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North Korea's steady drumbeat of missile launches and provocations kept relations with China and the United States tense for most of the year. Harvest time and preparations for the Korean People's Armies' winter training cycle have paused the missile launches, but heading into winter, there are no signs of a thaw in relations ([Korea Times](#), November 20; see also [Jamestown](#), October 11).

In the wake of President Trump's visit to China and pledges of closer cooperation to address the security on the Korean Peninsula, Beijing dispatched veteran diplomat Song Tao (宋涛), head of the Chinese Communist Party's International Liaison Department (ILD; 中联部), to Pyongyang. However, Song's four-day visit appears to have been fruitless. Song returned to Beijing without meeting with Kim Jong-un, as he was widely expected to, and with little but vague promises of improved relations.

As the head of a Communist Party body, rather than state-affiliated organization, Song came as an emissary looking to improve the Party-to-Party relationship between the CCP and Workers' Party of Korea which in the case

of North Korea is even more important than state-to-state relations. Song is also a trusted international relations expert, having previously served as the Vice-Minister of the Ministry of Foreign Affairs, with over a decade of foreign affairs experience in various MFA roles. Song was also involved in relations with South Korea, and met with the envoy of then-newly-elected President Moon Jae-in in May ([Xinhua](#), May 19).

Because of his experience, Song has been in charge of handling high-level contacts with North Korea before. In 2016, Song met with his North Korean counterpart, Ri Su-yong (리수용), in Beijing, ahead of the latter's meeting with Xi Jinping ([FMPRC](#), June 1, 2016; [FMPRC](#), May 31, 2016). Similar to Song's visit, Ri's intention for visiting Beijing was to consult with the CCP and provide briefings on the results of the Worker's Party of Korea's 7th Congress—its first in 36 years.

During this visit, Song met with Choe Ryong Hae, a senior military figure considered to be Kim Jong-un's second-in-command. While an important member of North Korea's ruling party, it is a far cry from the last visit from a senior Chinese official. In 2015, Liu Yunshan, the now-retired member of the Politburo Standing Committee and propaganda chief watched North Korea's National Day Parade side-by-side with Kim Jong-un ([China Brief](#), March 8, 2016).

Despite China's obvious disapproval of Kim's provocations, Beijing has deliberately worked to improve relations on both ends of the peninsula and kept communications open. However, the failure of Kim to meet with Song—

or to meet with Xi personally—indicates the North Korean leader clearly views China as less a partner and more a threat.

On November 21, the U.S. Department of Treasury announced an expanded list of sanctions against companies within North Korea or doing business with it ([Treasury](#), November 21). Several of the entities and individuals targeted by the sanctions are based in China, further tightening the lockdown on economic relations between the two countries.

Mirroring the slump in trade between China and North Korea, China Airlines, one of only two carriers connecting North Korea to the outside world, ceased flights between Beijing and Pyongyang due to insufficient numbers of passengers ([Sohu](#), November 22).

For its part, North Korea appears to have no interest in ceasing its nuclear ambitions. South Korea's National Intelligence Service (NIS) believes that "depending upon North Korean leader Kim's determination, a nuclear test is possible any time" though the intelligence service also said North Korea is struggling to build ICBMs capable of reentering the atmosphere ([Korea Times](#), November 20; [Korea Times](#), November 17).

While the expansion of sanctions will clearly stem the flow of additional cash to North Korea, forcing its government to make hard decisions about allocating money to keep the government running or invest in weapons. Nonetheless, observers should remember China's own experience with building nuclear weapons.

Perhaps no other country knows the struggle of building a nuclear deterrent amid economic calamity better than China. China launched several extraordinarily expensive defense projects during the twenty years between the Great Leap Forward (1958–1962) and Cultural Revolution (1966–1976), which saw dramatic economic decline and internal political chaos. Despite these tough periods, China successfully tested a nuclear bomb in 1964 (China.org.cn, October 16, 2007; [SCMP](#), November 20). Work on a nuclear submarine began in 1958 but the first submarine was only completed twenty years later in 1974.

Observers at the time, including the Hong Kong-based *China News Analyses*, noted the colossal folly of such plans. The programs, spearheaded by Marshal Nie Rongzhen and General Zhang Aiping, used resources from the country at a time when it could least afford it. Some of the projects, particularly the nuclear attack and ballistic missile submarines, offered little in the way of tangible deterrence. However, facing the threats of the United States and later the Soviet Union, China prioritized nuclear deterrence at all cost. The international community hopes that sanctions and diplomatic leverage will force the North Korean leadership to reconsider its pursuit of a nuclear deterrent. However, it is worth keeping in mind that China, when faced with similar hardship, also chose to build nuclear weapons.

For more information on North Korea check out the Jamestown Foundation's [North Korea Backgrounder](#)

Back to Normal? The End of the THAAD Dispute between China and South Korea

By Jeongseok Lee

On October 31, after a long standoff over South Korea's deployment of the U.S. Terminal High Altitude Area Defense (THAAD) system, China and South Korea agreed to return to the "normal development track" (正常发展轨道) ([Ministry of Foreign Affairs](#), October 31). The leaders of the two countries confirmed the rapprochement in a bilateral meeting during the Asia-Pacific Economic Cooperation (APEC) summit on November 11. President Xi Jinping praised the October agreement as a "fresh start," calling for a masterplan to develop their relations further for the next phase. South Korea's President Moon Jae-in also expressed optimism about the restoration of bilateral relations, citing a famous line from the *Book of Songs* (诗经), a "plum blossom endures the pain of cold winter" (梅经寒苦) ([China Daily](#), November 11; [Yonhapnews](#), November 12).

Although it appears that the THAAD row between Beijing and Seoul is now finally over, the dispute is worth examining as an example of how China uses its economic power to coerce other countries into meeting its demands.

How the THAAD Dispute Began

Until South Korea's decision to deploy THAAD in 2016, Beijing and Seoul maintained an excellent relationship. Previous South Korean President Park Geun-hye pleased Xi by attending China's military parade commemorating the 70th anniversary of the end of World War II, despite U.S. concern over Seoul's tilting relationship with Beijing ([China Brief](#), September 16, 2015). Although China had occasionally expressed its concerns about South Korea's potential introduction of THAAD, Seoul reassured Beijing by maintaining "Three No's"—there had been no request, no consultation, and no decision regarding the THAAD issue made by the United States or South Korea ([OhmyNews](#), March 11, 2015).

The Sino-South Korean honeymoon reached a turning point after North Korea's fourth nuclear test in January 2016. A week after the test, President Park stated that she would review the issue "solely based on our security and national interests" ([Seoul Shinmun](#), January 13, 2016). South Korea soon began discussions with the United States, and on July 8, it officially announced that THAAD would be installed as a "defense measure to protect the people of South Korea and the armed forces of the South Korea-U.S. alliance." Seoul also tried to satisfy Beijing by stressing that the system "will focus only on the threats from North Korea and will not be used against a

third party" ([Ministry of National Defense](#), July 8, 2016).

Despite the caveats, China was furious. Thirty minutes after the South Korean announcement, the Chinese foreign ministry expressed "strong dissatisfaction and firm opposition" (强烈不满和坚决反对) ([MFA](#), July 8, 2016). According to one estimate, during the month that followed the Chinese government issued 27 statements and *People's Daily* ran 265 articles criticizing Seoul's decision ([JoongAng Ilbo](#), December 7, 2016).

South Korean policymakers downplayed messaging from Beijing, and underestimated the risk of China's retaliation. Deputy Prime Minister Yoo Il-ho predicted that "as a member of WTO, China may find it difficult to take punitive economic measures on political issues," and Prime Minister Hwang Kyo-ahn confidently stated that "it may not be easy [for China] to bring economic retaliation due to the structural economic interdependence between the two countries" ([Jugan Kyunghyang](#), February 23, 2016; [News 1](#), July 19, 2016).

China's Economic Retaliation Against South Korea

In the following months, however, China proved that it had a variety of methods at its disposal to damage the South Korean economy.

Fallout from the THAAD dispute affected the entertainment industry first. From August 2016, Korean celebrities who had enjoyed enormous popularity in China began to disappear from Chinese TV shows and commercials for unclear reasons. Concerts were suddenly cancelled, and it was rumored that the Chinese state agencies had banned Korean shows, movies and celebrities (限韩令, *xianhanling*) ([Chosun Ilbo](#), September 27, 2016).

The next target was the tourism industry. In October 2016, Korean news media reported that China's National Tourism Administration (NTA) instructed Chinese travel agencies to decrease the number of South Korea-bound travelers by 20 percent ([JoongAng Ilbo](#), October 25, 2016). The next day, stock prices of major South Korean hotel chains, cosmetics companies, and duty-free shops, which had been earning more than half of their revenues from Chinese tourists, fell by seven to eight percent. The NTA immediately denied the report, but did not respond to the South Korean government's repeated requests for an explanation of the decrease ([Global Times](#), October 26, 2016; [Yonhapnews](#), December 8, 2016).

Despite Beijing's pressure, Seoul did not stop the deployment. In November 2016, Korean conglomerate Lotte agreed to provide its golf course in the southeastern county of Seongju as a deployment site. Beijing responded by launching massive retaliation against Lotte, subjecting the retail giant's business in China

to extensive tax investigation and safety inspections ([Chosun Ilbo](#), December 1, 2016). As a result, 87 out of Lotte's 112 hypermarket stores in China were shut down, and its mega-construction projects were stalled. According to one estimate, the South Korean conglomerate suffered \$2.2 billion in losses ([Yonhapnews](#), October 31).

As Seoul continued the deployment process in 2017, Beijing turned the screw further to put more pressure. Along with increasing sanctions on the entertainment and tourism industries, China began to impose informal penalties on South Korean consumer goods companies. According to an investigation by South Korea's government ministries, between March and October 2017, hundreds of South Korean companies handling consumer goods in China were subjected to various informal punitive measures such as delayed customs clearances, tightened sanitary inspections, forced removal of products from stores, unilateral cancellation of marketing events and refusal of business visas.

During this campaign, China's economic reprisals had three distinctive features:

First, Beijing punished Seoul in an informal, but visible manner. China maximized the symbolic and psychological impact of sanctions by selecting the entertainment and tourism industries as its first and second targets. Although these industries only accounted for

less than five percent of South Korea's China-bound exports, they easily attracted the media's attention, increasing the visibility of the sanctions. However, the Chinese government avoided public acknowledgement of the sanctions by not issuing formal legislation or documented instructions, and has never admitted the very existence of government-sanctioned punitive measures related to the THAAD dispute. South Koreans felt the increasing economic pain inflicted by Beijing, but it was not easy for them to point the finger at the Chinese leadership due to the lack of tangible evidence.

Second, China minimized the negative impact on its own economy by carefully targeting the South Korean companies outside of its manufacturing value chain. South Korea's essential role in the global value chain has been as a provider of intermediary goods for China. Thus, if Beijing wanted to inflict maximum pain on Seoul, it would have targeted the intermediary goods in the IT sector, such as display panels and semiconductors, which account for the largest share—about 50 percent—of South Korea's exports to China ([KOTRA](#), August 28). Such a move would have damaged China's electronics companies, which lacked viable alternative providers of these key components.

Third, China did not attack South Korea's financial sector, its weakest point. In February 2016, Beijing became Seoul's biggest creditor,

holding approximately 18 percent of South Korea's public debts ([Financial Supervisory Service](#), March 17, 2016). China could have severely damaged Seoul's financial market by selling South Korean bonds, but chose not to use that option. It appears that China shied away from attacking the financial sector because such a drastic measure might prompt Seoul to turn its back on Beijing entirely. Due to the economic reprisal, for the first time in modern history, China became the most unpopular country among the South Korean people in March 2017 ([Asan Institute](#), March 19). In such a situation, South Korea's presidential election triggered by President Park's impeachment may have led Beijing to save this 'nuclear option' and further observe political developments in Seoul with caution ([China Brief](#), April 20).

The New Three No's and the End of the Dispute

Soon after his inauguration in May 2017, President Moon demonstrated considerable effort to restore the relationship with China through multiple diplomatic channels. Beijing responded with positive signals such as high-level contacts and the renewal of the bilateral currency swap deal in mid-October. On October 31, Beijing and Seoul announced a joint statement on their rapprochement.

The rapprochement deal shows that China and South Korea decided to end their feud by

seeking common ground while putting differences aside (求同存异). Although the joint statement declared a restoration of their bilateral cooperation, it revealed the remaining difference between the two parties' views regarding the nature and implications of THAAD. Beijing restated its opposition to THAAD, its concerns about the U.S.-led regional Missile Defense (MD) program, the deployment of additional THAAD batteries, and the U.S.-South Korean-Japanese military cooperation ([MFA](#), October 31).

Seoul did not explicitly present its position on the latter three issues in the statement, but it answered Beijing's requests indirectly. On October 30, a day before the announcement of the joint statement, South Korea's Foreign Minister Kang Kyung-wha stated in a National Assembly hearing that Seoul had no intention to (1) install additional THAAD batteries, (2) participate in a regional missile defense system, and (3) form a trilateral alliance with the United States and Japan ([Chosun Ilbo](#), October 30). Although the immediate audience was South Korean lawmakers, the real recipient of the message was Beijing, which immediately welcomed Seoul's new "Three No's" policy ([MFA](#), October 30). Furthermore, President Moon reconfirmed this policy by stating that he did not think the trilateral alliance is desirable and will pursue "a balanced diplomacy with the US as well as China" ([Channel NewsAsia](#), November 3).

Although Seoul did not remove its THAAD battery, it appears that Beijing agreed to end its economic retribution in return for Seoul's new "Three No's" policy. Although the joint statement did not mention the punitive measures Beijing had taken against Seoul, according to South Korean officials who participated in the negotiation, Chinese officials implicitly suggested the lift of the sanctions by promising that South Koreans "will now be able to feel the warmer atmosphere in the bilateral relations" ([Chosun Ilbo](#), October 31).

While restoring its relationship with Beijing, Seoul also began to seek a way to decrease its economic dependence on China. In November, unveiling his "New Southern Policy," Moon announced his plan to increase South Korea's trade with the Association of Southeast Asian Nations (ASEAN) to the same level as its trade with China ([JoongAng Ilbo](#), November 10). Further moves by South Korean corporations, some of which already began to diversify their investments from China to Southeast Asia and India, are expected to expand Seoul's effort.

Conclusion

For President Xi, the final outcome of the economic coercion against South Korea may be considered a partial success. Although THAAD will remain in South Korea, he succeeded to draw Seoul's reassurance to Beijing

that South Korea will distance itself from a regional missile defense system and a potential anti-China coalition. This is not a minor achievement for China, which has to address the challenge of an emerging “Indo-Pacific” security network led by the United States.

The final agreement was not a bad deal for South Korea’s President Moon either, since the new “Three No’s” are not really new for Seoul, which had always been cautious of participating in regional missile defense and strengthening its security cooperation with Tokyo. Unlike his predecessor Park, who disappointed Xi with her sudden decision to deploy THAAD after the long honeymoon with Beijing, Moon is more likely to remain committed to balanced diplomacy to receive China’s support and assistance in implementing his engagement policy toward North Korea.

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Rohingya Crisis: Will China’s Mediation Succeed?

By Sudha Ramachandran

During his visits to Dhaka, Bangladesh and Naypyitaw, Myanmar on November 18 and 19, China’s Foreign Minister Wang Yi put forward a three-phase plan to resolve the Rohingya crisis. First, Wang called for a ceasefire in Myanmar’s devastated Rakhine state, which is at the center of the crisis. Aimed at restoring order and stability in the Rakhine state, the ceasefire is expected to halt the flow of Rohingya refugees to Bangladesh. China envisages that this will pave the way for the second stage: negotiations between Myanmar and Bangladesh to address the refugee problem. The third and final stage will involve the economic development of the Rakhine state to address the underlying causes of the violence ([Global Times](#), November 20). China’s plan has reportedly found acceptance in Naypyitaw and Dhaka and marks the start of a new phase in Beijing’s involvement in the Rohingya conflict ([FMPRC](#), November 20). China’s role has hitherto been limited to providing humanitarian aid to the Rohingya refugees and protecting Myanmar from international censure. Why is China now adopting a mediatory role in the conflict? And is it likely to succeed in bringing peace to a restive region?

The Rohingya Conflict

The Rohingya crisis began on August 25 when the Myanmar government declared the Arakan Rohingya Salvation Army (ARSA) a terrorist organization in response to deadly attacks

on police and army posts in Rakhine state in western Myanmar ([Mizzima](#), August 28). It also launched a military crackdown in Rakhine, which it maintains is aimed at the militants ([Mizzima](#), October 16; [Terrorism Monitor](#), November 10). However, horrific violence has been unleashed on Rohingya civilians, including women and children. Entire villages have been razed. Over 600,000 of the estimated 1.1 million Rohingya in Myanmar are reported to have fled to Bangladesh ([The Wire](#), November 17). The current crisis is the most severe that the decades-old Rohingya conflict has witnessed.

While the roots of the Rohingya conflict (like Myanmar's other ethnic conflicts) can be traced back to colonial times, independence brought with it discrimination against the Rohingya that became systematic and serious. A Muslim ethnic group that has inhabited the Rakhine state for centuries, the Rohingya do not figure among Myanmar's 135 official ethnic groups. Since 1982, they have been denied citizenship, effectively rendering them stateless ([Daily Sabah](#), October 23). In addition to suffering at the hands of the military, the Rohingya have been targeted by Rakhine Buddhist vigilante groups too ([The Wire](#), November 17). The violence has triggered waves of Rohingya migration to neighboring countries like Bangladesh, Thailand, India, Malaysia, and Indonesia. Unwelcome in these countries as well, Rohingya refugees have been pushed back or languish in makeshift, overcrowded camps ([The National](#), September 13).

China's Support

The Myanmar military's reported atrocities against fleeing Rohingya civilians have evoked international outrage. UN Human Rights Council Chief Zeid Ra'ad al-Hussein described the situation in the Rakhine state as "a textbook example of ethnic cleansing" ([UN News Centre](#), September 11). Several Muslim countries and the western powers have criticized Myanmar's brutal crackdowns on the Rohingya too ([Arab News](#), September 5 and [FirstPost](#), September 23).

However, China has publically praised the Myanmar government's crackdowns in Rakhine. In September, the Chinese ambassador to Myanmar, Hong Liang, "strongly welcomed" "the counterattacks of Myanmar security forces against [Rohingya] extremist terrorists" and described its military campaign as "just an internal affair" ([The Global New Light of Myanmar](#), September 14). Later that month, Hong assured the Myanmar government that China would stand "firmly" by it on the international stage and continue providing it with "necessary assistance" to help it "uphold internal stability and development" ([The Irrawaddy](#), September 27).

At the UN, China has blocked resolutions against Myanmar and forced statements critical of its brutal military campaign against the Rohingyas to be watered down. On November 6, for instance, the UN Security Council (UNSC) expressed "grave concern over reports of human rights violations and abuses in Rakhine State" and called on the Myanmar government "to ensure no further excessive use of military forces" there ([United Nations](#),

November 6). While this was strong censure of the Myanmar military's use of force against the Rohingya, this being a statement—and not a resolution—is not enforceable. China and Russia are reported to have forced the UNSC to issue a presidential statement rather than a resolution. The UNSC statement denounces Myanmar's violent handling of the crisis but it is inconsequential.

China's Interests in Rakhine

China's interest in the Rakhine state stems from its strategic location and rich resources. The state is located on the Bay of Bengal, which opens into the Indian Ocean. Like Pakistan's Gwadar port, which enables Beijing to transport West Asian oil, gas and other commodities through a shorter route via Pakistan to underdeveloped western China, the long Rakhine coastline provides southern China with access to the sea and eastern China with a shorter route to the Indian Ocean ([China Brief](#), July 31, 2015 and [Mizzima](#), October 31). Ports and pipelines in Rakhine significantly free China's trade with Africa and West Asia, especially its oil imports, from dependence on the congested Straits of Malacca ([China Brief](#), July 31, 2015).

Additionally, Rakhine is rich in natural resources. Large gas reserves were discovered in the waters off its coast in 2004. Beginning in 2008, China has bought gas from the area and transported it from Kyaukphyu on Rakhine's coast to China's Yunnan Province through the Myanmar-China Gas Pipeline since 2013. This gas meets the needs of China's Yunnan, Guizhou and Guangxi prov-

inces as well as that of other counties and cities. Since April this year, oil from Rakhine is being transported to China through a pipeline running parallel to the gas pipeline ([China Daily](#), May 11 and [Mizzima](#), October 31).

China is said to have invested around \$2.5 billion in the oil and gas pipeline projects and is also investing \$10 billion in the Kyaukphyu Special Economic Zone, which will include a deep-sea port and an industrial park, with the goal of turning Kyaukphyu into a maritime economic hub ([Mizzima](#), October 31).

The areas that are the worst affected by the ongoing violence are in the north of Rakhine, near Myanmar's border with Bangladesh. Although neither Kyaukphyu nor the oil and gas pipelines are located in or run through these restive areas, Beijing is still concerned. The rise of ARSA and its mounting capacity to carry out attacks on well-secured targets indicates that it is only a matter of time before it strikes outside its stronghold. This has triggered concern in Beijing over the safety of infrastructure it has invested and built in the Rakhine state.

The Rakhine state plays a significant role in China's Belt and Road Initiative (BRI). Like Gwadar port in Pakistan, Kyaukphyu port and Myanmar will be important links in both the Maritime Belt and Silk Road components of the BRI. As a result, the "stability of Rakhine" is regarded as "important" to the success of the BRI, political and ethnic affairs analyst U Maung Maung Soe has said ([The Irrawaddy](#), September 4). Concerns over the impact that violence and unrest in Rakhine could have on the success of its projects in Myanmar and the

BRI, in particular, underlie China's interest to end the Rohingya crisis and restore stability in the region.

China's Strong Ties with Bangladesh

China has similarly invested heavily in upgrading and building port infrastructure, roads, bridges and railway lines in Bangladesh too. It is also Bangladesh's top trade partner; Bangladesh provides a large market for Chinese goods. Defense ties are strong as well; Bangladesh is the second largest importer of Chinese weapons (after Pakistan) and accounted for 82 percent of all Bangladesh weapons purchases between 2009–2013 ([China Brief](#), June 21, 2016).

China is also keen to protect its strong and growing interests and ties in Bangladesh. There is concern in Bangladesh about Myanmar's military campaign against the Rohingya, which is directly responsible for the flood of refugees into Bangladesh and has left Dhaka with the burden of providing shelter and relief to the Rohingya refugees. Not only has Myanmar's military strategy contributed to the refugee exodus but also, this has triggered Rohingya militancy. For Bangladesh, which is grappling with an array of jihadist groups already, the emergence of ARSA and the reported training of its cadres in sanctuaries in Bangladesh, poses an additional security threat. China's endorsement of Myanmar's strategy on the Rohingya issue has understandably evoked "great disappointment" in Dhaka ([Daily Star](#), November 13).

To ease Dhaka's burden of looking after the Rohingya refugees, China is providing aid, including tents and blankets to Rohingya refugees in Bangladesh ([Xinhuanet](#), October 13). Chinese leaders are concerned with Bangladesh's attempts to draw extra-regional powers to intervene in the crisis, prompting Beijing to accelerate efforts to bring Myanmar and Bangladesh to the negotiation table and end the refugee problem.

Will China's Mediation Work?

In the past, China avoided playing mediator in conflicts beyond its borders, arguing that this went against its principle of non-interference in the internal affairs of sovereign countries. However, in recent years it has shown increasing willingness to mediate an end to conflicts. It has, for instance, been involved in efforts to bring the Afghan government and the Taliban to the negotiation table ([Express Tribune](#), March 7). More recently, it undertook shuttle diplomacy between Afghanistan and Pakistan to arrest spiraling tensions between the two neighbors ([Times of India](#), June 26). China appears to be taking on a mediatory role in regions where it has strong economic and other interests, and is the primary motivation behind Beijing's mediation in the Rohingya crisis.

China's promotion of a military-economic development approach to the Rohingya crisis can be expected to worsen the conflict. Development of a violent region by external actors rarely benefits locals, as seen in Pakistan's Baluchistan province. China's development of Gwadar port in the region prompted militants to target outsiders ([Express Tribune](#), April 12,

2015; [China Brief](#), July 31, 2015). Projects in Rakhine are likely to benefit foreign investors, Rakhine Buddhists and the Barmar majority, not the marginalized Rohingya. Development that does not result in economic inclusion of the Rohingya will deepen existing grievances and generate new conflicts.

To resolve the conflict, it is important that Myanmar tackle the roots of the problems, which are primarily political: denial of citizenship and rights to the Rohingya people and discriminatory policies. China is unlikely to nudge Myanmar on the citizenship issue. Moreover, Myanmar's military is known to be sensitive regarding state sovereignty, and is unlikely to respond positively to Chinese pressure on these issues.

China may have significant political and economic influence in Bangladesh and Myanmar but it lacks other qualities that a mediator would need to succeed in settling the Rohingya conflict. Notably, Bangladesh believes that China is biased towards Myanmar, and Beijing's substantial economic and other interests in Rakhine can be expected to fuel Myanmar's suspicions of China's intentions and actions.

Conclusion

Chinese mediation is unlikely to resolve the Rohingya conflict. At best, its intervention could keep a lid on the violence being unleashed by the Myanmar military in the Rakhine state. This could usher in a measure of stability but not peace in Rakhine. In the future, China can be expected to offer to me-

diate in conflicts within and between countries where it has significant interests, especially involving countries that are part of the Belt and Road Initiative.

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U.S.-China Summits Point to Shift Toward Economic Statecraft

Annie Kowalewski

During President Trump's trip to Beijing and the ASEAN Summit in November 2017, President Trump and President Xi confirmed that the future of U.S.-Chinese relations will focus largely on opportunities for U.S. and Chinese businesses, potential security cooperation, and ongoing points of friction. The ASEAN Summit also solidified China's intentions to become a regional leader offering a new model of development, and the United States' focus on domestic economic protection.

Market-Driven Economic Ties

Throughout the course of the two-day meeting, Presidents Trump and Xi concluded \$250 billion worth of commercial deals, most of which involve Chinese companies buying U.S. energy, technology, and farm products

([Global Times](#), November 14). The largest of these deals was an agreement from the Chinese state-owned China Energy Investment Corp to invest \$83.7 billion in power generation, chemical manufacturing, and underground storage of natural gas liquids and derivatives in West Virginia. Additionally, Sinopec, the Bank of China, and Alaska Gasline agreed on a major natural gas project worth \$43 billion. Other notable deals include a confirmed \$37 billion sale of 300 Boeing jets to China Aviation Supplies Holding Company, \$12 billion sale of Qualcomm semiconductors to three Chinese mobile companies, and an agreement between Goldman Sachs and Chinese state-owned China Investment Corp. to invest \$5 billion in U.S. manufacturing, industrial, consumer and healthcare companies ([Caixin](#), November 9).

Chinese media heralded these deals as a positive step demonstrating President Trump's commitment to "business over politics," and lauded Trump as a U.S. president "finally interested in economic interests." Clearly, the perception in Beijing is that Trump demonstrated a willingness to pursue U.S. commercial business opportunities with China without leveraging broader political or strategic goals to do so. If true, this marks a shift from previous administrations, which have tended to tie shifts in U.S. economic relations with China to wider human rights or geopolitical concerns. Yet other Trump administration officials have dismissed this approach, noting that the commercial deals were largely non-binding memorandums and therefore "nothing new".

What these deals do raise, however, are questions about how China is reforming to open

itself to foreign investments. In the first half of 2017, foreign investment in China fell 1.2 percent, approximately \$72 billion, due to stringent regulation and intellectual property theft. In response, China has adopted policies and lifted restrictions that have limited foreign investment in China. For example, in January and August 2017, the Chinese State Council announced that it would improve intellectual property protection and allow foreign investors to freely remit investment gains from the country to maintain foreign investment flows ([Gov.cn](#), January 13; [Gov.cn](#), August 17). In November 2010, China's Vice Finance Minister Zhu Guangyao also announced that China would start allowing foreign investors to own 51 percent of Chinese security firms, fund managers, and future companies—a substantial increase from the current limits of 25 percent for publicly traded security firms. He also stated that China would increase similar limitations on foreign investment in insurance companies and banks. Yet despite these positive reforms, concerns about Chinese surveillance and commercial espionage continue have had a chilling effect on foreign investment. For example, China still requires all foreign firms to store financial data on Chinese-made and approved telecommunication devices per China's 2015 cybersecurity laws, opening foreign firms and investors to the risk of intellectual property theft. While the deals concluded during Trump's meeting clearly illustrate China's willingness and need to increase ties with foreign businesses, whether China can properly reform its domestic regulations to support foreign investment in China remains unclear.

Increased Security Cooperation and Ongoing Points of Friction

In Beijing, Trump and Xi also emphasized opportunities for U.S.-Chinese cooperation on several ongoing security matters but made little progress in resolving tensions in the East and South China Seas or in dealing with the North Korea issue. During their joint press statement, the leaders highlighted the need for multilateral and bilateral diplomatic and security dialogues, and identified transnational crime and counterterrorism in the Middle East as opportunities for further cooperation (Whitehouse.gov, November 9). The two sides also identified areas for de-escalation and conflict management, such as expanding military-to-military ties with the joint staff dialogue and engaging in disaster management joint exercises. While theoretically these mechanisms can be a useful tool in managing escalation dynamics in the seas and with North Korea, ultimately such discussions do not address the fundamental differences in U.S.-Chinese interests these scenarios.

As such, both leaders remain at an impasse in tackling the issues in the East and South China Seas and North Korea. In Beijing, Xi declared that the Pacific Ocean was “big enough for both China and the United States” and repeated the official Chinese line urging the United States to respect countries’ territorial sovereignty. Xi clearly has no intention to change China’s course in the East and South China Seas, and will continue to assert China’s “historic right” to build its presence in the region. Later, during the ASEAN summit, Trump emphasized the importance of U.S. interests in the region and provided a long narrative on

the history of U.S. Navy presence in the East and South China Seas to underline the United States’ commitment to remaining an active player in the region (Whitehouse.gov, November 13). While the two leaders remained firmly committed to their current courses of action, ongoing issues such as disagreements surrounding U.S. freedom of navigation operations in the South China Sea and potential Chinese militarization of the Scarborough Shoal were not mentioned at either of these summits.

Similarly, while both sides agreed that they would “cooperate” to address the North Korea issue and agreed that it is in both countries’ best interests to seek a denuclearized Korean peninsula, Xi and Trump differed in their approaches. Xi once again called on the United States to respect territorial sovereignty and seek peaceful solutions to the issue, while Trump took a more hardline stance, calling on all countries to “stop arming and financing and even trading with the murderous North Korean regime” (Whitehouse.gov, November 9). Ultimately, this mismatched rhetoric reveals that fundamental differences in U.S.-Chinese approaches to these issues have yet to be resolved.

Divergent Trajectories

The Xi-Trump meetings also highlighted the differences between how the United States and China will engage with the Asian-Pacific region at large. In Beijing and Vietnam, Xi positioned China as a champion of Asian development and advertised Chinese-led initiatives and institutions, ultimately furthering Chinese interests. Xi emphasized China’s commitment

to “economic globalization through multilateral schemes for free trade” and purported China’s own economic growth as a “new model of development”. At the Asia Pacific Economic Cooperation (APEC) CEO Summit, Xi set out four steps to help the Asia-Pacific “advance with [the] trend of [the] times,” namely, an Asian free trade area, innovation-driven development, interconnected development through the Belt and Road Initiative, and providing economic stability for all peoples ([China Daily](#), November 11). These echoed Xi’s sentiments during his 19th Party Congress speech where, over the course of three hours, he highlighted Chinese economic achievements as an example of how countries can reform and grow without following traditional, Western models of development ([Xinhua](#), October 18). Such rhetoric reveals that Xi has clearly aligned the development of the Asian-Pacific region with that of China’s, and will continue to expand Chinese influence in the region through economic ties and development.

In contrast, at ASEAN a few days earlier, Trump emphasized the need for the United States to protect its economic interests at home and in the region ([Whitehouse.gov](#), November 10). Like Xi, Trump acknowledged the need for a free and open Indo-Pacific and how economic opening up was crucial to the region’s development. But Trump focused his remarks at ASEAN on the United States’ “unfair treatment” by the World Trade Organization and the damage done by government-run industrial planning and state-owned enterprises. While he did not name China explicitly, Trump also emphasized that the United States needed to be able to compete on a

“fair and equal basis” and that the current trade balance was “unacceptable.” Essentially, Trump pitted Asian-Pacific regional development against that of the United States’ domestic economic growth. This suggests that the Trump administration will prioritize U.S. markets and businesses over those in the Asia-Pacific and potentially limit or even withdraw investment in the region. The ASEAN summit thus illustrated that, while Xi turns outward to boost regional growth and development, Trump will retreat inward to protect the United States’ domestic economy. However, waning U.S. influence in the Asian-Pacific region is not in the United States’ best interests. To better solidify U.S. power in the region, the United States should better develop economic statecraft options in its Asia-Pacific strategy.

Conclusion

Trump’s twelve-day Asia trip highlighted the potential areas of cooperation and conflict with the United States’ most important strategic partnership. After his meeting in Beijing, President Trump touted the “great chemistry” he had with President Xi. It was this “great chemistry” that allowed Trump and Xi to conclude a number of business deals and identify areas of increased security cooperation. Yet uncertainty about Chinese openness to foreign investment and outstanding questions on a number of ongoing issues remain unresolved, largely due to the fundamentally different interests and approaches of the United States and China. Both countries will continue to increase their presence in the East and South China Seas, as well as struggle over

how much pressure to place on North Korea and countries with ties to North Korea.

In the region at large, Presidents Trump and Xi laid out vastly different perspectives on how to engage with the Asia-Pacific. While Xi aims to economically integrate the region and boost trade and investment, the United States will prioritize its own economy. However, focusing only on the United States' domestic economy and withdrawing from the Asian-Pacific region ultimately diminishes the United States' ability to shape the region to promote its own interests. While it is unclear whether President Trump will adopt an Asia strategy that focuses more on economic statecraft, what is clear is that the future of U.S.-Chinese relations and U.S.-Chinese influence in the Asia Pacific will be largely rooted in commercial and economic concerns.

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China's Relationship with Chile: The Struggle for the Future Regime of the Pacific

By R. Evan Ellis

Though superpower diplomacy dominated coverage of the Asia Pacific Economic Cooperation forum (APEC) leaders summit in November, China's upgrading of a free-trade agreement with Chile served to highlight the strength of an economic and political relationship that it has built with the country, and the influential position Chile currently occupies in shaping Chinese engagement with Latin America.

The agreement signed at APEC builds on a free-trade agreement first signed in 2005—the first of its kind between a South American nation and China. At first glance, China's interactions with Chile appears to resemble its pattern of behavior with the region in general. Chile's exports to the China are dominated by a limited number of low value-added commodities, including copper and potassium nitrate (used as fertilizer). Correspondingly, a broad range of Chinese products have significantly penetrated the Chilean market, from cheap manufactured goods, to motorcycles, cars, cell phones and computers.

On closer examination, China's relationship with Chile has multiple elements that distinguish it from its relationship with others in Latin America.

Chile has been one of the most successful countries in the region in establishing a national brand in the PRC and positioning its products in the non-commodity goods segment of the Chinese market. Chile last year replaced Vietnam as the principal supplier of fresh fruit imported by the PRC ([Santiago Times](#), April 2). Although the time and expense of shipping products to the PRC creates a barrier for non-differentiated agricultural goods, Chile has successfully positioned its cherries, table grapes, blueberries as luxury goods in China. Chilean wines have achieved similar recognition in the PRC, as consumption by the Chinese middle class grows.

Despite such success, and Chile's reputation for efficiency, security, and rule of law, investment by Chinese companies in the country ranks among the lowest in the region. The Chilean government has taken note of the contrast between its successes in exporting its products to China, with its inability to attract significant Chinese investment. The annual "Chile Week" program, conducted in six of China's largest cities since 2015, is an example of attempts by the government of Michelle Bachelet to remedy this deficiency ([Santiago Times](#), August 30).

Ironically, the lack of Chinese direct investment in the country partially reflects Chile's relatively good governance and strong institutions; Chinese companies often prefer to invest where they can secure state-to-state deals on preferential terms. Chile, with its good access to capital markets has not felt compelled to adapt its laws and regulations, such as those governing public procurement, to attract Chinese loans or investors.

Further inhibiting Chinese investment, Chile's mining sector, the principal source of the country's exports to the PRC, is generally off limits to equity investments. While the Chilean state mining entity CODELCO signed a \$500 million agreement in 2005 for the advance purchase of Chilean copper, the deal went sour when the Chileans found themselves locked into a long-term agreement to sell almost 5 percent of their copper exports to the PRC at prices substantially below the market price. The Chilean government ultimately forced Minmetals to back out of its option to acquire a 49 percent the Gabriel Mistral (Gaby) mine, which it had used the Chinese loan to develop ([Business News Americas](#), September 29, 2008). Chinese interest in investing in the Chilean mining sector virtually disappeared for years thereafter.

Despite such setbacks, in recent years, Chinese have expressed renewed interest in Chilean mining, focused on lithium, a strategic metal used in modern batteries to power devices from cars to cellphones.

Beginning in 2016, Chinese mining company Tianqi quietly began acquiring a minority share of Chilean lithium producer SQM. In October 2017, the Chinese petrochemicals giant Sinochem made public an intention to acquire a majority stake in SQM for \$4.5 billion from the Canadian firm Potash ([La Tercera](#), October 23, 2017). The Chilean government is currently evaluating bids for "value-added" development of its lithium reserves, in which four of the 12 companies bidding are Chinese. Each bidder must propose a project for how it will provide value added to the lithium

within Chile. One contender is the Chinese MTL-Shenzen group, who, with a Korean partner, is proposing a project to build a factory to build lithium-ion batteries in the area where it will extract the metal (La Tercera, July 7). As China attempts to position itself as a leader in battery technology and production, these investments in strategic materials will be key to keeping Chinese batteries cheap and globally competitive.

In the telecommunications sector, as in other parts of Latin America, the Chinese company Huawei has established itself as an important player in the mobile telephone market, to include commercial facilities, and presence as a local brand, including the recruitment of one of Chile's best-known soccer players as the face of the company in its Chilean advertising. Huawei has also won a contract for one of three tranches of a project to construct a submarine fiber-optic cable connecting the south of Chile from Puerto Montt to Puerto Williams, which may be a stepping stone for a Huawei role in an even more ambitious cable connecting China to South America through Chile (Ministerio de Transportes y Telecomunicaciones, October 16, 2017).

In the space sector, the PRC is building an observatory approximately 30 miles from the facility that it already shares with Chile's Catholic University, in Paranal, in the Atacama Desert (La Tercera, 2016). Although in 2008, the China Aerospace Science and Technology Corporation (CASC) lost a bid to participate in the Chilean FASAT-C satellite program to the European firm Astrium, as the satellite neared the end of its useful life, Chile's ambassador to the PRC Jorge Heine suggested that his

country might turn to China's Beidou satellite to replace it (Xinhua, April 27, 2016).

With respect to the electricity sector, one of the largest investments by a PRC-based company in Chile was that of Sky Solar, which committed to invest more than \$1.3 billion to construct farms of photovoltaic cells to generate solar energy in the Atacama Desert (El Mercurio, January 25, 2013). Chinese companies have also been involved in a series of projects for wind generation (Global Wind Energy Council).

Despite such advances, and although power generation and transmission in Chile is in the hands of the private sector with a relatively modest regulatory burden, Chinese companies have not yet entered the sector in force, as Chinese companies such as State Grid, Three Gorges and State Power Industrial Corporation (SPIC) have entered Brazil (Newsmax, October 9, 2017). Nonetheless, that may be changing with SPICs acquisition of Pacific Hydro, which gives the company control over five hydroelectric facilities in Chile (Hydroworld, December 17, 2015).

Chile's stable and developed financial system and access to international capital markets has limited the need for loans from Chinese policy banks such as China Development Bank and China Export-Import bank, often tied to the use of Chinese companies and laborers in the projects financed. Yet the same strength and sophistication of Chile's financial system has also allowed the country to become the regional hub for clearing transactions conducted in Chinese RMB. To this end, the two countries have invested \$189 million

to establish a clearing bank in Chile, tied to China Construction Bank, as well a \$3.5 billion currency swap agreement between the central bank of Chile and the People's Bank of China (Xinhua, June 21, 2016). Chile, for its part, was one of the first Latin American companies to join the PRC-sponsored Asia Infrastructure Investment Bank (AIIB), in May 2017 (Asian Infrastructure Investment Bank, May 13).

Beyond traditional industries, tourist visits by PRC nationals to Chile are also on the rise. In 2016, almost 23,000 Chinese visited Chile, a 49 percent increase over the previous year, while in the first four months of 2017 almost 11,000 Chinese tourists visited, representing a further 51 percent year-on-year increase (Lun, July 2).

The Chinese ethnic community in Chile reportedly plays an important role in the expansion of such tourism. Although the community is relatively small, with an estimated 30,000 persons, many are recent arrivals who have acquired legal Chilean residency, yet have retained fluency in Mandarin Chinese or Cantonese and connections in the PRC. These Chinese Chileans who reportedly play a key role in bringing tour groups to Chile from the mainland, and coordinating with Chinese restaurants and Mandarin-speaking service providers in Chile to provide a culturally comfortable experience in Chile for visiting Chinese. One Chilean tour group operator indicated to the author that 70 percent of his business is now with the Chinese, although he had done almost no business with them a few years earlier.

Chinese activities in Chile's defense sector have been minimal. Nonetheless, in June 2015, Chile's Minister of Defense Jose Antonio Gomez traveled to the PRC to meet with his Chinese counterpart, Chang Wanquan to boost defense cooperation (Xinhua, June 24, 2015). A modest number of Chilean officers regularly travel to China for professional military education programs, and Chinese arms companies also had a significant presence at the Exponaval trade show in Santiago (Exponaval 2016).

In the end, Chile's relationship with China will be critical in shaping the dynamics of the China relationship with Latin America in general. As noted previously, Chile's success in placing products in the PRC has made its practices an important reference for the rest of the region. Reciprocally, its insistence on not bending Chilean laws and contracting procedures to accommodate Chinese companies, as occurred in many other countries across the region, provides an important indication of whether it is possible to attract Chinese investment and maintain a healthy business relationship within the framework of a nation's existing laws and regulations.

Chile's orientation toward China will also be important at the regional level. In the wake of the U.S. withdrawal from the Trans-Pacific Partnership (TPP), the support of Chile will be instrumental in taking forward a new version of the deal, denoted as "TPP 2", which would make an important contribution in defining a Trans-Pacific commercial regime which addresses non-tariff barriers to trade, and which protects the intellectual property of the par-

ticipating nations far more than the alternative “Free Trade Area of the Asia-Pacific” currently being promoted by China (Xinhua, November 3). U.S. policymakers should take note of what is happening in Chile, which has long been a friend to the United States, and where U.S. political and economic ideals have long found common ground.

The United States continues to have many friends in the region, yet the deepening of Chile’s relationship with the PRC is generating subtle yet significant changes in attitudes, not only about U.S. policy and requests, but also how Chileans react to parts of the U.S. style that they may find distasteful. Chinese activities in Chile, met with traditional Chilean warmth and efficiency, are an important wake-up call to take greater stock of how engagement with the PRC is transforming the region in ways that are increasingly uncomfortable for the United States, its global position, and the pursuit of its policy agenda.

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