from the state of Florida leading the arguments against Huawei being considered as "just another international telecom supplier" - bipartisanship in action in Washington. It was Senator Chris Van Hollen, a democrat from Maryland, and Senator John Kennedy, a republican from Louisiana, who introduced the "Holding Foreign Companies Accountable Act", which will require Chinese companies registered in the United States to abide by the same accounting and transparency rules as companies from the United States and other countries around the world are compelled to do. That is not the case under current law in the United States.

A third point: several local American chambers in China have expressed their concern about doing business in China to Washington policy wonks like myself in recent weeks. They come to Washington at least once a year for what they call "door knocks." That is, they go around Capitol Hill and go around to senators and their staff aides and tell them about their perception of what is going on in this part of the world. And when we talk to them, they admit and we certainly know, that many American companies, giants like Coca-Cola, General Electric, Procter & Gamble, major accounting and legal firms, have done very well in the Chinese market. But they also note there are still specific grievances about the difficulty of doing business in China, and problems dealing with the Chinese government, Chinese state-owned enterprises and Chinese-controlled financial institutions.

And it is unlikely that that problem will be solved by a one-off bilateral trade agreement between the two countries. All of these is specific evidence that I think cumulatively indicates that we should not expect American policy to just bounce back to the 'good old days' of pre-Trump normalcy. That will not happen no matter who occupies 1600 Pennsylvania Avenue.

Our assignment this morning is "where are we now?" Everyone knows and it has already been referenced by Tung Chee-hwa the Presidents Trump and Xi hit the reset button on the U.S. and China trade talks when they met in Osaka on the sidelines of the G20 summit just 10 days ago. At that meeting, if they had achieved less, it would have prolonged the standoff and slowed down global economic growth.

Those of you who have known me and might have the opportunity to work with, know that I am called in Washington on occasion a congenital optimist. Because I do try to look at the bright side of

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things and if there are solutions to public policy issues that confront us whether they are on the domestic or international side. I know that given it both sides, it seemed to be digging in and it was in my opinion an achievement in itself that the two of them were there and that they shook hands and they agreed the negotiations would be resumed. And they averted a head-on collision and hopefully we will start talking again.

Of course, what we call the "grip and grin", that is the official pose with handshakes, is not guarantee that there is a final deal.

Why is it not? Let me give you at least three basic unresolved fundamental issues from the American perspective.

The first one is the fundamentally different views about intellectual property. You've all heard that from a very long time. Has it gotten better? Probably yes at the margin but still very much there is the point of serious contention. And in the United States the right to intellectual property is enshrined in the U.S. Constitution, Article One, Section 8, Clause 8, enacted in 1787. Obviously, this American perspective and this American position predates even those of us who have been around for a long time as it has been America's law of the land for 232 years.

Therefore, whatever the specific details of a case in the form of the theft of intellectual property, of forced technology transfers or concerns about growing cybersecurity issues, the whole question of respect from patents and intellectual property must be discussed candidly and openly and it must be resolved with more than smiles, sound-good statements and promises for real reform soon. That is not enough.

The second challenge is the opposing views of developing country status for China at the WTO, and the related receipt of massive World Bank loans by China as a developing Third World country. Developing status for China gives China special differential treatment including subsidies, higher barriers, validating some of the theft of intellectual property and subsidized loans from the World Bank. To our mind, if China is the number two economy in the world, it is not unreasonable for Americans to ask when will it start acting like it is number two in the world and not try to game the world's systems? There is a real issue here.

My third major challenge is that Chinese pattern of changing the ground rules in negotiations. I recount a personal conversation I had with a senior American participant in the bilateral trade negotiations between the U.S. and China in the last year and half. And at first he said there was confusion and then frustration on our side when the Chinese side basically decided to go back to square one and start the discussions all over again just two months ago in early May. This person asked, why did we spend all of that time and effort negotiating and making what we thought was real progress to just have it all thrown out? That frustration's been met with skepticism and a lack of enthusiasm, frankly, from some of the people who will be critical to negotiating in good faith with our Chinese counterparts a new agreement. That is not good. Now the two presidents agreed just a ten short days ago that the talks will resume. Washington agreed to postpone levying tariffs on Chinese goods to ease the path towards those negotiations. So Washington is ready to move ahead

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with talks, China agreed to a substantial purchase of U.S. soybeans. But I have not yet anyway seen the details of that. Then, just a few days ago, back on July 4th, an important day for all Americans, there was a Bloomberg story where we were told the Chinese side is demanding that all current tariffs be lifted before talks can resume. Of course it is those tariffs that has encouraged the Chinese to even enter the negotiations with us. This might be the opening Chinese position in the next round of negotiations or it's maybe just one outlier venting his or her own position.

But knowing our president and knowing the people who are advising him, the tariff removal will not happen other than as part of the overall signed deal and delivered agreement. And a word of caution frankly to my Chinese friends, this way of returning to the table is never likely to succeed with the president who is well known as a tough negotiator and who has repeatedly said that "no deal is better than a bad deal."

All of these are reasons to know that the challenges we face are real. But so too is the opportunity for upgraded U.S. economic relationship which must be our shared goal. Again, it is encouraging to hear from Fukuda to talk about the intense pressures between U.S. and Japan some years ago in terms of negotiating agreements and how at the end it came out much better for both sides because of those negotiations.

So the opportunity for that remodeled and upgraded China economic relationship must be our shared goal. And by stating these challenges clearly and forthrightly, I hope we can define the issues and lead to a further understanding of our differences and resolve as many of them as possible. Those of us who are in the forecasting business as think tankers tend to be, I think across the board in this room at least, we come to the conclusion that the United States and China, in whichever order, will remain the two dominating economies for at least the next half-century. From our side, yes, we have to learn how to adjust more effectively to our interactions with China - the rising power. By I believe that China, the rising power, will also have to learn how to face reality that the United States is the current dominant power and the two of us have to continue to talk and to act positively as we meet and actually carry out the agreements that we can come together on.

So hopefully we can learn together, and I look forward to discussion over the next day and half, from my learned colleagues on both sides of how we might do that one point at a time.

(Note: the above text is based on the transcript of the speech.)

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The Trade Wars of Codependency

Sep 26 , 2018

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Stephen Roach
Faculty Member, Yale University



NEW HAVEN – Codependency never ends well in personal relationships. Judging by the ever-escalating trade war betweer United States and China, the same is true of economic relationships.

While I published a book in 2014 on the codependent economic relationship between the U.S. and China, I would be the first to concede that it is a stretch to generalize insights from human psychology to assess the behavior of national economies. But the similarities are striking, and the prognosis all the more compelling, as the world's two largest economies sink into a dangerous quagmire.

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In its most basic terms, codependency occurs at one of the extremes of relationship dynamics – when two partners draw more from each other than from their own inner strength. This is not a stable condition. Codependency deepens as partner feedback tends to grow in importance and self-confidence steadily diminishes as a result. The relationship becomes highly reactive and fraught, with mounting tensions. Invariably, one partner hits a limit and seeks a new source of sustenance. This leaves the other feeling scorned, steeped in denial and blame, and ultimately with a vindictive urge to lash out in response.

The case for U.S.-China economic codependency has been compelling for many years. On the brink of collapse in the late 1970s, following the cumulative convulsions of Mao's Great Leap Forward and Cultural Revolution, China was quick to turn to the U.S. for external support for Deng Xiaoping's strategy of "reform and opening up." Meanwhile, the U.S., in the grips of stagflation in the late 1970s, was eager to seek new growth solutions; low-cost Chinese imports were the antidote for income-constrained American consumers.

The U.S. also began to borrow freely from China's vast reservoir of surplus saving – a convenient solution for the world's largest deficit saver. Born out of innocence, this two-way dependency blossomed into a seemingly blissful marriage of convenience.

Alas, it was not a loving relationship. Deep-seated biases and resentments – China's so-called century of humiliation following the Opium Wars of the nineteenth century and America's inability to get out of its own skin when assessing the ideological threat posed by a socialist state like China – sustained a long-simmering distrust that set the stage for the current conflict. As the human pathology of codependency would predict, a parting of the ways eventually occurred.

China was the first to embrace change – committing to an economic rebalancing by shifting its growth model from external to internal demand, from exports and investment to private consumption. China's progress has been mixed, but the endgame is no longer in doubt, underscored by a shift from surplus saving to saving absorption. After peaking at 52.3% in 2008, its gross domestic saving rate has fallen approximately seven percentage points and should continue to decline in the years ahead as China strengthens its long-porous social safety net, encouraging Chinese families to reduce fear-driven precautionary saving.

At the same time, an explosion of e-commerce in an increasingly digitized (that is, cashless) economy is providing a powerful platform for China's emerging middle-class consumers. And a transformation from imported to indigenous innovation is central to China's long-term strategy, both to avoid the "middle-income trap" and to achieve great-power status by 2050, as per President Xi Jinping's "new era" centenary aspirations.

Consistent with the human pathology of codependency, China's shifts have become a source of growing discomfort for the US, which can hardly be thrilled with China's saving pivot. With America's saving shortfall now worsening in the aftermath of last year's poorly timed tax cuts, the U.S. will only become more reliant on surplus savers like China to fill the void. Yet China's move to saving absorption narrows that option.

Moreover, while China's nascent consumer-led growth dynamic is impressive by most standards, limited market access has constrained U.S. companies from capturing what they judge to be a fair market share of the potential bonanza. And, of course, there is enormous controversy over the innovation shift, which may well lie at the heart of the current tariff war.

Whatever the source, the conflict phase of codependency is now at hand. China is changing, or at least attempting to do so, while America is not. The U.S. remains stuck in the time-worn mindset of a deficit saver with massive multilateral trade deficits and the need to draw freely on global surplus saving to support economic growth. From the perspective of codependency, the U.S. now feels scorned by its once compliant partner and, predictably, is lashing out in response.

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Which brings us to the burning question: Will the U.S.-China trade conflict end with a peaceful resolution or an acrimonious divorce? The lessons from human behavior may hold the answer. Rather than react out of blame, scorn, and distrust, both countries need to focus on rebuilding their own economic strength from within. That will require compromises on both sides – not just on the trade front, but also on the core economic strategies that both nations embrace.

The innovation dilemma is the most contentious issue by far. The conflict phase of codependency frames it as a zero-sum battle: US allegations of Chinese intellectual property theft are portrayed by the Trump administration as nothing less than an existential threat to America's economic future. Yet, seen as a classic symptom of codependency, those fears are overblown.

Innovation is indeed the lifeblood of any country's sustained prosperity. But it need not be depicted as a zero-sum battle. China needs to shift from imported to indigenous innovation to avoid the middle-income trap – a key stumbling block for most developing economies. The U.S. needs to refocus on innovation to overcome yet another worrisome productivity slowdown that could lead to a corrosive stagnation.

That may well be the bottom line on the trade conflicts of codependency. The U.S. and China both need innovation-led economies for their own purposes – in codependency terms, for their own personal growth. Transforming a zero-sum conflict of codependency into a positive-sum relationship of mutually beneficial interdependence is the only way to end this economic war before it turns into something far worse.

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The US, China, and the Logic of Trade Confrontation

Sep 19 , 2018

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Gideon Rachman
Chief Foreign Affairs Columnist at the Financial Times



They don't call them trade wars for nothing. The latest round of tit-for-tat trade sanctions between the US and China is driven by the same emotions of fear and pride that lead real wars to break out. One country makes an aggressive move, so the other feels obliged to respond in kind. Both sides fear that if they back down, they will lose face in the eyes of the world and of their own people.

The Trump administration's view is that China has been "cheating" on trade for decades. But instead of responding to the first round of US tariffs, imposed in July, with concessions, the Chinese reacted with tariffs of their own. So now President Donald Trump is imposing further tariffs of 10 per cent on an extra $200bn-worth of Chinese exports.

Predictably, rather than backing down, the Chinese have promised to respond to this latest round of measures with more tariffs on American goods. Following the logic of escalation, Mr Trump has pledged that will trigger yet more US tariffs — possibly at a higher rate of 25 per cent — covering essentially all Chinese exports to America.

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Both sides are willing to risk a trade war because they think they have a good chance of winning. The US believes the Chinese economy is struggling and is therefore vulnerable to American economic pressure. Larry Kudlow, the senior White House economic adviser, said recently that "China's economy is just heading south". The Americans also know that China enjoys a massive trade surplus with the US and is more vulnerable in a tariff war.

The Chinese government, by contrast, believes that its authoritarian political system is much better placed to withstand a trade war than the American model, which is open to pressure and voter discontent. The regime in Beijing will have noted that the Trump administration has already had to promise to bail out soyabean farmers who have been adversely affected by Chinese tariffs.

As Jeremy Shapiro of the European Council on Foreign Relations puts it: "Both sides think they can win and so are willing to fight the war. War, in political science language, is almost always an argument over relative power, otherwise there would be no need to fight. In this case, a trade war is necessary to figure out who is right."

So far the trade war has been fought out mainly using tariffs. But China will soon run out of American goods on which it can impose duties. So the Chinese government is going to have to look for other ways of fighting back.

Some changes are already visible. Diplomats say China has already eased the enforcement of trade sanctions on North Korea, which are important to US efforts to force the regime of Kim Jong Un to scrap its nuclear weapons. The Chinese are also likely to throw up new regulatory obstacles to American businesses operating inside China. And China may also manipulate its currency to drift down in value, which might easily offset the price effect of a 10 per cent tariff.

There is also new speculation about China's role as a big buyer of American government debt. Some have long theorised that China could exert pressure on the US by simply refusing to buy Treasury bills, so making it harder to fund the US federal deficit. Hillary Clinton once argued that America would struggle to "get tough" on Beijing because China is "America's banker". In the Barack Obama years, however, the prevailing view was that China would never dump its holdings of American debt because that would drive down the value of China's own savings. However, with the US deficit once again soaring after the Trump tax cuts, the Chinese will certainly be exploring the possible use of the debt threat as a retaliatory measure.

Once wars break out, all sorts of new weapons are developed. And that holds for trade wars as well as real wars.

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To rise above Trump's trade war, China should let go of its 'century of humiliation'

PUBLISHED : Wednesday, 26 September, 2018, 8:00am
UPDATED : Wednesday, 26 September, 2018, 11:34am
Comment›Insight & Opinion›United States

Tian Feilong

Tian Feilong says China's history of 'humiliation' is not conducive to its new-found role in world affairs. A China that wishes to enjoy internal peace and friendly external relations must refrain from nurturing a sense of victimhood

China and the US are locked together in a trade war, which is a dispute over interests, technology and institutional values. The trade war is also a major event with regard to the modernisation of the East and West and the history of competition between them.

When the US trade delegation [1] came to China in May this year with a list of demands, it felt like the Treaty of Wanghia all over again, touching off the Chinese people's sense of historic suffering and fighting spirit. China signed the Treaty of Wanghia with the United States in 1844, after signing the Treaty of Nanking [2] with Britain in 1842. The agreements began a new chapter in history as the West opened up Chinese trade and pushed the Chinese into modernisation. And the Treaty of Nanking was the result of a clash between the Chinese and British empires: the opium war [3] – a trade war China lost.

The history of humiliation must not repeat itself, but this also limits modern China's policy decisions with regard to its national ethos and its trade war with the US.

Hong Kong was ceded to Britain under the Treaty of Nanking. In the Chinese nationalistic view of history, this event was the starting point of "national humiliation"; the beginning of the time when, to quote Joseph Stalin, "those who fall behind get beaten"; and the impetus for becoming a rich country with a strong army.

The fortunes built on opium – including those of many of Hong Kong's richest families [4]

China's "century of humiliation" ended in 1949, when Mao Zedong kicked off a new era, announcing that the Chinese had stood up [5], and yet this century clearly informs the preamble [6] of the constitution of the People's Republic of China. As recently as 2017, President Xi Jinping mentioned [7] this history of "humiliation" in a commemorative speech on the 20th anniversary of Hong Kong's handover. His concept

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of national rejuvenation [8] stems from the memory of national humiliation, though it also seeks to transcend it.

Judging by history, there is a solid basis for "national humiliation". Beginning in 1842, China continually ceded and leased territories to foreign powers. Under a series of treaties, foreigners in China had extraterritorial rights and China lost tariff autonomy to foreign powers.

Worse, China's equally backward neighbour, Japan, turned into a foreign power [9] after the Meiji Restoration and joined the ranks of China's invaders. In the Chinese people's historical memory, they were bullied time and again: the opium war, the Anglo-French destruction of Yuanmingyuan (the Old Summer Palace), the first Sino-Japanese war, the siege of the international legations, the Boxer indemnity and even after the establishment of the Republic of China.

Generations of patriots and revolutionaries failed to save the country through the Self-Strengthening Movement, the Hundred Days of Reform, the Chinese Revolution and the New Culture Movement. But in the Chinese cultural spirit, there is a Confucian feeling that was set down in the Doctrine of the Mean: "Understanding shame, you approach courage." This has been fully reflected in modern history.

After the Hundred Days of Reform failed to transform Qing China into a constitutional monarchy, two one-party states – the Kuomintang and the Communist Party – made their respective debuts, mobilising and revolutionising the nation. In 1949, the People's Republic of China was founded, but the normative transformation of the one-party state into a republic has been full of twists and turns and is not yet complete.

The history of "national humiliation" has played an important role in bringing the nation together, but also created a confrontational attitude to the modern Western normative system and made a negative impact with regard to the modernisation of governance.

First, this historical view strengthens the collectivism in the classical Chinese political tradition. It has catalysed nationalism [10], and slowed the growth of individualism, relatively.

Second, it stirs up feelings of sadness and thoughts of revenge, which is not conducive to China's role as a responsible big country on the global stage.

China is replacing the US in global order whether world likes it or not [11]

Third, it wrongly blames China's backwardness on traditional culture, resulting in a structural breakdown of Chinese historical and cultural traditions.

Fourth, the resistance and resentment towards the liberal, democratic values embedded in Western colonialism [12] has grown into scepticism about universal values. It

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prevents a modernising China from absorbing and integrating rational values of the West.

Fifth, the history of "national humiliation" has adversely affected the relations between China and major powers, at a time when China itself has become a major power. It induces the other powers to feel insecure and think of containing [13] China.

A China that wishes to enjoy internal peace and friendly external relations must refrain from nurturing a sense of victimhood. It must distinguish between the evils of colonialism and the virtues of Western modernisation, and assimilate the rational values of Western civilisation with critical discernment.

The world dominated by the West has maintained a dual relationship of prejudice and instruction with China. It maintains its sense of superiority with Orientalism, but also promotes freedom and democracy, pushing China towards normative transformation. But a purely Western view misunderstands China's autonomy as a civilisation, as well as the complexity and structural resilience of the one-party state.

And Donald Trump's all-out trade war on China is a failed response to this history. Contemporary China has inherited the history of "national humiliation", but more importantly it has to develop a rational plan:

First, it must reconcile with traditional culture and rebuild the legitimacy of contemporary Chinese institutions in the context of Chinese civilisation, and bring radicalism under control.

Watch: Bringing Chinese ink-brush painting to the big screen

Second, reconcile with individualism. Respect and protect the liberalism and freedoms that have been embraced in China since economic reform was implemented. Establish the political and cultural legitimacy of individual dignity.

Third, Beijing should establish a coherent rule of law, rebuild the relationship between the party and the government by legal means, and establish due process and an accountability mechanism for all public powers.

Fourth, China should maintain responsible global governance and a pacifist position. Which is to say, the Belt and Road Initiative and establishment of a new trade order should fully respect existing international norms, so they can be pluses in a beneficial system of new globalisation [14].

Tian Feilong is an associate professor at Beihang University's Law School in Beijing. This article is translated from Chinese

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Can US-China trade war rivalry reverse the worst economic trends in both countries? [16]
To see why Trump's tariffs have hit a Chinese nerve, read history [17]

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US-China Trade Frictions: A Suggestion Based on a Japanese Experience

Jul 09 , 2019

Keynote Remarks by Former Prime Minister of Japan Yasuo Fukuda

We are all living today in a world that is so dramatically changing.

The China of ten years ago was not playing such an important role in the world economy as today. Within the last decade, the Chinese people, who have exerted all out efforts on economic development, elevated their country to today's world power position.

As interests in China have grown globally, some stark eyes are inevitably cast on what such a world power status implies. It is because each statement China makes and each step she takes affects gravely not only the future of US-China relations but also the direction of the entire world.

Given this situation, we must seriously contemplate what kind of role China ought to play. This is the most serious issue of our era that we are faced with.

Japan does have considerable understanding on today's frictions between the U.S. and China. It is simply because we, too, have had protracted trade frictions with the United States for decades – very similar to what is taking place between the U.S. and China today. In fact, we have almost ceaselessly had trade and economic frictions and confrontations with the U.S. since the early 1970s.

In our case, at each phase of the bilateral frictions, we negotiated with the U.S. in great pains, with head-aches and often set-backs. But it is a fact that we concurrently learned many significant lessons from the negotiations. Throughout these bilateral negotiations, we were often compelled to make concessions. There were many stark occasions. But ultimately, all the difficulties we had to undergo proved to be the "delivery pains" to modernize and internationalize Japanese industries and society.

By repeating and overcoming these difficulties, Japan is recognized today as a modern nation state by the U.S. and European countries. And our neighboring Asian countries today regard us as their friend.

So, as we look at the frame and substance of today's Japan, we consider that our economic frictions and confrontations with the United States -- stretching for almost half a century -- have not brought about only negative results.

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Of course, the difficulties seemed to out-weigh by far any positive outcome we might have foreseen. This was particularly true at the time of the Plaza Accord – when we were forced to up-value the Japanese yen so sharply and so abruptly in the mid-1980s. The politicians and bureaucrats, who engaged in the toughest negotiation had to endure unspeakable hardship. This is not to say that the Plaza Accord per se was bad.

But in Japan, due unfortunately to mis-judgements and mismanagement by the political leaders and decision-makers, who were directly responsible for these negotiations, an unprecedented bubble economy was created shortly thereafter, which soon busted, resulting in more than a decade long serious recession.

The problems China is facing today are quite similar to those of Japan in those years. Back then, Japan was bad-mouthed as "Japan, Inc." We were criticized as a bureaucratic state in which bureaucrats dominate and control our industrial sector, and that Japan was challenging the US to compete with as though our entire nation state was a single business corporation. As I hear the recent rhetoric of American negotiators with China, it reminds me of their attitude towards Japan of those years.

Even after the Plaza Accord, the U.S. and Japan have ceaselessly negotiated on trade or economic issues that were either pending or newly emerging, almost on annual basis. There were issues that could not be easily solved, but we could not leave them unattended and we have had to find a solution for each. Even the issues that seemed trivial, we tackled them with a strong sense of responsibility and from a broader perspective. It is because we considered that those small issues might not be confined to just the U.S. and Japan but may also affect the world economy as a whole.

China, as one of the two world powers today, is in a position that must recognize its own status, must share the global perspective with other major countries with a sense of responsibility required for a world power. Nonetheless, I do appreciate that the problems China must cope with are so diverse.

As I look back at the Japanese experience, I can state with confidence that our bilateral negotiations with the U.S. provided us with a golden chance to transform our society.

Of course, these entailed very tough decision-making processes. We feared that unless the political class coped with the challenges adequately, a terrible chaos would spread within the Japanese society, giving existential blows to both the manufacturing and agricultural industries. Deeply cognizant of such a risk, we searched for a more desirable form of our society and industries, and we have made enormous efforts to change ourselves courageously when changes were necessary.

Fortunately, these decades' efforts led us to create a new culture encompassing not only major industrial goods and home appliances but even daily cuisines, while at the same time allowing us to tenaciously protect our traditional cultures. To me, the result is today's Japan. Such a historical process might be comparable to what the European countries went through.

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It is true that demands from the U.S. are numerous and often oppressing. But I believe China should not regard itself as a victim of trade frictions with the U.S. On the contrary, China should take this difficult phase as a great chance to transform the nation for the better and utilize it to adequately solve the problems. Such a determined effort will pave a way forward to the future and enable China to find new engines for continued economic growth. I pray that China will not miss this good opportunity and succeed in transforming the crisis into a chance amidst these fraught negotiations.

Of course, half the responsibility rests with the U.S. But it is a fact that the US, after World War II, built the world's effective political and efficient economic system – i.e., the United Nations, the IMF and World Bank -- based on the philosophy the U. S. has long upheld. And the US has managed that international system so well for so many decades.

But there are diverse thoughts in the United States. Some presidents have been more committed to these ideals than others. Nonetheless, we cannot deny that both Japan and China have benefitted from this system. As the U.S. is losing today its enthusiasm to maintain this great system, the responsibility of its beneficiaries is heavy.

American demands are not always necessarily just. But unless appropriate policy measures can be formulated, terribly negative effects are felt throughout the world, as we are actually witnessing today. If a major power like China could not come up with responsive measures that meet expectations, who could? Other countries would certainly face dead walls.

I believe that China, as a major power, should squarely face the challenge, in cooperation with other countries. I believe China should take the specific first step to construct a "Community of Shared Future for Mankind"

I am a believer of this concept of a human community bound together by a common destiny. And I believe that this should be the future goal of not only China but of the world as a whole. Moreover, I am convinced that this path will benefit not only China but also the entire world.

I would like to remind the Chinese people never to forget that you are standing on an enormously trying junction. With the dramatically changing international situation, in fact, I believe all of us should stand up positively to this new historical phase and the challenge it embodies.

(Note: This is the text of Mr. Fukuda's prepared keynote speech. The actual speech he delivered during the conference may be different.)

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GLOBAL TIMES
DISCOVER CHINA, DISCOVER THE WORLD

White paper demonstrates China's position on trade friction with US

Source:Xinhua Published: 2018/9/25 9:04:00

The Information Office of the State Council on Monday released a white paper that elaborated on China's position on the trade friction with the United States.

China-US economic and trade ties concern not only the well-being of the peoples of the two countries, but also world peace, prosperity and stability, said the white paper titled "The Facts and China's Position on China-US Trade Friction."

"Cooperation is the only correct option for China and the United States, and only a win-win approach will lead to a better future. China's position is clear, consistent and firm," the white paper said.

The following are China's position on the trade friction with the United States:

First, China is firmly committed to safeguarding its national dignity and core interests. "China does not want a trade war, but it is not afraid of one and will fight one if necessary."

"China has kept the door to negotiations open, but negotiations can only happen when there is mutual respect, equality, good faith, and credibility. Negotiations cannot be conducted under the threat of tariffs, or at the cost of China's rights to development."

Second, China is firmly committed to the sound development of China-US economic and trade relations.

"China would like to work with the US in the same direction, act in a spirit of mutual respect and win-win cooperation, focus on economic and trade ties, and properly manage economic and trade differences."

China is willing to resume negotiations with the US on a bilateral investment treaty, and launch bilateral free trade agreement negotiations when appropriate.

Third, China is firmly committed to the reform and improvement of the multilateral trading system.

China is firm in observing and upholding the World Trade Organization (WTO) rules, and supports an open, transparent, inclusive and non-discriminatory multilateral trading system, and necessary reform of the WTO, and firmly opposes unilateralism and protectionism.

China is working to enhance cooperation within the **G20**, the Asia-Pacific Economic Cooperation (APEC) and other multilateral frameworks, and make economic globalization more open, inclusive, balanced and beneficial to all.

Fourth, China is firmly committed to protecting property rights and intellectual property rights (IPRs).

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China will keep improving its laws and regulations on IPR protection, enhance the quality and efficiency of IPR reviews. China protects the lawful IPRs of foreign businesses in strict accordance with the law, and takes stern measures to address all types of IPR infringement cases.

China will enhance its cooperation with all countries to protect IPRs, and hopes that governments of other countries will also step up their efforts to protect Chinese IPRs.

Fifth, China is firmly committed to protecting the lawful rights and interests of foreign businesses in China.

"China treats all businesses registered in China equally. China will always protect the lawful rights and interests of foreign investors and foreign-invested businesses, and take firm measures to address violations of their lawful rights and interests in accordance with the law."

Sixth, China is firmly committed to deepening reform and widening opening-up. "China will not reverse its course, but only deepen reform. China will not close its door to the world, but only open wider."

"The market will play a decisive role in the allocation of resources and the government will play a better role to encourage competition and oppose monopoly."

China will manage its own affairs well, develop an open economy at a higher level, and share development and prosperity with all countries that aspire to progress.

Seventh, China is firmly committed to mutually beneficial cooperation with other developed and developing countries.

China will work with the European Union (EU) to expedite the negotiations on the China-EU Investment Agreement, and will accelerate negotiations on the China-Japan-ROK Free Trade Area.

"China will promote deeper cooperation under the framework of the **Belt and Road** Initiative based on the principles of consultation, cooperation and benefit for all...and create new drivers for common development."

Eighth, China is firmly committed to building a community with a shared future for humanity.

China will continue to act as a responsible major country, and join every other country in building an open, inclusive, clean and beautiful world that enjoys lasting peace, universal security and common prosperity.

Posted in: **POLITICS**,**ECONOMY**

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China Economy

Will the US-China trade war improve access for American firms seeking to tap 1.4 billion people?

Washington feels Beijing has been discriminating against US businesses, limiting investment and trade flows while also imposing restrictive non-tariff barriers

Bank card service providers Mastercard and Visa have been seeking to start yuan payment services since a WTO ruling in 2012, but are still waiting for approval

Zhou Xin & **Frank Tang** | South China Morning Post | Updated: Tuesday, 26 Feb, 2019 1:38pm

US President Donald Trump has delayed the application of additional tariffs on Chinese imports citing "substantial progress" in addressing the US demands for structural reform in the Chinese economy. This is the second article in a five-part series looking into these demands, which are the conditions for ending the trade war.

The US demand: market access

The Office of US Trade Representative (USTR) said in its Section 301 investigation report, which provided the legal grounds for Washington to start the trade war, that China has been discriminating against US businesses, limiting investment and trade flows.

The US business community also complained about numerous non-tariff barriers, from bureaucratic licensing procedures to selective law enforcement, as obstacles that hold back the growth of their businesses in China. For Beijing, however, China has already done enough to give US businesses access as it has been rolling out the red carpet for foreign investors, offering tax breaks and cheap land.

In a white paper reviewing its own performance after its entry into the World Trade Organisation (WTO) in 2001, China said it had comprehensively delivered what it had promised, including opening up the domestic market to foreign competition.

The dispute is now part of the negotiations between Beijing and Washington to put an end to the trade war, with China and the US expected to sign a slew of memorandums of understanding, including one on the issue of non-tariff barriers.

However, despite Beijing's promises of cutting obstacles for US businesses, China is still expected to maintain protective measures, especially in areas that Beijing sees as vital for the country's economic security and social stability such as finance and cyberspace.

"China is not afraid of opening up, but it wants to do it on its own pace and based upon its own needs," said Tang Jianwei, an economist with Bank of Communications, the country's fifth largest lender.

At the same time, even when US businesses are granted full access to the Chinese market, they have to face new realities such as less enthusiasm for American brands and fierce competition from local players – Huawei and Xiaomi, for instance, are eroding the market share of Apple in China.

Case study: China Food and Drug Administration

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The Chinese government's intent to develop its own standards for certain product categories has created frustrating obstacles for foreign firms trying to sell their products and services in China.

For instance, in the aftermath of the 2018 vaccine scandal, when one of China's major vaccine makers was found to have produced substandard products, consumers had difficulty obtaining vaccines made by foreign companies, including effective products in wide use overseas, thanks to China's strict vetting system for imported vaccines.

The Chinese market share of imported vaccines has declined in recent years despite growing consumer demand.

In one case, the US Food and Drug Administration approved the first human papillomavirus (HPV) vaccine, effective against cervical cancer, in 2006, but it took a decade for the China Food and Drug Administration to approve the first vaccine of its kind for use in China.
Before the approval, Chinese citizens in need of the potentially life-saving vaccine crossed the border into Hong Kong.

It remains unclear how the US will press China to lower non-tariff barriers, but the USTR has its own broader definition of non-tariff trade barriers compared to the WTO, with a focus on the obstacles that undermine US business interests and run counter to "fair and reciprocal" bilateral trade relations.

China is also dragging its feet on approving the business plans of US firms that are desperately trying to get a foothold in the Chinese financial market.

Bank card service providers Mastercard and Visa have been pushing unsuccessfully to start yuan payment services even though the World Trade Organisation ruled in 2012 that China must allow them in.

However, they are still waiting for approval from the People's Bank of China, China's central bank, to start operations, while China's state-backed giant, China Union Pay, has established a near monopoly position in the years since the WTO ruling.

China's central bank, which has close ties with China Union Pay, has denied that it is delaying market opening to Mastercard and Visa.

It was reported over the weekend that Mastercard will form a joint venture in China.

What is China doing to address this?

There has been only marginal progress in addressing the extent of non-tariff barriers in China, in part because the barriers set by Beijing are often intended to safeguard the vested interests of state-owned enterprises.

China's telecommunications sector is monopolised by state firms, its banking system is in hands of firms owned by various levels of government, and its electricity and oil sectors are dominated by state players.

These barriers and restrictions, which are not directly aimed at US firms, are increasingly hurting China's own interests, critics charge, as weaker competition stifles innovation and keeps prices high.

The US demand that China lower non-tariff barriers, therefore, could find sympathy among Chinese consumers, private investors and liberal analysts who believe in the value of competition.

Jin Keyu, an associate economics professor at the London School of Economics, said that it would be in China's own interest to allow in more foreign competition.

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"China is no longer in a state where you really need to heavily protect the domestic industries, the moment has arrived where they actually need a lot more competition," Jin said.

She said that China's financial service market, which is largely closed to foreign competition and is generating risks for the country, is a typical example that China must open the sector up to foreign institutions to "inject new blood".

Beijing is gradually changing its laws and regulations so that the business environment will be more transparent and predictable for US investors.

For instance, China released a nationwide "negative list" at the end of last year making clear the sectors in which foreigners are not allowed to invest, promising that all sectors not on that list were open for business. However, the USTR viewed the new list as merely an "incremental" improvement.

Chances of meeting US demands

The demand from Washington for wider access to the Chinese market echoes Beijing's own pledges to open up its economy further.

China has been on a public-relations campaign to woo foreign investors, especially those from the US, promising fair treatment and a rosy business future.

In April 2018, two months before the trade war started, President Xi Jinping promised that ownership restrictions for foreign investors would be phased out, a move designed to please big international banks and those on Wall Street in particular.

When speculation was rampant that Beijing would target US businesses in China in retaliation for trade tariffs, Xi gathered dozens of US and European business executives in Beijing and assured them that they would be welcomed in China.

The Chinese government is expected to continue to cut market entrance thresholds to reduce red tape, and remove ownership restrictions for US firms as part of its promise to reduce non-tariff barriers.

However, the situation on the ground could be much more complicated for US operations in China, as the market, in general, is becoming less friendly to US products or businesses due to a long list of domestic issues, such as slowing growth, rising costs, intensifying competition and continue intrusive state intervention.

"China is not the hot investment destination any more," said Christopher Balding, an associate professor at Fulbright University Vietnam who previously taught at the HSBC Business School at Peking University in Shenzhen.

China's role in the global value chain is changing as it is no longer a low-cost production centre and the US political sentiment towards China has turned hostile, he noted.

Firms will still want to build factories in China to serve the huge domestic market, but fewer and fewer businesses will consider China an ideal place to produce goods and then to sell to other parts of the world, Balding said.

"Even if China and US come to an agreement, I don't think there is going to be any type of flood of investments into China," he said.

Part three in the series will look at US demands concerning cyber intrusion and cybertheft.

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