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President Obama greets President Xi Jinping during his visit to the US in 2013 (Source: Xinhua)

## In a Fortnight

### Xi Jinping's Visit to the United States to Highlight Internet Rules, Economic Cooperation, Differences

By Peter Wood

Chinese President Xi Jinping is set to visit the United States next week, the seventh time since he first visited the country as Secretary of Zhengding County in Hebei in 1985 ([People's Daily Online](#), September 16). According to Chinese Ministry of Foreign Affairs (MFA) Spokesperson Lu Kang, President Xi will visit the United States from September 22–28, spending the last two days in New York City for a Summit celebrating the 70th anniversary of the founding of the United Nations ([MFA](#), September 16). The White House has welcomed the visit, stating that Xi's visit presents “an opportunity to expand U.S.-China cooperation... while also enabling President Barack Obama and President Xi to address areas of disagreement constructively” ([White](#)

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For comments and questions about China Brief, please contact us at [wood@jamestown.org](mailto:wood@jamestown.org)

The Jamestown Foundation  
1111 16th St. NW, Suite 320  
Washington, DC 20036  
Tel: 202.483.8888  
Fax: 202.483.8337

[House](#), September 15). That wording carefully encapsulates a whole range of issues, from wary economic and diplomatic cooperation to accusations of hacking and differing views of territorial disputes.

Having made the journey from rural committee secretary to supreme leader, President Xi is visiting the United States from a position of strength. Xi has continued to ride a wave of popularity, enjoying a level of approval similar or even surpassing that of Russian President Vladimir Putin. Media savvy and charismatic (compared to previous Chinese leaders), Xi has created a new persona and an active foreign policy for the Chinese Communist Party (CCP) that Chinese people, particularly *jiulinghou* (literally, post 90s; people born after 1990) young professionals find refreshing and empowering. Though economic issues and intraparty squabbling have certainly placed stress on the central leadership, the surge of national pride after the World War II Anniversary Parade has surely contributed to Chinese confidence on the world stage and in the CCP's leadership ([China Brief](#), July 17).

Though territorial disputes and strong disagreement on cyber-related issues continue to cloud, Xi and Obama seem to maintain a surprisingly warm relationship. China's foreign minister, Wang Yi, has emphasized that this is Xi's third visit in three years ([Xinhua](#), September 16). Obama has credited China's role in the Iran deal—arguably the biggest foreign policy coup of his administration ([China Brief](#), July 17; [White House](#), July 21). U.S.-China cooperation on clean energy and environmental issues, another priority for the Obama administration, is likely to be an area with strong potential for agreement, as Chinese and U.S. leaders enact legislation meant to curb pollution and reduce dependence on fossil fuels. U.S. companies looking to China for expanded growth are seeking to capitalize on the summit, with a number of top U.S. and Chinese business leaders, including investor Warren Buffett and Alibaba's Jack Ma set to meet with Xi Jinping in Seattle ([People's Daily Online](#), September 17; [Phoenix News Online](#), September 17; [MFA](#), September 17). Correspondingly, China is looking to grow its economy by “moving up the value chain,” through producing higher-end industrial goods in cooperation with the United States and European nations ([China Brief](#), September 17).

One area that is certain to be discussed is Washington and Beijing's divergent views on hacking and information systems. Industrial espionage via hacking attacks has

been a major source of tension over the past few years, culminating last year in the indictment of five Chinese state actors for hacking U.S. industries ([U.S. Department of Justice](#), May 19, 2014). Extensive intrusions into the information systems of the Office of Personnel Management, though widely acknowledged as a “legitimate” target of espionage, have not improved matters. With pressure mounting to take action, Obama signed an executive order that targets hackers at the beginning of April this year, which is believed to be soon followed by more extensive sanctions on China later this year ([White House.gov](#), April 1).

China has responded by downplaying its role in such attacks and insisting that it is cracking down domestically on cyber-crime. China has recently passed national security and internet security laws that increase national oversight, regulation and control of the internet ([Xinhua](#), July 1). This follows an international campaign by China to “wall off” sections of the internet, with the ultimate goal of a Chinese “intra-net” ([China Brief](#), September 4). Xi Jinping has made internet security a priority, linking information systems and security, by stating that “without internet security there is no national security, without informatization, there is no modernization” ([People's Daily Online](#), August 6).

Chinese special representative and Politburo Central Committee member Meng Jianzhu visited the United States at the beginning of September and met with a number of top U.S. officials, including Secretary of State John Kerry and National Security Advisor Susan Rice. The meetings evidently included significant discussion of internet security and cyber-crime, likely as a means of reaching consensus ahead of Xi's visit ([Phoenix News](#), September 14).

This summit will be among the last significant meetings between the two leaders during Obama's tenure. Should he fail to clearly articulate the United States' position and leave Xi with an impression of weakened U.S. resolve, it will certainly hurt the United States' long-term policy goals with China and Asia in the run up to the 2016 presidential election.

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## PLA Transformation: Difficult Military Reforms Begin

By Kevin N. McCauley

President Xi announced a 300,000-personnel reduction at the 70th anniversary military parade ([China Military Online](#), September 3). The reduction represents the most significant element of the current military reforms so far made public. Less contentious elements of the reform plan regarding training, rules and regulations, and military education are already underway, with the major organizational restructuring represented by the establishment of theater joint commands yet to be announced ([PLA Daily](#), August 24; [China Military Online](#), March 25; [PLA Daily](#), January 6). This new round of reforms initially announced in November 2013 will be much more extensive than previous efforts. It is certain that theater joint commands will be formed, probably resulting in some reduction in the number of regional commands, though the lack of announcement on this most significant area could indicate that issues remain unresolved, or was merely delayed for a future announcement. Rumors in the press both before and after the parade announcement have speculated on a number of possible reform measures including the command reorganization. The ground forces will lose their preeminence to as the aerospace, maritime and cyber domains gain in prominence. People's Liberation Army (PLA) academics have long-debated plans for establishing joint commands, but a reduction in Military Regions could be meeting resistance even amongst President Xi's handpicked supporters in the military due to the number of officer billets that would be eliminated. The PLA press has noted some confusion within the ranks, calling for loyalty to the leadership and support for the military reforms. Building consensus for a force reduction was likely easy. Agreeing on a joint command system was likely more contentious.

### Modernization Background

PLA theorists view the PLA as undergoing three stages of modernization since the founding of the People's Republic of China. In 1949, the PLA's strength stood at 6.27 million personnel. China's military has subsequently undergone eleven reductions, including the current reform. The first modernization stage (1949–1980s), which encompassed the end of the Chinese civil war and the revolutionary era, focused on building a large, conventional military capable of countering an invasion and a large-scale mechanized war, with nuclear warfare as a secondary focus. This kept the ground forces predominant, supported by the air force, navy and Second Artillery. [1]

The second modernization stage lasted from the mid-1980s to the mid-1990s. Peace and development, improved relations with the Soviet Union, and the removal of the threat of large-scale war were now the main themes resulting in a strategic shift in military modernization. The focus became preparing for a local war under modern technology, especially high-tech conditions. Economic construction, along with scientific and technological progress, took precedence over military modernization. Military modernization, while benefiting from China's economic and technological growth, focused on developing elite troops and combined-arms warfare. [2] New technology, a focus on quality, and organizational reforms followed. In the mid-1980s, the PLA reduced the force by one million troops, accompanying the formation of combined-arms Group Armies. A further reduction from 3.23 to 3.19 million occurred by 1990 ([Xinhua](#), September 3).

The end of the Cold War and the advent of the information-centric Revolution in Military Affairs (RMA) has helped drive the third and current stage of modernization (mid-1990s–present). PLA modernization focused on winning a local war under informationized conditions. Modernization driven by emerging scientific and technological developments focused on building an informationized military to support national strategic interests and

comprehensive national strength. This entails a new type of mechanization of the force, with integration of networked command information systems and joint force groupings down to the tactical level as a main feature. [3] Beginning in 1997, a 500,000-troop reduction occurred. Low-strength units were either demobilized or transferred to form a new national-level People's Armed Police (PAP) force to respond to internal emergencies. Another reduction took place between 2003 and 2005, with 200,000 troops cut, drawing down the PLA from 2.5 to 2.3 million. Many of these troops were non-combat personnel, redundant staff and administrative billets ([Xinhua](#), September 3).

During this latter period, the PLA began a three phase modernization plan. This included strategic plans for national defense and military modernization to lay a solid foundation by 2010; accomplish mechanization and make major progress toward informationization by 2020; and largely reach the goal of building a modern armed forces by mid-century ([State Council Information Office](#), January 20, 2009). There is some evidence that this modernization plan might have been supplemented or supplanted by an accelerated plan focusing on developing an integrated joint operations capability ([China Brief](#), July 17, 2014).

According to China's 2013 White Paper, *The Diversified Employment of China's Armed Forces*, current PLA troop strength is made up of: ground force units, including 18 Group Armies and independent units with 850,000 officers and enlisted personnel; PLA Navy (PLAN), total strength of 235,000 personnel; and PLA Air Force (PLAAF), with a total strength of 398,000 officers and enlisted personnel ([State Council Information Office](#), April 16, 2013). No numbers were given for the Second Artillery Force (SAF), but Taiwan's Ministry of Defense stated in a recent report to the Legislative Yuan that the SAF has increased from 140,000 to 150,000 personnel ([Central News Agency](#), August 31).

### Official Information on the Military Reform Plan

The most significant military reform effort since the mid-1980s was announced at the Third Plenary Session of the 18th Central Committee in November 2013 of ([China Brief](#), November 20, 2013). The announced reforms will touch on a number of important areas aiming to create a rebalanced joint force. The most significant area is optimizing the Central Military Commission (CMC) joint headquarters structure and establishing theater joint commands. Additional areas include strengthening the command information system, joint training, military education, restructuring and reducing the force, increasing new type operational forces, improving civil-military integration, instill discipline and loyalty, as well as rooting out corruption and a peace-time mentality. These moves will support the development and implementation of an integrated joint operations capability, and reduce the dominance of the ground forces. The winners are the PLA Navy and the Second Artillery Force, as well as the PLA Air Force focusing on air-space operations ([China Brief](#), December 5, 2014; [China Brief](#), April 9, 2014; [China Brief](#), April 12, 2013).

President Xi's announced force reduction of 300,000 personnel will leave the PLA with a total force of two million. The Chinese Ministry of National Defense spokesman reported that the reductions would occur incrementally, with completion by the end of 2017 ([China Military Online](#), September 3). A PLA Daily article from before the parade announcement appeared to debunk some of the more radical theories about the reforms. The author, from the Academy of Military Sciences (AMS), stressed that the reforms would build a modern force with Chinese characteristics, noting that there were still significant structural contradictions and an accumulation of institutional obstacles. While dampening speculation on radical reform, significant changes for the PLA were nevertheless highlighted. Importantly, leadership and command-system reform, including the establishment of a joint operational command system will facilitate the development of integrated joint operations. Additionally, the article's author

notes that reforms will focus on optimizing the force structure, building new type operational forces, deepen civil-military integration, and change policies and regulations. These latter changes are likely aimed at curbing corruption in procurement, promotions, training and education. (*PLA Daily*, August 28).

A more recent article in *PLA Daily* by an author at the National Defense University also called attention to a number of deep-seated issues that have slowed the PLA's modernization and are harming China's national defense. The PLA must scientifically determine the future form of warfare, combat methods, and new concept weapons. The leadership has expressed that the PLA must develop modern scientific management and informationized construction for greater efficiency. Military reform planning requires a system engineering approach with scientific organization guided by a top-level design. This is required to transform the military to win modern wars with a comprehensive and integrated approach to avoid the shortcomings of previous reform efforts. Only in this way can the PLA hope to eventually catch up with the revolution in military affairs (*PLA Daily*, September 4).

### The Rumor Mill

Prior to the 70th Anniversary Parade news sources began to report that details of the military reform plan would be made public. Though Chinese media has reported several proposals, there was detailed coverage of a “liberal” plan that would radically overhaul the PLA. This plan includes formation of four theater commands and reorganization of the four General Departments and Ministry of National Defense. All of the services would face some reductions, with the ground forces reduced to 360,000 personnel, and the PAP transitioning into a National Guard (*South China Morning Post*, September 2; *South China Morning Post*, September 2; *Bloomberg News*, August 31). The PLA has been reluctant to divulge its plans, and the PLA press has announced the punishment of 15 people for disseminating online rumors including “inside

information” on the military reform plan ([China Military Online](#), September 2). Though many of the rumors are based on speculation, some certainly reflect aspects of various reform proposals put forth within the PLA.

Some things are certain. Non-combat units and administrative staff will be cut, and units with older weapons and equipment will reportedly be targeted for demobilization (*Xinhua*, September 3). A review of the PLA force structure reveals a handful of Group Armies (GA) that could be demobilized due to a preponderance of older systems. Several lack special force and army aviation brigades/regiments, indicating a lower priority than GAs with both of these new type operational units. Based on rumors that reductions would occur primarily in the norther tier facing less of an external threat and that three GAs from this area would be demobilized, the following are likely targets for demobilization: 27th GA, Beijing MR; 40th GA, Shenyang MR; and 47th GA, Lanzhou MR (see the accompanying map). Additional candidates could include the 14th GA, Chengdu MR, and possibly the 20th GA, Jinan MR. Press reports indicate that troop strength in the southern tier—southwest facing India and the southeast responsible for a Taiwan crisis, as well as the South China Sea and Vietnam—would not experience major cuts (*Want China Times*, September 4).



Another recent report presented rumors indicating that four theater joint commands would be established: a Northeast theater including Shenyang and Beijing Military Regions (MR); a Northwest theater based on Lanzhou MR; a Southwest theater based on Chengdu MR; and a Southeast theater formed from the Guangzhou, Nanjing and Jinan MRs.

From a strategic perspective, this consolidation makes sense, although the elimination of MRs could meet with resistance even amongst President Xi's supporters in the PLA over the large number of officer billets eliminated with the move from seven MRs to four theater joint commands. The report also stated that the PLAN and PLAAF personnel would increase, though there was no mention of the SAF. Finally the report states that the theater joint commands would not command troops, although this would appear unlikely, as it would be counterproductive to create joint commands, but not allow them to command and train the joint forces they would employ ([Want China Times](#), September 4; [South China Morning Post](#), September 5). An area of speculation with some merit is the ratio of forces. Xu Guangyu, a senior consultant at on the Chinese Military Disarmament Control Council speculated that the ratio of ground, air and naval forces would end up as 2:1:1, a dramatic shift from the current estimate of about 4:2:1 ([Global Times](#), September 6; [Want China Times](#), September 6).

### Prospects for the Future

President Xi appears to have consolidated enough power within the PLA to implement the most significant military overhaul since the mid-1980s, something his predecessors Presidents Jiang Zemin and Hu Jintao were not able to accomplish ([China Brief](#), February 4). With calls for loyalty and support for the reforms in the PLA press, there are indications that some resistance remains, and it seems unlikely that the more radical reforms outlined in some press reporting will come to fruition. However, the reforms will still be broad and deep, changing the PLA institutionally.

The military reforms present risks of disruption to the entire military system while affecting long-entrenched special interests. However, they are viewed as absolutely necessary, as the leadership believes the PLA is falling further behind the revolution in Military Affairs and developments in the world's advanced militaries, necessitating an accelerated transformation effort. As important as

equipment and structural changes may be, a change of mentality is critical to the PLA reform efforts. Changes so far, even the announced force reductions, represent the relatively easy, non-contentious adjustments. The forthcoming command-system reform will significantly alter the PLA organizationally, changing the balance of power within the PLA, promoting jointness in the officer corps, and enabling significant movement toward joint capabilities. If future reform announcements adequately address these areas, particularly the command system, the PLA's transformation efforts will begin to accelerate.

*Kevin McCauley has served as senior intelligence officer for the Soviet Union, Russia, China and Taiwan during 31 years in the federal government. He has written numerous intelligence products for decision makers, combatant commands, combat and force developers, as well as contributing to the annual Report to Congress on China's military power. Mr. McCauley currently writes on PLA and Taiwan military affairs.*

### Notes

1. *Outline of China's Third Military Modernization*, (Beijing: PLA Press, 2005), preface p. 9; [Xinhua](#), September 5.
2. *Outline of China's Third Military Modernization*, (Beijing: PLA Press, 2005), preface pp. 9–10
3. *Outline of China's Third Military Modernization*, (Beijing: PLA Press, 2005), preface p. 10.

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## Taiwan's Han Kuang Exercises: Training for a Chinese Invasion One Drill at a Time

By Lauren Dickey

Earlier this month, in Beijing, the Chinese government staged an epic military parade for the 70th anniversary of the Allied victory over Japan in World War II. Chinese interpretations of history in a contemporary context have, of course, always had a political objective in mind. The missiles, fighter jets and troops passing through Tiananmen Square were not only meant for domestic consumption; the projection of national strength and closely managed pageantry conveyed ample insight into how the Chinese leaders plan to use the military in pursuit of national goals. For the Chinese Communist Party there is no larger goal than reunification with the renegade island of Taiwan, the “sacrosanct mission of the entire Chinese people” Beijing has persistently worked toward since 1949 ([China.org](http://China.org)).

Taiwan has always been a focal point both for the Chinese leadership and the military apparatus writ large. And it is not just the crafted diplomacy and 1,600 missiles pointed at the island. Indeed, the core mission of reunification has incentivized modernization of the People's Liberation Army (PLA) forces and capabilities ([Taipei Times](http://Taipei Times), October 9, 2013). To be fair, while this month's commemorative parade did happen beyond the cycle of decennial national day festivities, the military technology on display sent a familiar message to Taiwan. Seven missiles were from China's foremost set of major missiles, the Dongfeng (DF) series. These included the DF-10 anti-ship missile, the DF-15B short-range ballistic missile; the DF-16 and DF-21D medium-range ballistic missiles; the DF-26 intermediate-range ballistic missile; and the DF-5B and DF-31 intercontinental ballistic missiles ([China Real Time Report](http://China Real Time Report), September 3). As anticipated, China also unveiled its DF-31D anti-ship ballistic missile—capable of disabling U.S. carrier strike groups—and the DF-26, the first missile capable of striking Guam. The resounding message displayed in Chinese offensive capabilities is certainly aimed at Taiwan, as it continues to grapple with the demands of a shrinking defense budget and requirements of

modernizing defensive capabilities. But the target of such messaging is also any partner or ally that would come to Taipei's support in the case of cross-strait conflict.

Even despite staunch domestic opposition, Taiwan sent former Kuomintang (KMT) chairman Lien Chan to join Chinese President Xi Jinping and dozens of other world leaders atop the rostrum at Tiananmen for the display of Chinese military might and V-Day commemoration ([CNA](http://CNA), August 28; [Phoenix News](http://Phoenix News), September 1). As with many aspects of cross-strait ties, Taiwan's official stance on World War II emphasizes a version of events different enough to confound Beijing. Yet, Lien accepted Beijing's invitation, even meeting privately with President Xi. But there was a larger calculus in mind. Ironically, Lien witnessed the military parade on the heels of a report issued by the Taiwanese Ministry of National Defense (MND) regarding Beijing's military capabilities and possible Taiwan contingencies. Taiwanese politicians on both sides of the aisle should presumably be able to agree that any scenario in which the People's Liberation Army (PLA) would invade Taiwan needs to be mitigated, if not avoided altogether.

The MND report noted Beijing's concerns in advance of the 2016 presidential elections in Taiwan. With Tsai Ing-wen, the opposition Democratic Progressive Party (DPP), candidate increasingly likely to win, PLA drills seeming to simulate an attack on Taipei are perhaps a direct result of mainland China's electoral angst ([Focus Taiwan](http://Focus Taiwan), August 31). Yet, irrespective of Taiwan's next president, the MND report posits that Beijing would invade Taiwan under six possible scenarios: 1) Taiwan declares independence or takes steps toward *de jure* independence; 2) Taiwan obtains nuclear weapons; 3) foreign forces interfere in Taiwan's affairs; 4) foreign troops are deployed in Taiwan; 5) domestic unrest in Taiwan; or 6) cross-strait negotiations on eventual reunification are delayed by Taiwan. Should mainland China resort to military means for reunification with Taiwan, the report hypothesizes the PLA would use a combination of military threats or a blockade strategy targeting major ports at Kinmen, Matsu or other outlying frontier islands ([Taipei Times](http://Taipei Times), September 1). If the conflict were to further escalate, or if Beijing would seek to fully defeat Taiwanese defenses, joint PLA military operations in the form of missiles and other firepower would be deployed to attack Taiwan's major military and political headquarters, as well as telecommunications infrastructure, followed by airborne and amphibious landings for an invasion of the island.

Despite the dismal picture painted by the MND report, Taiwanese defense officials remain surprisingly confident in the capability of Taiwan's armed forces to defend against a possible attack by the PLA. This year, as in the past seven years, the Han Kuang exercises (HK, 漢光演習) have allowed Taiwanese defense forces to simulate an invasion by mainland China. Divided into two phases, HK is composed of a Command Post Exercise (CPX) and computer-simulated wargaming followed by Field Training Exercises (FTX). Analysis in *China Brief* following the 2010 Han Kuang drills suggested that the focal point of the HK exercises reflects the defense policy platform of Taiwanese President Ma Ying-jeou: "passive protection measures and ground defense" are favored over the air and naval-centric active defense strategies of Ma's predecessors (*China Brief*, May 27, 2010).

This year's 63 drills suggest that onlookers have, at best, underestimated Ma's vision of an active Taiwanese defense (*Taiwan Today*, September 8). The FTX maneuvers saw the army, navy and air force test their joint operations following computer-aided war games earlier this spring (*Focus Taiwan*, September 11). One drill held at Kinmen simulated an attack by enemy forces on a group of Taiwanese naval supply vessels heading toward the island. Live-fire drills included an anti-amphibious landing on the shores of Hsinchu, incorporating both self-propelled howitzers and shells. Still other drills included an amphibious landing in Pingtung County and an airborne exercise in Taichung with a C-130 delivering military vehicles and paratroopers with supplies (*Taipei Times*, September 11). With Taiwan's newest and most advanced technology on display—including a P-3C sub-hunting plane, the AH-64E Apache attack helicopter, locally-designed stealth missile corvettes and supply vessels, as well as unmanned aerial vehicles (UAVs)—the Republic of China armed forces put on a full display of Taiwan's joint defensive capabilities (*Epoch Times*, September 9; *Apple Daily*, September 11).

Still, Taiwanese defense preparedness must also necessarily depend upon the resiliency of military bases and local infrastructure. The advantage of Beijing's military arsenal over the current capabilities of Taiwanese defense forces is clear—gone are the days of Taiwan's impregnability. Mainland China's advanced missile systems, in particular, coupled with declining Taiwanese defense budgets have shifted the balance of power to the

point where defeat in an invasion scenario *sans* foreign intervention is inevitable (*Apple Daily*, May 9). The Han Kuang exercises, however, remain a time for Taiwan to test all capacities for bolstering the island's self-defense solutions.

In the instance of cross-strait conflict, the 1,600 missiles aimed at Taiwan are likely to first target military installations in hopes of preventing Taiwanese forces from launching a full airborne defensive. Mainland China may look to its latest Dongfeng missiles to destroy Taiwan's military runways, for instance, with the objective of denying Taiwan's Air Force a minimum operating surface (MOS) requisite for aircraft to become airborne. Equipped with knowledge that a nominal MOS is 5,000 feet long and fifty feet wide, an important element of this year's HK exercises was held at Chiayi Air Base. [1] Army and air force units worked in coordination for rapid runway repair work, precisely in hopes of simulating a Chinese attack (*Taipei Times*, September 9). In the event a cross-strait conflict breaks out and Chinese forces do, indeed, focus their attack on Taiwanese air bases, it will take the fastest air force and army troops up to three hours to return airstrips to service (*China Post*, January 14, 2014).

For Taiwan, the need to prepare for a possible contingency with mainland China has been bolstered by the realities of the "one country, two systems" (一国两制) model seen in neighboring Hong Kong. Officials in Beijing have long promised that reunification with Taiwan would happen on terms that would allow the "socialist" mainland system to coexist with Taiwanese capitalism, a situation not dissimilar to the handover of Hong Kong by the British to Chinese officials in 1997. However, the "one country, two systems" promise has not held true in the case of Hong Kong—as the 2014 Umbrella Movement made clear, not only is the population of Hong Kong limited in who it can vote for, but the top contenders are certainly vetted and approved first by the central authorities in Beijing. Taiwanese onlookers are undoubtedly skeptical that Beijing has other plans in mind for a post-reunification "one country, two systems" model with Taipei, and thus must necessarily be prepared for all forms of reunification, including a military invasion.

Despite continued cross-strait militarization and a perceived willingness by both sides to offensively or defensively stake claims to divergent national interests, any cross-strait conflict is unlikely to start without sufficient warning signals. As Taiwan expert J. Michael Cole points out, "the greater the scope of the initial phase,

the more time will be necessary for the PLA to prepare the assault, giving Taiwanese, Japanese and U.S. intelligence assets in the region greater opportunities to detect unusual activity in China and more time to prepare” (*The National Interest*, August 22, 2014). Annual Taiwanese drills as part of the Han Kuang exercise are one small step in ensuring the island is prepared for a possible PLA invasion. What was seen in Beijing’s V-Day commemorative parade is a direct challenge to both the final months of the Ma presidency, as well as the next administration. In 2016, with a DPP administration led by Tsai Ing-wen increasingly likely to take the political reins in Taipei, the new Taiwanese government will have to tread a delicate balance between further antagonizing Beijing and investing in a military capable of countering China’s growing military power and presence.

*Lauren Dickey is a PhD candidate in War Studies at Kings College London and the National University of Singapore. Her research focuses on cross-strait ties, specifically Xi Jinping’s strategy toward Taiwan. She was formerly a research associate at the Council on Foreign Relations.*

#### Note

1. Jacob L. Heim, “The Iranian Missile Threat to Air Bases – A distant Second to China’s Conventional Deterrent,” *Air and Space Power Journal*, July–August 2015, <http://www.airpower.maxwell.af.mil/digital/pdf/articles/2015-Jul-Aug/F-Heim.pdf>, p. 33.

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## The Park-Xi Friendship and South Korea’s New Focus on China

By Darcie Draudt

While the 12,000-troop parade at China’s September 3 ceremony commemorating the 70th anniversary of the end of WWII was a striking sight

in Beijing, those who closely follow China’s relationship with the Korean Peninsula may have watched the guests of President Xi Jinping just as closely. Most noticeably, Xi was flanked on his right by Russian President Vladimir Putin, and—dressed in a vibrant yellow jacket—South Korean President Park Geun-hye.

In such a lineup—which included other high-level representatives from nearly three dozen countries and international organizations, including UN Secretary General Ban Ki-moon (a former foreign minister of the Republic of Korea)—noticeably absent was North Korean Supreme Leader Kim Jong-un. Choe Ryong-hae (member of the Politburo and Korean Workers’ Party Secretariat and central Kim Jong-un advisor) did attend, but the young leader’s absence reiterated some Northeast Asia-watchers’ concerns: that China continues to tilt toward the southern Korea and is showing signs of restricting its special relationship with the Democratic People’s Republic of Korea (DPRK).

The China-South Korea relationship is, however, much more complicated than that. In some respects, it is tempting to view Beijing’s tilt to Seoul as an either/or choice at the expense of Pyongyang. And certainly, with Kim Jong-un taking over leadership following his father’s death in December 2011 and Presidents Xi and Park taking office in their respective countries in 2013, the warming of relations between Seoul and Beijing and a seeming decline in the China-North Korea relationship (at least at the highest state levels) has become all the more noticeable. But the relationship remains fundamentally the same. Trade between the two continues at stable levels—meaning China in many ways essentially props up the North Korean economy—and Beijing also maintains its staunch insistence on limiting the Republic of Korea’s (ROK) or the United States’ reactions to North Korea’s military provocations. But Chinese government officials have repeatedly expressed concerns over the direction of North Korean policies under Kim Jong-un, especially its decision to elevate nuclear weapons

development policy to a level commensurate with policies that seek to promote economic growth.

Moreover, Kim Jong-un has further isolated his country with poorly explained limits on his diplomacy with foreign leaders. The supreme leader has yet to make *any* state visits since ascending to leadership in Pyongyang, and moreover President Xi has not yet called upon Kim in Pyongyang. This is unprecedented, as newly elected Chinese presidents traditionally visit Pyongyang before Seoul. Other high-level emissaries from the DPRK and China continue visits, but representatives from both countries are conspicuously absent at important events—such as in October 2014, when South Korean media reported that Chinese officials were not sent to Pyongyang to commemorate the 65th anniversary of PRC-DPRK diplomatic relations ([Yonhap](#), October 6, 2014).

Leadership changes in the past few years have seen a shift in not only North Korea's but also China's head-of-state diplomacy. Presidents Xi and Park have pursued an unusual degree of closeness for PRC-ROK relations. Their diplomatic path can be marked by not only the number of summit meetings between Xi and Park—six total, three of which were in China—but also the content. Park and Xi have publicly asserted the need to rein in Pyongyang's nuclear program. The two have also secured advances in their own bilateral relationship, notably with the signing this past June of the China-South Korea Free Trade Agreement (FTA) after a three-year negotiation process, which finance ministers Gao Hucheng and Yoon Sangjik claimed will serve as a bilateral platform for new growth ([CCTV](#), June 1).

Certainly the congenial relationship between Xi and Park can be largely credited for increased attention to the PRC-ROK relationship, and similar outlooks for regional stability, particularly vis-à-vis North Korea, play into that. During their first summit meeting in Beijing in June 2013, Xi and Park discussed deepening cooperation between China and South Korea, including economic issues as well as the denuclearization of the Korean Peninsula. The

*JoongAng Daily* reported that the 2013 joint statement was the first time the presidents of China and South Korea had committed to working together toward North Korea's denuclearization ([JoongAng Daily](#), June 2013).

Most recently, Xi and Park met on September 2, one day in advance of the parade, and their discussion addressed North Korea's nuclear problem as well as economic issues, including the FTA and regional cooperation via the Asian Infrastructure Investment Bank ([Xinhua](#), September 2). Shortly thereafter, the goal of cooperation toward North Korea was reaffirmed on September 7, when Chinese Deputy Chief for Nuclear Issues Xiao Qian followed up in Seoul with South Korean counterpart Kim Gunn to each seek dialogue with Pyongyang on denuclearization ([Yonhap](#), September 7).

The reasons behind South Korea's openness to greater engagement with China are three-fold, and they connect to the ROK's perennial fear of being caught amid regional uncertainty as great powers shift strategic goals for the Asia-Pacific.

First, South Korea's supreme national goal—unification—can only be achieved with assistance from China (as well as the United States, South Korea's treaty ally and security guarantor). The salience of this point cannot be understated; South Korea has long operated on the premise that increased diplomacy toward China in both public and private sectors would increase the likelihood of Beijing backing a Seoul-led unified Korea. [1] In fact, China's pivot from Pyongyang toward Seoul is not new; beginning in the early 2000s, the PRC-ROK relationship markedly improved, beginning with senior military visits starting in 1999, increases in tourism and study exchanges and converging ideas about reunification as an extended process following the German model. [2]

Second, South Korea's economy is deeply integrated with and dependent on China. In 2014, South Korea's exports to China outnumbered its next three largest trading partners (United States, Japan and Hong Kong), *combined* ([ROK Customs Service](#)). While

South Korea's security partnership with the United States and U.S. political leadership on the global scale both enjoy widespread public support, there is an understanding that China's economic rise will continue, even in the face of recent slowed growth.

This latter point—that the ROK's economic and security is powerfully linked to both China and the United States—is related to the third reason Seoul seeks to take a higher profile in China's foreign policy. Not only is China essential to South Korea's national goal of unification, China is moreover a key component to regional peace and stability and Korea is seeking to play the role of a “balancer” or “bridge” between regional powers to such an end. Despite uncertainty and contentious handling of China's territorial disputes elsewhere in East Asia, China and South Korea are handling their bilateral disputes regarding their exclusive economic zones (EEZs) in the Yellow Sea with institutionalized meetings. Further afield, South Korea is careful to support the need to ensure stability, in the South China Sea *within the existing framework* between China and ASEAN, such as when Vice Foreign Minister Cho Tae-yong expressed his country's “hopes that the code of conduct that is being discussed between China and ASEAN countries can be concluded as soon as possible” ([U.S. Department of State](#), April 16).

With Xi and Parks' governments shifting toward greater engagement and bilateral cooperation—especially vis-à-vis North Korea—China takes on a greater profile in the minds of South Koreans. Indeed, the South Korean public sees China increasing in importance. According to a South Korean poll released earlier this year, 52 percent of South Korean respondents approved of China's leadership on the global scale in 2015, compared to a mere 29 percent in the same poll two years prior ([Asan Institute](#), 2015). In terms of economic importance, South Koreans on the whole see China's economic importance as increasing even further in the future ([Asan Institute](#), July 2014). But the public is reticent to accept Chinese growth as purely a positive trend at home: in a 2014 Asan Institute poll,

72 percent of South Koreans reported China's economic rise as a threat—nearly a 20-point increase from 2012. Also in 2014, 47 percent of South Koreans supported the China-Korea FTA (compared to 53 percent supporting the U.S.-Korea FTA).

However, this shift in projected global leadership should not be construed as a shift in favorability from one great power to another. An extraordinarily high number of South Koreans still support the U.S.-ROK alliance; in 2014, the Asan Institute for Policy Studies in Seoul showed over 90 percent of poll respondents believed the alliance was a necessity ([Asan Institute, 2014](#)).

Instead, the public opinion data, much like the actions of the South Korean leadership, might be explained by a sense of pragmatism on the part of South Koreans. The Korean Peninsula has endured centuries of being a “shrimp among whales,” (고래 싸움에 새우등 터진다 [鯨戰鯨死], “During a fight among whales, shrimp explode”) and this legacy is imprinted on engagement with large regional powers.

Now, South Korea finds itself dependent on and in-between two major global powers. While China and the United States are growing into their new relationship, South Korea must employ deft diplomacy to ensure positive relations with the United States, its security guarantor, and China, its major trading partner. The relationship between Xi and Park as well as Park's reportedly positive meetings with U.S. President Barack Obama seem to indicate that the groundwork for South Korea as bridge and interlocutor between the two great powers has been laid, but the real test of South Korea's position vis-à-vis and the U.S. China will occur in 2016 and 2017, when all three countries will face leadership changes.

*Darcie Draudt is a Ph.D. student in political science at Johns Hopkins University and non-resident James A. Kelly fellow at Pacific Forum CSIS. She previously served as research associate for Korea Studies at the Council on Foreign Relations in Washington, DC.*

*Ms. Draudt holds a Master's in Korean Studies from the Yonsei University Graduate School of International Studies in Seoul.*

## Notes

1. Pak, Kiejoon, "China's Cost-Benefit Analysis of a Unified Korea: South Korea's Strategic Approaches," In *The Journal of East Asian Affairs*, 26, no. 2 (2012): pp. 25-55.
2. See also Phillip C. Saunders, "Korea as Viewed from China," in *Korea: The East Asian Pivot*, Jonathan D. Pollack, ed. Newport, RI: Naval War College Press (2006): pp. 233-252.

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# The 'Triple Win': Beijing's Blueprint for International Industrial Capacity Cooperation

By Zhibo Qiu

In his opening remarks at the World Economic Summit in Dalian on September 10, Chinese Premier Li Keqiang suggested the integration of a "new" diplomatic concept—international industrial capacity cooperation (产能合作)—into existing bilateral and multilateral frameworks (*Phoenix News*, September 10). This concept accompanies important reforms of China's state owned enterprises (SOEs) meant to improve Chinese companies competitiveness and compatibility with developed markets. As a further sign of this concept's importance, Chinese leadership has constantly promoted it in recent visits to Europe, Latin America and Asia.

Additionally, in late June, China announced the establishment of its 15th Small Leading Group (SLG) after the 18th National People's Congress, led by Vice Premier Ma Kai. China's new high-end manufacturing SLG aims at building up China's capacity as a technical and innovative manufacturing power by the year 2030

(*Global Times*, June 24; *Xinhua*, July 3). These efforts are meant to help Chinese industries move up the "value chain" as the Chinese economy undergoes dramatic shifts.

China is on track to become a net exporter of capital by the end of this year, following a larger shift from exporting low-to-medium-end manufacturing products to exporting high-end manufacturing supply chains and infrastructure development models. This structural transformation is driven by domestic industrial upgrading and economic slowdown, reflected in data from this August, when China's Purchasing Managers' Index (PMI) fell to 49.7, the lowest level since August 2012 (*Phoenix News*, September 1). [1]

Chinese manufacturers suffer from rising labor costs, weak consumption demand and environmental concerns. To resolve this industrial malaise, Beijing has announced a series of policies such as the "Made in China 2025" strategy to improve its high-end industrial manufacturing sector (*Xinhua*, May 19). This strategy addresses the external and internal components of China's industries.

Externally, China has accelerated its pace of investment to gain access to mature markets and advanced technology. Rather than relying purely on the export of cheap products, China has moved to export integrated manufacturing supply chains, which span the full range of products, technology, capital and management, to services and standards. Compared to the pure export of products, industrial capacity cooperation includes infrastructure construction, manufacturing equipment production, technology transfer, professional talents and skilled workers trainings as well as operation and maintenance. The industrialization of developing countries will provide cheaper land and labor for Chinese companies to relocate manufacturing bases and establish industrial parks overseas (*Xinhua*, May 21).

Internally, Beijing pledges to streamline administrative procedures and calls for joint actions of Chinese companies to cooperate in bidding for overseas projects. Moreover, Beijing will provide supportive services, including information sharing, customs, immigration, currencies, taxation, consular and legal protection (*State Council*, May 16). Industrial associations and public campaigns are also being encouraged to advance China's industrial

interests abroad. According to Gu Dawei, Director of the Department of Foreign Investment within the National Development and Reform Commission (NDRC), international industrial cooperation is a market-based incentive. He has stated that Chinese companies should take the primary responsibility of business decisions, profitability analysis, financial solvency and risk management (*Phoenix News*, May 20). Through SOE reform, Beijing is shifting from controlling assets to controlling capital. Administrative intervention will be reduced. To increase their profitability and market survivability, professional managers at SOEs will have responsibility for business decisions and be accountable to their stakeholders (*China Brief*, January 23).

Additionally, Beijing has called for Chinese SOEs and small-to-medium-sized enterprises (SMEs) to work together in building industrial capacity, with industrial associations as coordinators to promote China's industrial interests in the overseas market. Previously, Beijing has openly criticized the cutthroat competition between Chinese companies abroad, which was one of the primary reasons to consolidate Chinese Northern and Southern Railways (CNR and CSR) (*China Brief*, April 3). Beijing repeatedly calls for an integrated strategy for Chinese companies to bid together on overseas projects (抱团出海) and develop overseas industrial cluster parks (*Xinhua*, May 21). Industrial associations will lead on coordinating different companies and providing supportive services in the overseas markets. An example of this joint action is China's electricity industry. The China Electricity Council (CEC) has suggested setting up a coordination mechanism for overseas investment management in the electricity and related industries. CEC will facilitate formulating an English version of China's national electricity standards and its integration into international standards, organize international conferences and provide information and trainings (*Hexun*, August 24).

The Chinese government is also carefully launching branding campaigns for its state owned enterprises, as Chinese SOEs are an important element of China's national image and soft power projection in overseas markets. Miao Wei, Minister of Industry and Information

Technology, emphasized the critical importance of brand building for China's high-end manufacturing industries in his op-ed in the People's Daily when the "Made in China 2025" strategy was released early this year (*People.com*, May 26). Premier Li repeatedly showcased the high-speed train industry as a national "business card" for China. China Railway Rolling Stock Corporation (CRRC) has launched marketing and brand promotion campaigns to showcase China's high-speed trains in the U.S. market from this September (*Xinhua*, June 26). Besides public campaigns, Chinese SOEs are shifting to social media to engage younger generations inside and outside China. With the State Council's support, the State-owned Assets Supervision and Administration Commission (SASAC)-affiliated Central Enterprise Media Alliance (CEMA) recently announced the establishment of an information sharing and technology support platform for Chinese SOEs to produce audio-visual messages such as promotional trailers to reach audiences through mobile phones, computers and TV (*Xinhua*, July 23). [2]

President Xi Jinping is certain to discuss bilateral cooperation in high-end manufacturing during his upcoming visit to Seattle, Washington, DC, and New York. In anticipation of the visit, Beijing is actively promoting the concept of Sino-American industrial capacity cooperation (*People.com*, September 5). Recently, China's newly consolidated CRRC set up its first subsidiary in America, with an initial operations fund of \$10 million (*Phoenix News*, July 14). Following several upcoming high-end manufacturing bilateral contracts and agreements, more Chinese state-owned enterprises are likely to establish subsidiaries, manufacturing bases and research-and-development centers in the United States.

### **International Industrial Capacity Cooperation**

At the Sino-European Business Summit, in Brussels, this June, Premier Li Keqiang encouraged Europe and China to strengthen industrial capacity cooperation and explore market opportunities in third-party countries (*Xinhua*, July 2). Li mapped out a "triple-win" blueprint for trilateral cooperation that provides developed countries with market opportunities for their advanced technology, developing countries with access to affordable high-end manufacturing equipment, and China with the ability to shift from low-end to high-end manufacturing. China can,

in this way, serve as a bridge between developed and developing countries in infrastructure development.

Premier Li first proposed this concept during his state visit to Kazakhstan last December, emphasizing sectors such as steel, cement and flat glass that have seen slumping demand within China ([China News Online](#), December 16, 2014). Three months later, China and Kazakhstan signed 33 industrial cooperation contracts with an estimated value of \$2.36 billion. Beijing expects a successful example of Chinese-Kazakstani industrial cooperation to stimulate cooperation with other countries ([People.com](#), March 29). Subsequently, industrial capacity cooperation has become China's diplomatic buzzword throughout Latin America and Asia ([People.com](#), May 29; [China Daily](#), August 1).

### **China's Objectives of Industrial Capacity Cooperation**

#### *With Developed Countries*

Through industrial cooperation in high-end manufacturing, Chinese companies will have better access to acquire advanced technology and management skills in the process of joint bidding for projects in third-party countries. Importantly, "third-party cooperation" does not imply only developing countries. China's creation of a joint consortium with leading French nuclear companies such as AREVA reduces investors concerns about Chinese nuclear power's technology safety and stability, which has given Chinese firms the option to enter joint Sino-French bids for civil nuclear power stations in the United Kingdom ([People.com](#), July 1; [Reference News](#), July 3).

Joint ventures provide both the ability and the incentive for Chinese companies to upgrade their products and services to European standards. A successful consortium can serve as a springboard for Chinese companies to obtain access to mature markets with a better brand reputation. Chinese companies are interested in getting access to France's resources and networks in third-party countries. To finance these investment initiatives, China proposed the establishment of joint funds with the European Union (EU), Belgium and France ([Xinhua](#), July 2). However, the EU has expressed concerns over China's ever-increasing global market

share as direct competition for European companies ([China Brief](#), July 31). Together with diverging Chinese and European views on bilateral investment treaty negotiations, these issues have soured Sino-EU industrial cooperation. The long-term trade prospect of the One Belt One Road (OBOR) Strategy—the Beijing-based Eurasian infrastructure plan—might be more appealing to a debt-laden EU.

#### *With Developing Countries*

Industrial cooperation covers both advanced manufacturing sectors such as high-speed trains, telecommunications and aviation, as well as sectors with overcapacity such as steel, cement and flat glass. For developing countries, Beijing promotes Chinese companies' abilities to provide sufficient industrial materials and project experience at low costs. Using diplomatic visits, Beijing also seeks to lobby interest groups within the host governments to allocate more funding and resources to infrastructure development with Chinese firms in the lead of major projects. While developing countries have generally been the highest-profile areas of Chinese investment, developed countries are forming an ever larger portion of Chinese industrial companies' revenues.

#### **Location Preference: From Periphery to Center?**

In fact, recent characterization of China's industrial capacity cooperation as diplomatic efforts to sell China's industrial overcapacity to developing countries is a drastic oversimplification. China increasingly invests in high-end manufacturing sectors in Europe and America.

With more profit-driven incentives, Chinese state owned enterprises are looking for low-risk and high-profitability investment projects in the mature markets. Developing countries remain as major investment destinations for Chinese companies. However, political instability and the debt insolvency of these countries generates potential risks for regular operations and sustained revenue. Chinese companies are investing in Europe and North America for access to well-regulated markets, advanced technology, political stability and payment credibility, along with the higher returns these bring.

One of the goals of this overseas investment is that Beijing expects to turn its insolvent SOEs into profitable cash cows. As the domestic economy slows down, Chinese SOEs are expected to increase the profitability of their overseas investments and stimulate domestic growth. Due to political concerns and Intellectual Property Rights disputes, Chinese companies frequently face resistance to entering developed countries' markets. The Chinese government is, therefore, trying to lower market entry barriers for Chinese companies through intensive negotiations on bilateral investment treaties with United States and the European Union.

China Railway Rolling Stock Corporation pioneered Chinese high-end manufacturing companies' localization of production in the U.S. market. Earlier this year, China North Railway (now consolidated with China South Railway into CRRC) signed a \$430 million contract with Massachusetts Bay Transportation Authority to supply 284 metro vehicles ([Xinhua](#), January 26). With decreasing manufacturing costs in the U.S. market, CRRC has already set up assembly plants, localized manufacturing production and launched marketing campaigns in America.

CRRC is actively working with U.S. partners on co-developing efficiency and environment-friendly solutions. In June's China-U.S. Strategic and Economic Dialogue, a joint research center for railway technology was announced, to be led by CRRC and Chinese and American Universities ([Phoenix News](#), June 25). At the same time, a similar transport technology research center was established between China and the United Kingdom, also led by CRRC ([Xinhua](#), May 13). In July, U.S.-based Maxwell Technologies signed a long-term strategic partnership with CRRC's subsidiary to jointly develop new energy solutions of light rail and metro vehicles ([International Railway Journal](#), July 31).

Despite Beijing's efforts, Chinese SOEs still face tough challenges in overseas markets. Product quality and innovative capacity have proven to be the final determinants for Chinese SOEs' abilities to compete with international conglomerates. Foreign companies continue to be cautious about technology transfer due to concerns over China's weak Intellectual Property Rights protection. But as Chinese SOEs relocate their manufacturing bases abroad, some experts express

concerns on the social and environmental impacts for local workers and communities. Nonetheless, the ongoing reforms and concerted diplomatic efforts will certainly mean that Chinese industrial companies will continue to move up the value chain and to gain additional market share in developed economies, strengthening China's economy.

*Zhibo Qiu is a political consultant and researcher, focusing on China's domestic politics, foreign policy and overseas investment. She holds a master's degree from the University of Cambridge and the Graduate Institute of International and Development Studies.*

**Notes:**

1. A Purchasing Managers' Index number (PMI) below 50 indicates the contraction of a country's manufacturing sector.
2. The Central Enterprise Media Alliance (CEMA) is a national industrial association to promote State Owned Enterprises' (SOEs) branding and reputation, affiliated with the State-owned Assets Supervision and Administration Commission (SASAC).

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