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US-China Transpacific Foundation

&

Chinese People's Institute of Foreign Affairs

Congressional Staff Delegation to China

April 12 - 21, 2019





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To: Delegation Members
From: Martin B. Gold and Allegra Han
Date: March 1, 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. 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. Finally, there is reprinted a set of five articles that appeared recently in the New York Times. These articles are especially insightful on China's transformation into a present day colossus.

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. Materials concerning the trade war.

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. Several matters of topical interest in China society.

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

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Draft Itinerary of Congressional Staff Trip 20190412-20190421

Date/Time	Day	Location	Time Period	Time	Activity Type	Activities
12-Apr	Friday	Washington DC			Flight	Departure
13-Apr	Saturday	DC—BJ	CA818, ETA 18:05	ETA 18:05	Flight	Arrival
14-Apr	Sunday	Beijing	Morning	9:30-11:00	Cultural Visit	Visit Great Wall
			Afternoon	15:00-16:30	Cultural Visit	Visit The Forbidden City and Tiananmen Square
				17:30-18:30	Cultural Visit	Visit Wangfujing Street
15-Apr	Monday	Beijing	Morning	09:00-10:00	Official Visit	Briefing at American Embassy
				10:30-11:30	Official Visit	Visit The Department of North American and Oceanian Affairs (Foreign Ministry)
			Afternoon	12:30-13:40	Official Visit	Meet and lunch with CPIFA (Chinese People's Institute of Foreign Affaies)
				14:30-17:30	Institutional Visit	Discuss with CITIC Foundation for Reform and Development Studies
16-Apr	Tuesday	Beijing—Haikou	CA1361, 08:15-12:05	08:15-12:05	Flight	Fly to Haikou
			Afternoon	14:30-17:30	Official Visit	Visit The People's Government of Hainan Province
			Evening	18:30-19:30	Cultural Visit	Vivit Qilou Old Street
17-Apr	Wednesday	Haikou	Morning	08:30-10:00	Official Visit	Visit The Standing Committee of The People Congress of Hainan Province
				10:30-11:30	Official Visit	Visit Haikou Committee of China People's Political Consultative Conference
			Afternoon	13:30-15:00	Official Visit	Visit China Securities Regulatory Commission Hainan Bureau
				15:30-16:30	Institutional Visit	Visit China Institute for Reform and Development
18-Apr	Thursday	Haikou	Morning	09:30-12:30	Educational Exchange	Visit The China Institute for Free Trade Ports with Chinese Characteristics of Hainan University
			Afternoon	14:30-15:30	Institutional Visit	Visit HNA Group
				16:00-17:00	Institutional Visit	Visit Haima Automobile Group Co., Ltd.
19-Apr	Friday	Haikou-Sanya	D7315, 08:55-11:05	08:55-11:05	HSR	HSR to Sanya
			Afternoon	14:00-18:00	Cultural Visit	Visit Sanya Yalong Bay Resort District
20-Apr	Saturday	Sanya	Morning	09:30-11:30	Cultural Visit	Visit Sanya Luhuitou Park
		Sanya—Beijing	CA1370,12:55-17:00	16:50-19:10	Flight	Departure
21-Apr	Sunday	Beijing—DC	CA817, ETD12:45	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) was CN¥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 ranked second 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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HAINAN

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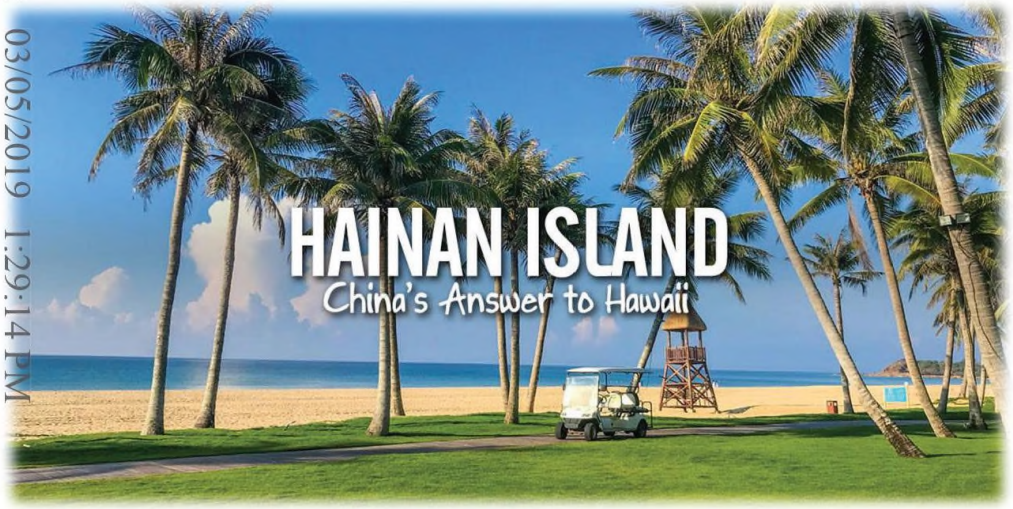
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Hainan

- Island and province
- Located in in the South China Sea
- Created in 1988
- The second largest island off the China coast (Taiwan is the largest)
- Separated from the mainland by Hainan Strait
- "China's Hawaii"





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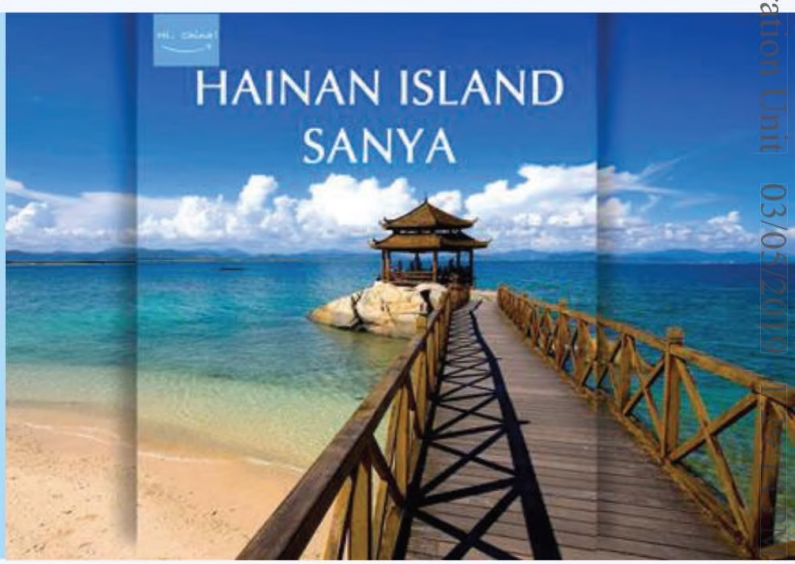
Major cities of Hainan:

Haikou – Hainan's capital, largest city, and major port

Sanya - near the island's southern tip, the second largest city







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Important facts on Hainan:

- Hainan became a part of China's **Reform and Opening-up Policy** in 20th century.
- In July 1979, under Deng Xiaoping's influence, the central government decided to establish **'Special Export Zones'**, later called **Special Economic Zones (SEZs)**, in **Shenzhen, Zhuhai** and **Shantou** in Guangdong province and **Xiamen** in Fujian province. This signaled the start of China's opening to the outside world.
- This experiment was extended to 14 large cities in coastal areas in 1984, the newly established province of **Hainan in 1988**, and a host of cities along the Yangtze River and interior border cities in the early 1990s



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Important facts on Hainan:

- In the early 1990s, it boasted China's **first listed private company**, and Yangpu Economic Development Zone, the first development zone approved for **lease to foreign investors** by the Chinese government.
- It is also the only province in the country without toll stations on its highways, due to **a fee-to-tax reform** in 1994.
- Since 2001, the town of Boao in Hainan has become the permanent **site of the Annual Conference of the Boao Forum for Asia**. The debates and the ideas exchanged at those events play an important role in China's efforts to promote regional cooperation and integration, as well as globalization and free trade.



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Important facts on Hainan:

- In 2005, Hainan was the first province to remove the centuries-old agricultural tax.
- The national strategy of building Hainan into an **international tourist destination** has put it on the fast track since 2010, attracting **investment and infrastructure**, such as **high-speed railways, hotels, high-end commercial real estate and tourism facilities.**
- Besides, the universities, institutions conducting research in reform policies, **agriculture** and especially **hybrid rice** are also blossoming in the province
- The smallest province but **biggest SEZ,** Hainan is deemed as an ideal test ground of China's 40 years of reform and opening up



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Important facts on Hainan:

- Hainan, with a broad sea area and rich shoreline, islands, ports, biology and mineral resources, *is an important window that China opens to the Pacific Ocean and the Indian Ocean.*
- Over the last 30 years after the founding of the Hainan Special Economic Zone, **maritime resources** have become Hainan's most prominent feature and comparative advantage. Hainan's maritime economy has come to nearly **30 percent of the provincial GDP,** creating a rapidly growing tourist number and industrial revenue

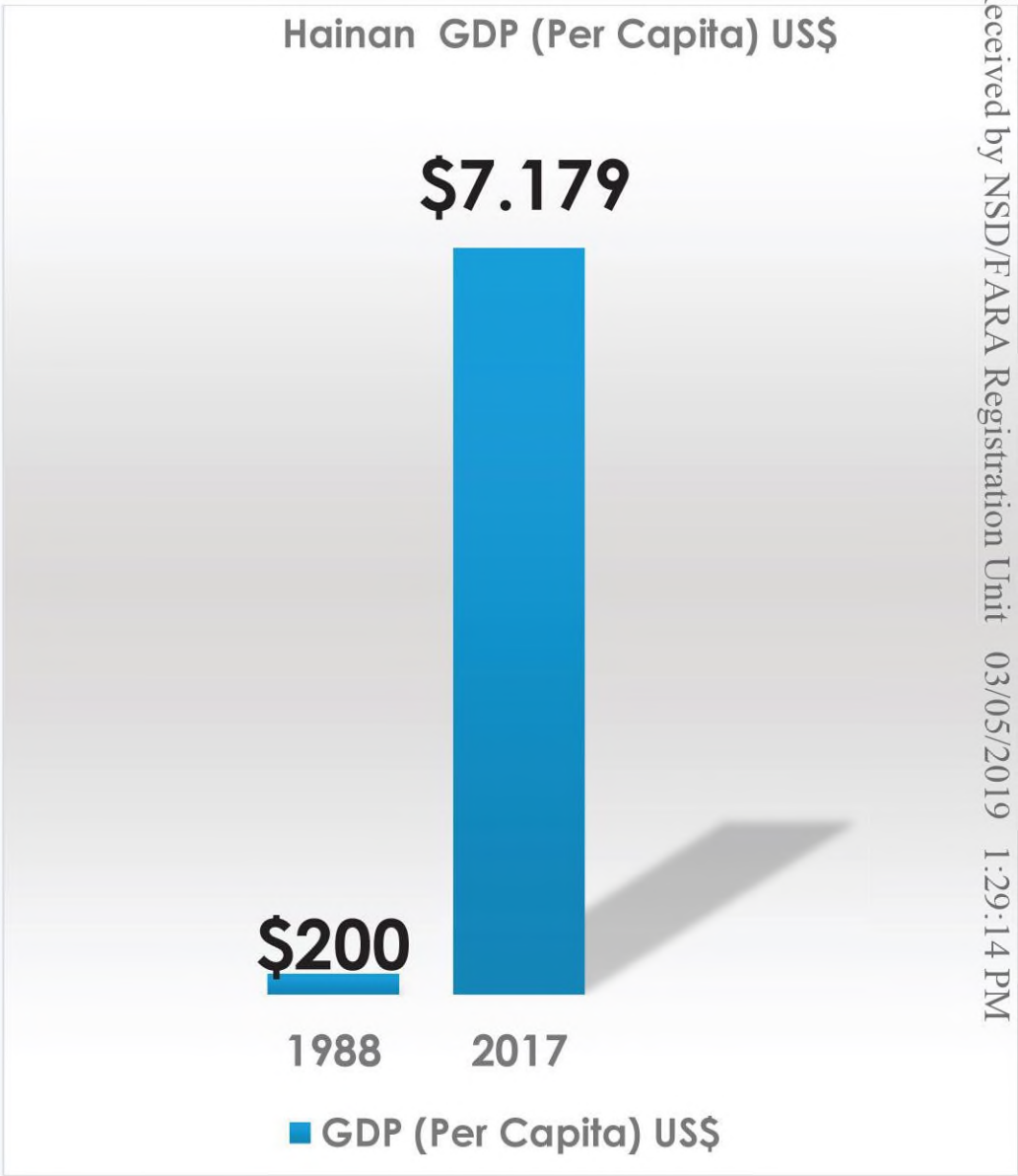
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Important facts on Hainan:

Hainan's per capita GDP soared from less than **US$200 in 1988 to US$7,179 in 2017** and despite the rapid development.

The province feels proud that it is still **one of the cleanest places in China** while many other regions in the country are suffering from various degrees of environmental woes because of rapid industrialization and urbanization, although China has now taken strict measures to correct the situation



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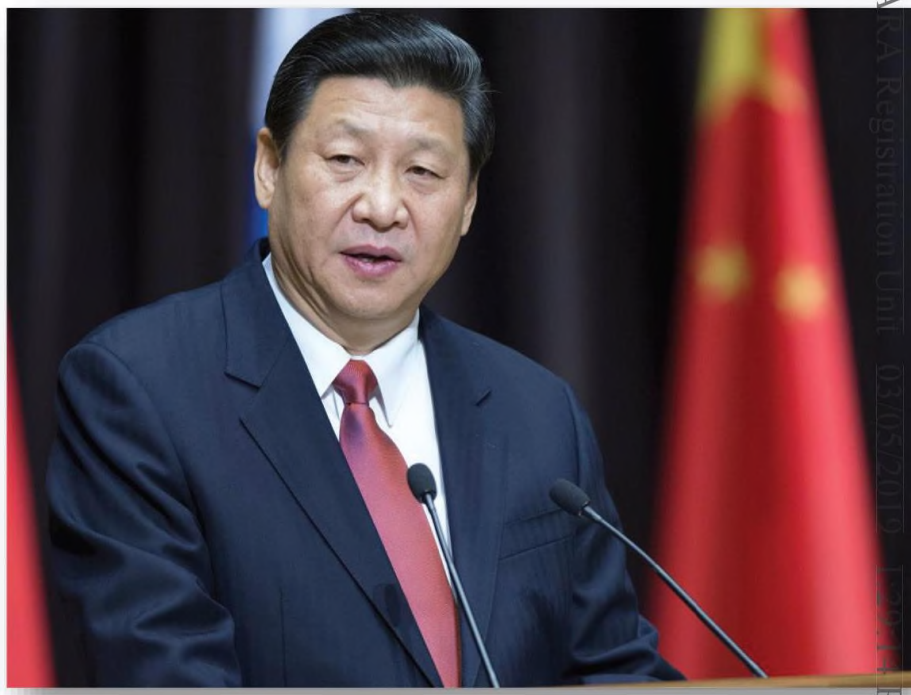
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A Pilot Free Trade Zone & A Free Trade Port

On April 13, 2018 while celebrating **the 30th anniversary of Hainan** being made a province and a special economic zone, President Xi Jinping unveiled grand plans to build it into **a pilot free trade zone** and gradually explore the building of **a free trade port** with Chinese characteristics, exploring a new, open economic system.

- ✓ As a result, Hainan will become **China's largest free trade zone** enjoying increased opening-up policies and will be the country's first free trade port since the founding of the People's Republic of China in 1949, promoting once remote and underdeveloped province to become one of China's most open and dynamic regions and a top tourist destination.

A Free Trade Zone to be established in Hainan Province by 2020 a **Free Trade Port** by 2025, while **the Free Trade System** will have been finished by 2035.



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A Pilot Free Trade Zone & A Free Trade Port

- According to President Xi Hainan has special advantages -- including its status as ***China's biggest Special Economic Zone (SEZ), its unique geographic location and the best ecological environment in the country***, as reasons to make it a test ground for reform and opening up

- As the plan unveils, exchanges in **international energy, shipping, commodities and carbon trading** will be established in Hainan, meanwhile focus will be placed on developing modern service industries such as **tourism, the Internet, healthcare, finance** and hosting conferences and exhibitions.

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In the process of deepening reform and opening-up efforts will be made to develop Hainan into;	Hainan's comprehensive deepening of reform and opening-up has many highlights;
• a pilot zone for deepening overall reform and opening-up	• the construction of a modern economic system
• a pilot zone for ecologically sustainable development	• the construction of an international tourism island
• an international tourism and consumption center	• the promotion of ecologically sustainable development
• a major national strategic logistics zone	• the improvement of the talent development system

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Hainan - A Pilot Free Trade Zone

- **Free Trade Zones** are an elaborated form of special economic zones established under the reform and opening-up, and their number is increasing within China; China's first free trade zone was announced in **Shanghai** in 2013, and then **Fujian**, **Guangdong and Tianjin** were also involved in 2015, followed by seven more cities in 2017.

- **Hainan Province** is significant as it becomes **China's 12th and largest-scale pilot free trade zone (FTZ)** and it covers a whole island, the area far more than the sum area of the other Chinese 11 pilot FTZs. Therefore, the Government of China has a broader area to test the reforms that the other free trade zones.



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Hainan - A Free Trade Port

- **A free trade port** is the world's most open form of economic zone, which has brought prosperity to places like Singapore and Hong Kong thanks to its broad-based preferential policies on trade and investment. With developing the free trade port, Hainan will start the country's new round of reform in larger scale and in more extensive areas.

- If Hainan is built into a free trade zone, the island, covering an area approximately of 35,000 square kilometers, will become **the largest free trade port in the world,** greatly exceeding Hong Kong and Singapore (about 1,000 square kilometers respectively) and Dubai (less than 4,000 square kilometers).



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Hainan - A Free Trade Port



- The Chinese characteristics in the building of a free trade port in Hainan will be first reflected by the fact that **tourism, modern services and high-end and new technology industry** will be made a major pillar of Hainan's economy while intermediary trade and processing and manufacturing will not be a focus;
- It will also be seen in the fact that the opening-up measures will be carried out **step by step** until a free trade policy system is built;
- Moreover, **in-depth studies on relevant policies will be conducted for risk prevention**. Identification and prevention of major risks will be strengthened, and customs supervision will also be optimized.

The three aspects are a new practice and innovation of **Socialism with Chinese characteristics**, and they will definitely provide important guidance to comprehensively deepening reform and opening-up

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Key Gateway

- With the rising flow of people, goods and capital due to the tax-free policies brought by the free trade zone and port, Hainan is expected to be a pivotal point linking the Chinese mainland with **Southeast Asian countries.**

- Hainan can become the gateway connecting the rest of Asia with China through **the 21st Century Maritime Silk Road** - one of the two routes of the Belt and Road - as it neighbors several Asian countries; To this end, the province will accelerate transportation links between Hainan and countries and regions along the Belt and Road. A total of 100 international air and sea routes are expected to open in three years



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Visa-free Entry to Hainan

China's government has thrown open the doors to visitors from **59 countries**, giving them visa-free entry to Hainan island, in an unprecedented move to spur economic growth and boost tourism in the province.

The visa-free access to Hainan, is deemed as a vivid reflection of China's opening up, as it opens the door for further cooperation between China and the Belt and Road countries as well as Southeast Asian countries



EUROPE AND THE MIDDLE EAST

Albania	Croatia	Germany	Lithuania	Poland	Slovenia
Austria	Cyprus	Greece	Luxemburg	Portugal	Spain
Belarus	Czech Republic	Hungary	Malta	Qatar	Sweden
Belgium	Denmark	Iceland	Macedonia	Romania	Switzerland
Bosnia-Herzegovina	Estonia	Ireland	Monaco	Russia	Netherlands
Britain	Finland	Italy	Montenegro	Serbia	United Arab Emirates
Bulgaria	France	Latvia	Norway	Slovakia	Ukraine

THE AMERICAS

Argentina	Chile
Brazil	Mexico
Canada	United States

ASIA AND OCEANIA

Australia	Japan	Philippines
Brunei Darulsalam	Kazakhstan	South Korea
Indonesia	Malaysia	Singapore
	New Zealand	Thailand

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Hainan as a pilot free trade zone

Over the past 30 years since the establishment of Hainan **Special Economic Zone,** the province has evolved from a remote island into a modern special economic zone.

The opening of the Free Trade Zone and the Free Trade Port on the island of Hainan is one of China's actual measures to promote global trade and investments;

the internationalization of Hainan will not only imply the development of South China but also launch **economic growth in the whole Asia-Pacific Region, and even in all parts of the world**.

China has made its attitude clear to the world by establishing Hainan as a pilot free trade zone. This means that China's door to the world will not be closed but continue to open wider.



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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]

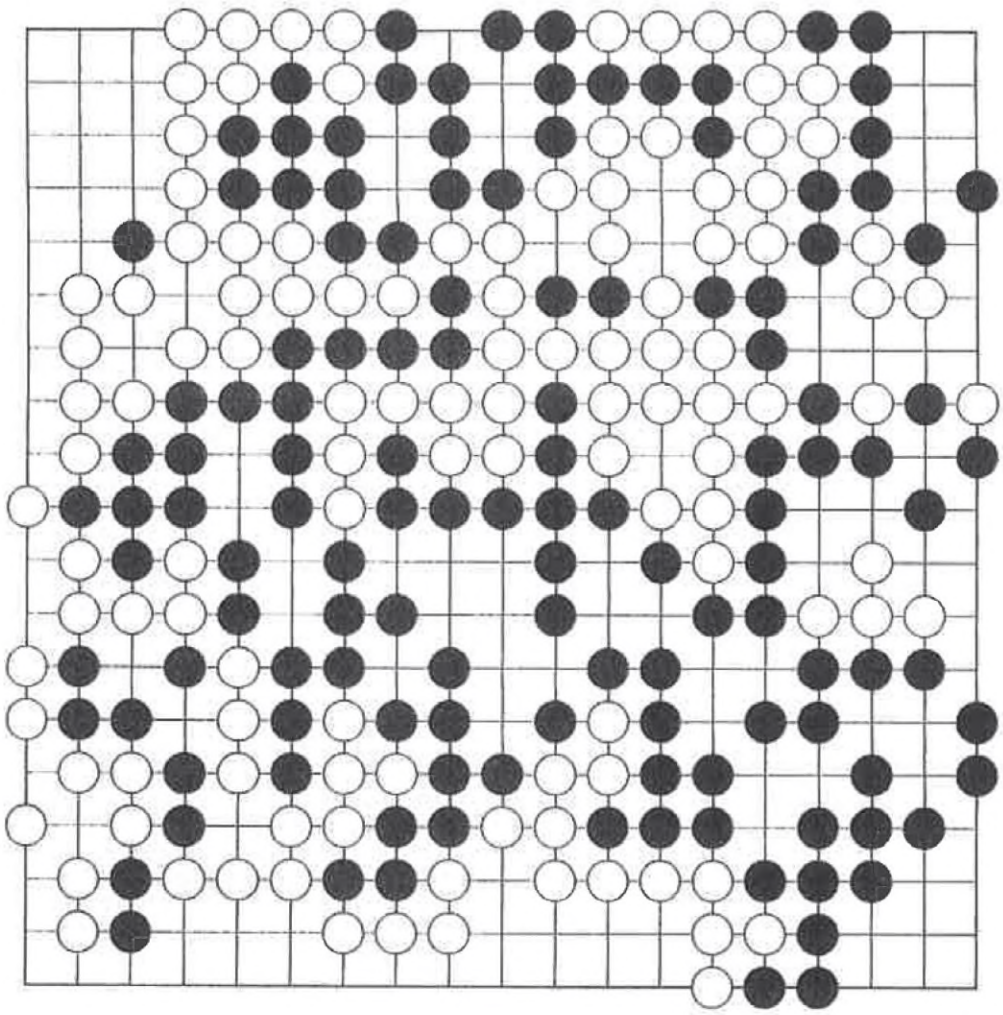
Chess, on the other hand, is about total victory. The purpose of the game is checkmate, to put the opposing king into a position where he cannot move without being destroyed. The vast majority of games end in total victory achieved by attrition or, more rarely, a dramatic, skillful maneuver. The only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

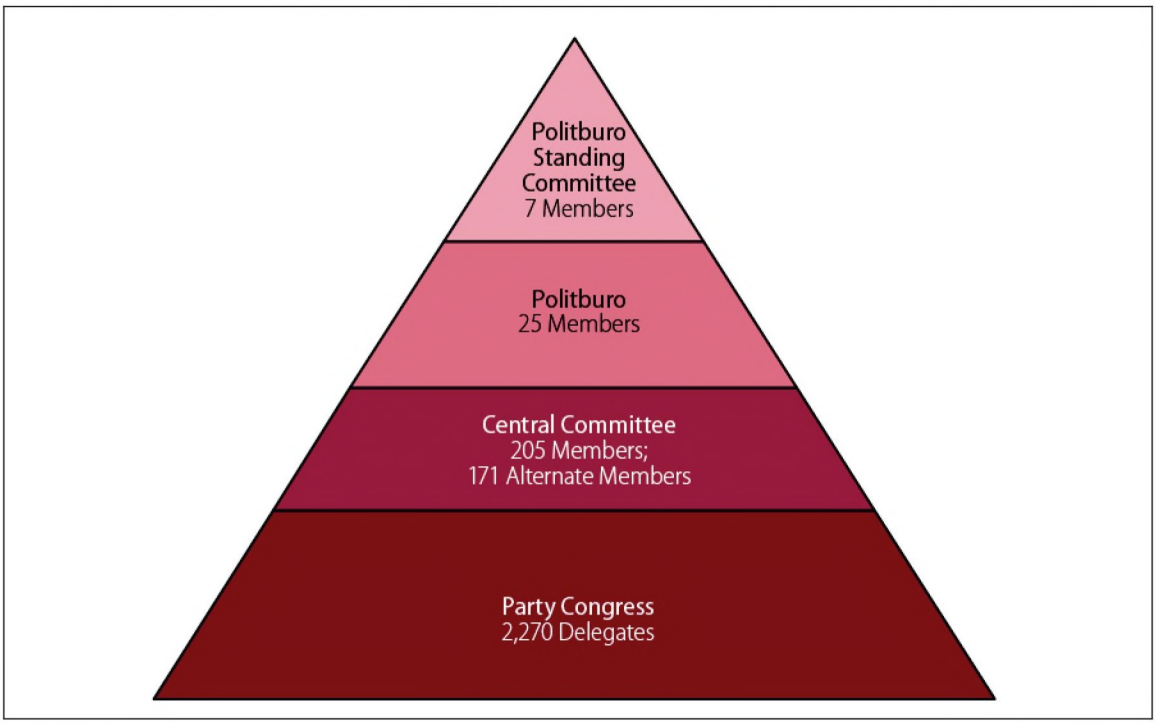
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Figure 3. The National-Level Communist Party Hierarchy

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

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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

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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.

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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 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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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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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.

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The era of good feelings: Xi and Obama in California, June 2013

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-

KEVIN LAMARQUE / REUTERS

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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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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.

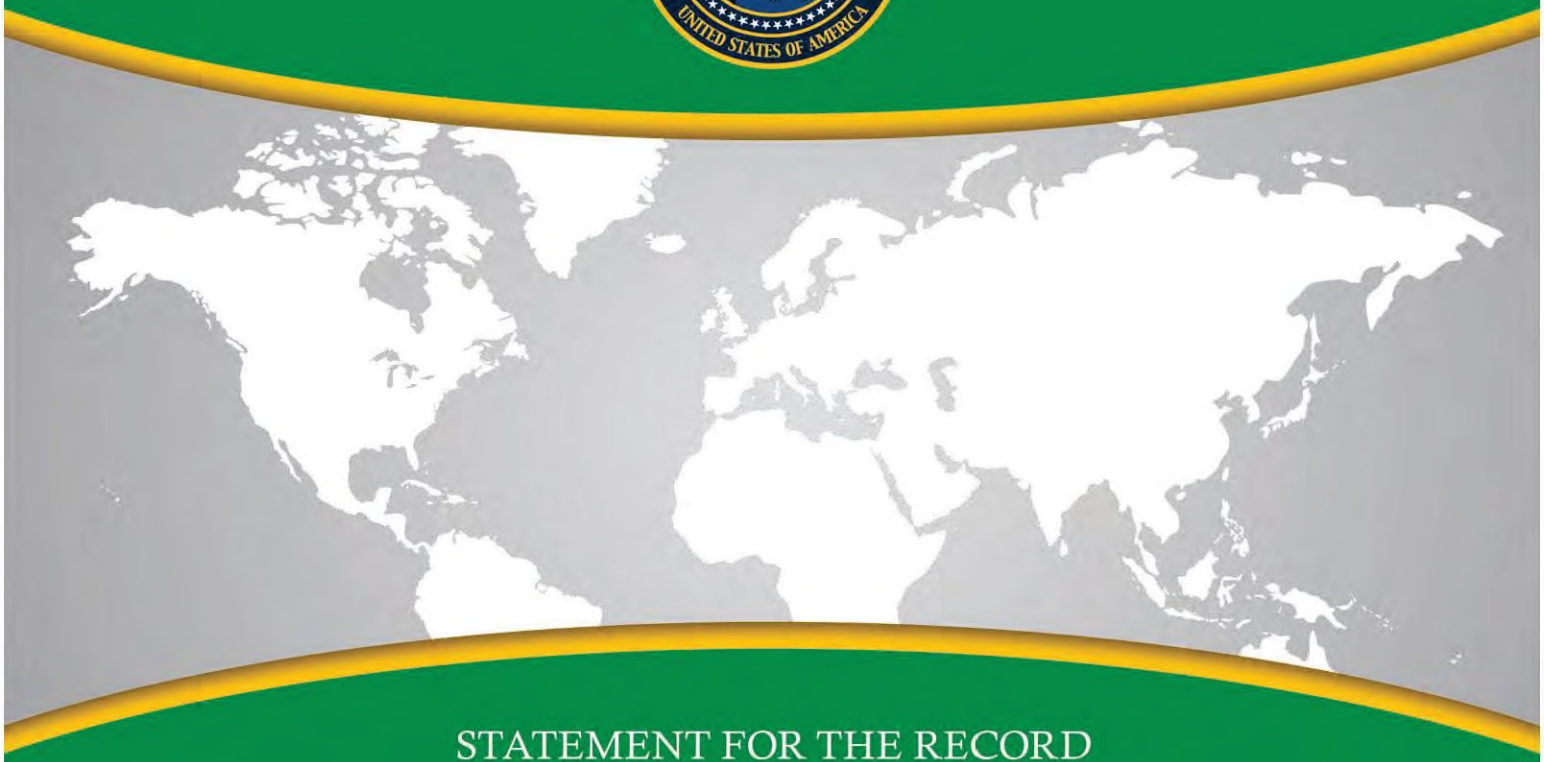
Order from Chaos

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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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VOL 20 | JANUARY 2019

CHINA US Focus Digest



ISSN 2414-0783

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CHINA-US Focus
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China-US Focus Digest is a bi-monthly magazine of exclusive commentaries on China-US relations. The articles express views of influential opinion leaders and scholars in China and the US on the issues faced by the two nations.

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With special thanks to Chatham Strategies and Shanghai Institutes for International Studies for their supports to www.chinausfocus.com and China-US Focus Digest



Cover Story

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39 on 40: An Interview with Jimmy Carter

The thirty-ninth President of the United States looks back on forty years of diplomatic relations with China, and providing solutions for mankind together.

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He Yafei, Former Vice Minister, Ministry of Foreign Affairs

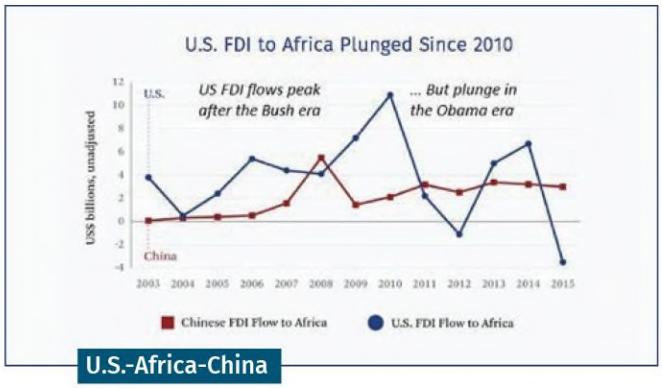
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Briefing Book - 222

Celebrating, and learning from, 40 years of peace and prosperity

Zhang Ping

In this issue, we celebrate forty years of the official diplomatic relationship between China and the United States with exclusive insights from prominent leaders in both countries who have shaped the bilateral relationship over the years.

In an exclusive interview with our editor-at-large James Chau, President Jimmy Carter recalls the pivotal discussions and intimate moments of friendship with Chinese leader Deng Xiaoping that fundamentally transformed the most important relationship in modern history. President Carter also shares his suggestions for the lessons the current leadership of both countries can draw on to prevent recent tensions from upending 40 years of peace and prosperity.

This issue also features a special photo retrospective of the past 40 years, as well as exclusive interviews with, and articles by, top American and Chinese leaders from politics, diplomacy and academia. They shed light on the impact of 40 years of relations on the two countries and the world at large, as well as the prospects for the future as both countries remain locked in tense negotiations to avoid a full-fledged trade war.

While the future of the relationship remains open for debate, the need for engagement and cooperation is a recurring theme among experts from both sides. In an exclusive article, Harvard professor Joseph Nye argue that the U.S. should pursue a "cooperative rivalry" with China, rather than view China as an existential threat.

Contributor He Weiwen also looks at another historic event, China's reform and opening up, that coincided with the launch of official diplomatic relations. He Weiwen puts this moment into context and explains what it means for China and the world.

Happy reading.

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2019

二零一玖 己亥年

猪年大吉

恭賀新禧

HAPPY CHINESE NEW YEAR

CHINA US Focus 聚焦中美

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Briefing Book - 224

39 on 40: An Interview with Jimmy Carter

The thirty-ninth President of the United States looks back on forty years of diplomatic relations with China, and providing solutions for mankind together.



James Chau

News Anchor
China-US Focus

Jimmy Carter invented the post-presidency president.

Since leaving the White House, he and his wife Rosalynn Carter have extended their legacies as global champions of civil and human rights, by safeguarding free elections, building affordable housing, informing public policy on mental health, almost eradicating Guinea Worm Disease, and ensuring that inclusive prosperity and social justice are embedded in our collective conscience.

Indeed, so deep is the impact of their work today, that instead of standing as a cavernous monument in the long shadow of the presidential past, The Carter Center, and the extraordinary women and men who work for it, is a living exercise in faithful and moral leadership.

But I also remember Jimmy Carter for what he achieved in the Oval Office: as a co-architect, with Deng Xiaoping, of the modern birth of U.S.-China relations, and for leveraging the talent of over a billion members of this human family for the improvement of mankind.



President Carter in an interview with James Chau on January 17, 2019, Atlanta. (Photo: The Carter Center)

When I first interviewed him last year on my 40th birthday at the house his parents built in Plains, Georgia, I left with a feeling that peace was possible. But, after our second interview on the 40th birthday of U.S.-China relations, I left with a realization that peace is achievable if the leaders and the people of the two countries follow the example of the two men who began this story.

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Jimmy Carter, the 39th President of the United States (Photo: The Carter Center)

The following conversation was recorded at The Carter Center in Atlanta, Georgia, on January 18, 2019:

JAMES CHAU: I heard the story about you being born on the same day as China [October 1, 1924], but you are 25 years older?

PRESIDENT CARTER: (laughs) That's right.

JC: That makes you a great civilization!

PC: Deng Xiaoping thought that was quite significant, that fate would let me have my birthday on the same day as the birthday of the People's Republic of China.

JC: Fate has played a beautiful part in many areas of your life. You will forever be linked to the events of 1979, but your story with China began much earlier – as a boy, when you gave a nickel a week to help build schools and hospitals for Chinese children. What interested you even back then about a country on the other side of the world?

PC: I was a developed Christian, a Baptist, and our number one heroes in our lives were the women who went to China as missionaries for the Baptist convention. When they came home, we would be very excited if they would visit our church and tell us about China. The missionaries asked all of the young people, I was only five or six years old at the time, if we would give five cents a week that would go towards building schools and hospitals to help the Chinese children, so I was very proud of that. When Deng Xiaoping and I had our meeting at the banquet at the White House, he asked me if there was any one wish that I had. I said, "Well, I wish that we could resume that relationship that we used to have when I was a child with our missionaries and with Christianity." He said, "What would you want specifically?" I told him that I would like to have freedom of worship in

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China and the distribution of bibles and return of American missionaries, and he said "Oh, that's a surprise. I'll let you know tomorrow morning." The next morning he said, "I've thought about it a lot and we will change the law to guarantee freedom of worship in China. We'll authorize the distribution of bibles – but no missionaries." He said the missionaries that America sent over in my early boyhood looked upon themselves as better than the Chinese. They were arrogant and they also tried to change the Chinese culture. Since then, China's become the number one growth country in Christianity, both in Catholicism and Protestantism. I think the largest bible distributor in the world is also in China, so I've been very proud of that.

> "Maybe the most intimate friendship has passed, but I think the political incidences of life show that the most important bilateral relationship on earth, to maintain peace and economic progress, is between the United States and China."

JC: Did he call you at 4am, like he did when he wanted to discuss education exchanges?

PC: No, we met for breakfast as a matter of fact for this one, I think the night before he had had some supper with Dr. Brzezinski and his family.

JC: I went onto Google and typed-in 'Jimmy Carter' and 'Deng Xiaoping' and saw all of these pictures. What was unusual was the level of physical intimacy that the two of you shared. Pictures of you holding hands, clasping hands...

PC: And embracing. That's right, it was a warm relationship between me and Deng Xiaoping, and also between Mrs. Deng Xiaoping and my wife, Rosalynn. Even between Deng Xiaoping and my daughter Amy who was then only about 12 years old. I think all over America, the reason that the new relationship between our two countries was accepted by the American people, which was quite a change by the way, was because of the effusive friendship that Deng Xiaoping inspired in his own personal character. He was full of fun and laughter. He was diminutive in stature, but he was a powerful and great man in his spirit and towards America, and towards peace in Asia.

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"I looked a lot younger back then", said 94-year-old President Carter, as he smiled at this portrait with Deng Xiaoping. The Carter Center, Atlanta, January 18, 2019. (Photo: Yue Jingsheng)

JC: It's hard to imagine that happening today in the current climate. Do you think that the best is already past for the China-U.S. relationship?

PC: Maybe the most intimate friendship has passed, but I think the political incidences of life show that the most important bilateral relationship on earth, to maintain peace and economic progress, is between the United States and China. I believe that when logic prevails on both sides, that people of the countries and leadership both will realize that this is such an important relationship and it must be preserved. I think the mutual respect, staying out of each other's private affairs, and not trying to impose our way of life on each other will be honored in the future.

JC: You are unique in having achieved the greatest legacy of any former American president in history. Your Nobel Peace Prize in 2002 is a testament to that and recognized your work as a global moderator. How would you 'moderate' the U.S.-China relationship – not just the trade war, but fundamentally, the mindset?

PC: I think the best approach is to do what I had to do when I was President. We had an antagonistic relationship with Japan, and we had recently been at war, and much of our industry in America was moving towards Japan. Not only the manufacturing of clothing, shoes and shirts, but also automobiles and television sets, was moving from American manufacturers to Japanese manufacturers, they were selling it back to

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us at reasonable prices but to their advantage. We had a lot of Americans leftover from the war who despised Japan and so we formed a relationship where the Prime Minister of Japan and I appointed three, what we called "wise men". They were distinguished statesmen on each side and those six people would meet in Tokyo, Hawai'i and Washington in a very quiet way. We never gave them any publicity, and they would advise me and the Prime Minister of Japan on the best ways to overcome differences that were inevitably going to arise. I would like to see something like that happen now between the United States and China. Just have three distinguished people on both sides who have a great interest in the preservation of peace and harmony to meet privately and to give their advice to reconcile leaders of both countries. I'm going to write a letter to President Trump and advise him to establish such a relationship, and I'm going to urge Xi Jinping to do the same thing.

JC: You are not just a historic leader, but a contemporary and current leader as well. The Carter Center is innovating a new approach to people, by bringing together the expertise of China and the U.S. to serve health needs for people in Africa, where the health burden is greatest. How is that going to work?

PC: We began these discussions at the forums in 2012 in Beijing, and we followed that up in 2013 here [The Carter Center] and we've been going back and forth each year, with a distinguished group of people to meet scholars and statesmen. I think we see it now, that China has emerged on the international scene in a very glorious, aggressive and effective way in dealing with small countries, like in Africa. The United States, particularly The Carter Center, has been doing this for almost the last 40 years. I think that's an area where we can continue to explore ideas, where the United States and China, and the Chinese and

"Just have three distinguished people on both sides who have a great interest in the preservation of peace and harmony to meet privately and to give their advice to reconcile leaders of both countries. I'm going to write a letter to President Trump and advise him to establish such a relationship, and I'm going to urge Xi Jinping to do the same thing."

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Americans together, can assess the problems or needs for peace or for economic prosperity in the individual African countries, and to not compete with each other but to cooperate with each other. I've talked to many African leaders and they don't want to get involved in an altercation choosing between the United States or China as the main benefactor, but if they knew they could deal with a combination of the United States and China working in harmony, that would be a great relief to some of them.

JC: What do you want young Americans to know about the China that you know? What do you want to tell young Chinese about your country?

> "I think with a more rational president, on both sides... They'll see the advantage in overcoming the few dissident, antagonistic groups."

PC: Yesterday I met with the international students at Emory University where I've taught now for 37 years, and I answered questions from about the 100 foreign students that assembled. About 30% of them were Chinese students. We have more Chinese students in America than we do from any other foreign country, and I think over the last 40 years we've had several million of those students come to America to learn about our country. We also have an increasing number going from here to China. Right now, we have about 50,000 American students in Chinese universities learning about the culture on both sides. I think that is a treasure chest of goodwill, of understanding, of comprehension, of the differences between our two countries. But this also shows the facets of both countries that we share: the desire for peace and economic prosperity and the wellbeing of our own citizens, as a first priority, but also the wellbeing of citizens around the world. So, I think that this student exchange is a vital aspect of the future, a guarantee that we in America and the Chinese will live in harmony and peace.

JC: You warn that a "modern Cold War" is not inconceivable, if misperceptions and miscalculations are allowed to continue. You served as U.S. President during the original Cold War: what parallels do you see?

PC: Back in those days, we were struggling against the Soviet Union as a potential military superpower. We were also competing with the Soviet Union in almost every small country around the world, and some of the major ones

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as well, for influence and for trade benefits and things like that. That's what we're trying to avoid at The Carter Center: competition between the United States and China in dealing with individual, foreign countries around the world – all around 200 of them. I would hope that we could see this as a way to bind America and China together, rather than to cause an uncomfortable competition that might lead to reversion into a Cold War. I don't believe it's going to happen. I think with a more rational president, on both sides, we'll see the small groups in both countries that still remembers the Vietnam War and the Korean War where we were on opposite sides, like we had with Japan in World War Two. They'll see the advantage in overcoming the few dissident, antagonistic groups, and let the vast majority of our people and rational leaders assure the future will see us as friends with mutual respect, not trying to impose our will onto other countries' culture and political situations, and search aggressively for ways for us to cooperate as friends and help other countries.



President Carter tells James Chau that the U.S. and China share a "desire for peace and economic prosperity, and the wellbeing of our own citizens". (Photo: China-US Focus)

JC: President Carter, thank you for this interview. Thank you and Mrs. Carter for transforming the world for the better.

PC: Thank you very much for a good interview. I hope to see you again in the future, it would be a real pleasure.

You can listen to this conversation between James Chau and President Carter by scanning the QR code.

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AT LARGE

WITH JAMES CHAU

Your weekly podcast on China, the US, and the world

CHINA US Focus



Presented by James Chau

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Briefing Book - 232

To mark 40 years of the China-U.S. relations, we speak to six leaders in politics, diplomacy and academia, who shape our understanding of these two countries, and the opportunities that this partnership presents. In a rapidly changing world, how will China and the United States work together and how will they impact the global future?

Listen to What



Jimmy Carter

39th President of the United States

Q: You had a trusted relationship with Deng Xiaoping. Is the best already in the past for the U.S. and China?

Maybe the most intimate friendship has passed, but I think the political incidences of life show that the most important bilateral relationship on earth, to maintain peace and economic progress, is between the United States and China. I believe that when logic prevails on both sides, that people of the countries and leadership both will realize that this is such an important relationship and it must be preserved. I think the mutual respect, staying out of each other's private affairs, and not trying to impose our way of life on each other will be honored in the future.



Cui Tiankai

China's Ambassador to the United States

Q: *There has been no world war since 1979 and no American soldier has died on a battlefield in East Asia since 1979. Is the China-U.S. relationship a direct contributor to that peace?*

Forty years ago, it was hard to imagine we could achieve peace and stability in the Asia-Pacific, but now this is the reality. Sometimes we take it for granted, we forget our hard peace was won. Today, this region is a powerhouse of the global economy. China and the United States can take a lot of credit, and we are grateful to President Carter and Mr Deng Xiaoping, for taking that historic decision with great courage and vision. Both countries – and the world as a whole – have benefited from these four decades. The world has changed for the better.



Wu Xinbo

Director, Center for American Studies
Fudan University

Q: In the beginning, Carter and Deng brought together their young students to invest in new beginnings. What is the value of this experience?

We must realize that the world is changing very rapidly. We need to keep an open mind to these changes, and not try to evade or resist the tide of change. We should recognize that this is an interdependent world. It is a challenge for young Americans to see competition from China and India. What they can do is better prepare themselves to meet this challenge. As for young Chinese, they must learn how to work with others, to be open-minded, and to learn from others. On the future the two countries: how can China and the U.S. co-operate in the 21st century – not only to bring prosperity to the world, but also peace and security?

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David Lampton

Olsenberg-Rohlen Fellow at Stanford University
Director of SAIS-China at Johns Hopkins University

Even before Carter and Deng, Nixon and Mao, Kissinger and Zhou, we had an experience to build on when they were thinking about the relationship. Before 1949, there was a huge wave of Chinese students that came to the U.S., and Americans going to China. When we re-established educational relations in the 1970s, it was all of these people who provided the interface. So, if we keep these relations going, even with difficulties at national levels, we are keeping alive the pathways of interaction. Deng Xiaoping wanted to restore these relations and I give President Carter a lot of credit.

Q: In the beginning, Carter and Deng brought together their young students to invest in new beginnings. What is the value of this experience?

They Say...

These texts have been edited from the long-form interviews that are available on China-US Focus website (www.chinausfocus.com). You can also listen to the audios of the interviews by scanning the QR codes.



Stephen Orlins

President
National Committee on U.S.-China Relations

Numerous factors: changes in the U.S. which lead us to look for a cause for the problems here. Some are Chinese policies. What's most troubling in this era is it's much deeper than governments. In the United States, academics, think-tanks and business that formerly were supporters of constructive U.S.-China relations are not today. People should protest. When Chinese students are denied visas, everyone should protest because ultimately, that's terrible for the United States – the bright, shining city on the hill of education. People are protesting, but it's not in the strength and numbers you expect, because many Chinese policies have made people unhappy with China.

Q: For much of the past 40 years, China has moved with the United States on major global issues. Why is that partnership unraveling now?



Bob Holden

President, United States Heartland China Association
53rd Governor of Missouri

Any culture that feels it is under threat from loss of influence tries to figure out why. But we can be competitive. What we've got to do is to improve our educational system, and we've got to globalize our educational systems and student bodies, so that our young people can get to know each other as 18 years old, 19 years old, and 20 years old – not try to build relationships when they're 60 years old. The families I've met in China carry the same aspirations for their children, as the families in our country. We may approach it differently, but you get the same result.

Q: Jimmy Carter and Deng Xiaoping established educational exchanges between the U.S. and China. Exchanges are being questioned now. What once was welcome is now seen as a threat. Is that because the Chinese have improved in a short period of time?

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Briefing Book - 234

Between Complacency and Hysteria

American complacency is always a danger, but so too is lack of confidence and exaggerated fears that lead to over-reaction.



Joseph S. Nye
Professor
Harvard University

It is ironic that we are marking the 40th anniversary of US-China diplomatic relations with a tariff war. Some blame this on the idiosyncrasies of President Trump, but tensions would be present no matter who had won the 2016 election. Many Americans feel that China has not behaved fairly as a market economy in an open trading system, and many are disillusioned by Xi Jinping's departure from Deng Xiaoping's cautious policies at home and abroad. Lurking in the background is a growing fear that the rise of China will spell the end of the American era.

History is replete with cases of misperception about changing power balances. For example, when Nixon visited China in 1972, he wanted to balance what he saw as growing Soviet power. But he also interpreted growing Soviet power as a decline in American power, rather than what was actually a "return to normal" from America's artificially high share of world product after World War II. He proclaimed multipolarity, but what actually transpired was that the eventual collapse of the Soviet Union led to America's unipolar moment at the end of the century.

Today, it is equally dangerous to over or under estimate Chinese power.

Today, it is equally dangerous to over or under estimate Chinese power, and Washington has groups with economic and political incentives to do each. Measured in dollars, China is about two-thirds the size of the American economy. Many economists expect China to surpass the US as the world's largest economy, but the estimated date varies from 2030 to mid-century depending on what one assumes about the rates of Chinese and American growth. Bill Clinton's Treasury Secretary Lawrence Summers poses the key future foreign policy question:

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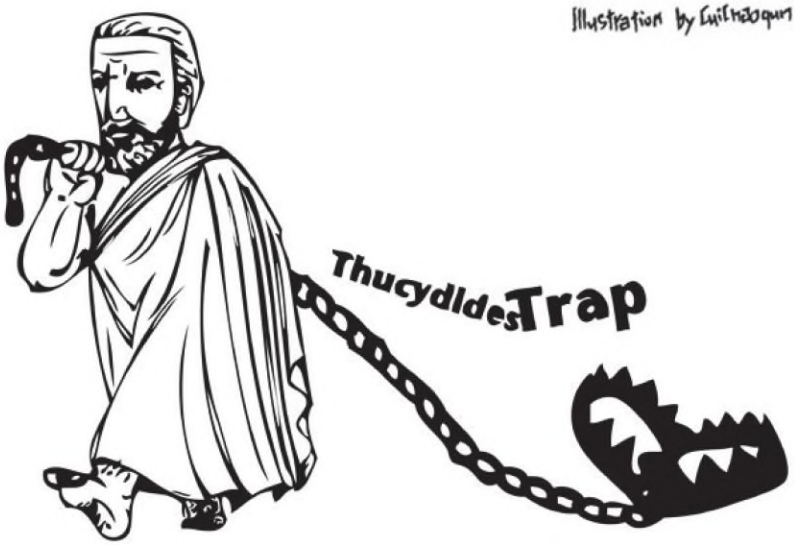
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"Can the United States imagine a viable global economic system in 2050 in which its economy is half the size of the world's largest? Could a political leader acknowledge that reality in a way that permits negotiations over what such a world would look like?"

Thucydides famously attributed the Peloponnesian war to two causes: the rise of a new power, and the fear that creates in an established power. Most people focus on the first half of his statement, but the second is equally important. The US can avoid exaggerated fears that could create a new cold or hot war. Even if China some day passes the US in total economic size, that is not the only measure of geopolitical power. China ranks well behind the US in soft power indices, and US military expenditure is four times that of China. While Chinese military capabilities have been increasing in recent years, analysts who look carefully at the military balance conclude that China will not be able to exclude the United States from the Western Pacific.

> China is not interested in kicking over the card table, but rather in claiming a larger share of the winnings.

On the other hand, the US was once the world's largest trading nation and its largest bilateral lender. Today, nearly 100 countries count China as their largest trading partner, compared to 57 that have such a relationship with the US. China plans to lend more than $1tn for infrastructure projects with its "Belt and Road Initiative" over the next decade, while the US is cutting back aid. China will gain economic power from the sheer size of its market as well as its overseas investments and development assistance. Overall, Chi-



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nese power relative to the US is likely to increase.

Nonetheless, the US will retain some long-term power advantages that are likely to persist regardless of the current actions of China or the Trump Administration. One is geography. The US is surrounded by oceans and neighbors that are likely to remain friendly. China has borders with 14 countries and has territorial disputes with India, Japan, and Vietnam that set limits on its soft power. Energy is another American advantage. A decade ago, the US seemed hopelessly dependent on imported energy. Now the shale revolution has transformed North America from an energy importer to exporter at the same time that China is becoming more dependent on energy imports from the Middle East and transport through the Indian Ocean.

The US will retain some long-term power advantages that are likely to persist regardless of the current actions of China or the Trump Administration.

The US also has demographic advantages. It is the only major developed country that is currently projected to hold its place (third) in the demographic ranking of countries. While the rate of American population growth has slowed in recent years, it is not shrinking in population as will happen to Russia, Europe, and Japan. China will soon lose its first-place population rank to India, and its working age population will decline in the coming decade. America also remains at the forefront in the development of key technologies (bio, nano, information) that are central to this century's economic growth, and American research universities dominate higher education. China is investing heavily in R&D, and competes well in some fields now, but those who proclaim Pax Sinica and the end of the American era fail to consider the full range of power resources.

American complacency is always a

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danger, but so too is lack of confidence and exaggerated fears that lead to over-reaction. The United States holds good cards, but hysteria could prevent the US from playing them skillfully. Discarding our alliances and international institutions is a case in point. Some praise the Trump Administration's trade war with China as the first bold step to check China's predatory practices, but they do not explain why this was accompanied with tariffs on our allies.

The Trump Administration has labelled China a revisionist power, but unlike Hitler's Germany or Stalin's Soviet Union, China is not an existential threat to us. "Xi Jinping thought" is not about to sweep the world. China is not interested in kicking over the card table, but rather in claiming a larger share of the winnings. We are not involved in a new Cold War like the one that existed when Jimmy Carter recognized China forty years ago. As we look ahead forty years and Chinese power grows, the American "liberal international order" will have to adapt. We will be involved in a "cooperative rivalry" with China and should not lose sight of either part of that description.



U.S. President Donald Trump met with China's President Xi Jinping during their bilateral meeting at the G20 Summit in the Argentine capital Buenos Aires, Dec. 1, 2018. The two sides reached a 90-day ceasefire in the trade dispute, suspending any new tariffs and providing room for intense negotiations.

American complacency is always a danger, but so too is lack of confidence and exaggerated fears that lead to over-reaction. The United States holds good cards, but hysteria could prevent the US from playing them skillfully.

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Is the U.S. Part of the World, or Is the World Part of the U.S.?

The U.S. cannot continue to think that it will define the international system. China's rising power means a change of world order is inevitable.



He Yafei
Former Vice Minister
Ministry of Foreign Affairs

Recent tensions between China and the U.S. have increased uncertainty and raised concern for the China-U.S. relationship and the wider world order. U.S. Vice President Mike Pence's Cold War speech and Henry Paulson's talk of an "economic iron curtain" left many people wondering if we are on the cusp of a new Cold War. Traditional pro-Chinese factions within the U.S. have either watched on silently or fallen in line. On the positive side, polls show that young people in the U.S. have more positive views of China, trade negotiations are moving ahead, albeit with difficulty, and the recent Diplomatic and Security Dialogue has prepared for the meeting between the two heads of state in Argentina, showing that channels for bilateral discussion remain open.

It is of vital importance to understand the United States. An important question to answer is: Is the U.S. part of the world, or is the world part of the U.S.?

In the 40 years since China and the U.S. established diplomatic relations, the two countries have had cooperation as well as their differences, but cooperation has dominated as common interests have outweighed differences. The two countries have worked together to promote globalization, maintain the international system and world order, and played important roles in securing world peace and economic prosperity. Their ability to improve relations in the face of adversity has been due to their willingness to find common ground in each of their development strategies. At the same time, world multi-polarization and economic globalization have provided a favorable international environment for China-U.S. cooperation. One could say that internal and external factors have been equally important. China joining the WTO to promote China-U.S. economic cooperation,

> If America insists that the world is part of the U.S., it will see imaginary enemies everywhere.

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China and the U.S. participating in the P5+1 model in the Iranian nuclear deal, cooperating in six-party talks to resolve the Korean Peninsula nuclear issue, and working together to promote the Copenhagen Accord and the Paris Agreement on climate change — all these examples prove that the U.S. needs the cooperation of other countries, especially China. The U.S., therefore, is part of the world.

> Coexistence requires tolerance; mutual benefits require cooperation; development requires openness; prosperity requires peace.

In recent years, the U.S.' strategic view of China has changed, as containment has come to dominate the American mindset. In Destined for War: Can America and China Escape Thucydides' Trap?, the author Graham T. Allison looks at 16 cases in which a rising power has confronted an established power and concludes that the U.S. and China will inevitably fall into the trap and go to war, and the Trump administration's National Security Strategy would seem to support this assertion. However, there are at least two major misunderstandings bound up in this judgment. The first is that it ignores the fact that interests of all countries, especially China and the US, are interdependent in the era of globalization. The second is that it places the U.S. above the rest of the world by assuming the world is under U.S. dominion, thereby ignoring the rights of China and the rest of the world to develop.

After the Peace of Westphalia in 1648, the international system was dominated by Europe, with Asia, Africa, and Latin America on the periphery. After World War II, the world fell under the dominance of the U.S. The West, therefore, formed a view of world order that was centered on Europe (later the U.S.). Although the United Nations-based international system contains the idea of the democratization of international relations, the "center-periphery" system that had been in place for nearly 400 years led to the entrenched belief in strength and zero-sum thinking. Some countries still superstitiously cling to the law of the jungle, hoping to use military and economic power to subjugate the world and crush opponents.

As we all know, in this new historical era of great change, development, and

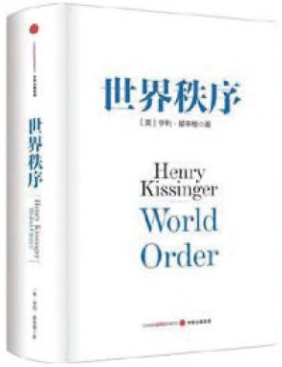
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adjustments, regardless of how strong a country is, every country is part of this world, and there needs to be a rule-based global governance system to manage it. The existing global governance system gives countries the opportunity to coexist and compete peacefully. Moreover, due to the large number of nuclear weapons to ensure mutual assured destruction (MAD), the option of using war to resolve issues has been basically removed. As such, seeking to make the world one's own and clinging onto the "center-periphery" world view runs contrary to the trend of history. Only by safeguarding the interests of the community and building a community of shared future for mankind will all countries be able to move forward.

From this perspective, it seems that the US has actually betrayed the ideas of democracy and freedom held dear by its founding fathers and has become entangled in an imperial complex from which it is having difficulty extracting itself. This mode of thinking of the superiority of Western civilization rooted in American exceptionalism has severely biased the U.S.'s perception of the world and of China's development, which is gradually constricting China-U.S. relations. In addition to this, U.S. President Donald Trump has championed the America First cause, leading the U.S. to confront Russia, place sanctions on Iran, exert pressure on China, and test relations with traditional allies, all of which has caused tensions in many regions and in bilateral relations, and led to disorder and fragmentation of global governance.





World Order, by Henry Kissinger, 2014. In World Order, Henry Kissinger stated that the current world order will not last because it is mainly a manifestation of the U.S. concept of order, which is not universally legitimate.

At a time when the world is undergoing changes, turbulence, and adjustments, conflicts of interest are inevitable. If America insists that the world is part of the U.S., it will see imaginary enemies everywhere. If an imaginary enemy

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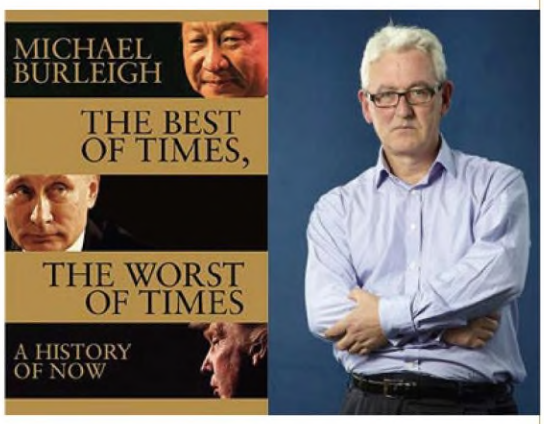
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becomes a true enemy, then traps will appear. This will not only harm the U.S., but the rest of the world. In *The Best of Times, The Worst of Times: A History of Now,* British author Michael Burleigh warns the U.S. that it should not imagine China as an upgraded version of the German Empire and that it is dangerous and irresponsible to portray China as a ubiquitous threat.

President Xi Jinping promised, "No matter how much China develops, we will not threaten anyone, subvert the current international system or pursue the establishment of our own sphere of influence." The Chinese leader's "Three-No" commitment embodies China's world view, in which it sees itself as part of the world. One can only hope that the U.S. will abandon its old way of thinking, realize that the U.S. is also part of the world and start to treat China and the rest of the world as equals to achieve mutually beneficial cooperation.



In The Best of Times, The Worst of Times: A History of Now, British author Michael Burleigh warns the U.S. that it should not imagine China as an upgraded version of the German Empire and that it is dangerous and irresponsible to portray China as a ubiquitous threat.

In *World Order,* Henry Kissinger stated that the current world order will not last because it is mainly a manifestation of the U.S. concept of order, which is not universally legitimate. It is, therefore, destined to face a crisis when a major shift in power relations occurs. Any crisis of world order will be a crisis for the U.S. Ultimately, this crisis will be the result of the U.S. misunderstanding itself and the world.

The current world order is a set of global governance systems and rules centered on international organizations such as the United Nations, which is based on the Westphalian system of sovereign states. It is an open and expanding order. There are currently three major problems in the world: First, the gap between rich and poor is widening, with market benefits and social equality proving difficult to reconcile; second, developing countries do not have enough of a voice on the global stage, and the transition of global governance from being Western-dominated to being shared by East and West is moving very

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slowly; third, geopolitical contradictions are deepening, interfering with the consensus of the international community on comprehensive cooperation. It is imperative that world order be adjusted.

Einstein once said, "Problems cannot be solved with the same mindset that created them." He was talking about scientific research, but it applies just as well to geopolitics.

At the APEC Summit in 2018, President Xi Jinping clearly stated, "We must strengthen rule-based global governance if we are to achieve stability and development. Rules should be formulated by the international community, not in a might-is-right way. Once the rules are made, they should not be followed or bent as one sees fit, and they should not be applied with double standards for selfish agendas."

> Regardless of how strong a country is, every country is part of this world, and there needs to be a rule-based global governance system to manage it.

Many conflicts around the world have been caused by the U.S. resorting to force and abusing its hegemony. The reason for this is its idea that the world is part of the U.S. Is it not time that the U.S. abandon this logic that justifies suppressing opponents by force to maintain U.S. dominance? For the international community, this only leads to what Samuel Huntington calls "a society that is truly helpless and hopeless."

The truth is that the old world order is unsustainable and the old way of thinking is illogical. The view of the world dominated by the U.S., which is based on American exceptionalism, is outdated. A new world order guided by the establishment of a global community with a shared future should be our main aim. The U.S. remains a strong world power, but to maintain its position it must be part of the world and continue to cooperate with China and other parties to strengthen rule-based global governance and gradually achieve the smooth transition to a new world order. Coexistence requires tolerance; mutual benefits require cooperation; development requires openness; prosperity requires peace. These should be the basic tenets of the new world order.

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Looking Back and Looking Forward

At this time of high stress in U.S.-China relations, it is worth recalling just how far the two countries have come in their relationship over the past four decades and reflecting on the multiple societal bonds that still link them together.

Forty years ago the world was stunned as the United States and the People's Republic of China established "normal" diplomatic relations. The surprise move came following eight months of secret negotiations in Beijing and six years after President Richard Nixon's groundbreaking visit to China in February 1972.

It was not easy "getting to yes" for the negotiators, and they never did agree on the sensitive issue of American arms sales to Taiwan—but President Jimmy Carter and senior Chinese leader Deng Xiaoping (who oversaw and conducted the final round of the negotiations on the Chinese side) agreed that the time had come for these two great powers to have normal interactions after three decades of estrangement. Deng himself commemorated the event by personally visiting the White House and several cities across the United States in January 1979.

At this time of high stress in U.S.-China relations, it is worth recalling just how far the two countries have come in their relationship over the past four decades. Consider some of the things that link the two societies together.

Forty years ago there were no students exchanged—today there are 363,341 Chinese students studying in American universities and an estimated 80,000 in American secondary schools, while there approximately 12,000 American students studying in China. Scholarly exchanges have come a very long way since I was among the first groups of American students to go to China in 1979. Instead of studying in Chinese classrooms, as I did at three different Chinese universities, I have taught many Chinese students in my classes over the past three decades. Scientists, doctors, social scientists, humanists, and other specialists now inter-



David Shambaugh
Gaston Sigur Professor
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act professionally and many collaborate on joint projects. Of the several million Chinese students who have studied in America since 1979, a considerable number have become American citizens following graduation and have built their lives in the United States.

Trade was a paltry $2.3 billion in 1979 but ballooned to $636 billion in 2017. Forty years ago there was no U.S. commercial direct investment in China, today total accumulated stock has reached $256.49 billion. Meanwhile, China's investment in the U.S. has grown from zero to $139.81 billion today. Despite the multiple stresses in the bilateral commercial relationship at present, epitomized by the ongoing tariff war, the economic bonds continue to tie the countries together.

> At this time of high stress in U.S.-China relations, it is worth recalling just how far the two countries have come…

Four decades ago only a few of American tourists visited China, while none traveled to the United States. During 2018 an estimated 3.24 million Chinese tourists will have visited America, with approximately 2.25 million Americans going to China. Approximately 250 direct flights per week traverse the Pacific between the two countries. These people-to-people ties are buttressed by more than 201 sister city and 44 sister state-province relationships. Although exchanges between non-governmental organizations have contracted sharply since China's 2017 NGO law went into effect, there are still about 20 American NGOs registered in China.

Over the decades dozens of bilateral agreements have been signed by the two governments to facilitate exchanges in a wide variety of fields—ranging from the sciences to athletics. American sports, popular culture, and brands remain very popular among the Chinese public—while Chinese films, literature, and arts are gaining traction with the American public.

Thus, when the two tigers are fighting—as the two governments are currently doing—it is worthwhile to reflect on the multiple societal bonds that still link the two countries together. These ties did not grow by accident—they were very much

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in the minds of Deng Xiaoping and President Carter. When the two met at the White House in January 1979 their conversations had as much to do with the potential for building intersocietal and intergovernmental linkages than it did with countering the Soviet "Polar Bear." Their reasoning was that the two governments' common strategic opposition to the Soviet Union at the time would one day dissipate or disappear, and when that day came the two sides would need a stronger foundation on which to base their mutual relationship. It was not only their vision to construct linkages between the two societies, but also to give the two government bureaucracies more positive missions of cooperation. This latter strategy produced countless intergovernmental dialogues that endure to this day—such as the U.S.-China Diplomatic & Security Dialogue, U.S.-China Social & Cultural Dialogue, and the Joint Commission on Commerce and Trade.

Over four decades the relationship has certainly had its ups and downs, but it has endured. The 1980s was the honeymoon period, where the two sides began to get to know each other and Americans were transfixed by the encouraging economic, social, and political reforms being undertaken by Deng Xiaoping, Zhao Ziyang, and Hu Yaobang. President Ronald Reagan's administration did much to build the bilateral relationship and implement Carter's vision for broad-based ties. Then came the traumatic events of June 4, 1989, which resulted in a sharp curtailment in relations (although not a rupture in diplomatic ties), which lasted until the mid-1990s. Under Presidents Clinton and Jiang Zemin the two sides began to reengage in the 1996-97 timeframe and, following the May 2001 EP-3 Incident, this momentum continued throughout the presidency of George W. Bush (2001-2008). Relations during the Obama presidency—which spanned the leaderships of Hu Jintao and Xi Jinping—were a mixture of some cooperation but growing competition. In retrospect, the presidencies of Reagan and Bush 43 witnessed the longest periods of sta-

Now predominant "competition" is the "new normal." The challenge, therefore, is for both sides to learn how to manage the competition so that it does not morph into a fully-fledged adversarial relationship.

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Mao Zedong (third left) and President Nixon (fourth left) meeting in Zhongnanhai. Also present are Zhou Enlai (first left) and U.S. Secretary of State Kissinger (first right), interpreter Nancy Tang (second left). 1972.

bility and cooperation over the past 40 years.

The current period, during Donald Trump's presidency, is obviously deeply strained. Yet, beyond the daily headlines of frictions, underneath a quieter set of thick interactions and exchanges endure to tie the two societies together in times of trouble. This is exactly as Carter and Deng envisioned it forty years ago, and is worth remembering today as the two major powers increasingly clash over a range of issues. This is what makes the current U.S.-China competition fundamentally different than the US-Soviet Cold War.

Nonetheless, we would be mistaken to oversell these mutual bonds and underappreciate the deep sources of stress and suspicion in both countries. These frictions, and the perceptions that underlie them, are real—and now dominate the relationship. U.S.-China relations have always been a mixture of cooperation and competition and friction, but until recent years the former outweighed the latter. Now predominant "competition" is the "new normal." The challenge, therefore, is for both sides to learn how to manage the competition so that it does not morph into a fully-fledged adversarial relationship.

U.S.-China relations have always been a mixture of cooperation and competition and friction, but until recent years the former outweighed the latter.

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Historic Value of the Past 40 Years

Two historic events 40 years ago have turned China into a global economic power and benefited U.S. interests.

December 2018 marks two simultaneous 40 years anniversaries of historic significance: China and the US established diplomatic relations on December 16, 1978, and China launched reform and opening-up on December 18, 1978. This is not a coincidence.

Deng Xiaoping, the master designer of China's reform and opening-up, held that China must normalize its relations with the United States to make the reform and opening-up a success. Two days before the opening of the historical 3rd Plenary Session of the 11th CPC Central Committee, China and the United States signed the joint communique on establishing diplomatic relations as from January 1, 1979. A month later, Deng Xiaoping visited the United States where he had long discussions with President Jimmy Carter.

Forty years of normalized relations between China and the US has played a vital role in supporting China's reform and opening-up. It has not only provided a stable international environment for China, but also resulted in numerous concrete tools securing mutually beneficial cooperation. The two countries have signed hundreds of agreements covering trade, science and technology, education, intellectual property, agriculture, energy, education, tourism, medical service, culture and more. The massive investment of US multinational companies, which boasts over 68,000 US-invested businesses in China today, has brought tremendous new products, new technologies, new visions and market opportunities to China. They also supported 1.74 million jobs directly. Two-



He Weiwen

Senior Fellow
Center for China and Globalization

Regardless of twists and turns ahead, China-U.S. relations will ultimately return to the track of win-win collaboration.

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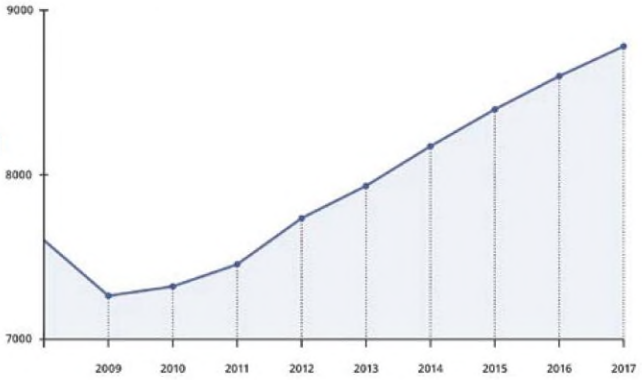
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way trade increased 233-fold from 1979 to 2017, unprecedented in human history, contributing to economic growth in China. Over the past 40 years of reform and opening-up, over five million Chinese students studied abroad, with over one third of the total studying in the US, acquiring the latest knowledge and expertise in various sectors in the world. China has also benefited from cooperation with the US in the contemporary law making, and in learning and following international trade rules. With hard, protracted talks, China and the US reached the agreement on China's accession to the WTO on November 15, 1999, which was the key for China's WTO membership two years later. The latter in turn helped turn China into a leading trading power 15 years later. All the above developments provided a strong push in China's reform and opening-up and in her integration into the world.

> The past 40 years have proved that a sound relationship between China and the U.S. is important to China's reform and opening-up, and a constantly opening China is also essential for the U.S.

On the other hand, the continuous reform and opening-up in China has also provided vast opportunities for American businesses and the American people. According to a joint study by US-China Business Council (USCBC) and the Oxford Research Institute, two-way trade and investment in 2015 alone contributed 1.2 % to US GDP, and supported 2.6 million jobs. In recent years, Chinese exports to the US lowered the US CPI by 1.5 percentage points and saved roughly $850 per family each year. The US has also benefited tremendously from China's accession to the WTO. According to USDOC data, from 2002 to 2017, US exports to China increased by 487%, four times as fast as its exports to

Total Employment (Thousands) Supported by Chinese Tourists Visiting U.S.



Source: U.S. Travel Association

- **US$7,100 per trip is what Chinese visitors spend on average in the U.S.**

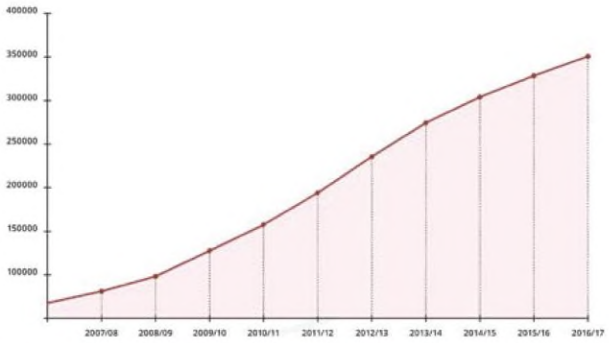
Since 2013, over 8,000 U.S. jobs have been created due to Chinese tourism to the U.S., fueling American employment in a variety of sectors such as auto rental, hospitality, and more.

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Growth in Chinese Students Studying in U.S.



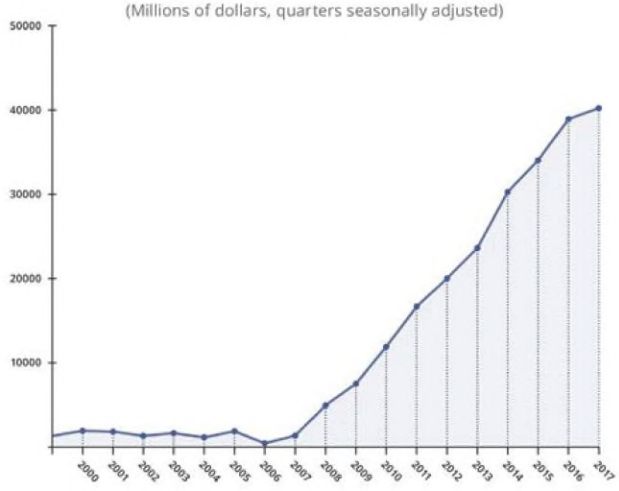
Source: U.U.S. Commerce Department and Association of International Educators

- **Chinese students contributed US$12.55 billion to the U.S. economy in 2016.**

During the 2016/2017 school year alone, over 300,000 Chinese students joined their peers in U.S. classrooms, generating over 150,000 jobs for the American economy.

The U.S. Trade Surplus with China in Services

(Millions of dollars, quarters seasonally adjusted)



Source: The Bureau of Economic Analysis, The U.S-China Business Council and the Department of Commerce

Although the U.S. has a trade deficit with China, a less-well known fact is that the U.S. actually ran a $39 billion surplus in services trade with China in 2017.

- **U.S. service exports to China totaled $54.2 billion in 2016 alone.**
- **U.S. trade surplus with China in services was $38 billion in 2016.**
- **U.S. goods exports to China accounted for 8% of overall U.S. exports in 2016.**

the rest of the world (including China), which increased by 123.1%. Its imports from China rose by 303.8% during the same period, while its imports from the rest of the world was up only 101.7%.

During the past 40 years of reform and opening-up, China's average tariff levels were brought down from over 30% to 7.5% by November 2018, and most of the non-tariff barriers have been removed, offering an ever expanding market for the US exporters. China now accounts for 57% of US soybean export sales, 25% of Boeing's global sales, and 20% of US automotive exports. China's continuous opening-up in market access has provided promising opportunities for US multinational enterprises. According to the latest data by the Bureau of Economic Analysis, by the end of 2016, China accounted for only 1.6% of total US multinational enterprises' overseas investment assets, but for 6% of total overseas sales, 2.6% of total overseas net revenue, and 5% of total overseas added value. It shows that China is a market with higher than average returns for US multinationals. The AmCham 2018 White Paper also found that close to 60% of its members had put China among the top three of their global investment destinations, and one third of them had planned a 10% or more investment increase in 2018. A recent Rhodium Group report showed that, by the end of 2017, total US investment stock in China reached $200 billion, making a profit of $70 billion out of local sales, which were over $600 billion, larger than Chinese exports to the US, which

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were at $505.6 billion in 2017, according to USDOC data.

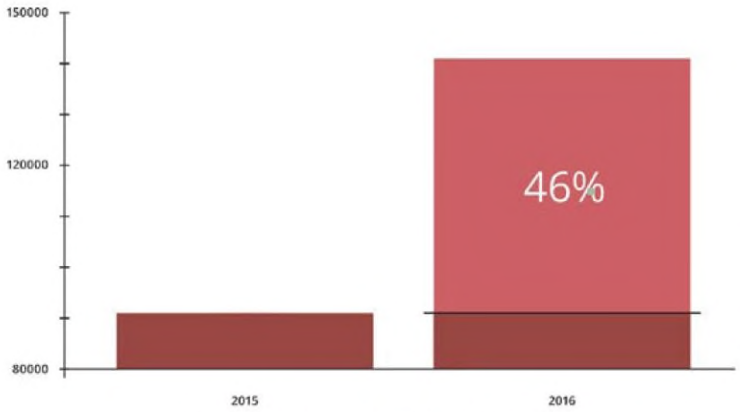
The past 40 years have proved that a sound relationship between China and the US is important to China's reform and opening-up, and a constantly opening China is also essential for the US.

The current sharp downturn in bilateral relations since President Donald Trump took office, especially the ongoing trade war, is good for no one. A fundamental concern behind the latest Trump Administration's China policy is the mentality of the "China threat". They assume that China will threaten the US' global dominance in both geopolitics and high-tech industries. But the past 40 years of bilateral diplomatic relations and China's reform and opening-up show that China has no interest in challenging the US in either field.

Although China's total GDP is already two thirds that of the US, its per capita GDP, estimated at around $9,700 in 2018, is still below the world average of $11,000. The downward pressure in China's economy justifies upgrading manufacturing to higher end products to keep the economy growing. If China wants to avoid the "middle income trap" and create a high-income society, its per capita GDP will have to reach at least $14,000, or a total GDP of $19.6 trillion, very close to the current size of the US economy. Will that be a threat to the US? Absolutely not. At that level, China's per capita GDP will be less than a quarter of the current US level ($60,000), or less than half that of the average in OECD countries. China will still have a long way to go to bring happy lives to its people. It will pose no threat to US dominance.

The two 40-years anniversaries are treasured memories for both countries, reminding us what is good for both and what might hurt the interests of each. A stable relationship and prosperous future depend on the strategic vision and practical efforts by governments, businesses, academics, and peoples. Regardless of twists and turns ahead, China-US relations will ultimately return to the track of win-win collaboration.

Growth in Number of Americans Employed by Chinese-owned U.S. Companies



Source: The Rhodium Group, U.S. Travel Association

In 2016, the number of people employed in America by Chinese companies rose by more than 50%.

- **Chinese companies added about 50,000 U.S. employees to their payrolls in 2016.**
- **141,000 Americans were employed by Chinese-owned U.S. companies in 2016.**

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Moments and Bridges

1979 ▶



On Jan 31, 1979, Chinese Vice Premier Deng Xiaoping and U.S. President Jimmy Carter signed historic diplomatic agreements in the East Room of the White House during Deng's state visit to the U.S. The two leaders normalized diplomatic relations between their countries and reversed decades of U.S. hostility to the People's Republic of China.

◀ 1979



Mrs. and Mr. Carter inspected a gift from Deng Xiaoping at the White House on Jan 31, 1979.

▼ 1984



Deng Xiaoping welcomed President Ronald Reagan and First Lady Nancy Reagan into the Great Hall of the People in Beijing on Apr 28, 1984. Reagan was on his first visit to China as the president.

1989 ▶



President George H.W. Bush and his wife Barbara Bush waved to the crowds in the Tiananmen Square on Feb 25, 1989.

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1998 ▶

At the dinner in Beijing on Jun 27, 1998, to welcome President Bill Clinton, leaders of the two countries conducted music bands, President Jiang Zemin directing the band to play "Ode to the Motherland", while President Clinton directing the music of "Hands Across the Sea".



President Hu Jingtao and First Lady Liu Yongqing (right) greeted President George W. Bush and First Lady Laura Bush (left), who had been invited to attend the 2008 Beijing Olympics Opening Ceremony on Aug 8, 2008.

▼ 2008



President Barack Obama presented Chinese president Xi Jinping with a gift of an inscribed redwood park bench at the Annenberg Retreat before their bilateral meeting at Sunnylands, California on Jun 8, 2013.



◀ 2013

▼ 2009



Before dinner on Nov 16, 2009 in Zhongnanhai, President Obama and President Hu Jintao made noodles in the kitchen with the chefs.

▼ 2017



President Xi Jinping, his wife Peng Liyuan, U.S. President Donald Trump and First Lady Melania Trump listened as Trump's granddaughter Arabella Kushner sang a Chinese folk song and recited classics of Chinese literature in the Mar-a-Lago resort in Florida on Apr 6, 2017.

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1971 ▶



Chinese three-time world champion Ping Pong player Zhuang Zedong (left) presented a Yellow Mountain silk weaving art piece to American athlete Glenn Cowan (right) on Apr 4, 1971. "Ping Pong Diplomacy" led to a domino of events that eventually saw the normalization of the relationship with Washington.

◀ 1971



Vice Chairman of the Central Military Committee Ye Jianying (second left) greeted U.S. Secretary of State Henry Kissinger at the airport on behalf of the Chinese government on Jul 9, 1971. From July 9 to 11, Kissinger took a secret mission to China during his visit to Pakistan, under the cover of a health issue. Kissinger and Chinese Premier Zhou Enlai conducted six meetings and finally agreed on the schedule and logistics of Richard Nixon's visit which opened up a new chapter of China-US relations.

▼ 1972



Chairman Mao (third left) received President Nixon (fourth left) in his study at the Chinese government compound of Zhongnanhai on Feb 11, 1972. Also present were Zhou Enlai (first left) and U.S. Secretary of State Kissinger (first right), interpreter Nancy Tang (second left).

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1979 ▶

Renowned American violinist Issac Stern coached Chinese violin students in Shanghai. Not long after the establishment of China-US relations, Isaac Stern paid his first trip to China in 1979. That historic visit came to be immortalized in the Oscar-winning documentary "From Mao to Mozart." Concerts aside, Stern also spent time during his visit at China's Central Conservatory of Music and the Shanghai Conservatory of Music, imparting his wisdom to Chinese students along the way.

1979 ▶

The freighter Liulinhai set off from Shanghai to Seattle in March, 1979, signaling the resumption of ocean shipping between China and the United States.





◀ 1981

A Chinese man holding out a bottle of Coca Cola in 1981. On the same day of the announcement of diplomatic normalization between China and the U.S., Coca-Cola announced its return to China after a 30-year absence and opened its first bottling factory in Beijing in 1981.

1981 ▶

On the morning of January 7, 1981, the Civil Aviation Administration of China (CAAC) celebrated the inaugural commercial flight between China and the United States. This first trip was flown by an Air China jet from Beijing to New York, stopping in Shanghai and San Francisco. Just a few weeks later, Pan-American World Airways also began regular commercial flights between the two countries.



▼ 1981



U.S. President Jimmy Carter rope-danced with kindergarten kids when he visited Xi'an Cotton Mill Kindergarten on Aug 28, 1981.

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▼ 1985



Deng Xiaoping met with American journalist delegation during their revisit to China in 1985.

Disney characters Mickey Mouse and Donald Duck greeted Chinese children in 1986 on a trip to China as ambassadors from Disneyland. The first television show to be aired in China showing the two characters debuted that same year. In subsequent years, the show was reported to have viewership approaching a quarter of the entire Chinese population, a whopping 250 million people.

1986 ▶



American International Group (AIG) Chairman Maurice R. Greenberg held up the license granting his company approval to become the first foreign insurance company in the People's Republic of China on Oct 5, 1992.



◀1992



1999 ▶

American WTO Representative Charlene Barshefsky (middle) was overwhelmed on the day of the WTO agreement by the U.S. and China. She pointed out her forefinger and made a 180 degree turn from left to right on Nov 15, 1999.

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◀ 2000

Two Chinese Navy ships, the destroyer Qingdao and the oiler Taicang, visited the United States naval base at Pearl Harbor, Hawaii in 2000. Sailors from both countries watched a traditional Lion Dance.

2004 ▼

Eunice Moe Brock, an American native living in Shandong, took her donkey loaded with 20 bags of Christmas gifts to students of Liumiao primary school on Dec 25, 2004. Brock spent the first 13 years of her life in the small village of Liumiao, but returned to the United States with her parents in the early 1930s. In 1999, Brock moved back to Liumiao to volunteer as an English teacher. She donated over $50,000 to various causes in Shandong, gaining her the admiration of many in her community.





◀ 2012

For the first time ever, Chinese conductor Yu Long directed the American New York Philharmonic Orchestra at the Chinese New Year concert at the Carnegie Center in 2012.

2015 ▶



Flying Tiger veterans returned to Zhijiang, Hunan where Japanese surrendered in 1945. September 5, 2015.



◀ 2014

Microsoft Founder Bill Gates met with Alibaba Founder and Executive Chairman Jack Ma in Beijing to discuss philanthropy in 2014.

Photo credits: The Carter Center, Xinhua News Agency, *200 Years of Sino-US Relations*, *Shanghai Images: A Pictorial Century of Sino-U.S. Relations*

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Africa Doesn't Need A New Cold War, Either

Recently, the White House released its new U.S. Africa strategy, which seeks militarization and portrays China as a threat. This is misguided. Africa can greatly benefit from Chinese and U.S. economic development.



Dan Steinbock
Founder
Difference Group

On December 13, 2018, U.S. National Security Adviser John Bolton gave a speech in the conservative Heritage Foundation about the Trump administration's new "Africa strategy," which is based on Trump's 'America First' foreign policy doctrine.

In the United States, the media focus was on Bolton's attack against U.S. adversaries and American aid. Specifically, Bolton accused Russia and China of "predatory practices" in Africa.

In practice, the Trump administration's Africa strategy implies a militarization of U.S. activities in Africa to undermine Chinese economic activities there, which have contributed to modernization and growth on the continent.

Militarization of U.S. Africa Strategy

In 2017, the United States had $39 billion in total goods trade with Sub-Saharan African countries and a trade deficit of $10.8 billion. America's largest export markets were South Africa, Nigeria, Ghana, Ethiopia, and Angola. In imports, Cote d'Ivoire and Botswana played a role as well.

In the past, U.S. Africa strategy focused mainly on economic cooperation and aid, and secondarily on military cooperation. In the new strategy, the focus areas have been reversed. The 'America First' Africa strategy purports to address three core U.S. interests in Africa:

"First, advancing U.S. trade and commercial ties with nations across the region to the benefit of both the United States and Africa...Second, countering the threat from Radical Islamic Terrorism and violent conflict...And third, we will ensure that U.S. taxpayer dollars for aid are used efficiently

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and effectively."

While the first core interest ostensibly involves economic dealings, it actually doesn't. True, the Trump administration "wants our economic partners in the region to thrive, prosper, and control their own destinies," but it downplays all economic efforts to boost African prosperity.

It is the second principle that is the key to the new U.S. Africa strategy. According to Bolton, "ISIS, al-Qaida, and their affiliates all operate and recruit on the African continent, plotting attacks against American citizens and targets." The new strategy sees Africa mainly as a base of Islamic terrorism, which must be defused on the continent so that it will not threaten American interests.

Third, instead of "indiscriminate assistance across the entire continent," the new strategy will no longer support "unproductive, unsuccessful, and unaccountable U.N. peacekeeping missions."

That's why the 'America First' stance portrays itself as adversarial to the Chinese efforts to boost global economic integration through the Belt and Road initiative in emerging and developing economies. China's economic contribution is seen mainly in hostile terms, as an effort to "dominate the world." As Bolton puts it: "[China's] predatory actions are sub-components of broader Chinese strategic initiatives, including 'One Belt, One Road'—a plan to develop a series of trade routes leading to and from China with the ultimate goal



U.S. National security adviser John Bolton unveiled the Trump administration's new Africa strategy on Dec. 13, 2018, which greatly cuts aid to the continent and places tougher conditions on financial and military support, as a way of countering the growing influence of China and Russia in Africa.

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of advancing Chinese global dominance."

Since economic facts do not support the Trump administration's narrative, it relies increasingly on ideological trashing without elementary efforts to verify the charges.

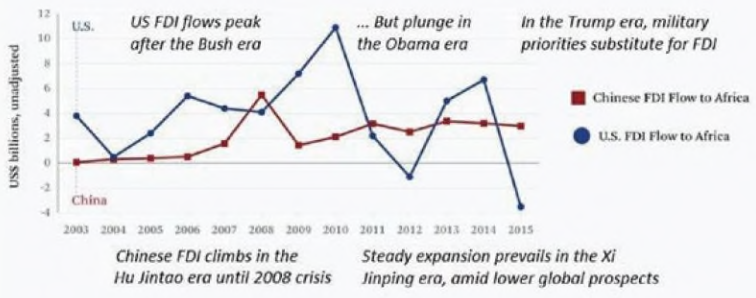
Chinese Economic Cooperation in Africa

Since the mid-2010s, Washington has accused China of "neocolonialism" in Africa. The misguided narrative seeks to reframe the eclipse of the commodity super-cycle, which caused a drastic fall in commodity prices, presumably as another Chinese plot.

In 2016, the value of China-Africa trade was $128 billion, almost three times bigger than U.S. trade with the continent. The largest African exporters to China comprise Angola, South Africa, and the Republic of Congo, whereas the largest buyers of Chinese goods include South Africa and Nigeria. Sino-African trade increased rapidly some two decades until the fall of the commodity prices since 2014, when bilateral trade peaked at $215 billion. Since then, the value of African exports to China has been penalized, even as Chinese exports to Africa have remained steady.

Meanwhile, U.S. investment in Africa has collapsed. U.S. FDI into Africa grew through the Bush years, when the White House still hoped to benefit from the impending modernization and industrialization in several African economies. But as the Obama administration presented its Africa vision in the early 2010s, U.S. FDI first plunged and then collapsed (Figure).

Figure: Chinese FDI and US FDI to Africa (flows), 2003-2015



Source: UNCTAD; China Statistical Yearbook; Difference Group

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The new Africa strategy is actually based on the old neoconservative Wolfowitz Doctrine, which emerged in the early '90s and which says that the American goal must be "to prevent the re-emergence of a new rival..."

When the administration began its public attack against Chinese initiatives in the fall, these outbursts were preceded by President Xi Jinping's speech in the 2018 Forum on China Africa Cooperation (FOCAC). Xi pledged $60 billion to the continent in loans, grants, and development financing.

In turn, the new U.S. Africa strategy is largely dictated by the concern that in two decades, China has become Africa's largest economic partner. In contrast to Bolton's fearful images of Chinese negative impact in Africa, leading business consultancies, including McKinsey, offer very different accounts. The former is based on ideological bashing without facts. The latter reflects simple economic analysis:

In the past two decades, Africa-China trade has been growing at some 20% per year. Foreign direct investment (FDI) has grown twice as fast in the past decade. McKinsey estimates China's financial flows to Africa are 15% higher than official figures when non-traditional flows are included. China is also a large and fast-growing source of aid and the largest source of construction financing, which support Africa's ambitious infrastructure developments.

But is Chinese infrastructure investment in Africa really a threat to U.S. interests?

U.S., China, and Africa: Two Scenarios

Ever since the release of the U.S. administration's new 2017 National Security Strategy, China has been perceived as America's adversary rather than a partner: "For

Bolton on the U.S. Africa Strategy:	Mckinsey on China in Africa:
China uses bribes, opaque agreements, and the strategic use of debt to hold states in Africa captive to Beijing's wishes and demands. Its investment ventures are riddled with corruption, and do not meet the same environmental or ethical standards as U.S. developmental programs.	The Chinese "dragons"—firms of all sizes and sectors—are bringing capital investment, management know-how, and entrepreneurial energy to every corner of the continent—and in so doing, they are helping to accelerate the progress of Africa's "lions," as its economies are often referred to.

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decades, U.S. policy was rooted in the belief that support for China's rise and for its integration into the post-war international order would liberalize China."

The new Africa strategy is actually based on the old neoconservative Wolfowitz Doctrine, which emerged in the early '90s and which says that the American goal must be "to prevent the re-emergence of a new rival, either on the territory of the former Soviet Union or elsewhere that poses a threat." As a result, the White House sees U.S. and China today mainly in competitive zero-sum terms.

But there is another future scenario that sees the increasingly multipolar world economy as a strength rather than a liability. It is predicated on more stable, global prospects as emerging and developing economies can focus on economic development, instead of militarization.

In Africa, the multipolar scenario would not foster "major power competition," as the U.S. Africa strategy does. Rather, it would drive a win-win scenario, in which both America and China would increasingly trade and invest, and provide development aid to African economies. That would accelerate modernization and industrialization across the continent, which, in turn, would raise living standards. With rising prosperity, violent terror would diminish.

The multipolar scenario would fulfill the three U.S. core interests in Africa and foster triangular economic ties among the U.S., China, and Africa, while intensifying modernization in the continent. In contrast, the old new U.S. Africa strategy may undermine such futures.

Economic facts do not support the Trump administration's narrative, it relies increasingly on ideological trashing without elementary efforts to verify the charges.

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Trump's 'New African Strategy'

Trump's Africa strategy is a self-serving reaction to Chinese ties to the continent.



He Wenping

Senior Fellow
Charhar Institute

US President Donald Trump has finally set his eyes on the long-overlooked Africa. National Security Advisor John Bolton announced the long overdue new African strategy. Yet the new 'Prosper Africa' initiative takes as its guide the 'old principle' of 'American interests first'. Cooperation with Africa has been arranged completely on the basis of American interests instead of those of Africa. The administration also declared in no uncertain terms that the new strategy is aimed at balancing Chinese and Russian influence in Africa, raising the spectre of an economic Cold War.

Embedding 'American interests first' in the new African strategy

Trump's knowledge of and statements about Africa before and since his inauguration on 20 January 2017 have long been criticized by African countries and the world community at large. As a presidential candidate, Trump never concealed his negative views of Africa and Africans, describing Africans as 'lazy fools only good at lovemaking and stealing' and claiming that Africans should 'go back to Africa' if they don't like America. In the past two years in the White House, the President has never visited Africa and has received only one African leader, Nigerian President Muhammadu Buhari. His tweets have been consistently contemptuous of Africa, calling African countries 'shithole countries' and even ranting about the 'large scale killing of white farmers' in South Africa's land reform.

Besides being a big mouth on African countries and affairs, Trump has appointed neither an assistant secretary of state for African affairs nor ambassadors to several African countries for a long time. Nonetheless, in the past half year, as the midterm elections came to an end, and in the face of continued growth of China-Africa relations, President Trump could no longer sit still. Not long ago First Lady Melania Trump was sent to Africa for a visit and now the new African strategy has been released.

According to Bolton, the new strategy will be guided by the principle of 'American interests first' and focus on three areas. Economic cooperation will be strengthened with the 'Prosper Africa' plan by signing more extensive

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bilateral economic agreements and supporting American investments in Africa. In terms of anti-terror and military cooperation, the US will continue striking ISIS and other extremist organizations in Africa while gradually reducing American military presence there by about 10% in the coming three years. In terms of assistance, the US will target its funding selectively toward key countries and particular strategic objectives instead of indiscriminate assistance across the entire continent so as to achieve higher efficiency for American assistance.

In other words, there will be no equal treatment without discrimination in the future. Instead, while providing assistance to Africa, the US will select the recipients and determine the amounts completely on the basis of their closeness to the US. Bolton announced that the US is making a global assistance strategy to make sure any sum of aid money is being used to advance American interests. He was also explicit that those countries voting against the US on international forums or taking actions counter to US interests 'should not receive generous American aid.'

> Cooperation with Africa has been arranged completely on the basis of American interests instead of those of Africa.

The new African strategy is aimed at balancing Chinese and Russian influence in Africa

In his statement on the new African strategy, Bolton identified China and Russia as America's competitors in Africa, accusing them of 'rapidly expanding economic and political influence in Africa' through 'predatory practices'. The new strategy beautifies the American vision for Africa as 'independence, self-reliance and growth' while labelling Chinese and Russia cooperation there as creating 'dependence, subordination and debt'.

Keeping a close watch on China and being jealous of the rapid growth of China-Africa relations seems to have motivated Trump's new African strategy. As early as last March, then Secretary of State Rex Tillerson selected Ethiopia, Djibouti, and Kenya as the destinations for his first African visit, apparently having China in mind. The first Chinese overseas logistics base is in Djibouti and China has helped construct a port, a free trade zone, and a railway linking Djibouti to Addis Ababa. Kenya and Ethiopia are both strategic fulcrums of the Belt and

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Road Initiative and examples of capacity cooperation. Ethiopia is even described by some Western media as 'China in Africa'. In a speech at the Detroit Economic Club on 18 June, Secretary of State Mike Pompeo also made it clear that the US will take action in Africa to drive Chinese influence out of the continent and let Africa follow American economic and political models. With the Beijing Summit of the Forum on China-Africa Cooperation (FOCAC) identifying eight action areas with a total worth of $60 billion, the American government has also created the US International Development Finance Corporation and given it the power to decide on the investments of $60 billion dollars, primarily in Africa.

As a matter of fact, China has always welcomed, encouraged, and even led international cooperation in Africa. President Xi Jinping has visited Africa four times in the past five years and presided over the FOCAC summits twice, in Johannesburg (2015) and Beijing (2018). Our cooperation with African countries has developed on the basis of African needs and interests. And China has never pointed fingers at or made carping comments on other countries' cooperation with Africa. It is a good thing that the Trump administration now gives attention to African development and introduce a new African strategy. But if it holds on to the old principle of putting American interests first and the old Cold War mentality of a zero-sum game, the 'Prosper Africa' statement will remain beautiful rhetoric instead of being turned into reality.



Chinese President Xi Jinping and his wife Peng Liyuan, President Jacob Zuma and his wife Tobeka Madiba Zuma are joined by several Heads of States and Government at the closing ceremony of the 2015 Year of China in South Africa cultural evening in Sandton, Johannesburg.

China has always welcomed, encouraged, and even led international cooperation in Africa.

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Quest for Sustainable Urbanization

How is the tension between conservation and urbanization playing out in China?

In her award-winning short novel Folding Beijing (2016), sci-fi author Hao Jingfang envisions a grim future for the Chinese capital. She describes a city made of three different spaces, each occupied by one social class. These self-contained parts of the city unfold at different times, as if they were elements of a giant Rubik's cube. The city is orderly and efficient and yet unjust and discriminating, while natural elements–sunlight, soil, water, plants, animals–appear to be all but a vague memory for most of her inhabitants. As a matter of fact, they are hardly mentioned throughout the novel.

The dystopian vision portrayed in Folding Beijing echoes can be seen as a literary representation of the Chinese expression 'urban disease' (chengshi bing), referring to issues of social inequality, overpopulation, and environmental degradation. With its unprecedented magnitude, China's urbanization epitomizes the ambivalence inherent in modernization processes. Indeed, urban development can both ameliorate and exacerbate some of the most pressing issues facing China: the fight against environmental degradation and climate change, the battle for greater social equality, and the sustainable provision of essential services for all.

Chinese leaders have long faced this conundrum. The first steps towards sustainable urbanization were made as early as 1989, when the City Planning Law was adopted. Three years later China signed the UN Agenda 21, adhering to principles of integrated territorial planning. Since then, a plethora of government initiatives have been launched to incentivize cities to become greener, environ-



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So far, China's efforts for urban sustainability have yielded mixed results.

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mentally safer, and more resource-efficient. The mantra of 'sustainable urbanization' has however only gained momentum in the last decade. This has been partially the result of increased public awareness and activism. In fact, the main engine of China's urban sustainability transition is the re-structuring of her political economy towards a post-industrial, service based, consumer-oriented society, in which cities play a central role.

China's efforts for sustainability are consistent with objectives of reforms and opening-up: increasing the nation's prosperity through an efficient use of natural and human resources, assisted by technological and institutional innovation. In fact, this very tension towards material progress-tempered with awareness of the Earth's limits to sustain growth-informed the One-Child-Policy, arguably China's first policy for sustainability. The same principles underlie the New Type Urbanization Plan, launched in 2014 to offer comprehensive guidance to urban development nationwide. The blueprint establishes guidelines and success indicators for the allocation of human capital, a gradual expansion of socioeconomic benefits to vulnerable classes, and mitigation of environmental pollution.

So far, China's efforts for urban sustainability have yielded mixed results. A recent study on a large sample of megacities – home to more than 10% of the Chinese population – shows a sensible trend towards decoupling of economic growth from environmental degradation. Improvements have been made in reducing pollutant emissions and resource consumption, as well as in waste management. The economy has kept growing at a steady pace and for the first time in decades the increase in the income gaps has slowed, if not halted altogether. Progress has been made in the provision of welfare services, a long-standing issue for urban social policy. China's major cities are building a cleaner and greener environment, conducive to greater prosperity for the majority of their population.

> Seeds of change have been planted by wilderness enthusiasts such as bird watchers, whose numbers have grown in recent years.

And yet all that glitters is not gold. The ecological footprint of cities is huge: urbanization has caused enormous biodiversity loss and damaged ecosystems' vitality. Despite the increase in public green space, commodification of nature is widespread. Lakes, woods, and mountains in urban and peri-urban areas are treated as economic assets. They serve the logic of city branding, aimed at attracting wealthy residents, tourists, and hi-tech companies. Cultural heritage is in peril, as city planners seek to exploit tangible and intangible legacies for the expansion of the service industry. One of the most notorious examples of this is Datong, whose ancient walls were reconstructed from scratch as a tourist attraction. The survival of traditional cultures rooted in places is endangered by relocations, frequently employed to make way for urban renewal and environmental remediation. Such displacements tear apart the social

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and cultural fabric of communities and their relation with the natural environment.

Against this background, progress towards more ambitious sustainability goals may be difficult to achieve. While environmental quality, resource efficiency, and socioeconomic development all find space in the mainstream efficientist paradigm, other criteria are more difficult to bend to the simplification of cost-benefit analysis. Culture, social relations, sense of belonging, and caring for nature are things we can hardly put a price-tag on. Alternatives to this dominant paradigm do exist in China. Seeds of change have been planted by wilderness enthusiasts such as bird watchers, whose numbers have grown in recent years. Community supported agriculture farms and eco-villages have been established on the outskirts of big cities. These initiatives prove that ecological awareness is mounting, and people are refusing to buy into a logic of pure extractivism of natural resources. New values are sprouting in Chinese society, as in the rest of the world, adhering to a vision of socio-ecological wellbeing, where both humans and nature can thrive.

Yet the current state of affairs does not give optimism to supporters of such 'strong' sustainability. In fact, even in the unlikely scenario that these positions become more diffuse within society, channels available to Chinese citizens to influence territorial decision-making are insufficient. Authorities tolerate participation as far as it does not deviate from the overarching political priorities. Even the introduction of innovative sustainability solutions is generally driven by political and corporate interests – rather than by bottom-up initiatives – in line with the paradigm of 'environmental authoritarianism'. In this context, the use of SMART technologies to produce instant feedback about public transportation or energy consumption is certainly positive. But demands for ecological integrity in areas key to economic development are less likely to be well-received, as the recent case of the Beijing Winter Olympics has shown.

Channels available to Chinese citizens to influence territorial decision-making are insufficient. Authorities tolerate participation as far as it does not deviate from the overarching political priorities.

For the time being, meaningful societal participation, an ecologically aware empathy towards nature, and cultural diversity are not likely to find space in China's urban planning. All in all, Chinese cities are bound to become a gentler version of Hao's Folding Beijing, whereby individuals are allowed to indulge in desires for an environmentally safer and wealthier future, occasionally enjoying sunlight.

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Based in Hong Kong, the China-US Exchange Foundation was established in 2008 by individuals who believe a positive relationship between the strongest developed nation and the most populous, fast-developing nation is essential for global wellbeing. The Foundation is a non-government, non-profit entity and is privately funded.

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China-US Focus, published by the China-United States Exchange Foundation, is built on the principle that China and the United States hold the most important bilateral relationship of the 21st century.

China-US Focus is the only open-platform where Chinese and American thought leaders can openly express their views on the myriad issues that face the two nations, thus promoting communication and understanding between the peoples of China and the United States.

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UC San Diego
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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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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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, econ 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 eat 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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SPECIAL NOTE AS TO LEGISLATION AFFECTING TAIWAN AS WELL AS U.S.-PRC RELATIONS

Set out below are provisions from the Taiwan Travel Act. 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 is deeply concerned about this legislation, believing its provisions calling for high level official contacts between the United States and Taiwan contradicts 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 maintaining official ties in any form would 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.

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The 1982 Joint Communique 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.

Here is the text of the Taiwan Travel Act

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:

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(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.

(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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SCMP.COM
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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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 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

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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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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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China-US Trade | Trade War

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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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Geopolitics

Trump-Kim summit 2019: talks ended over North Korea's demand to lift sanctions

US and North Korea bring abrupt end to two-day summit having made little progress on Pyongyang's nuclear programme

Trump says Kim wanted sanctions 'lifted in their entirety' before moving on weapons and he 'had to walk' away

Lee Jeong-ho & Bhavan Jaipragas | South China Morning Post | Updated: Friday, 1 Mar, 2019 12:33am

The two-day summit in Vietnam between the US President Donald Trump [1] and North Korean leader Kim Jong-un [2] ended on Thursday in dramatic fashion without agreement after Pyongyang said sanctions against it must be lifted before there could be progress on dismantling its nuclear weapons programme.

"Basically they wanted the sanctions lifted in their entirety, but we couldn't do that ... we had to walk away from it," Trump told a press conference after the two sides cancelled a planned signing ceremony. "Sometimes you have to walk, and this was just one of those times."

The two leaders also skipped a working lunch, and Trump moved up his briefing to journalists by two hours. He said his decision not to strike some kind of agreement showed his preference to "do it right, rather than do it fast", and was a rebuke to critics who said he was being too soft on the hermit kingdom's leader.

Trump-Kim summit 2019: day 2 as it happened
[3]

Kim returned to his hotel soon after the White House announced the abrupt change of plans.

While Trump left for Washington on Thursday afternoon, Kim will stay on in Vietnam until Saturday for an official visit.
The US president said the lack of agreement did not mean a breakdown in ties with the North Korean leader, telling reporters, "I trust him". Trump said Kim had given him assurances that he would not do any testing or "anything to do with nuclear activities".

At the end, however, differences between their positions appeared too big for any sort of fresh accord.

The two-day meeting in Hanoi was meant to build on the summit in Singapore last June. That first occasion was the first time sitting leaders of the United States and North Korea had met since the end of hostilities in the Korean war.

In Singapore, the two leaders had agreed a vague declaration on their commitment towards full denuclearisation of the Korean peninsula – a key demand of the international community before United Nations sanctions against the impoverished country are lifted.

While few experts believed that would be achieved at the Hanoi summit, many expected there would at least be some progress.

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In his press conference, Trump acknowledged that the two sides did not see eye to eye on key issues surrounding the denuclearisation process.

Trump says Xi could be 'more helpful' on North Korea
[4]

"With time I think it'll be bridged at a certain point, but there is a gap," he said.
Trump suggested that Kim only wanted to de-activate unimportant nuclear facilities in his country.

"He wants to just do areas that are less important than the areas that we want," Trump said. "We know the country very well, believe it or not. We know every inch of that country, and we have to get what we have to get."

There had been little sign the leaders were locked in disagreement when they spoke to the media earlier in the day, and during their dinner on Wednesday.

"We had a good discussion last night at dinner and pre-dinner was very good. We had a lot of great ideas being brought about ... I think [North Korea] is going to be an economic powerhouse," Trump said before a one-on-one meeting on Thursday.
Kim had struck a similar note: "We have made a lot of efforts so far, and we thought that now is the time to come to Hanoi to sit together and then have this wonderful dialogue ... and let me assure you I'll do all my best to bring a good result ultimately today."

The North Korean leader added at the beginning of a subsequent expanded meeting with aides that he would not have come to Hanoi unless he wanted to denuclearise.

Kim broke from past practice and took questions from foreign journalists in the press pool.

At one point he quipped to Trump about the reporters, who were shouting questions at him: "They are quite anxious".

The president lightheartedly warned reporters not to raise their voice at the North Korean leader, saying, "This is not Trump."

Anwita Basu, an analyst with The Economist Intelligence Unit, said Thursday's developments raised big questions about the future of US-North Korea relations – which have been on the mend since late 2017, when Kim halted missile tests.

Trump says Xi could be 'more helpful' on North Korea
[5]
"The abrupt breakdown of talks was not within our expectations and the event as a result raises uncertainty around sustained peace in the Korean peninsula," said Anwita, the consultancy's Asia country risk service manager.
Reaction from China and South Korea, two key players in the denuclearisation process, was measured.
Chinese Foreign Ministry spokesman Lu Kang said at least the parties had "returned to the correct track" of solving problems through political means.

He said: "This result is not easy to achieve and should be treasured. The development of the Korean peninsula over the past decades has told us that dialogue and consultation is the only way out."

South Korean President Moon Jae-in [6]'s office, the Blue House, expressed regret at the lack of agreement but said "it appears clear that more meaningful progress was made than any other point in the past".

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Trump told reporters he would soon brief Moon and Japan's Prime Minister Shinzo Abe [7] on Thursday's developments. Trump is expected to speak with Moon by phone this evening from Air Force One.

The state news agency KCNA, meanwhile, reported after the summit ended that a North Korean delegation led by Vice-Minister Ri Kil-song had left for China.

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Trump's trade war was decades in the making

PUBLISHED : Tuesday, 10 July, 2018, 11:15am
UPDATED : Tuesday, 10 July, 2018, 11:43am
News › China › Diplomacy & Defence

POLITICO

This story is being published by the South China Morning Post as part of a content partnership with POLITICO. It was reported by Ben White, Nancy Cook, Andrew Restuccia and Doug Palmer and originally appeared on politico.com [1] on July 9, 2018.

Those who know Donald Trump say it was always going to go this way with China.

The New York real estate tycoon began issuing bitter tirades against foreign countries "ripping off" the United States on trade back in the 1980s. At an expletive-laden political rally in Las Vegas in 2011, Trump hinted at a future presidential campaign and promised to tell the Chinese: "Listen you mother******s we're going to tax you 25 percent!"

So when the clock flipped to 12:01 a.m. on Friday morning and the U.S. fired the first major shot in a trade war with China that has Wall Street and corporate America petrified, those who know the president mostly shrugged it off as Trump doing what he was always going to do, no matter the dire warnings from his "globalist" advisers.

"I always believed he was deadly serious about China from the very beginning," said Stephen Moore, a conservative economist and outside White House adviser, recalling his time with Trump during the campaign. "I'm not at all surprised that we've come to this point. I am a little surprised that China hasn't been more conciliatory. But I think Trump can't back down, he just can't. He has to stand toe to toe with China."

But now that Trump is deep into the trade fight he desperately wanted, there's no clear exit strategy and no explicit plans to negotiate new rules of the road with China, leaving the global trade community and financial markets wracked with uncertainty. As cargo ships head to ports in China with U.S. exports and Chinese ships head to U.S. ports, the new tariffs threaten to disrupt the established economic world order in ways that will soon cause pain for American and Chinese consumers.

So what?, say Trump true believers. The president is playing a long game.

"He has preached a confrontation with China for 30 years. The one thing he has been the most consistent on for his entire career is the economic threat posed by China," former Trump senior adviser Steve Bannon told POLITICO in an interview. "This is a huge moment, a historical moment. It's really Trump against all of Wall Street."

While some saw a trade war with China as inevitable given the president's history, the journey from Trump's escalator-ride campaign announcement to the dawn of a trade war between the globe's two largest

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economies took many sharp turns featuring Oval Office shouting matches, the T eclaring the trade war "on hold" only to be rebuffed and Trump's former top economic adviser Gary Cohn calling hawkish trade adviser Peter Navarro a liar to his face.

The recent history of the trade war began with Trump's campaign announcement speech on June 16, 2015 in Manhattan, in which the reality TV star candidate mentioned China 25 times.

"People say you don't like China. No, I love them," he said. "But their leaders are much smarter than our leaders. And we can't sustain ourselves with that. It's like, take the New England Patriots and Tom Brady and have them play your high school football team."

Trump shocked much of the world and rode his populist message into the White House. In his darkly apocalyptic inauguration speech, Trump made his plans clear.

"We've made other countries rich while the wealth, strength and confidence of our country has disappeared over the horizon," Trump said. "One by one, the factories shuttered and left our shores, with not even a thought about the millions upon millions of American workers left behind."

While Trump swept into the Oval Office preaching fire and brimstone on trade, during his first year in office, his protectionist impulses were mostly held in check by advisers like Cohn and Treasury Secretary Steven Mnuchin, who advocated a more traditionally Republican approach to trade policy. With the help of Agriculture Secretary Sonny Perdue, they argued Trump out of withdrawing from NAFTA in April 2017.

Cohn argued to Trump at the time that unilaterally pulling out of NAFTA would tank the stock market and complicate White House efforts to pass a big tax cut bill that was priority No. 1 for the GOP.

Navarro saw his role diminished when Trump placed him under Cohn's supervision at the National Economic Council. But just as Cohn and Mnuchin were winning battles on NAFTA, the wheels spun into motion for later showdowns over steel and aluminum tariffs and the larger trade battle with China.

In April of 2017, Commerce Secretary Wilbur Ross, at Trump's direction, launched two probes that would result one year later in Trump imposing a 25 percent tariff on steel and 10 percent tariff on aluminum, angering China, the European Union, Canada and a long list of other trading partners.

They also led directly to Cohn's resignation. The NEC director, who argued repeatedly to Trump that the tariffs would slam U.S. manufacturers, decided he'd had enough and quit in March of this year, replaced by Larry Kudlow, an affable free-trader and former CNBC host much less likely to contradict the president.

The direct path to the trade war with China began in August of last year when, at Trump's direction, U.S. Trade Representative Robert Lighthizer launched an investigation under Section 301 of the 1974 Trade Act, which allows the president to restrict exports to put pressure on another country to change its trade practices.

In March, USTR released a report accusing China of unfairly acquiring valuable U.S. intellectual property, either through outright theft, forced technology transfers or other means.

Based on that report, Trump ordered Lighthizer to draw up a list of $50 billion worth of Chinese goods that would be hit with an additional 25 percent tariff. USTR published that list in early April, targeting a number of intermediate products used in manufacturing, but also some consumer items like birth control pills and flat-panel TVs.

However, after a public hearing on the proposed list, USTR dropped televisions, birth control and some other items from its product list, while adding new ones like semiconductors. That resulted in two different lists, one

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totaling about $34 billion of goods and the other totaling $16 billion subject to further review.

Beijing promptly responded by threatening increased duties on $50 billion worth of U.S. exports, including a big-ticket agricultural item — soybeans — as well as seafood, electric cars and whiskey. But once the United States divided its retaliation lists into two parts, Beijing did the same.

Senior U.S. and Chinese officials met at least three times in the following months — twice in Beijing and once in Washington — but failed to reach an agreement that would persuade Trump not to go forward with the duties, despite rising concern from the business community and many Republican members of Congress.

A trip to Beijing in May of this year laid bare the sharp divisions within the administration on China.

Navarro and Mnuchin got into a widely reported shouting match on the sidelines of the talks. And the pair brought their differences back with them. Mnuchin declared in a “Fox News Sunday” interview on May 20 that the trade was on “on hold” and urged the president to consider China’s offers to buy more American goods to reduce the trade deficit and avoid a tariff battle. Navarro quickly rebuked him in an NPR interview, calling the Treasury secretary’s remarks an “unfortunate sound bite.”

Behind the scenes, the Mnuchin-Navarro relationship grew even worse, people close to them said, with each privately blaming the other for leaking damaging information about them to the press. One person familiar with the issue said the true extent of their disdain for each other had actually been underplayed by the media.

Mnuchin’s critics in the administration cast him as a China policy neophyte who was played by Beijing. Mnuchin’s “on hold” comment also produced tacit pushback from Lighthizer, who put out a statement stressing that tariffs were a crucial option to “protect our technology” against the Chinese.

Navarro, for his part, was attacked internally as an out-of-touch hothead who couldn’t be trusted with sensitive negotiations. The long-time China critic was said to be furious about the leaking of his argument with Mnuchin on the sidelines in Beijing, believing it was intended to make him look short-tempered and rationalize his being kept out of upcoming talks with the Chinese in Washington, according to a person involved in the process.

Still, Mnuchin was not the only one hopeful about avoiding a trade war after returning from Beijing. Kudlow felt good too.

“I never felt we’d get a concrete deal,” the NEC director said in an interview from his West Wing office shortly after returning from the trip, in which the White House laid out its “asks” for the Chinese. “They engaged us on that, it’s good. This is going to be a process.”

That process never got very far.

Trump toyed with the idea of reaching a grand bargain with the Chinese that would avert the tariffs. And he stunned Capitol Hill and much of the world when he tweeted on May 13 that he was working with Chinese President Xi Jinping on a deal to get Chinese telecom giant ZTE, sharply sanctioned by the United States, “back in business.”

The White House has continued pushing to help ZTE, over congressional GOP opposition, largely as part of an effort to get Xi and the Chinese to help on diplomacy with North Korea. Trump also surprised his more hawkish advisers late last month when he took Mnuchin’s side in declining to impose investment restrictions exclusively on China.

But that decision and the efforts toward a ZTE deal were just sideshows as Trump marched toward the wider

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trade war with China.

People close to the president said he was always skeptical of the kind of grand bargain with China on trade that Mnuchin attempted to bring back from Beijing. In the end, Trump was unsatisfied with the early contours of the agreement, which included a demand to cut China's trade surplus by $200 billion.

The failure of Mnuchin and other like-minded advisers to head off a trade with China concluded on Friday when U.S. duties on $34 billion on Chinese exports to the U.S. went into effect. USTR will hold another hearing and public comment period on the remaining $16 billion. China similarly divided its retaliation into two tranches to respond in kind as U.S. duties are imposed.

Trump told reporters on Air Force One on Thursday night that the U.S. was laying plans to impose close to $500 billion in total tariffs on China, a figure that would cover all kinds of consumer products from televisions to toaster ovens. The U.S. imported a total of $505 billion worth of goods from China last year.

There is little sense, even among the free-traders inside the administration, that the White House will back down from the Chinese tariffs anytime soon. It's a defining issue for Trump, according to people close to the White House.

Administration officials told people last week not to expect the White House to "blink" on its tariffs in the near term. Right now, the president views the tariffs as a winning political issue heading into the midterms, despite protests from The Wall Street Journal editorial board, business groups and so-called elites or donors.

These various constituencies that support free trade are now trying to take the long view on the tariffs — hoping they end once an event like a drop in the stock market, an increase in prices of consumer goods or the conclusion of the midterms makes the political argument less palatable.

For a president who frequently changes direction on policy, trade is one area where advisers argue Trump is carrying out his campaign promises and setting himself up to make trade a major talking point in the 2018 midterms and even 2020.

"Obviously, Trump realizes that if you extrapolate things out over the next 10 to 15 years, the U.S. is at a disadvantage compared to other countries unless we fix the trade set ups," said one of the Republicans close the White House. "The president is looking down the road to try to help the workers or industries most affected by this."

For Trump's nationalist advisers, the fierce internal debate over whether to hit China with tariffs amounted to a battle over the soul of Trumpism. And on Friday, they were privately declaring victory, arguing that the so-called globalists they have long ridiculed — and feared — had been defeated.

"Reagan had Russia; Trump has China," Bannon said. "For over four decades the establishment said this day could never happen — with Trump it did."

Megan Cassella and Maria Curi contributed to this report.

Topics: POLITICO
US-China trade war
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U.S.-China Trade War: How We Got Here

Background reading for the trade war with China.

Blog Post *by* Brad W. Setser

July 9, 2018



Staff members set up Chinese and U.S. flags for a meeting between Chinese Transport Minister Li Xiaopeng and U.S. Secretary of Transportation Elaine Chao at the Ministry of Transport of China in Beijing, China April 27, 2018 REUTERS/Jason Lee

My personal area of expertise is balance of payments analysis—not trade law.

For understanding trade law, I rely on the work of others. A trade war[1] is, among other things, a legal process—at least in the United States. Congress has delegated a lot of authority over the regulation of international commerce to the executive branch, which has given the Trump Administration a lot of latitude. But Trump and his team are still working within the framework of U.S. trade law ("232s", "301s," "201s," etc.).

And they are not working, rather consciously, fully within the framework of the World Trade Organization. The big cases—the 301 versus China, the (coming?) 232 versus autos—are being pursued through U.S. law, and they will be subject to a challenge in the WTO. An alternative

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strategy—challenging China in the WTO for violation of its WTO commitments—hasn't been the administration's focus.

Three Recommended Papers

And I think there are three papers that constitute essential reading for understanding the Administration's choices.

> The first is Mark Wu's seminal paper [PDF] outlining why China's party-state fits poorly within the WTO's legal restraints. One reason why China now likes the WTO is that it hasn't significantly constrained China's industrial policy ambitions (while it does bind the United States to its "bound" tariffs, at least in theory). And one reason why the Trump administration hasn't pursued China inside the WTO is that many of the policies that concern the U.S. aren't necessarily WTO violations.
>
> The second is Robert Lighthizer's 2010 testimony [PDF] to the U.S. China Economic and Security Review Commission. It makes for interesting reading today —both for Lighthizer's specific complaints about how China's WTO accession was mishandled (I personally agree with his argument that the U.S. should have made more use of "421" special safeguards in the face of the China shock, and done more to counter China's massive foreign currency intervention) and for the basic strategy he puts forward for responding to what he views as the mistake of letting China into the WTO. He has been thinking about "301s" for a long time—and doesn't believe the U.S. should limit its response to China to actions that stay within the United States' own WTO commitments. The last ten pages of his testimony lay out, I think, the strategy Trump is now pursuing—even if Trump is doing it with a bit of Trumpian flair that goes beyond anything Lighthizer specifically proposed.
>
> The third is Jennifer Hillman's 2018 testimony [PDF] before the U.S. China Economic and Security Review Commission. She fundamentally disagrees with Lighthizer—Hillman, who has previously served on the WTO's top court, believes

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> the WTO process around China should be given a chance to work. Hillman recognizes the difficulties of using a set of "narrow" WTO cases to challenge China for specific violation of its WTO commitments. Instead she advocates a global challenge by the U.S. and its traditional allies that would include a case for "nonviolation impairment of benefits"– e.g. challenges to actions that frustrate the intent of the trade liberalization China committed to when it joined the WTO even if the actions aren't technically violations of China's WTO commitments. Such a case would lay the groundwork for the effective renegotiation of China's WTO membership, at least if the threat that the WTO might rule against China in a "big" case was judged credible.

All three articles are informed by a sense of disappointment that China's WTO accession didn't do more to transform the rules of the game inside China's own market. Expectations that China would have to change, politically and economically, to succeed in the global economy haven't been born out—as Ely Ratner and Kurt Campbell argued in Foreign Affairs. China's Communist Party hasn't been tamed by commerce. The Party-State still has firm control over the commanding heights of China's economy—both directly, and indirectly, through its influence on large "private" companies (who can only remain both successful and private with the support of the Party).

Commercial Complaints against China

I also wanted to gather together, for my own use if nothing else, a set of references to the specific policies that China has pursued that have given rise to a set of serious complaints about China's commercial policies. Set aside the "original sin" of ignoring China's massive foreign exchange intervention from 2003 to 2008—and still large intervention in the years immediately after the global crisis. The core of the current complaint is that:

1. China has made it hard to produce abroad and sell to China and,

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2. China has made it hard to invest in China in order to produce and sell in China if your firm isn't Chinese.

The evidence here is in my view somewhat stronger on the first complaint (it is hard to produce abroad to sell to China's domestic market) than on the second complaint (China's home market is reserved for Chinese firms). China's imports of ***manufactures*** as a share of its GDP, net of the electronic components China imports for its electronics export industry, are actually quite small relative to its peers—and they are now lower, as a share of China's GDP, than when China joined the WTO.

And, well, in the sectors where it still imports, China is investing massively to displace those imports—whether of aircraft, semiconductors, or high end medical equipment. That's the core of what China used to call its Made in China 2025 plan. From China's point of view, these are the sectors where China still is overly dependent on imported foreign technology.

And in many cases, the policies that China deploys to support its efforts at import substitution aren't WTO violations per se.

Three broad categories stand out. And in all three cases, the policies "work" in part because of China's massive scale.

1. De Facto Technology Transfer Requirements

The first category is linking inward investment in China to technology transfer to Chinese firms.

Foreign firms often believe that they have to invest in China to supply the Chinese market because of a mix of formal barriers at the border—in many sectors, China's retains fairly high tariffs—and informal pressure to produce in China if you want to sell to China.[2] China often

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tries to impede access to global (e.g. non-Chinese) supply chains if that's needed to help create a Chinese supply chain. Plus, well, producing in China often makes economic sense, as wages in China are still relatively low and China has a diverse manufacturing ecosystem.

China's WTO commitments mean that China cannot legally require technology transfer as a condition for investing in China (see Hillman). Lighthizer's 2010 testimony dug up a quote from President Clinton selling China's WTO accession that hasn't aged well ("We don't have to transfer technology or do joint manufacturing in China anymore").

But China has broad discretion to determine which sectors are open to foreign investment and which sectors are not, and it can condition approval of inward investment on forming a joint venture (JV) partner. Furthermore the JV partner (often a state company, given the nature of China's economy) can condition its participation in the JV on technology transfer (the technology transfer in turn often helps the Chinese firm meet China's goal of raising its level of "indigenous" innovation).

In some sectors, this policy has effectively led foreign firms to transfer technology that led to the creation of an "indigenous" Chinese national champion. **High speed rail** is the most famous example. Firms that wanted to get a contract to provide high speed rail to China's market had to enter into JVs with China's state rail companies, and then into contracts that shifted the location of production of key parts to China. All this was possible because of competition among European, Canadian, and Japanese firms to get access to China's high-speed rail market, as the scale of China's market was simply so big that no firm was willing to ignore it. China's state is effectively the monopoly buyer of railway equipment—so getting access to the market effectively required technology transfer even if China didn't have a written policy requiring it (to my knowledge, China's activities here have not been challenged in the WTO).

In other sectors, the "JV" requirement hasn't led to the creation of an indigenous Chinese competitor.

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China has, for example, complained that the JV partners of GM, Ford, Toyota and Volkswagen have gotten lazy and haven't done enough to build up their "indigenous" brands alongside the big international marks. But the combination of the JV requirement and tariffs have led to the development of a deep indigenous supply chain for **autos**—Keith Bradsher has reported that Ford's Chinese supply chain now produces cars of comparable quality to its North American supply chain at a lower cost.[3]

And, well, China clearly intends to use its push into electric vehicles to help develop indigenous Chinese firms—in batteries as well as the production of cars—that will compete with the U.S., German, Japanese, and Korean marks that dominate the global industry right now. And to push Western auto makers to transfer their best technology to China. Bradsher: "Beijing has put very heavy pressure on Western automakers to transfer their latest, most cutting-edge technology to China as a condition of doing business. Many companies, including Volkswagen, General Motors and Ford, have plans to shift more research and development to China, particularly around electric cars." To qualify for China's new electric vehicle subsidies, a firm needs to use a Chinese made battery it seems: "China requires auto makers to use batteries from one of its approved suppliers if they want to be cleared to mass-produce electric cars and plug-in hybrids and to qualify for subsidies. These suppliers are all Chinese."[4]

And in sectors like **semiconductors** where China cannot put up tariff barriers to force production to locate inside China without putting its existing electronics assembly and component manufacturing business at risk, China seems to be resorting to other means to put pressure on firms to help Chinese firms upgrade their technology.

Given China's clear goals, there is always an incentive for foreign firms to form an alliance that puts them on the "right" side of China's policy to become more technologically self-reliant.

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The second category is the availability of massive domestic subsidies.

Such subsidies are allowed by the WTO. The WTO prohibits "export" subsidies (though you have to bring the case—no one has challenged the subsidies that Zhengzhou seems to provide Foxconn), but not domestic subsidies.

Fair enough. Shifting too much sovereignty away from the nation-state through binding international commitments has given rise to problems of its own. Dani Rodrik among others has made the case [PDF] that the global rules shouldn't be so binding as to preclude national economic policies/national economic development strategies.

The WTO does allow countries to take action though to offset any "material injury" from imports that are linked to another countries' domestic subsidies and also to seek relief from the "adverse effects" that another countries' domestic subsidies can have in third party markets (though the dispalcement of exports is much harder to challenge in practice, as the "remedy" isn't obvious—retaliation requires identify another sector that you want to tariff, and firms in that sector that rely on imports will complain).

But, as Hillman notes [PDF], challenging China's subsidies in the WTO is often hard (the "WTO's Agreement on Subsidies and Countervailing Measures (ASCM) makes proving the existence of such subsidies difficult"). The WTO is meant to discipline explicit, sector-specific subsidies—the kind that have a budget line item. But in China, the nature of the economy means that in effect any firm that can borrow directly from the state banks rather than the shadow banking system gets low cost credit.

Proving a sector specific subsidy can be difficult.

Is steel more subsidized by the banks than solar? Or in electric vehicles, where China has allowed a thousand flowers to bloom?

cfr

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Is every state investment fund—for example the large funds set up to help finance the development of an indigenous semiconductor industry—a subsidy? How do you prove that when state firms dominate the economy?

Here again China's sheer scale matters. China doesn't need to just subsidize a single national champion—it can subsidize credit to multiple competing firms (often in different provinces) and then finance the consolidation of the industry around the most successful firms.

No one else, for example, could set up 30 different provincial semiconductor funds along with several national funds:

"Local governments created at least 30 additional semiconductor funds, with announced financing of more than $100 billion. If all these projects are realized, the global supply of memory chips would outstrip demand by about 25% in 2020, estimates Bernstein Research, pushing prices down and battering profits of semiconductor companies globally."

And well, if some of the funds and investments fail, China is prepared to eat quite large losses along the way. That's what I think happened in the solar sector back in 2010 and 2011. [5]

China's banking system is so big—China's domestic supply of savings is even more inexhaustible than the reservoir of labor in China's countryside—that China can subsidize multiple sectors at once.

Losses in "old" industries like steel and aluminum haven't limited China's ability to provide cheap credit to "new" industries (new electric vehicles, semiconductors, etc). Losses can get moved off to asset management companies and the like and somehow made to disappear over time. (Chapters 2 and 3 of *Red Capitalism*, another crucial reference, describes this process in the mid 2000s)

cfr *"Buy China"*

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The third category is the systemic impact of informal "buy China" policies that direct purchases toward domestic Chinese companies and force firms that want to compete effectively with the local, indigenous champions to make themselves more "indigenous" by producing more in China (ideally with a politically connected JV partner for protection).

In part this is because China hasn't signed on to the government procurement agreement. But the absence of WTO commitment here isn't the only problem.

The real problem is that in the capital intensive sectors where China has the most need for imports, large state firms are often the dominant buyer. In other words, the key preference comes from large state enterprises in their choice of equipment suppliers, not from the "direct" procurement of the central government.

And as Wu notes [PDF], the large role of the "party-state"—with the Party selecting the leadership of key companies—means that informal guidance to "buy Chinese" has real impact (see the market share goals in Made in China 2025).

A few examples.

In **wind power**, big contracts for wind farms come from the State Grid and other big power distributors. That limited the ability of European firms in particular to compete effectively for big contracts even when they set up shop in China—and allowed China to subsidize the creation of Chinese national champions in wind through the backdoor. The Chinese supply chains initially created to help foreign firms meet informal local content requirements helped too.

The government's power grid is also the ultimate source of demand for the firms that produce large turbines for **coal** powered generators, a market China now dominates. And I wouldn't necessarily bet on GE getting a lot of contracts for the generators that will fire China's growing

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stock of natural gas fired turbines. GE's joint venture partner certainly looks also to be a potential future competitor as well, though no doubt GE has thought through this risk.

China's goals here aren't a secret, even if China hasn't yet replicated its success in coal-fired turbines.

Rail of course is structurally similar, as the Chinese state through China's various state owned rail companies is the monopoly buyer, but that sector has been discussed earlier—China's various policy tools intersect.

In **medical equipment**, the main buyers are the big hospitals. And the hospitals have been encouraged to favor Chinese production. If for no other reason than to lower costs. The pressure can be subtle as well as overt in a market where foreign suppliers are typically priced at the high-end of the local market:

"According to its 'made in China 2025' initiative, Beijing wants to increase the use of domestically produced devices in hospitals to 50 per cent by 2020, and 70 per cent by 2025, as it seeks to create 'national champions' that can conquer export markets….Several government notices seen by the FT show that the plan is being aggressively implemented. In Sichuan province, officials said in September that ***hospitals must use only China-made devices in 15 categories from respirators to PET-CT scanners***. While protectionist, the moves are permitted under World Trade Organization rules as China is not a signatory to the Agreement on Government Procurement, which covers state-run hospitals. As Chinese devices are generally cheaper, the drive is partly about cost-cutting, with officials using state-insurance funds, which cover an increasing portion of medical costs, as leverage ... 'Imported stents cannot be reimbursed for medical insurance. So we use domestically made ones,' said Li Qiang, a doctor in Sichuan." (emphasis added, from the FT)

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In **telecommunications equipment**, the big buyers are the state-owned telecoms firms. Their orders for indigenous switches and mobile base stations helped build up the "indigenous" Chinese firms—Huawei and ZTE—into major global competitors. And while cellphones are bought by individuals, the choice of phones offered by the big networks matter. Apple likely fears that it could get squeezed out of the Chinese market if the big carriers were pushed to do so…just as China's tech giants are getting pushed to support China's efforts to develop its own chips and cell phone operating systems .

The structural barriers to an indigenous Chinese competitor to Boeing and Airbus in **civil aircraft** (and to GE, Rolls Royce, and Pratt and Whitney in aircraft engines) are large (see James Fallows). Yet the scale of the purchases of China's own state-owned airlines still provides any "indigenous" plane with a captive market. The C919 may only compete with "old" A320s and 737s for now. But China's ability to produce its next generation of aircraft (including a widebody) doesn't really depend on the commercial success of its current generation of planes.

No doubt there are other examples too, even if they aren't as clear cut.

Take **construction equipment**, a sector where not all the buyers are state owned. Chinese heavy equipment manufactures have still come to dominate the local market: "Chinese companies' roots and domestic sales staff give them advantages when dealing with China's diffuse state-owned construction and mining companies, people in the industry say." Caterpillar started setting up joint ventures in China and doing technology transfer a long time ago—but it historically hasn't done all that well in China. To compete, it needed to become more "Chinese." Back in 2014, Caterpillar argued: "that Caterpillar excavators made and sold in China contained more parts produced there than did those of some Chinese rivals ... 'We are in some ways more Chinese than the Chinese competitors,' said Mike DeWalt, a Caterpillar vice president." [6]

cfr

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Now Caterpillar's Chinese operations want to get in on the Belt and Road action (including getting access to some Chinese tax rebates, which at least to my untrained eye, look a bit like export subsidies).

This all matters, as construction equipment is one of the sector's where the U.S. based producers historically have been very competitive globally—it is a big part of the United States' "indigenous" export base, so to speak.

I personally believe that China's system of domestic preference has a comparable impact on the U.S. economy to the technology transfer policies (and associated IP violations) that tend to get the most attention. China's technology transfer has a mixed impact on the U.S. economy. It keeps U.S. companies from competing for some Chinese business, but it also reduces China's attractiveness as an export base in some sectors (why share profits on sales outside of China with a JV partner). China's domestic preferences encourage firms to produce in China even when it would be more economically efficient (as well as safer, from the point of view of managing the commercial risk) to produce outside China.

Note that I haven't focused on **steel**, or the **internet platforms**. The industries that use steel are in my view more important than the steel producers, and I don't see any realistic way China will agree to hand over the data of China's residents to the U.S. internet giants these days, at least not on terms that the U.S. would like. And I also haven't focused on **agriculture** or **energy**—as these are sectors where China will import (from someone) no matter what. The sectors where technical knowledge is embedded in sophisticated production of specialized components strike me as the most important industrial policy battle ground.

I could go on …

But, in the interest of being fair and balanced, let me close on a slightly contrary note.

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A country that discourages imports should in the end also export less—it should be less open overall. China 2025 implies that China's economy should eventually come to look more like Brazil—a country with a fairly closed domestic market and limited global export presence.[7]

As a result, the global impact of China's import substituting policies—China's industrial policy largely shifted from export promotion to import substitution after 2009—depends in no small part on China's overall macroeconomic policy settings.

After the crisis, China has, to a degree, offset much of the broader impact of its "buy China" policies through fairly loose macroeconomic policies (lots of off-budget fiscal stimulus, lots of credit) that have directed the bulk of domestic Chinese production toward the Chinese market, rather than the global market.

This redirection of course isn't complete. Even with a fiscal policy that the IMF considers beyond irredeemable, China still runs a current account surplus. And it is all relative—China has grown so fast over the last ten years that even if its exports are down as a share of China's own GDP, they have grown relative to world GDP, and the GDP of China's trading partners.

But it does raise a point that the Trump administration should consider: from a global point of view, China's overall policy settings could be worse than they are now…as the combination of domestic stimulus and the real appreciation of the yuan since 2006 have muted the global impact of China's very real domestic distortions.

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Endnotes

1. ^ *The first round of "301" tariffs and China's retaliation technically wouldn't count as a trade war. The $200 billion plus Trump has promised in retaliation for China's tariffs would…*

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2. ^ *Airbus has set up an A320 assembly line in China to meet Chinese demand. It recently agreed to* ramp up the pace of production *in China. And, well China is still* pressing for more.

3. ^ *GMs made in China often have more Chinese content than a GM made in the U.S. (which typically has high "NAFTA" content, fair enough in my view—that's what NAFTA was supposed to do.* Source: *"United States government data shows that only 2 percent of the Envision's parts come from the United States."*

4. ^ *I am not a lawyer and this is not legal advice, but I wonder if there is a WTO national treatment violation here—though any firm that brought the case would risk Chinese retaliation against its existing sales.*

5. ^ *"Western solar companies say Chinese banks still lent heavily to the survivors despite low loan-recovery rates from the defaults of big Chinese solar companies like Suntech, Chaori and LDK Solar" (*source*).*

6. ^ *China's drive to create an* "indigenous" construction equipment manufacturing sector *did open up new opportunities for foreign engine manufacturers like Cummins—though that demand was largely met by Chinese production of Cummins engines, which created a supply chain that Cummins* now uses globally. *This shows up in the trade data: Construction equipment exports to China peaked several years back, while U.S. imports of construction equipment and associated parts from China have increased significantly (see the end-use data).*

7. ^ *I think Keith Bradsher* got this right—*the logical outcome of both Chinese policy choices and Trump's policies should be a China that is less integrated into the global economy. The easiest way to get there? Further appreciation of China's exchange rate.*

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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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Will the US Capitulate to China?

Project Syndicate | Feb 25, 2019 | **MARTIN FELDSTEIN**

The most important problem that a bilateral deal between the United States and China needs to resolve is Chinese theft of US firms' technology. Unless the Chinese agree to stop stealing technology, and the two sides devise a way to enforce that agreement, the US will not have achieved anything useful from Trump's tariffs.

CAMBRIDGE – It's beginning to look like US President Donald Trump will yield to the Chinese in America's trade conflict with China. The United States threatened to increase tariffs on imports from China from 10% to 25% on March 2 if no agreement was reached. But Trump recently said that the date is flexible and may be postponed because of the progress being made in the ongoing bilateral talks.

Fair enough, but progress is in the eyes of the beholder. The most important problem that needs to be resolved is not America's massive bilateral trade deficit with China. It is that the Chinese are stealing US firms' technology and using it to help Chinese companies compete with those same firms in China and around the world.

The Chinese do this in two ways. First, US firms that want to do business in China are required to have a Chinese partner and to share their technology with that firm. That compulsory sharing of technology is explicitly forbidden by World Trade Organization rules. Since joining the WTO in 2001, the Chinese have ignored this rule and disingenuously claim that US firms voluntarily agree to share their technology because they want to be active in China.

Second, the Chinese use the Internet to enter the computer systems of US firms and steal technology and blueprints. Chinese President Xi Jinping agreed with then-President Barack Obama in 2015 that his government would stop doing this. But, after a temporary decline, such cyber theft has resumed, presumably because state-owned companies and others have the ability to reach into the computer systems of US firms.

Despite Trump's upbeat talk about progress in the talks, there is no suggestion that the Chinese will agree to stop stealing technology. Instead, China's chief negotiator, Vice Premier Liu He, has emphasized that the Chinese will reduce their large bilateral trade surplus by buying US soy beans and natural gas. A sharp reduction in the US trade deficit with China would enable Trump to claim victory and give him something to celebrate when Xi visits him at his home in Florida sometime in the next few months.

There are easy bragging rights in a dramatic reduction of the US trade deficit with China, which, year after year, has been the largest of America's bilateral trade deficits. In 2017, the deficit with China was $375 billion, or two-thirds of the total US trade deficit. So the Chinese are clever to offer to buy enough US commodities to cut that very visible imbalance.

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But while that would reduce the bilateral trade deficit with China, it would have no effect by itself on the total US trade deficit. As every student of economics knows, a trade deficit reflects the fact that a country chooses to consume more than it produces. And as long as a country consumes more than it produces, it must import the difference from the rest of the world.

If the Chinese do buy enough to reduce the bilateral trade deficit, the US would end up importing more from other countries or exporting less to other countries. The total US trade deficit will not decline unless the US reduces total demand by saving more. That is a matter for US policymakers; it is not something the Chinese can do for America.

US Treasury Secretary Steven Mnuchin has emphasized another largely irrelevant Chinese offer: a promise to prevent the value of the renminbi from declining relative to the dollar. While a stronger renminbi would make Chinese goods less attractive to US buyers, thereby reducing the bilateral trade deficit, it would not reduce America's global trade imbalance.

Moreover, although the renminbi-dollar exchange rate does vary from year to year, the variations have been small. Today, a dollar buys CN¥6.7; a year ago, the dollar exchange rate was CN¥6.3, and two years ago it was CN¥6.9. A decade ago, in February 2009, a dollar bought CN¥6.8. In short, there is nothing to celebrate if the Chinese agree to stabilize the value of their currency relative to the dollar.

The key issue is technology theft. Unless the Chinese agree to stop stealing technology, and the two sides devise a way to enforce that agreement, the US will not have achieved anything useful from Trump's tariffs.

MARTIN FELDSTEIN

Martin Feldstein, Professor of Economics at Harvard University and President Emeritus of the National Bureau of Economic Research, chaired President Ronald Reagan's Council of Economic Advisers from 1982 to 1984. In 2006, he was appointed to President Bush's Foreign Intelligence Advisory Board, and, in 2009, was appointed to President Obama's Economic Recovery Advisory Board. Currently, he is on the board of directors of the Council on Foreign Relations, the Trilateral Commission, and the Group of 30, a non-profit, international body that seeks greater understanding of global economic issues.

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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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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.

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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 have military applications, such as semiconductors.

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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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Friction Over Made in China 2025

Jun 07 , 2018

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Bian Xiaochun
Deputy Director at the Institute of World Development



The joint statement between China and the US on 20 May was interpreted as a truce. But after several rounds of negotiations, a comprehensive solution remains elusive. The US side has three core requests, namely reducing the trade deficit, more market access, and IPR protection. In order to address the trade imbalance, China is prepared to accept more exports from the US. China will also further its reform and opening up efforts to upgrade its industry and promote economic growth.

The trade imbalance is at the center of China-US trade relations. First, there is a significant gap between trade figures collected by China and the US – a gap of hundreds of millions. Aside from calculation gaps due to transport volume in Hong Kong, the real value of China-US trade should be understood from the perspective of the global value chain, and goods and services should both be taken into account. As China remains largely at the lower end of the global value chain, Chinese exports carry more value divergence than American merchandise. In the meantime, the US tends to stress the trade deficit in goods over the trade surplus in the service sector, and exaggerate the trade imbalance between the two countries.

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The trade war is a customary tactic of the US to bring its competitors to their knees, as with Japan. The US boasted the world's largest market throughout the 20th century, and a country would suffer tremendously if it was cut off from it. China is now the world's second largest economy, with the most important consumer market. China has the capacity and resilience to fight a trade war.

Trade war is all about hi-tech competition

The US economy is hi-tech intensive. The US has a comparative advantage in capital and a dominant position in the global trading system, and mainly produces core machinery parts with high added value or intermediate products, while China and other countries at the lower end assemble the end products for distribution, for meagre revenues in an increasingly competitive market. Not surprising, the US sees its industrial base hollowing out.

In the wake of the 2008 global financial crisis, developed economies, including the US, Japan, and Germany began to recognize the importance of manufacturing. The fact is, manufacturing, while accounting for 16% of global GDP, contributes to 70% of global trade, 90% of R&D, and 45 million jobs in advanced economies. Realizing the important role of manufacturing, developed countries set out plans to bolster the manufacturing industry, such as the Industrial 4.0 in Germany, the National Network for Manufacturing Innovation (NNMI) in the US, along with other plans for "reshoring" manufacturing to the US.

"Made in China 2025" was launched in 2015, with the objective to build China into a strong manufacturing power. The initiative sets out a series of development goals to facilitate this, primarily through development in industries like chips, robots, and AI, which will help propel China to the higher end of the global value chain in the 21st century. All-around modernization underpinned by advanced manufacturing, manufacturing-oriented service, service-oriented manufacturing, and green technology will be the goal going forward.

Competition between two development models

China is committed to the strategy of building itself into a manufacturing powerhouse and the government will play a decisive role in the process, backed by further improvement in industrial policy. The US's real concern is state owned enterprises in China, and demands China abolish subsidies for them. SOEs play a central role in China's economic development, and they do need to be reformed. Almost all developed or emerging economies have their own "SOEs", French "state backed" enterprises have acquired cutting-edge technologies, Italian ones have become global leaders in many fields, and the same applies to Japanese zaibatsus and Korean chaebols. The zaibatsu and chaebol systems are probably more sophisticated than China's SOEs. As France loosens its grip on its state backed enterprises, it sees its economic clout dwindle.

Rand released a report titled "China and the International Order" on 21 May 2018, and it is of the view that China's behavior over the past two decades does not mark it as an opponent or saboteur of the international order, but rather as a conditional supporter. In the long run, a strengthened and increasingly multilateral international order can continue to provide a critical tool for the United States and other countries to shape and constrain rising Chinese power. The posture China takes toward the institutions, norms, and rules of a shared order is in significant flux. Modifications to the order on the margins in response to Chinese preferences will typically pose less of a threat to a stable international system than a future in which China is alienated from that system, it concluded.

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The producer-consumer relationship between China and the US underpins the current global trade landscape, and it is unlikely to change in the short run because of a trade war. If the US should decide to implement tariffs on Chinese goods, it will hurt US productivity and economic growth. It will also undermine the faith of Chinese businesses in the global supply chain and trade ecosystem dominated by the US, and prompt China to seek to create an alternative in its place.

Made in China 2025 | China-US Trade | Trade War | Trade War Benefits No One

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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.

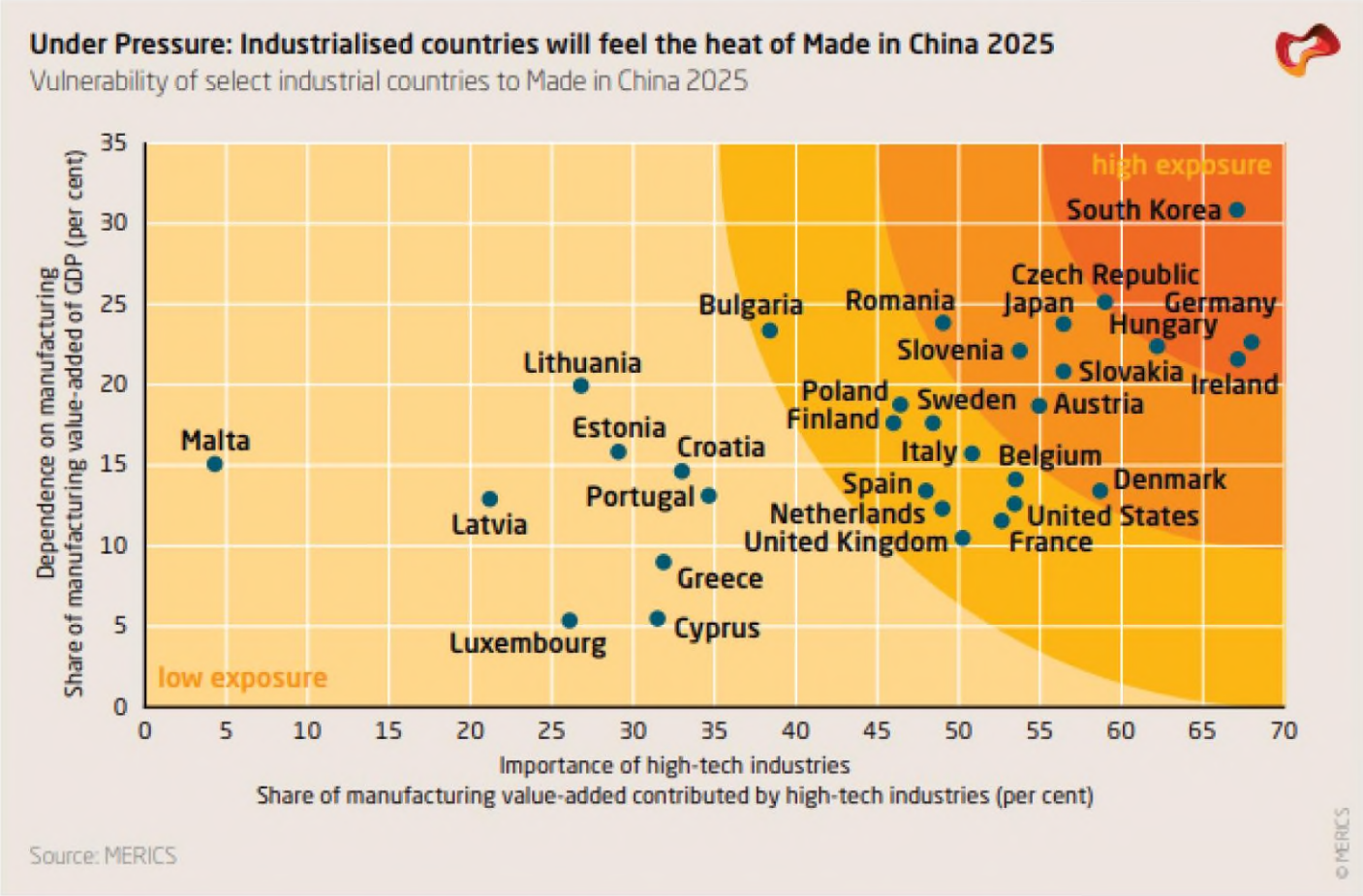
What is Made in China 2025? Made in China 2025 is a blueprint for Beijing's plan to transform the country into a hi-tech powerhouse that dominates advanced industries like robotics, advanced information technology, aviation, and new energy vehicles. The ambition makes sense within the context of China's 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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SCMP.COM
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.”

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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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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
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Stay or go? Chinese students in the US are running out of options.

By Laurie Chen | Inkstone | February 12, 2019

Caught in a geopolitical tug of war between China and the US, many Chinese students at American universities are wrestling with a dilemma: should they stay, or go?

Several of these students – who declined to be named for fear of repercussions – said in interviews with the South China Morning Post they felt anxious about what they perceived as an increasingly hostile climate towards Chinese students in the US.

Trump's toughened China policies could slow the influx of Chinese students into US schools.

This could reshape American society. Immigrants – of Chinese origin or otherwise – have been the backbone of the US economy, staffing everything from laundromats to advanced technological sectors.

But for Chinese students seeking a quality education, and their families, it's also personal.

"A lot of students I talk to say they had hoped to stay and work in the US for several years, but have become resigned to the fact that that probably won't be possible," said Eric Fish, author of China's Millennials: The Want Generation.

"In previous years, US schools have far and away been the top choice for these students, but lately they've been very quickly shifting their interest to Canadian and British universities."

If potential Chinese arrivals already were having second thoughts about studying at US schools, their resistance to the idea hardened at reports that the Trump administration had debated banning visas for Chinese students over espionage concerns.

It "really freaked out a lot of the parents" at a top Shanghai education consultancy, Fish said.

Since the start of the US-China trade war last year, Washington has tightened visa restrictions for graduate researchers in hi-tech fields such as robotics, aviation and artificial intelligence. Several Chinese citizens working in these fields in the US have been arrested for allegedly spying on engineers and scientists.

A student who declined to be identified said he knew at least two Chinese masters' students in the US who had opted to apply for PhD programs instead of trying to land a job.

The students see moving into the PhD track as a way to improve their chances of winning jobs or US citizenship.

"More students, including myself, have even considered returning to China as a plan B if we can't find a job in the US, and some of them are searching for jobs in China simultaneously," the student said.

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42% of Chinese international students who took part in a 2018 survey conducted by Indiana's Purdue University said their impressions of America had become more negative since they arrived in the US. When the survey was conducted in 2016, the number of students saying the same thing was 29%.

But the job market for new graduates on the other side of the globe is not much better, as Trump's trade war begins to cause sweeping lay-offs and hiring freezes in China's tech industry.

Zion Tam, an education consultant at Foundation Global Education in Hong Kong, said he expected students and families would pass on applying to US schools, "especially when they start seeing more student visa applications being rejected."

He said his Hong Kong and mainland Chinese clients remained bullish on the US, because of the larger concentration of top-ranked schools there.

Other popular education destinations for Chinese students included Britain – for the universities of Oxford and Cambridge – as well as Canada, Australia and Switzerland, he said.

That said, the US is still considered a top destination for students and families who set their sights on the highest-ranked schools, said Julia Gooding, China director of international education at BE Education.

"If a Chinese student is aiming for the US News and World Report's Top 30 universities, it will take more than a trade war to scare them off," she said.

https://www.inkstonenews.com/education/chinese-overseas-students-us-find-themselves-no-good-options/article/3000776

LAURIE CHEN
Laurie is a contributor to Inkstone. She is a China reporter at the South China Morning Post.

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What China's censors didn't want people to see in 2018

By Nectar Gan | Inkstone | February 13, 2019

From the banning of books during the Cultural Revolution to the online erasure of John Oliver after he mocked Chinese leader Xi Jinping, information censorship in China is old news.

But a look at what has been censored provides a glimpse into the ruling Communist Party's sensitivities and what narratives it wanted to control for any given period.

According to research published this week, the US-China trade war was one of the most censored topics last year on China's wildly popular WeChat app.

Among the top 10 most censored topics, three were related to the flaring tensions between the United States and China: the prolonged trade war, US sanctions against ZTE and the arrest of Huawei's chief financial officer Sabrina Meng Wanzhou.

"The scope of topics censored on WeChat has expanded from domestic policies and social unrest to less politically sensitive topics, in what seems to be an effort to support China's international political image as a 'great power'," said researchers behind WeChatscope, a project at Hong Kong University tracking more than 4,000 public accounts covering daily news on the app throughout 2018 to analyze WeChat censorship.

With more than 1 billion user accounts worldwide, WeChat is not only the most popular social app in China, it is also a primary news source for many Chinese internet users – especially because of its more than 20 million public accounts.

This has invited both heavy-handed censorship from authorities and painstaking self-censorship by authors and corporate content reviewers.

The research team found that about 11,000 of the 1.04 million articles reviewed as part of WeChatscope had been censored.

Associate professor King-wa Fu, who heads the project, said Sino-US relations were among the most censored topics last year.

The number of censored articles containing the keyword "Sino-US" peaked from late October to mid-November, before falling after early December, when President Xi Jinping and his US counterpart Donald Trump hammered out a deal to put additional tariffs on hold for 90 days during their meeting in Argentina.

Domestically, the most censored topics on WeChat included the #MeToo movement against sexual abuse: especially the public backlash in April, when Yue Xin – a student at the prestigious Peking University – accused the school of trying to silence her when she demanded information about a sexual misconduct case which led to a star pupil's suicide 20 years ago.

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Another on the list was the vaccine scandal in July, when the drug regulator reported that one of the country's biggest vaccine makers had produced 252,600 substandard DPT vaccines, which were then given to hundreds of thousands of babies.

Posts about the world's first genetically edited babies – created by Chinese researcher He Jiankui in a shock to the global science community – were also heavily censored.

Representatives for Tencent, the owner of WeChat, did not immediately respond to a request for comment.

Chinese authorities doubled down last year on their control of online platforms to eradicate content deemed destabilizing.

In November, an industrywide clampdown on content by the country's cyberspace watchdog shut down 9,800 social media accounts in three weeks on platforms including WeChat, microblogging site Weibo, search engine Baidu, news aggregator Jinri Toutiao and others.

https://www.inkstonenews.com/society/what-chinas-censors-didnt-want-people-see-2018/article/3000793

NECTAR GAN
Nectar is a contributor to Inkstone, and a reporter for the South China Morning Post covering Chinese politics, policy, ethnicity and religion.

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POLITICS

Florida Sen. Rubio Takes Up The Cause Of Uighur Minority In China

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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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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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