

## CHAPTER 3

### CHINA AND THE WORLD

#### SECTION 1: CHINA AND ASIA'S EVOLVING SECURITY ARCHITECTURE

##### **Introduction**

This section discusses China's security interests in Asia and explores how Northeast Asia, Southeast Asia, and Oceania are responding to China's growing capabilities, influence, and assertiveness in the region. It also examines how the regional security dynamics in East Asia are shifting, as well as the implications of this evolving security architecture for U.S. alliances and partnerships. It is based on a March Commission hearing on changing security dynamics in East Asia and Oceania; a Commission fact-finding trip to South Korea and Australia, and Commission meetings in Washington, DC, with embassy officials from Asian countries; as well as research conducted throughout the year.

##### **China's Approach to Regional Security**

Beijing views competing territorial claims as obstacles to the dominant position China seeks in East Asia. Using a variety of foreign and domestic policy tools, Beijing is attempting to expand a sphere of influence in its peripheral regions. Recent public statements by high-level Chinese officials suggest China is departing from its traditional low-profile foreign policy to "hide capacities and bide time." In November 2013, for example, Chinese State Councilor Yang Jiechi gave a speech introducing a new role for China as a "major responsible country," one that is "more actively engaged in international affairs."<sup>1</sup> As it seeks to take on this role, China's influence in Asia is deepening and the security architecture of Asia is adjusting to this change. For more information on China's more active foreign policy, particularly regarding states on its periphery, see Chapter 2, Section 1, "Year in Review: Security and Foreign Affairs."

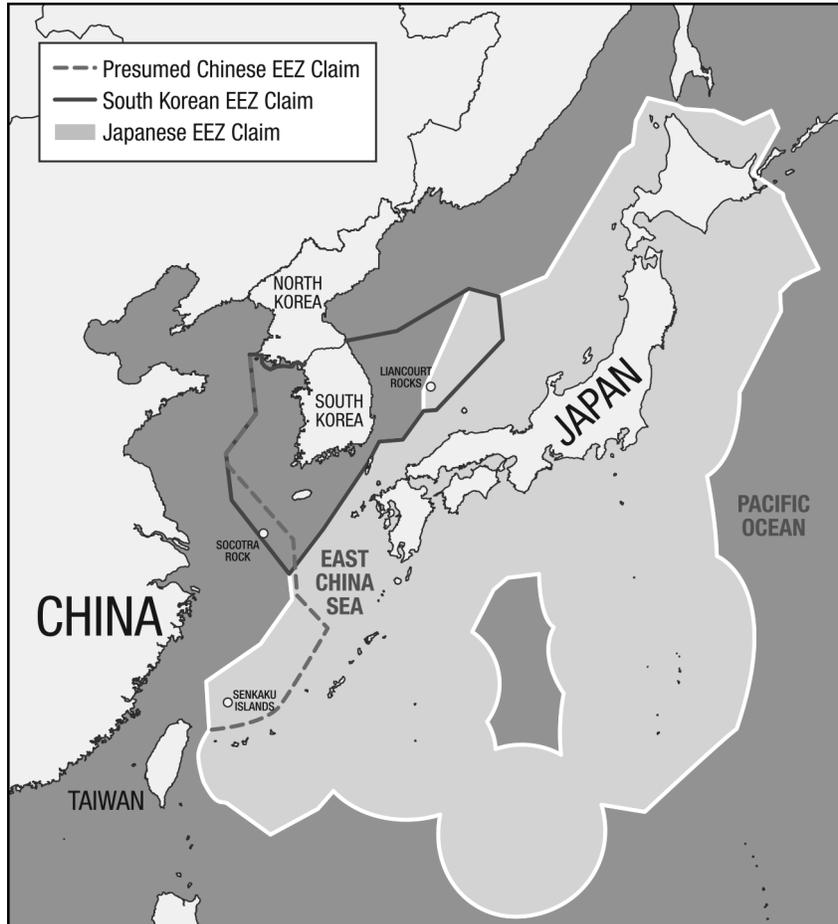
##### ***China's Multifaceted Strategy to Defend and Advance Its Sovereignty Claims***

Although China has settled most of its land border disputes, it is engaged in intense maritime disputes in its near seas—the Yellow Sea, East China Sea, and South China Sea. Due to their strategic, historical, and resource value, Beijing's near seas are "of paramount importance to a China that feels acutely wronged by history, has largely addressed its more basic security needs, and

craves further development,” according to Andrew S. Erickson, a China expert at the U.S. Naval War College.<sup>2</sup> In the East China Sea (see Figure 1), the Senkaku Islands disputed by Japan and China (which calls them the Diaoyu Dao) are a focal point for tensions. In the South China Sea (see Figure 2), China claims waters or land features extending as far as 800 nautical miles from the coast of mainland China based on a variety of factors such as “historic rights.” Taiwan, Vietnam, the Philippines, Malaysia, and Brunei object to all or part of China’s claim.\*

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\* China denotes its South China Sea claim on maps with a “u-shaped line” comprised of nine dashes along the coasts of South China Sea littoral states. More recently China’s official maps have included a tenth dash around its South China Sea claim, delineating China’s claim over Taiwan. The meaning of the dashes and the specificity of China’s claim within the dashes remains unclear. Jonathan G. Odom, “A China in a Bull Shop? Comparing the Rhetoric of a Rising China with the Reality of the International Law of the Sea,” *Ocean and Coastal Law Journal* 17:2 (2012): 234–236, 247; Zhiguo Gao and Bing Bing Jia, “The Nine-Dash Line in the South China Sea: History, Status, and Implications,” *American Journal of International Law* 107:1 (January 2013): 98–124; and Euan Graham, “China’s New Map: Just Another Dash?” *Strategist* (Australian Strategic Policy Institute blog), September 17, 2013. <http://www.aspistrategist.org.au/chinas-new-map-just-another-dash/>. For more information on China’s maritime disputes in the East and South China Seas, see Chapter 2, Section 3, “China’s Maritime Disputes,” of the Commission’s 2013 Annual Report.

**Figure 1: East China Sea Map**

Source: U.S. Navy, *Maritime Claims Reference Manual*, 2014; Flanders Marine Institute, "EEZ Boundaries," <http://www.marineregions.org/eezsearch.php>. Commission staff approximation of maritime claims. Names and boundary representation are not authoritative. The EEZ approximations shown are derived from the straight baseline claims of China, Taiwan, South Korea, and Japan, none of which is recognized by the United States. Japan's EEZ claim also includes an additional region further east, not shown here.

Figure 2: South China Sea Map



Source: U.S. Department of Energy, South China Sea Maritime Claims Map, 2013. <http://www.eia.gov/countries/regions-topics.cfm?fips=scs>; Gregory Poling, *The South China Sea in Focus: Clarifying the Limits of Maritime Dispute* (Center for Strategic and International Studies, July 2013). [http://csis.org/files/publication/130717\\_Poling\\_SouthChinaSea\\_Web.pdf](http://csis.org/files/publication/130717_Poling_SouthChinaSea_Web.pdf). Commission staff approximation of maritime claims. Names and boundary representation are not authoritative. Both Vietnam and the Philippines claim the Spratly Islands independently of their maritime claims.

In testimony to the Commission, Bonnie Glaser, senior adviser for Asia at the Center for Strategic and International Studies, described China's incremental approach to vindicating its territorial claims and advancing its dominance in the region: "Through a steady progression of small steps, none of which by itself is a *casus belli*, Beijing seeks to gradually change the status quo in its favor."<sup>3</sup> These small steps are diverse and wide-ranging. They include physical measures to demonstrate sovereignty over China's maritime claims, such as maritime patrols and land reclamation and civil construction projects in the South China Sea.<sup>4</sup> They also include administrative and legal measures to assert sovereignty, such as the enactment in 2014 of fishing regulations requiring foreign vessels to request permission to enter Chinese-claimed waters and the establishment in 2013 of an Air Defense Identification Zone (ADIZ) over the disputed East China Sea (see Chapter 2, Section 1, "Year in Review: Security and Foreign Affairs," for a discussion of the ADIZ).<sup>5</sup>

The expanded capabilities and growing power of China's People's Liberation Army (PLA) are another key component of China's multifaceted strategy to protect its sovereignty claims. China's military modernization and activities seek to expand China's mari-

time perimeter out to its second island chain\* approximately 1,800 nautical miles from China. Controlling China's maritime periphery improves China's abilities to (1) deter Taiwan's moves toward independence, reverse Taiwan's actions should that policy fail, and deter, delay, and deny any U.S. intervention in such a scenario; (2) defend against an enemy blockade and strikes on important political, economic, and military targets along China's coast and into the interior; and (3) advance and defend China's maritime territory, sovereignty, and interests, including access to natural resources.<sup>6</sup>

Finally, the market dependencies of many East Asian countries on China—the result of China's deep integration into regional manufacturing supply chains—afford Beijing greater leverage in pursuing regional security interests. At the Commission's March 2014 hearing, several witnesses expressed concern about China's willingness to utilize coercive economic measures to extract political or security concessions from its Asian neighbors.<sup>7</sup> One scholar describes China's employment of economic levers as the “selective application of economic incentives and punishments designed to augment Beijing's diplomacy.”<sup>8</sup>

### ***An Increasingly Assertive China Seeks a New Regional Security Architecture***

Because a relatively stable external environment allows China to focus on domestic economic development, Beijing likely will continue to be a free-rider in the U.S.-underwritten global security system.<sup>9</sup> Although emboldened by its progress in shifting regional security dynamics, Beijing seeks to manage external perceptions that could elevate concerns about China's intentions and lead regional actors to unite against China or seek intervention from outside powers, especially the United States. However, in the past five years, China has exerted diplomatic clout and economic influence in the region, backed by rapidly growing military capabilities. These factors have enabled China's increasingly assertive pursuit of its security interests in East Asia. As China has become more confident in its capabilities, it has already begun to change the regional balance of power in its direction.

Moreover, senior Chinese leaders in the past year have begun to challenge the U.S. position as the primary power in East Asia by promoting a new Asian security architecture led by Asian countries, with China in the leading role.<sup>10</sup> Upon taking the chairmanship of the Conference on Interaction and Confidence Building Measures in Asia for three years in May 2014, Beijing turned a low-profile multilateral venue into an opportunity to articulate its vision for this new security architecture.† In a speech addressing

\*See Figure 2 in Chapter 2, Section 2, “China's Military Modernization,” for a depiction of China's first and second island chains and for a more detailed description of the concept.

†The Conference on Interaction and Confidence Building Measures in Asia (CICA) was initially proposed and convened by Kazakhstan in 1992 as a mechanism to discuss the changing security dynamics following the conclusion of the Cold War. Today, CICA's membership includes 26 members from the Middle East, Central Asia, South Asia, and Southeast Asia, and a few observer states and organizations. The United States is a CICA observer state. Secretariat of the Conference on Interaction and Confidence Building Measures in Asia, “About CICA.” [http://www.s-cica.org/page.php?page\\_id=7&](http://www.s-cica.org/page.php?page_id=7&); Mu Chunshan, “What is CICA (And Why Does China

the conference, Chinese President Xi Jinping stated, “We need to rely on the people in Asia to run Asia’s affairs, deal with Asia’s problems, and uphold Asia’s security. The people in Asia have the capability and wisdom to achieve peace and stability in Asia through enhanced cooperation.”<sup>11</sup>

China’s increasingly forceful approach to regional security, though, could constrain its future policy options in Asia. Robert Sutter, professor of practice of international affairs at George Washington University, testified to the Commission that China’s assertiveness:

*... puts nearby governments on guard and weakens Chinese regional influence. It reminds China’s neighbors of [its] longstanding and justified Cold War reputation as the most disruptive and domineering force in the region. ... [China’s] practice of promoting an image of consistent and righteous behavior in foreign affairs is so far from reality that it grossly impedes effectively dealing with disputes and differences with neighbors and the United States.*<sup>12</sup>

Some observers suggest China’s behavior also is narrowing the range of U.S. policy options in East Asia. According to former Australian defense department official Hugh White, currently a professor at Australia National University:

*By using direct armed pressure in these disputes, China makes its neighbors more eager for U.S. military support, and at the same time makes America less willing to give it, because of the clear risk of a direct U.S.-China clash ... Beijing is betting that, faced with [the choice between deserting its friends and fighting China], America will back off and leaves its allies and friends unsupported. This will weaken America’s alliances and partnerships, undermine U.S. power in Asia, and enhance China’s power.*<sup>13</sup>

In a 2013 speech, former Australian Prime Minister Kevin Rudd speculated on the possible outcomes of a continued shift in power: “The truth is that overwhelming U.S. military power combined with continued significant U.S. economic power lies very much at the fulcrum of the stability of the post-war order. And if China begins to replace the American fulcrum, the legitimate question from us all is what sort of alternative regional and global order would China seek to construct in its place.”<sup>14</sup>

At the 2014 U.S.-China Strategic and Economic Dialogue in Beijing, statements of senior officials reflected the competitive yet intertwined nature of the U.S.-China security relationship. While contrasting the positive outcomes of a cooperative U.S.-China relationship against the “disastrous” outcome of confrontation between the two countries, President Xi alluded to China’s growing ambitions for the operating areas and missions of the PLA, stating, “The vast Pacific Ocean has ample space to accommodate two great nations.”<sup>15</sup> U.S. Secretary of State John Kerry acknowledged the differences between the two countries but also expressed confidence in

Care about It?” *Diplomat*, May 17, 2014. <http://thediplomat.com/2014/05/what-is-cica-and-why-does-china-care-about-it/>.

managing these differences: “I can tell you that we are determined to choose the path of peace and prosperity and cooperation, and yes, even competition, but not conflict. When the United States and China work with each other, we both stand to gain a great deal.”<sup>16</sup>

Yet, the manner in which China has pursued its regional security interests in the past year has undergone a troubling shift. In the past, Beijing sought to frame its assertiveness as a retaliatory response to provocative neighboring states. Since the announcement of its East China Sea ADIZ in late 2013, however, Beijing has taken provocative actions in support of its maritime claims without the kind of public rationalization that may have been expected in years prior. According to Ely Ratner, senior fellow and deputy director of the Asia-Pacific Security Program at the Center for a New American Security, this recent shift suggests the United States has not only failed to deter assertive Chinese behavior, but also allowed a permissive environment in which China is comfortable escalating its actions. Beijing is “incurring few tangible costs for its assertiveness and appearing to believe (perhaps rightly so) that it can ride out whatever regional criticism arises in response. . . . Acknowledging Chinese behavior for what it is—undeterred and unapologetic assertiveness—will necessitate a more serious American response than we have seen to date.”<sup>17</sup>

In testimony to the Senate Foreign Relations Committee, Aaron L. Friedberg, professor of politics and international affairs at Princeton University, underscored the need for continued U.S. involvement in matters of East Asian security:

*In the absence of an effective American response, China may yet be able to successfully pursue a divide and conquer strategy: intimidating some of its neighbors into acquiescence while isolating and demoralizing others. Indeed, this appears to be precisely what Beijing is now trying to do: reaching out to Washington and proclaiming its desire to form a “new type great power relationship” with the United States, while at the same time ratcheting up pressure on key targets, especially U.S. allies.*<sup>18</sup>

### **Shifting Security Dynamics in Northeast Asia**

Since the mid-20th century, the U.S. alliances with Japan and South Korea have served as the pillars for the Northeast Asian security architecture, and North Korean instability has been the primary focal point of regional threat perceptions. However, China’s rise is altering the regional security environment, prompting discussion among the United States, Japan, and South Korea on how to update their alliances for the 21st century. U.S. Deputy Assistant Secretary of Defense for East Asia David Helvey testified to the Senate Foreign Relations Subcommittee on East Asian and Pacific Affairs:

*We are actively working with Japan and [South Korea] to transform and modernize our alliances in ways that ensure they meet our original security goals of assurance and deterrence while also building our alliances into platforms for broader cooperation on traditional and nontraditional secu-*

*rity challenges, both in Asia and globally. ... In recent years, and in concert with the senior leaders of both countries, we have developed for each alliance a forward-looking agenda based on enhancing security, increasing the ability of our militaries to work together seamlessly, and building our allies' capacity to contribute to regional and global security.*<sup>19</sup>

The challenge for Washington as it seeks to modernize its Northeast Asian alliances will be to balance differing sets of security perceptions and priorities in Tokyo and Seoul as well as manage simmering political tensions stemming from its troubled past. The region's divisions over interpretations of its history have aggravated both China-Japan relations and South Korea-Japan relations. As long as China and South Korea perceive a lack of ongoing sincere contrition by Japan for its colonial and wartime actions, political rifts will persist in Northeast Asia that will hinder the United States from bringing two of its most crucial allies together on regional security issues.\*<sup>20</sup>

This subsection considers in broad terms the impact China has on U.S. alliances in Northeast Asia. For a fuller consideration of the Korean Peninsula, see Chapter 3, Section 2, "Recent Developments in China's Relationship with North Korea." For a comprehensive treatment of Taiwan issues, see Chapter 3, Section 3, "Taiwan."

### ***China and Security in Northeast Asia***

#### *China's Chief Security Interests in Northeast Asia*

China's two chief security interests in Northeast Asia are ensuring stability on the Korean Peninsula and securing Chinese maritime claims in the East China Sea. Both are central to China's objective of a strong, stable homeland bordered by a secure periphery.<sup>21</sup>

To somewhat varying degrees, China, Japan, and South Korea share a common security interest in the stability of North Korea, a state that is inscrutable to outsiders and engages in destabilizing rhetoric and actions. Given their relatively sizable land borders with North Korea, China and South Korea would be heavily affected by refugee flows, potentially in the millions, in the event of a crisis on the Peninsula. Lacking the same proximity to North

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\* Visits by senior Japanese leaders to Tokyo's Yasukuni Shrine, which honors Japan's war dead, are chief among the issues of historical memory that divide the region. Another major difference is the perception of Japan's contrition over "comfort women," Asian women—mostly Korean—forced into sexual slavery at Japanese military brothels during World War II. Other divisive issues that persisted during 2014 include differences in secondary school history curricula, particularly between China and Japan; and the memorializing by China and South Korea of Ahn Jung-geun, a Korean resistance figure who assassinated a four-time Japanese prime minister and governor of Japanese-occupied Korea. Jennifer Lind, "When History Humiliates Former Enemies," *CNN*, January 3, 2014. <http://www.cnn.com/2014/01/03/opinion/lind-japan-war-memories/index.html>; Zheng Wang, "History Education: The Source of Conflict between China and Japan," *Diplomat*, April 23, 2014. <http://thediplomat.com/2014/04/history-education-the-source-of-conflict-between-china-and-japan/>; Esther Felden, "Former Comfort Woman Tells Uncomforting Story," *Deutsche Welle*, February 9, 2013. <http://www.dw.de/former-comfort-woman-tells-uncomforting-story/a-17060384>; and Yuka Hayashi and Alexander Martin, "Japan Finds Tokyo, Seoul Agreed on Comfort Woman Apology," *Wall Street Journal*, June 20, 2014. <http://online.wsj.com/articles/japan-finds-tokyo-seoul-agreed-on-comfort-women-apology-14032583>

Korea, Japan does not share this specific concern with China and South Korea; nevertheless, it views Pyongyang's continued development of ballistic missiles and nuclear arms as potential sources of regional instability.<sup>22</sup>

China approaches its contested maritime claims with Japan and South Korea quite differently. Whereas China bitterly contests ownership of the Senkaku Islands with Japan, it tends to downplay its dispute with South Korea over Socotra Rock (see Figure 1), known in China as Suyan Jiao and in Korea as Ieodo.

- The Senkaku Islands dispute has intensified since 2010, reflected in the increased air and maritime presence of both China and Japan near the islands and in deteriorating China-Japan political relations. China's 2012 white paper entitled "Diaoyu Dao, an Inherent Territory of China," with chapters entitled "Japan Grabbed Diaoyu Dao from China," "Backroom Deals Between the United States and Japan Concerning Diaoyu Dao are Illegal and Invalid," and "Japan's Claim of Sovereignty over Diaoyu Dao is Totally Unfounded," are illustrative of China's views on the Senkaku Islands.<sup>23</sup>
- Socotra Rock, on which South Korea built an ocean research station in 2003, is only a minor point of contention between China and South Korea because it falls within their overlapping claimed Exclusive Economic Zones (EEZs). Since states enjoy only economic rights, not full sovereignty, in an EEZ, Socotra is not technically a matter of territorial dispute. Furthermore, as a submerged feature in the Yellow Sea, the rock cannot be claimed as territorial land under the United Nations Convention on the Law of the Sea.\* Since the mid-2000s Beijing has officially affirmed several times that "China and [South Korea] have a consensus on the Suyan Jiao, that is, the rock does not have territorial status, and the two sides have no territorial disputes."<sup>24</sup>

#### *China's Contrasting Security Relationships with Japan and South Korea*

The differing intensities of the Senkaku Islands dispute and the Socotra Rock dispute are embodied in China's contrasting security relationships with the two Northeast Asian powers—strained and antagonistic with Japan and generally non-confrontational with South Korea. In China's view, South Korea's regional priorities largely contribute to China's interest in maintaining stability on the Peninsula. However, China perceives Japan's recent security reforms and pursuit of a more muscular military as destabilizing and potentially threatening China's ability to achieve its territorial ambitions in the East China Sea.<sup>25</sup>

\*Under the United Nations Convention on the Law of the Sea, a coastal state is entitled to an EEZ, a 200 nautical mile zone extending from the coastline of its mainland and from the coastline of any territorial land features. Within this zone, the state enjoys "sovereign rights" for economic exploitation and exploration, but not full sovereignty. United Nations Convention on the Law of the Sea, Article 56: Rights, jurisdiction, and duties of the coastal state in the exclusive economic zone. [http://www.un.org/depts/los/convention\\_agreements/texts/unclos/part5.htm](http://www.un.org/depts/los/convention_agreements/texts/unclos/part5.htm); United Nations Convention on the Law of the Sea, Article 121: Regime of islands. [http://www.un.org/depts/los/convention\\_agreements/texts/unclos/part8.htm](http://www.un.org/depts/los/convention_agreements/texts/unclos/part8.htm).

In addition to managing its relations with the Northeast Asian powers differently, China also seeks to thwart the potential for a more formal U.S.-Japan-South Korean alliance in the region. Without formal alliances, China is a “lonely” rising power, according to John Lee, fellow and adjunct professor at the University of Sydney. This concept is especially applicable in Northeast Asia, home to two of the United States’ strongest alliances. At a meeting with Commissioners in Washington, DC, Dr. Lee noted Beijing’s proposed “new type of major country relationship” with the United States reflects its interest in simplifying the strategic landscape, particularly one in which China perceives the odds are stacked against it. Just as China seeks to divide Southeast Asia in order to provide it more room for policy maneuver, a divided Northeast Asia—one with limited U.S. influence and security guarantees—is also strategically favorable for China.

- Published Chinese views on China-Japan security relations encompass a mix of suspicion, alarm, and concern—especially on the issues of Japan’s increasingly robust defense and security establishment, the development of the U.S.-Japan alliance, and perceived lack of Japanese atonement over its wartime past. One quasi-authoritative Chinese media source put it bluntly: “Japan must adopt the correct attitude toward historical issues; stop provocative acts; and take concrete action to win the trust of Asian neighbors and the international community.”<sup>26</sup> Lieutenant General Wang Guanzhong, Deputy Chief of the PLA General Staff Department, also captured these sentiments in off-script remarks at an international conference for defense and security leaders in June 2014. Referring to speeches made earlier in the conference by Japanese Prime Minister Shinzo Abe and U.S. Defense Secretary Chuck Hagel, he said, “[The United States and Japan] supported and encouraged each other in provoking and challenging China . . . who is really stirring up trouble and tension in the region and who is initiating disputes and spat? . . . From the speeches of Mr. Abe and Mr. Hagel, we know who is really assertive. Assertiveness has come from the joint actions of the United States and Japan, not China.”<sup>27</sup>
- Conversely, official Chinese views on China’s relations with South Korea—which in the words of the Chinese Ambassador to South Korea, Qiu Guohong, “have never been better”—reflect an interest in continued cooperation between Beijing and Seoul on regional security.<sup>28</sup> As President Xi made his first visit to South Korea as president in July 2014, he authored an article striking an optimistic tone on China-South Korea security relations: “I have exchanged views many times with [South Korean] President Park Geun-hye on this issue, and we have agreed that our two countries should take on responsibility and work constructively for lasting peace and stability in our region.”<sup>29</sup> President Xi’s speech at Seoul National University, entitled “Jointly Create a Beautiful Future of China-South Korea Cooperation and Accomplish the Great Cause of Asia’s Revitalization and Prosperity,” emphasized his desire for warm relations between the two countries.<sup>30</sup> As China appears

to draw South Korea closer, China may also seek to drive wedges between South Korea and the United States as well as between South Korea and Japan.<sup>31</sup>

### ***Japan and South Korea: Security Responses to China***

Japan and South Korea are responding to China's actions and rhetoric in different ways. Whereas Japan is balancing against China by boosting its own capabilities and reaffirming its alliance with the United States, South Korea appears to be pursuing a hedging strategy by cultivating its security relationships with not only the United States but with China as well.<sup>32</sup>

#### *Japan*

China's ongoing assertions of its East China Sea claims have an acute effect on Japan's security calculus. In response to a changing security environment in Northeast Asia, Tokyo has sought to more vigorously safeguard its national interests and more fully participate in international security affairs through a "Proactive Contribution to Peace" policy.<sup>33</sup> To that end, Tokyo is pursuing the following measures.

*Reforming Japan's legal and political framework to facilitate U.S.-Japan defense cooperation and the flexible employment of Japan's armed forces.*<sup>34</sup> Under Prime Minister Abe, Japan has made several institutional and legal reforms that could allow more robust participation in its alliance with the United States and in efforts to preserve international peace and security.

- Prime Minister Abe's Cabinet in July 2014 issued a reinterpretation of its constitution to allow Japan to exercise "collective self-defense."\* Previously, under its self-imposed prohibition against "collective self-defense," Japan had no ability to come to the defense of allies such as the United States unless Japan itself was under attack. Under a constitutional reinterpretation, Japan could engage in a wider range of joint military activities with the United States in the East and South China Seas. Furthermore, Japanese Aegis Ballistic Missile Defense-capable KONGO-class destroyers could for the first time formally provide air defenses for U.S. ships conducting missile defense against North Korean missiles.<sup>35</sup>
- The Japanese government in late 2013 announced the establishment of its first-ever National Security Council and National Security Strategy, and separately, the passage of a state secrecy law intended to strengthen the protection of classified information. For the United States, these are strong measures that will contribute to the improvement of its defense and information-sharing partnership with Japan.<sup>36</sup>

\*As this Report went to print, the Cabinet decision on collective self-defense has yet to undergo deliberation in the Diet. The Cabinet decision requires the Diet to make amendments to several existing laws in order to take full effect. Yoshisuke Inuma, "Abe Finding It Hard to Get His Way on Defense," *East Asia Forum*, August 19, 2014. <http://www.eastasiaforum.org/2014/08/19/abe-finding-it-hard-to-get-his-way-on-defence/>; Michael J. Green and Nicholas Szechenyi, *Japan Takes a Step Forward on Defense Policy Reform* (Center for Strategic and International Studies, July 2, 2014). <http://csis.org/publication/japan-takes-step-forward-defense-policy-reform>.

- Japan in April 2014 eased its self-imposed ban on arms exports. This policy will facilitate Japan's participation in multinational arms development projects—such as the U.S.-led effort to develop the F-35 Joint Strike Fighter, of which Japan intends to purchase 42. The policy also will help improve and expand Japan's defense industry. Unable to recoup development costs on the international market under the previous policy, Japanese defense companies under the arms export ban had difficulty pursuing advanced military technologies.<sup>37</sup> Lastly, the new policy offers the potential for Japan to provide military equipment and services to certain U.S. allies and security associates and provides Tokyo with another means of security cooperation with potential partners across Asia.

*Building a “more robust alliance and greater shared responsibilities” with the United States.*<sup>38</sup> During an October 2013 Security Consultative Committee meeting of the U.S. Secretaries of State and Defense and their Japanese counterparts, the United States and Japan outlined goals to strengthen and enrich their alliance, including strengthening bilateral security and defense cooperation, increasing regional engagement, and realigning U.S. forces in Japan.<sup>39</sup> In testimony to the Commission, James L. Schoff, senior associate in the Asia Program at the Carnegie Endowment for International Peace, proposed an overarching concept to guide the United States and Japan as they redefine the contours of their alliance. A capabilities-based approach to the U.S.-Japan alliance that would rely on the United States for front-end military activities and Japan for rear area support activities, according to Mr. Schoff, would “enhance alliance flexibility and better integrate alliance cooperation than the current approach without carving new—potentially politically sensitive—overseas missions for Japan's Self-Defense Forces [JSDF].”<sup>\* 40</sup>

*Developing a network of regional security partners, especially in Southeast Asia.* China's growing military capabilities and assertiveness in the region are driving many Asian countries to strengthen security ties with one another. Since late 2012, Japan has made its relationship with Southeast Asian states a hallmark of its foreign and security policy. One key aspect of Japan's relationships with Southeast Asian states is providing capacity building assistance on maritime safety and security—an indication of the common security goals Japan and Southeast Asia face with regard to China in the maritime realm.<sup>41</sup>

*Bolstering the capabilities of the JSDF.* In line with its self-defense mission, the JSDF's order-of-battle focuses on deterring and defending an attack against the homeland.<sup>42</sup> While the mere existence of the JSDF and U.S.-Japan alliance once may have been sufficient for the purposes of deterrence, Mr. Schoff testified this is no longer the case:

\*The rear area support activities Mr. Schoff proposes for Japan would include “ISR [intelligence, surveillance, and reconnaissance] and domain awareness; more collaborative planning; cybersecurity; electronic warfare; antisubmarine warfare; missile defense; and more direct logistical support.” James L. Schoff, *How to Upgrade U.S.-Japan Defense Cooperation* (Carnegie Endowment for International Peace, January 16, 2014). <http://carnegieendowment.org/2014/01/16/how-to-upgrade-u.s.-japan-defense-cooperation/gykq>.

*[Tokyo] now realizes that lower thresholds of conflict might only be deterred if it shows willingness and ability to fight, and the object of this deterrence is China in the East China Sea. Moreover, Japan needs to be able to project force in a flexible manner to adapt to unpredictable situations in case deterrence fails, as well as to give Japan's leaders different options for controlling escalation. Of course, Japan is not just looking to increase its own military capability as a means to thwart Chinese intimidation and so-called gray zone conflict (i.e., a state of neither peace nor war, such as skirmishes between Coast Guard vessels). Boosting the military is also seen as responding to U.S. requests for more proactive Japanese contributions to regional security . . .*<sup>43</sup>

Tokyo's initial efforts to boost defense capabilities are focused on strengthening its intelligence gathering and maritime domain awareness in the East China Sea, bolstering its outer island defense, developing a limited expeditionary and rapid deployment capability, improving its missile defense capability, and expanding its defense industry under the easing of Japan's arms exports ban.<sup>44</sup>

#### *South Korea*

North Korea remains South Korea's chief security concern—the United States, China, and Japan all share to different degrees. However, deteriorating political relations among the Northeast Asian powers pose a major hurdle to region-wide efforts to address North Korean instability and other Northeast Asian security challenges. As its relations with Japan continue to deteriorate, South Korea is nurturing its alliance with the United States while strengthening its relationship with China. In other words, according to the testimony of Jennifer Lind, associate professor of government at Dartmouth College, Seoul is pursuing a hedging strategy between the United States and China.<sup>45</sup> Indications of Seoul's hedging are evident in the manner in which it handles each of its relationships with the key players in Northeast Asia.

*Upholding its alliance with the United States while maintaining some strategic autonomy.* During President Obama's April 2014 visit to South Korea, the United States and South Korea highlighted their commitment to the sustainability of their alliance. In addition to concluding a new alliance cost-sharing agreement this year, the two countries have agreed to delay the transfer of wartime operational control\* to South Korea from 2015 to a future date. South Korea also announced its intention to procure from the United States the RQ-4 Global Hawk unmanned aerial vehicle system, which would improve Seoul's intelligence, surveillance, and re-

\*During the Korean War, the United States took command of allied forces in South Korea under the United Nations Command. Having returned peacetime control of South Korean forces to Seoul in 1994, the United States still maintains the responsibility of wartime operational control of the South Korea forces under a Combined Forces Command. Donald Kirk, "US and South Korea Postpone Transfer of Wartime Control to Seoul," *Christian Science Monitor*, April 25, 2014. <http://www.csmonitor.com/World/Security-Watch/Under-the-Radar/2014/0425/US-and-South-Korea-postpone-transfer-of-wartime-control-to-Seoul>; Robert E. Kelly, "South Korea: Who Should Have Wartime Command?" *Diplomat*, August 12, 2013. <http://thediplomat.com/2013/08/south-korea-who-should-have-wartime-command/?allpages=yes>.

connaissance (ISR) capability, and the F-35 Joint Strike Fighter, which would improve South Korea's air capabilities.<sup>46</sup>

Nevertheless, South Korea preserves some strategic autonomy from the United States, most evident in Seoul's concern regarding the North Korean missile threat. South Korean leaders maintain the U.S.-Japanese vision for missile defense in the region is too expansive for South Korean defense purposes and has elected not to participate in the U.S.-led regional ballistic missile defense architecture.<sup>47</sup> Instead, South Korea prefers its own capability, known as the Korea Air and Missile Defense (KAMD) system. Following a May 2014 U.S. announcement on the potential deployment to South Korea of a Terminal High Altitude Area Defense (THAAD) system capable of intercepting short-, medium-, and intermediate-range missiles, Seoul expressed cautious support for the system's ability to deter and counter North Korean provocations while reiterating its preference not to join in the U.S.-led regional ballistic missile defense architecture.<sup>48</sup> Seoul's public statements suggest that even as it expresses quiet approval for elements of enhanced U.S.-Korean defense cooperation, it also seeks to reassure China that improvements in its missile defense are limited in scope and mission. In spite of THAAD's reported radar detection range of at least 621 miles (1,000 km)—or as far as China's major coastal regions—a South Korean defense ministry spokesman stated, "If installed, its primary goal will be to detect ballistic missile launches from North Korea and should not be a big issue for China."<sup>49</sup>

*Benefiting from economic integration with China, while hedging against China's growing military influence in the region.* Part of South Korean ambivalence about the country's role in the changing Northeast Asian security architecture derives from the strong and mutually beneficial economic ties between China and South Korea. Although South Korea seeks to continue to develop its economic relationship with China, it is unlikely to do so at the expense of its alliance with the United States.<sup>50</sup> At the same time, South Korea tends to be reluctant to participate in initiatives it may view as part of a U.S.-led security arrangement positioned against China, such as the regional ballistic missile defense system rather than one narrowly focused on North Korea.<sup>51</sup>

South Korean military modernization has accelerated in recent years largely in response to increased North Korean provocations;<sup>52</sup> however, Seoul also seeks to hedge against future Chinese military influence in the region. In testimony to the Commission, Mr. Schoff viewed the 2012 South Korean decision to extend the range of its indigenous ballistic missiles from 186 miles (300 km) to 497 miles (800 km) as an investment toward a capability that could be necessary for a post-unification Korea in a neighborhood of nuclear giants China and Russia, in addition to serving as a capability to counter the ongoing North Korean missile threat.<sup>53</sup>

*Maintaining distance from Japan.* According to Dr. Lind, an additional aspect of South Korea's hedging strategy is "the distance it maintains from Japan. Seoul's rejection of closer relations with Tokyo reassures China that [South Korea] is not participating in a balancing effort" against China.<sup>54</sup> The Japan-South Korea relationship suffers from a difference in security perceptions in North-

east Asia: South Korea prioritizes North Korea while Japan prioritizes China as its chief security concern. A long-running dispute over the Liancourt Rocks (see Figure 1), which South Korea calls Dokdo and Japan calls Takeshima, further fuels mistrust between the two countries. Analysts at the Asan Institute for Policy Studies, a Seoul-based think tank, told the Commission that public opinion polls showed South Koreans view the Liancourt Rocks dispute as the most significant obstacle to healthy Japan-South Korean relations. This sentiment is true even among those respondents with the most favorable attitudes toward Japan.\*<sup>55</sup>

Yet another difference that continues to strain their relations involves the historical narrative of Japan's early 20th-century colonial rule of and wartime actions in Korea. President Park stated in a 2013 interview:

*Japan and [South] Korea share many things in common—our shared values of democracy, freedom, and a market economy—and there is a need for us to cooperate on North Korea. . . . But the Japanese have been opening past wounds and have been letting them fester, and this applies not only to Korea but also to other neighboring countries. . . . This arrests our ability to really build momentum, so I hope that Japan reflects upon itself.*<sup>56</sup>

As in China, South Korean officials reacted with outrage at Prime Minister Abe's December 2013 visit to Yasukuni Shrine, which honors nearly 2.5 million Japanese war dead, including 14 war criminals.<sup>57</sup> In testimony to the Commission, Dr. Lind emphasized that the conflict over historical memory is a symptom, not a cause, of unwillingness in both Seoul and Tokyo to seek reconciliation: "History does not 'get in the way': leaders decide (based on strategic or other interests) whether or not they want to seek reconciliation, and as a result they either put history in the way, or make efforts to remove it as an obstacle."<sup>58</sup>

### **Outlook for Trilateral Security Cooperation**

Japan's ongoing affirmation of its alliance with the United States combined with continued hedging by South Korea ensures the Northeast Asian security architecture likely will remain a "U.S. hub and ally spokes" model rather than an integrated security bloc. Differing security perceptions about China among the United States, Japan, and South Korea suggest the three countries are unlikely to achieve full trilateral security cooperation in the current security environment in the near- to mid-term.

China perceives the U.S.-South Korea alliance as more narrowly focused on the North Korea issue, whereas the U.S.-Japan alliance has the potential to target China and is more wide-ranging and threatening in Beijing's view. Beijing's public statements on the

\* Although the Liancourt Rocks are currently South Korea-occupied, the United States does not take a position on the sovereignty of the Liancourt Rocks. The United States has made clear that the Senkaku Islands fall under the U.S.-Japan security treaty, meaning that the United States would defend Japan in the event of an armed attack on the islands; however, it has not taken a position on the applicability of the U.S.-Korea security treaty to the Liancourt Rocks. Demetri Sevastopulo and Simon Mundy, "U.S. Leaves South Korea in Limbo over Contested Dokdo Islands," *Financial Times* (London), February 18, 2014. <http://www.ft.com/intl/cms/s/0/bdaa3820-987b-11e3-a32f-00144feab7de.html#axzz3AIUe1gLd>.

U.S. alliances in Northeast Asia generally invoke the historical context under which the alliances were formed, but in the case of the U.S.-Japan alliance tend to suggest their potential to harm the interest of third parties, such as China.

- Echoing a frequently voiced Chinese concern about U.S. alliances reflecting the harsh security environment of the Cold War era, Chinese Foreign Ministry spokespeople have depicted the U.S.-Japan alliance as “a bilateral arrangement formed under specific historic conditions,” and one that “should not go beyond the bilateral scope and undermine the interests of a third party, including those of China.”<sup>59</sup>
- China’s Foreign Ministry has described the U.S.-Korea alliance as “a bilateral arrangement formed under specific historical circumstances. We hope that the development of relevant bilateral relations could play a constructive role for peace and stability of the Peninsula and the region.”<sup>60</sup>

In the past year, the United States’ expanding and deepening engagement in Northeast Asia has yielded modest gains in the U.S.-Japan-South Korea trilateral relationship. A trilateral summit in March 2014 convened by President Obama yielded a series of defense talks culminating in, among other items, a joint statement affirming the importance of information sharing among the three parties. In a nod to South Korea’s interests, the language focused exclusively on the North Korea issue; Japan, on the other hand, achieved its goal of revisiting the issue of intelligence sharing with South Korea after a breakdown in talks on the issue with Seoul in 2012.<sup>61</sup> Despite the lack of a formal commitment, the statement is an example of the leadership role the United States can play in the Northeast Asian security architecture. However, particularly with regard to South Korea, it is possible in the coming years the United States will seek more support in countering Chinese influence from its allies than they may be willing to extend.<sup>62</sup>

### **Shifting Security Dynamics in Southeast Asia and Oceania**

Southeast Asia and Oceania comprise a vast and geographically varied region with a diversity of political systems, cultures, and levels of development. The region’s security architecture is more multifaceted than the relatively straightforward hub-and-spoke alliance structure in Northeast Asia. Despite these differences, the region generally shares the same wary view of the unfolding U.S.-China competition for regional power and influence. Singapore’s Minister of Foreign Affairs K. Shanmugam in 2013 described the thinking of many in the region:

*The relative weight of China is growing. I’m not one of those who believes the United States is in permanent decline. But nevertheless, the respective levels of influence, there will be a relative shift. And Singapore’s position has consistently been to be good friends of both. . . . Would that be a challenge-free approach? It really depends on how . . . the relationship between the United States and China develops. It could develop in a way that makes it challenging*

*for all of us who are friends with both countries and we will just have to adapt to that.*<sup>63</sup>

As the United States continues to rebalance to Asia, achieving its security goals in the region will require reassurance and reinforcement of its alliances and security associates in addition to continued strong engagement with the Association of Southeast Asian Nations (ASEAN).<sup>\*</sup> ASEAN, the primary multilateral venue to address political issues in the region, has struggled to respond cohesively to China's coercive foreign policy in the region, particularly on the South China Sea disputes. The development of subgroups sharing common interests within ASEAN and the inclusion of interested non-ASEAN parties in these groups, nevertheless offer a reason to be optimistic about the ability of the organization to build regional confidence.

### ***China and Security in Southeast Asia and Australia***

China's central objectives with regard to Southeast Asia are to defend its sovereignty claims and preserve its territorial integrity; to secure and ensure access to resources for continued economic development; and to maintain a secure buffer zone around the Chinese mainland. All of these objectives are encompassed in the region's most volatile security issue: the South China Sea disputes among China, Vietnam, the Philippines, Malaysia, Brunei, and Taiwan. For more information on the South China Sea disputes, see Chapter 3, Section 1, "China and the South China Sea," of the Commission's *2012 Annual Report to Congress*, and Chapter 2, Section 3, "China's Maritime Disputes," of the Commission's *2013 Annual Report to Congress*.

Beijing's security relationships with Southeast Asian states are as diverse as the region itself. China maintains strong defense ties with its closest geographic neighbors, Thailand, Cambodia, Laos, and Burma. In maritime Southeast Asia, China has traditionally maintained strong diplomatic and economic influence but weak defense ties. Although maritime Southeast Asian states have become increasingly vocal in their opposition to China's forceful measures to assert its South China Sea claims, Beijing appears undeterred.<sup>64</sup> For a survey of China's actions since late 2013 to consolidate control over the South China Sea, such as China's deployment of an ultra-deepwater drilling rig to waters disputed with Vietnam from May through July 2014, see Chapter 2, Section 1, "Year in Review: Security and Foreign Affairs."

With Australia, China seeks to maintain strong trade ties while pursuing stronger security relations to at least partially counterbalance the formal and robust U.S.-Australia alliance.<sup>65</sup> Despite the formalization of a strategic partnership between China and Australia in 2013, the relationship has tempered since then, due in large part to a Chinese perception that Australia has hewed too closely to the United States, and to a lesser extent, Japan.<sup>66</sup> One example of this dynamic emerged following Australia's criticism of China's East China Sea ADIZ. At a Track 1.5 China-Australia dia-

<sup>\*</sup>U.S. allies in Southeast Asia and Oceania include Australia, the Philippines, and Thailand. U.S. security associates (both established and emerging) include Indonesia, Malaysia, New Zealand, Singapore, Taiwan, and Vietnam.

logue,\* one Chinese delegate reportedly referred to the Australian position on the ADIZ as an affront to China's sovereignty and territorial interests, suggesting a likely concern in Beijing of the U.S.-Australia alliance's potential to constrain China in the Asia Pacific.<sup>67</sup>

### ***Southeast Asia and Australia: Security Responses to China***

As China pursues its claims in the South China Sea and develops the military capacity to undertake missions farther afield, its increasingly assertive behavior has led Southeast Asian countries and Australia to reconsider their security perceptions.<sup>68</sup> For example, Vietnam's reaction to China's decision to deploy its oil rig in contested waters was a departure from its usual efforts to maintain friendly ties with China. In addition to publicly condemning Beijing for what it called an "extremely serious violation of Vietnam's territorial sovereignty," Hanoi sought to apply pressure on Beijing through diplomacy and regional forums.<sup>69</sup> Australia has also taken note of China's growing confidence and expanding operating areas. In early 2014, the PLA Navy's first-ever Indian Ocean combat readiness patrol operated closer to Australia than any previous patrol by the PLA Navy (for more on this deployment, see Chapter 2, Section 1, "Year in Review: Security and Foreign Affairs"). Former Australian intelligence official Rory Medcalf, currently of the Lowy Institute for International Policy, called the exercise "a bit of a wake-up call to [Australian] defense planners to contemplate that in the future they're going to have to expect the Chinese to be able to operate in considerable force in the vicinity of [Australia's] ocean territories."<sup>70</sup>

Because of the growing gap in capabilities between China's PLA and many of the militaries in the region, as well as China's immense economic and cultural influence, "engaging and working with China is more a necessity than a choice," according to Dr. Ratner.<sup>71</sup> Despite the United States' rebalance to Asia policy, Southeast Asian government representatives who met with the Commission this year expressed some uncertainty about the United States' continued security commitments given domestic political and fiscal restraints.<sup>72</sup> Furthermore, as Walter Lohman, director of the Asian Studies Center at the Heritage Foundation testified to the Commission, most Southeast Asian countries emphasize non-alignment in their foreign policy, such as Indonesia's "a million friends and zero enemies" approach.<sup>73</sup> Consequently, Southeast Asian states and Australia are hedging against what they perceive to be strategic uncertainty in the region in the following ways.

*Increasing the breadth of security ties by building new relationships.* New configurations of intra-Asian security relationships have developed since the late 2000s. These ties tend to derive from the need to balance reliance on China as an economic partner with reliance on the United States as a security guarantor. A desire among many states in the region to participate more actively on the international stage, as well as a need for multilateral solutions

\*A Track 1.5 dialogue is an international dialogue between governments that also includes nongovernmental officials, such as leaders in industry, academia, and nongovernmental organizations, and retired senior officials.

to a diversity of transnational threats also drive the proliferation of new defense ties.<sup>74</sup> Key trends in this growing network of intra-Asian defense ties include:

- Japan is emerging as a key source of support to ASEAN countries on maritime security in the region.<sup>75</sup> Tokyo offered a \$184 million soft loan to the Philippines to finance its sale of 10 new patrol ships for the Philippine Coast Guard, due to begin arriving in 2015. These ships are expected to patrol Philippine-claimed waters disputed with China. Similarly, Japan has promised to transfer six used patrol vessels and related equipment valued at \$4.9 million to Vietnam in 2015.<sup>76</sup>
- Australia's growing role in the Asia Pacific also is enhancing the burgeoning informal network of regional security ties. In its *Defense White Paper 2013*, Canberra indicated it envisioned expanding its defense engagement beyond its traditional partners in Southeast Asian and Oceania to the larger Indo-Pacific. Under Australian Prime Minister Tony Abbott's government, which came to power in late 2013, Australia is likely to continue deepening security relations across the region, particularly with Japan (discussed in more detail later in this section).<sup>77</sup>
- Cooperative measures among Southeast Asian claimants in the South China Sea dispute is yielding unexpected linkages. The most notable example is the developing defense relationship between the Philippines and Vietnam. In a response to China's aggression in the South China Sea, the two countries have cooperated on measures demonstrating their unity on a peaceful resolution to the South China Sea dispute. Symbolic of this new relationship, in May 2014 Philippines President Benigno Aquino and Vietnam Prime Minister Nguyen Tan Dung announced a "roadmap toward a strategic defense partnership" to deter China in the South China Sea; in June 2014 Philippine and Vietnamese troops held friendly soccer and volleyball matches on a disputed Vietnamese-held island in the Spratly Islands.<sup>78</sup>

*Increasing the depth of existing security ties.* Even with an increasingly broad array of defense relationships in East Asia and Oceania, the diversity of security interests in the region suggests a formal multilateral security arrangement similar to the North Atlantic Treaty Organization (NATO) is unlikely in the near future.<sup>79</sup> Instead, existing bilateral security ties—particularly alliances with the United States—have deepened in recent years. In April 2014, the United States and Philippines announced an Enhanced Defense Cooperation Agreement intended to advance the implementation of their defense treaty alliance. During a June 2014 meeting, President Obama and Prime Minister Abbott announced the conclusion of the U.S.-Australian Force Posture Agreement, laying the foundation to expand the U.S. military presence in Australia beyond the existing U.S. Marine rotational force in Darwin. The Obama-Abbott meeting also identified ballistic missile defense in the Asia Pacific as another potential measure of cooperation.<sup>80</sup>

*Diversifying and strengthening military and paramilitary capabilities.* Many states, facing increasing maritime challenges from China over competing South China Sea claims, have shifted emphasis in defense procurement from ground forces to air and maritime forces. In particular, regional militaries have expressed interest in acquiring capabilities that could boost maritime domain awareness such as patrol craft and maritime surveillance aircraft, and more advanced capabilities for deterrence such as submarines and fighter aircraft.<sup>81</sup> Indonesia, for example, is undergoing a long-term military modernization effort seeking to achieve “minimum essential force” to secure its roughly 17,000-island archipelago by 2024. Then-presidential candidate Joko Widodo stated that Indonesia “rejects solutions [to the South China Sea dispute] through military power”; nevertheless, elected this year on a platform that included a promise to triple the defense and security budget, President Widodo will probably seek to continue a military modernization effort to ensure adequate readiness and capability among Indonesia’s armed forces.<sup>82</sup> In the absence of high-end military capabilities, one common strategy for Southeast Asian states to defend their maritime claims against China has been to strengthen and re-organize maritime law enforcement fleets. Vietnam renamed its Marine Police force the Vietnam Coast Guard in late 2013, reportedly to make it eligible to obtain patrol boats under the specifications of Japanese aid programs.<sup>83</sup>

*Emphasizing the role of regional institutions and international law to manage disputes.*<sup>84</sup> Although ASEAN members originally envisioned a political and economic organization, ASEAN and ASEAN-based forums such as the ASEAN Regional Forum have in recent years served as a vehicle to address security-related issues in the region (for further discussion of the role of ASEAN in regional security, see the following subsection).<sup>85</sup> ASEAN’s non-binding “Declaration on the Conduct of Parties in the South China Sea” with China was viewed as a success when it was concluded in 2002; progress toward a binding Code of Conduct, however, has since stalled. Facing asymmetry in the balance of military power against China and political deadlock in ASEAN, many Southeast Asian states have emphasized the peaceful settlement of maritime disputes under international law. The Philippines in 2013 filed for legal arbitration over conflicting South China Sea claims with China, which has declined to participate. Following China’s deployment of its oil rig to waters contested by Vietnam, senior Vietnamese leaders publicly stated Vietnam also was prepared to pursue arbitration of maritime claims disputed with China.<sup>86</sup>

#### *The Role of ASEAN in Regional Security*

The consensus-based nature of ASEAN, in conjunction with the diverse security interests of its members, has hampered its ability to effectively tackle regional security challenges such as the South China Sea dispute. Although ASEAN has begun to expand its mission set to include security issues, the organization has yet to define the nature of the role it is willing and able to play in regional security.

At the Commission’s March 2014 hearing, witnesses differed on the role of ASEAN in the United States’ security strategy in the

region. Pointing to ASEAN's inability to achieve progress on pressuring China on a South China Sea Code of Conduct, Mr. Lohman felt the United States should advocate "forcefully" for its own interests in the South China Sea rather than depend too heavily on a multilateral organization whose members generally seek to balance security guarantees from both the United States and China. In written testimony to the Commission, he stated, "China's aggressiveness is not sufficiently galvanizing ASEAN against China's challenge. Something needs to be done to change its calculation. This argues for greater American pressure on ASEAN while hedging against its continued failure."<sup>87</sup> Dr. Ratner took a more sanguine view of ASEAN, advocating for increased U.S. security ties with its allies and security associates in Southeast Asia. In his view, U.S. engagement with ASEAN not only enhances the political sustainability of U.S. military access and presence in the region, but also strengthens the capacity of ASEAN member allies and security associates to support U.S. operations and more independently defend their own interests in the face of Chinese coercion.<sup>88</sup> Despite differences in outlook on ASEAN's ability to support U.S. security interests, both witnesses agreed on the unlikelihood of the emergence of an ASEAN-centric security architecture given China's diplomatic preference in Southeast Asia to address the region's most pressing issues on a bilateral basis, and the reluctance of ASEAN members to complicate their relationships with China or publicly challenge China.<sup>89</sup>

ASEAN has encountered limited success in resolving the South China Sea dispute with China, but has made progress on nontraditional security issues, particularly under the ASEAN Defense Ministers Meeting Plus (ADMM+) framework established in 2010.\* In meetings with the Commission this year, Southeast Asian government representatives consistently supported ADMM+ mechanisms as central pillars of the regional security architecture. Although China's membership in the ADMM+ and other ASEAN-offshoot organizations limits the ability of these organizations to maneuver beyond China's preferences, these organizations will continue to be valuable for the purposes of confidence building in the region. Sole reliance on these organizations, however, is unlikely to be enough to ensure peaceful resolution of the South China Sea dispute in the interest of all claimants.<sup>90</sup>

#### *The Role of the U.S.-Australian Alliance in Regional Security*

Formed in the aftermath of World War II, the U.S.-Australian alliance continues to be highly valued among the Australian public and policymakers today.<sup>91</sup> The alliance commits the United States and Australia to "act to meet the common danger" in the event of an "armed attack in the Pacific Area on any of the Parties."<sup>92</sup>

\*The ADMM+ includes defense ministers from the ten ASEAN member states and eight "Plus" countries including the United States and China. At its inaugural meeting, the ADMM+ agreed on five areas of practical cooperation: maritime security, counter-terrorism, humanitarian assistance and disaster management, peacekeeping operations, and military management. ASEAN Defense Ministers' Meeting, "About the ASEAN Defense Ministers' Meeting (ADMM-Plus)," March 28, 2014. <https://admm.asean.org/index.php/about-admm/about-admm-plus.html>.

### China-Australia Economic Relations

China's rise in Asia has generated debate in Australia about how to manage the tension between its economic relationship with China, Australia's largest trading partner, and its security relationship with the United States, Australia's ally.<sup>93</sup>

China is Australia's biggest trading partner, primarily due to China's strong demand for Australian commodities. In 2013, 36 percent of Australia's goods exports (\$88.5 billion) went to China, nearly a 30 percent increase in exports to China year-on-year. Over 80 percent of Australian exports to China in 2013 were ores and minerals including iron, coal, and gold.<sup>94</sup> China's share of Australian resource exports grew from 8 percent in 2002–2003 to 52 percent in 2012–2013.<sup>95</sup> China is also the biggest market for Australian agricultural products (including meat and dairy), accounting for 20 percent of all agricultural exports in 2013.

Chinese foreign direct investment (FDI) in Australia, though small, has been growing steadily. In 2013, Chinese FDI in Australia was \$9 billion, down 10 percent from 2012. As with trade, China's FDI is concentrated primarily in the mining sector: Since 2006, roughly 75 percent of Chinese FDI has been in mining and natural gas deals.<sup>96</sup> There is also significant interest by Chinese investors in Australian real estate, with \$1.2 billion worth of FDI in commercial real estate in 2013 (Credit Suisse estimates that Chinese buyers account for 18 percent of all new property purchases in Sydney).<sup>97</sup>

During the Commission's trip to Australia, Australian business leaders told Commissioners China's demand for Australian commodities was fundamental to Australia's ability to weather the global financial crisis (indeed, on the strength of its exports, Australia has been running substantial trade surpluses with China). However, Australia's overreliance on commodities trade has resulted in a skewed economic development where the resources sector has grown, but other sectors lag.\* Moreover, the recent economic slowdown in China, coupled with the global decline in commodity prices, has exposed the vulnerabilities of Australian overdependence on China's demand.<sup>98</sup>

In his meeting with the Commission, Mr. White, the Australian National University professor, opined Australia should support an Asian security architecture accommodating both China and the United States, in order to avoid the dilemma of choosing between the two or stoking a heated strategic rivalry.<sup>99</sup> This strategy has not widely taken root among Canberra's policymakers. Instead, the Australian government has emphasized its firm alliance commitment to the United States in clear terms. At his meeting with President Obama in June 2014, Prime Minister Abbott stated, "I want to assure the President that Australia will be an utterly de-

\* Between 2003 and 2012, companies invested almost A\$400 billion (\$415 billion) on projects; during the same period, mining's share of Australia's national output doubled. Jamie Smyth, "Australia's Luck Runs Low as Chinese Economy Cools," *Financial Times*, September 23, 2014. <http://www.ft.com/intl/cms/s/0/6412e84e-42e8-11e4-9a58-00144feabdc0.html?siteedition=intl#axzz3EAdZbuJ3>.

pendable ally of the United States.”<sup>100</sup> Commission interlocutors at U.S. Embassy Canberra, U.S. Consulate Sydney, and the Australian Department of Defense, similarly emphasized Canberra’s ongoing dedication to the alliance.

Unlike in Northeast Asia, where political friction limits security cooperation between U.S. allies, Australia’s burgeoning security relationship with Japan hints at the potential for two U.S. allies to reshape the Asian security architecture in a manner favorable to U.S. interests. Prime Minister Abe’s remarks to the Australian Parliament in July 2014 referenced the shared values and common U.S. ally between Japan and Australia. He also reinforced the notion that aligned security interests can overcome lingering wartime tensions: “. . . Japan and Australia will finally use our relationship of trust, which has stood up through the trials of history, in our cooperation in the area of security.”<sup>101</sup>

#### **Key Acquisitions for the Australian Defense Force**

Australia’s anticipated military acquisitions from the United States, in addition to strengthening confidence in the U.S.-Australia alliance, will boost Australian interoperability with U.S. forces for potential missions in the Asia Pacific. Australia intends to acquire at least 72 F-35 Joint Strike Fighters, the first of which debuted to great fanfare in July 2014.<sup>102</sup> Additionally, Australia plans to purchase both the U.S. P-8 Poseidon, a Boeing 737-derivative designed for antisubmarine warfare and antisurface warfare, and the U.S. MQ-4C Triton unmanned maritime surveillance aircraft, capable of missions of over 24 hours covering an area of over 1 million square nautical miles. The complementary capabilities of these aircraft would provide Australia with an improved ability and range for maritime patrol and ISR.<sup>103</sup>

Perhaps the Australian Defense Department’s most challenging task at present is replacing its fleet of six COLLINS-class diesel electric submarines (SS), which will begin to reach the end of their service lives in the late 2020s, with a new platform with improved stealth and significant range and endurance. European firms have for some time been the strongest contenders to replace the COLLINS SS.<sup>104</sup> In large part due to the growing relationship between Australia and Japan and changes in Japanese arms export policy in 2014, Canberra also has begun to seriously consider Japan’s SORYU-class diesel electric submarine as a candidate platform.<sup>105</sup> As this Report went to print, media reports indicated the strong possibility of an Australia contract for the Japanese SORYU-class design.<sup>106</sup> Having only recently eased its arms export ban, Japan would need to seriously consider the impact of such a sale on its pacifist identity. On the Australian side, engineering and technical requirements would need to be closely scrutinized—particularly after a trying experience with the beleaguered COLLINS program—to ensure the new platform meets Australia’s programmatic and budgetary needs.<sup>107</sup>

### **Implications for the United States**

As China continues to pursue its national interests aggressively, U.S. allies and security associates will continue to seek reassurance about the breadth, depth, and limits of the United States' security guarantees. The credibility of U.S. alliances in the region is therefore central to their deterrent value against China. Across the region, U.S. allies and security associates are seeking greater certainty and specificity from Washington on the costs it is willing to impose on China for its ongoing attempts to subordinate international norms to its own narrow interests in the region and use of coercive measures to assert its claimed sovereignty and even secure territorial gains in disputed areas.<sup>108</sup>

At the same time, a perception by U.S. allies of a "blank check," or unconditional and open-ended security commitment from the United States, could embolden allies to engage in risky or provocative actions. Dr. Lind emphasized in her testimony to the Commission this risk can be managed if parties can agree on genuine shared interests within the alliance. The alternative could be a confrontation with China over issues in which the United States has minimal strategic interest.<sup>109</sup>

Over the next several years, the sustainability of the United States' security partnerships in Asia will be complicated by emerging security challenges outside of Asia. This will require not only reinforcing the "rebalance" policy with additional U.S. forces, but also increased inputs and resources from U.S. allies and partners in the region. In a speech in May 2014, Admiral James "Sandy" Winnefeld, USN, vice chairman of the Joint Chiefs of Staff, stated, "it's likely we'll come to rely more on [our] partners to resource the means for their defense, as we work closely together on the ways."<sup>110</sup> As the United States finds itself asking more of its allies, continued communication on what constitutes shared security interests is critical to the success of the alliance.

The long-term benefits of strong U.S. alliances and security partnerships in the region far outweigh the risks those relationships pose to the United States. U.S. support for enhanced military and law enforcement capabilities for its friends and allies, such as the transfer of decommissioned U.S. Coast Guard cutters to the Philippine Navy, serve both to strengthen deterrent capabilities in the region and to enhance possibilities for interoperability with the U.S. armed forces. Expanding the forward-deployed U.S. military presence in allied host nations serves not only as a tangible commitment to the alliance but also improves the United States' ability to shape the strategic environment, respond to contingencies, and deter conflicts. Finally, increased U.S. support for ISR capabilities of its friends with whom it shares intelligence in the region, such as the sale of Global Hawk unmanned aerial vehicles to Korea, contributes to improved situational awareness for the United States as well.

China's assertive behavior in East Asia is taking place in the context of what it views as a "period of strategic opportunity" through 2020 and a favorable external security environment in which it can focus on economic development.<sup>111</sup> This suggests that if and when China achieves its domestic development goals, China

may pursue an even more assertive foreign policy. In this scenario, Beijing likely would be less concerned about damaging U.S.-China relations over policy differences and more willing to impose costs on other regional powers that challenge China's core interests. China also might try to obstruct more directly those policies it perceives undermine China's regime survival, economic and social welfare, and sovereignty. If this is the case, the United States also faces a critical window over the next five years to lay the groundwork for its long-term security interests in the Asia Pacific.

### Conclusions

- Beijing has concluded the U.S.-led East Asia security architecture does not benefit its core interests of regime preservation, economic and social development, and territorial integrity. In 2014, China's leaders began to promote a vision of regional security that marginalizes the United States and "relies on the people in Asia to run Asia's affairs, deal with Asia's problems, and uphold Asia's security"—a vision at odds with the present security architecture encompassing a strong network of U.S. alliances and partnerships in East Asia.
- China is engaged in a sustained and substantial military buildup that is shifting the balance of power in the region, and is using its growing military advantages to support its drive for a dominant sphere of influence in East Asia.
- China employs economic incentives and punishments toward its neighbors to support its diplomatic and security goals in East Asia to extract political or security concessions from its Asian neighbors. The market dependencies of many East Asian countries on China—the result of China's deep integration into regional manufacturing supply chains—afford it leverage in pursuing regional security interests.
- China's security relations with Japan are deteriorating over the Senkaku Islands dispute and grievances over Japan's wartime past. Conversely, China's security relations with South Korea are warming as Beijing seeks continued cooperation with Seoul on North Korea. The two Northeast Asian powers differ in their responses to China's assertive security policy in the region: Japan is balancing against China by boosting its own defensive capabilities and its alliance with the United States, while South Korea appears to be pursuing a hedging strategy by maintaining security relations with both the United States and China.
- The current regional security arrangement in Northeast Asia, for which the U.S. alliances with Japan and South Korea provide a basis, will probably remain unchanged in the near term. Differences in security priorities between Japan and South Korea means that without greater political will to overcome these differences, full-fledged trilateral security cooperation among Japan, South Korea, and the United States is unlikely to materialize in the near- to mid-term.

- China's increasingly assertive actions in the South China Sea have led Southeast Asia and Australia to build new defense relationships, deepen existing defense relationships, strengthen military and paramilitary capabilities, and emphasize the role of regional institutions and international law to manage disputes.
- As the United States seeks to reaffirm its alliance with Australia as part of the U.S. rebalance to Asia, China is seeking stronger security ties with Australia to serve as a counterweight to the alliance. Australia's challenge is to ensure its own economic and security interests in the midst of the ongoing Pacific power shift. Similarly, continued U.S. engagement with ASEAN ensures the political sustainability of U.S. security policy in East Asia, but carries the risk of relying too heavily upon an organization which has yet to define its role in East Asian security.

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## SECTION 2: RECENT DEVELOPMENTS IN CHINA'S RELATIONSHIP WITH NORTH KOREA

### Introduction

This section examines China's relationship with North Korea and assesses how China's approach to relations with North Korea is shifting in light of Pyongyang's continued destabilizing behavior. It concludes with a discussion of how the evolving China-North Korea relationship impacts the United States.\* The statements and assessments presented here are based on the Commission's June 2014 hearing on China-North Korea relations, briefings by government and nongovernmental experts on China-North Korea relations, the Commission's fact-finding trip to South Korea, and open-source research and analysis.

### Overview of China-North Korea Relations

China and North Korea fought alongside each other in the Korean War and have shared a Treaty of Friendship, Co-operation and Mutual Assistance since 1961.† Each is the other's only treaty ally, and their relationship is founded on wartime camaraderie, decades of communist party ties, proximity, and a shared resentment of the West, among other factors. Mao Zedong famously said that China and North Korea are "closer than lips and teeth," and both countries for decades have perpetuated that image.

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\*For a more comprehensive examination of China-North Korea relations, see U.S.-China Economic and Security Review Commission, *2013 Annual Report to Congress*, November 2013, pp. 228–229; and U.S.-China Economic and Security Review Commission, *2011 Annual Report to Congress*, November 2011, pp. 241–252.

†Among other assurances, the treaty provides that "the Contracting Parties undertake jointly to adopt all measures to prevent aggression against either of the Contracting Parties by any state. In the event of one of the Contracting Parties being subjected to the armed attack by any state or several states jointly and thus being involved in a state of war, the other Contracting Party shall immediately render military and other assistance by all means at its disposal." Treaty of Friendship, Co-operation and Mutual Assistance between the People's Republic of China and the Democratic People's Republic of Korea, July 11, 1961.

Figure 1: Korean Peninsula Map



Source: Ian McGibbon, 'Asian Conflicts-Korean War,' Te Ara—The Encyclopedia of New Zealand, updated 16-Nov-12. <http://TeAra.govt.nz/en/map/34516/korean-peninsula-showing-the-38th-parallel>.

China's support for North Korea is multifaceted. On the economic front, China provides vital food and energy aid to North Korea, promotes investment, and funds and develops joint special economic zones. China generally seeks to use this economic engagement as a way to enhance stability in North Korea.<sup>1</sup> On the diplomatic front, China uses its position on the United Nations (UN) Security Council to shield North Korea from international condemnation and to blunt the impact of sanctions.<sup>2</sup> In addition, China has sold military and dual-use materials associated with ballistic missiles to North Korea, though it is unclear whether this support continues today.\* China has provided jet fuel and small arms to North Korea as well.<sup>3</sup> China's failure to fully enforce UN sanctions on North

\*Most recently, in 2012, North Korea displayed transport-erector-launchers for its new KN-08 ballistic missile affixed to vehicles imported from China. The Chinese government claimed the vehicles were lumber transporters exported to North Korea in 2011 for agricultural use and stated the sale did not violate sanctions or Chinese law. The U.S. Department of State also understands the sale to be of a civilian, not military, nature. However, the UN Panel of Experts tasked with investigating sanctions enforcement against North Korea noted in a 2013 report that "the particulars of the transaction remain unclear and the Panel will continue its investigations." United Nations Security Council, *Report of the Panel of Experts Established Pursuant to Resolution 1874 (2009)*, June 11, 2013, p. 27. [http://www.un.org/iga/search/view\\_doc.asp?symbol=S/2013/337](http://www.un.org/iga/search/view_doc.asp?symbol=S/2013/337); Associated Press, "China Denies Exporting North Korean Missile Launch Vehicles," June 13, 2012. <http://www.theguardian.com/world/2012/jun/13/china-north-korea-missile-vehicles>. Some analysts remain skeptical of China's claim that the vehicles were truly intended for civilian use. For example, see Mark Hibbs, "China and the POE DPRK Report," *Arms Control Wonk* (Blog), July 2, 2012. <http://hibbs.armscontrolwonk.com/archive/879/china-and-the-poe-dprk-report>; and Jeffrey Lewis, "That Ain't My Truck: Where North Korea Assembled Its Chinese Transporter-Erector-Launchers," 38 North, February 3, 2014. <http://38north.org/2014/02/jlewis020314/>.

Korea has also enabled the North's military modernization, including its ballistic missile programs.<sup>4</sup>

China's support for North Korea belies the true nature of Sino-North Korean relations, which can be described as a "mutual hostage" situation in which North Korea depends on Chinese economic, political, and security assistance for regime survival and China depends on North Korea to provide a strategic buffer between itself and U.S.-allied South Korea.<sup>5</sup> This mutual dependence causes resentment on both sides. North Korea resents its near-total dependence on China, and perceives Beijing as high-handed and condescending.<sup>6</sup> It also distrusts China, which it feels has abandoned its Marxist-Leninist principles and has become politically and morally corrupted by capitalism and its relations with South Korea and the United States.<sup>7</sup> For its part, Beijing resents Pyongyang's continued provocations, which it fears will destabilize and raise the risk of conflict in the region; drive South Korea and the United States to strengthen their alliance and military capabilities, which also could be used to threaten China; and prompt the international community to criticize China for its role as Pyongyang's primary supporter.<sup>8</sup>

The following pages chronicle the deterioration of Sino-North Korean ties in recent years, but conclude that in spite of the growing risks North Korea poses to China's interests, China still supports—and likely will continue to support—its neighbor. China's anxiety over the United States is the primary driver of this seemingly counterintuitive policy. Beijing sees U.S. military power on the Korean Peninsula as a threat to its security environment and, as such, relies on and seeks to bolster the North Korean buffer to ensure U.S. troops remain below the 38th parallel.

### **China-North Korea Relations Deteriorate**

According to several subject matter experts consulted by the Commission during its hearing and trip to Seoul, South Korea, Sino-North Korean relations have become increasingly tense since late 2012. High levels of distrust and frustration now characterize the relationship, particularly on the Chinese side.<sup>9</sup>

### ***North Korea Tests Long-Range Missile Capability and Conducts its Third Nuclear Test***

Sino-North Korean ties began to deteriorate after North Korea's December 2012 rocket launch, which put the country's first satellite into orbit. Although Pyongyang insisted the launch was part of a peaceful civilian space program, the international community viewed it as a thinly-veiled attempt to test the North's long-range ballistic missile capability, and the UN Security Council condemned the launch as a violation of resolutions prohibiting North Korea from using ballistic missile technology in space launches.<sup>10</sup> A few months later, in February 2013, North Korea conducted its third nuclear test, also in violation of UN resolutions.<sup>11</sup> Much to China's frustration, both the rocket launch and the nuclear test took place during China's sensitive leadership transition and de-

spite Beijing's repeated warnings to Pyongyang against such provocations.\*<sup>12</sup>

Beijing's diplomatic response to North Korea's 2013 nuclear test was swift but limited, as it stopped short of taking serious economic and political actions against Pyongyang. China issued several strongly worded statements opposing the nuclear test, summoned North Korea's ambassador to China, and cooperated with the United States and other UN Security Council members to craft and pass Security Council Resolution 2094, which "strengthen[s] and expand[s] the scope of United Nations sanctions against [North Korea] by targeting the illicit activities of diplomatic personnel, transfers of bulk cash, and the country's banking relationships, in response to that country's third nuclear test."<sup>13</sup> Although China took some steps to enforce the new sanctions (see below), China's efforts in crafting and passing Resolution 2094 likely were meant more to send a signal of disapproval to Pyongyang than be a punitive measure.<sup>14</sup>

### ***Kim Jong-un Purges and Executes Jang Song-taek***

In December 2013, relations soured further when North Korean leader Kim Jong-un purged and executed Jang Song-taek, his uncle and then second-most powerful official in North Korea. According to North Korean official media, Mr. Jang's crimes included selling "precious underground resources at random" and "committing such an act of treachery . . . as selling off the land of the Rason economic and trade zone to a foreign country."<sup>15</sup> These allegations were barely-veiled references to Mr. Jang's dealings with China, which imports North Korean resources and shares the Rason special economic zone with North Korea.

Beijing was stunned and upset by Mr. Jang's execution, according to several subject matter experts and U.S. and South Korean government officials consulted by the Commission.<sup>16</sup> Mr. Jang had been Beijing's main interlocutor in Pyongyang and was known for his role in promoting bilateral economic projects. Sue Mi Terry, senior research scholar at the Weatherhead East Asian Institute at Columbia University, testified to the Commission that Mr. Jang "was a man that Chinese leaders had gotten used to dealing with."<sup>17</sup> Chinese officials sought to quickly reestablish normalcy in the relationship following Mr. Jang's execution, according to Daniel Pinkston, deputy project director for Northeast Asia at the International Crisis Group, who met with the Commission in Seoul.†

\*Among North Korea's other destabilizing actions in 2013 were its decision to temporarily shut down the Kaesong Industrial Complex, an industrial zone in the North shared and jointly managed by North Korea and South Korea, and its frequent and belligerent official statements threatening the United States and South Korea. *Fire on the City Gate: Why China Keeps North Korea Close* (International Crisis Group, December 9, 2013), pp. 3-4. <http://www.crisisgroup.org/~media/Files/asia/north-east-asia/254-fire-on-the-city-gate-why-china-keeps-north-korea-close.pdf>.

† In recent years, Beijing increasingly has sought to conduct its relationship with North Korea through official diplomatic channels, a departure from a long history of relations conducted primarily via party-to-party ties. China's loss of its connection to the North via Mr. Jang probably reinforced to China's top policymakers the need for more institutionalized and formal state-to-state ties. U.S.-China Economic and Security Review Commission, *Hearing on Recent Developments in China's Relations with Taiwan and North Korea*, written testimony of Stephanie Kleine-Ahlbrandt, June 5, 2014; Yonhap News Agency, "(LEAD) China's Relations with North Korea Have Normalized: U.S. Expert," May 22, 2014. <http://english.yonhapnews.co.kr/northkorea/2014/05/22/93/0401000000AEN20140522006100315F.html>.

### ***North Korea Conducts Missile Tests***

A review of open-source reporting suggests North Korea fired more than 100 projectiles over the course of at least 18 missile tests in 2014.<sup>18</sup> According to the South Korean Ministry of National Defense, at least ten of these tests used ballistic missile technology,<sup>19</sup> violating UN resolutions against the use of ballistic missile technology in North Korean launches. The UN Security Council—which includes China—condemned two of the launches.<sup>20</sup> The Chinese government responded to each of the missile tests with the same basic formulation, along the lines of: “We hope all parties make efforts to reduce tension and safeguard peace and stability on the Korean Peninsula.”<sup>21</sup>

North Korea carried out some of these tests without prior warning, contravening international norms for safety of navigation. In one instance, the South Korean government reported that four tactical ballistic missiles test-fired by North Korea in March passed above airspace traversed by a China Southern Airlines passenger aircraft seven minutes later.<sup>22</sup> Regarding this incident, a Chinese Ministry of Foreign Affairs spokesperson stated, “Countries, while conducting military trainings or exercises, should adopt necessary measures in accordance with international conventions to ensure the safety of civil aircrafts and vessels in relevant airspaces and waters.”\*<sup>23</sup>

### ***China Strengthens Ties with South Korea***

The warming of ties between China and South Korea since mid-2013 is both an indication of and a response to deteriorating Sino-North Korean relations.† Beijing’s public and high-profile efforts to advance relations with Seoul suggest Chinese leaders are becoming increasingly unhappy with China’s relationship with North Korea and wish to communicate as much to Pyongyang, Seoul, and the world.

Relations between Beijing and Seoul have significantly improved since South Korean President Park Geun-hye traveled to China for a state visit in June 2013. Her visit culminated in an ambitious joint statement announcing several initiatives to strengthen bilateral security and economic cooperation, including a high-level hot-

\*The United States and several other countries in July 2014 issued a letter to the International Civil Aviation Organization, a UN body that develops standards and recommended practices for international civil aviation, expressing concern that North Korea’s failure to issue prior notification of its missile launches poses a “serious threat” to international aviation safety. North Korea in the past notified the International Civil Aviation Organization of some launches. Agence France-Presse, “U.S. Warns of Aviation Risk from N. Korea Rockets,” July 16, 2014. <http://news.yahoo.com/us-warns-aviation-risk-n-korea-rockets-210129436.html>.

† Warming Sino-South Korean relations are not merely a reflection of the Sino-North Korean relationship. China’s more friendly approach to relations with South Korea also is motivated by China’s desire to alienate Japan, with which it is embroiled in a contentious territorial dispute. Policy experts who met with the Commission at the Asan Institute for Policy Studies in Seoul assessed that Beijing seeks to take advantage of an ongoing rift in the Japan-South Korea relationship to drive a wedge between Seoul and Tokyo. For example, Beijing implored Seoul to join it in criticizing Tokyo in 2013 when several high-level Japanese officials visited the Yasukuni Shrine, a site controversial for its commemoration of several war criminals implicated in wartime atrocities against Chinese and South Koreans. For an in-depth discussion of the China-South Korea-Japan triangular relationship, see Chapter 3, Section 1, “China and Asia’s Evolving Security Architecture.” See also Andrew Browne, “South Korea-Japan Rift on Exhibit in China,” *Wall Street Journal*, March 5, 2014. <http://online.wsj.com/news/articles/SB10001424052702304815004579418653837738902>; and Robert E. Kelly, “The Complex China-South Korea Relationship,” *Diplomat*, June 18, 2014. <http://thediplomat.com/2014/06/the-complex-china-south-korea-relationship/>.

line between South Korea's chief of national security and China's state councilor for foreign affairs, and a semiannual bilateral strategic dialogue between the two countries' vice foreign ministers.<sup>24</sup> The visit also laid the groundwork for several follow-up meetings between officials from both countries.<sup>25</sup>

From July 3–4, 2014, Chinese President Xi Jinping reciprocated President Park's 2013 visit with a trip to Seoul, marking the first time a sitting Chinese president had ever visited South Korea before North Korea. The joint statement from the visit declared, "The two countries reaffirm their firm opposition to the development of nuclear weapons on the Korean Peninsula." President Park stated she and President Xi agreed that "denuclearization of North Korea must be achieved at all costs."<sup>26</sup> Pyongyang expressed its displeasure with President Xi's trip to Seoul by conducting several missile tests in the weeks leading up to the visit,<sup>27</sup> and North Korea's National Defense Commission asserted, "Some backbone-lacking countries are blindly following the stinky bottom of the U.S., also struggling to embrace Park Geun-hye."<sup>28</sup> The "backbone-lacking country" referenced almost certainly is China.

North Korea has been and remains a central focus of the China-South Korea relationship. North Korea likely was a prominent issue on the agenda for the July 2014 summit meeting between Presidents Xi and Park,<sup>29</sup> and U.S. officials told the Commission that a telephone call between Presidents Xi and Park in the run-up to the summit featured coordination on denuclearizing North Korea. Official communication about North Korea is supplemented by informal engagements and dialogues. For example, U.S. government officials in Seoul told the Commission that former Chinese People's Liberation Army leaders and retired Chinese government officials are increasingly willing and able to meet with their South Korean counterparts to discuss North Korea.

Assuming China-South Korea relations continue to warm, China's influence and leverage over South Korea will grow. According to South Korean government officials with whom the Commission met in Seoul, Beijing seeks to use this leverage to pressure Seoul to abandon its alliance with the United States. Andrei Lankov, associate professor of social science at Kookmin University in Seoul and an expert on Sino-North Korean relations, told the Commission that Beijing thinks time is on its side and expects its influence over Seoul (and Pyongyang) will grow in the future, which will better position China to affect outcomes on the Peninsula. He noted it is highly likely that China intends to use its growing influence over Seoul to apply pressure on the U.S.-South Korea alliance in order to negotiate a diminished U.S. presence on the Peninsula.

### ***High-Level Contacts between China and North Korea Decrease***

In stark contrast to the China-South Korea bilateral relationship, high-level contacts between China and North Korea in 2014 have been conspicuously limited.<sup>30</sup> According to open-source reporting, only seven high-level exchanges have occurred between the two countries since 2013, compared to 30 such meetings during the pre-

vious two years.\*<sup>31</sup> Moreover, President Xi has not met with Kim Jong-un. By comparison, he has met with President Park five times since 2013.<sup>32</sup>

### ***North Korea Reaches Out to Russia and Others***

Just as China has strengthened ties with South Korea, North Korea has been reaching out to other countries, suggesting it too is dissatisfied with its relationship with China.

In 2013 and 2014, North Korea bolstered economic ties with Russia in particular:

- In September 2013, state-owned Russian Railways and the North Korean Ministry of Railways completed repairs on North Korea's Rajin Port and on a railroad from Siberia to the port. In early 2014, Russia began using the reopened port as a transshipment hub for coal exports destined for China.<sup>33</sup>
- In April 2014, the Russian parliament agreed to forgive 90 percent (close to \$10 billion) of North Korea's debt to Russia.<sup>34</sup>
- During a high-level Russian delegation to Pyongyang in April 2014, the two countries signed an agreement on bilateral trade and economic cooperation and Russia donated an unspecified number of fire engines to North Korea.<sup>35</sup>
- In June 2014, North Korea reportedly announced plans to simplify visa requirements and provide Internet access and mobile services for Russian investors and businesspeople working in North Korea.<sup>36</sup>
- In June 2014, Russian officials appeared to revive a long-standing and ambitious plan to extend the Trans-Siberian Railroad through both North and South Korea.<sup>†</sup>
- North Korea in 2014 imported greater amounts of Russian crude oil than in previous years, and according to open-source research conducted by NK News, North Korean oil tankers in 2014 visited Russian ports more often than Chinese ports.<sup>37</sup>

This current upswing in Russia-North Korea relations reflects Pyongyang's decades-long practice of playing its two patrons, China and Russia, against one another to extract political and economic gains and to mitigate the effects of international isolation.<sup>38</sup> The success of this strategy is succinctly illustrated in remarks made by Russian President Vladimir Putin in 2003 about the prospective Trans-Siberian Railroad extension through the Korean Peninsula:

\*For the purposes of this Report, meetings held at the vice-ministerial level or higher are considered high-level meetings.

†With the exception of brief cross-border rail service between 2007 and 2009, North and South Korean efforts to establish a trans-Korean rail link have been stymied for several decades, mostly due to political sensitivities and security issues. Discussions of linking a trans-Korean railway with the Trans-Siberian Railroad have been ongoing since the late 1990s. *Russia Times*, "Russia to Extend Trans-Eurasian Rail Project to Korea," June 6, 2014. <http://rt.com/business/164116-russia-railway-north-korea/>; Andrei Lankov, "A Trans-Korean/Trans-Siberian Railway? Not Any Time Soon," NK News, November 18, 2013. <http://www.nknews.org/2013/11/a-trans-korean-trans-siberian-railway-not-any-time-soon/>; and *North Korea-Russia Relations: A Strained Friendship* (International Crisis Group, December 4, 2007), p. 12. [http://www.crisisgroup.org/-/media/Files/asia/north-east-asia/north-korea/b71\\_north\\_korea\\_russia\\_relations\\_a\\_strained\\_friendship.pdf](http://www.crisisgroup.org/-/media/Files/asia/north-east-asia/north-korea/b71_north_korea_russia_relations_a_strained_friendship.pdf).

“Russia must build the [railroad] for the simple reason that if it does not, then our dear friend China will do it.”<sup>39</sup>

In what appears to be another attempt to lessen its economic isolation, North Korea in early 2014 took steps to improve ties with Japan as well. In May, Pyongyang agreed to re-open stalled investigations into North Korea’s kidnapping of several Japanese citizens in the 1970s and 1980s in exchange for Japan lifting some of its unilateral economic sanctions on North Korea.\*<sup>40</sup> Japan began to lift sanctions in July, but by mid-September North Korea appeared to be delaying progress on the investigation. Japanese Chief Cabinet Secretary Yoshihide Suga announced that Pyongyang’s initial report on the investigation, expected in the fall of 2014, could be delayed up to one year, predicting that negotiations with North Korea “will not go smoothly.”<sup>41</sup> Even if Pyongyang makes progress on the abduction investigations, Japan is unlikely to pursue a more friendly relationship with North Korea. Japan, which does not have official diplomatic relations with North Korea, views the North as a major security threat, which it works in concert with its ally the United States and South Korea to address.† Indeed, North Korea is a central focus of the U.S.-Japan alliance and a driver of Japan’s ongoing security reforms.<sup>42</sup>

North Korea’s Foreign Minister Ri Su-yong traveled to Southeast Asia in August, where he attended the high-profile Association of Southeast Asian Nations Regional Forum. A South Korean official referred to the trip as “a move to come out of international isolation and gather ground in the global diplomatic arena.”<sup>43</sup>

These efforts reflect North Korea’s desire to reduce its overwhelming dependence on China and suggest the Kim regime has determined it should hedge against the potential that China will abandon its long-standing North Korea policy. Stephanie Kleine-Ahlbrandt, director of Asia-Pacific Programs at the United States Institute of Peace, testified to the Commission, “There’s nothing more the North Koreans would like [than] to do a great deal with Japan, a sunshine deal‡ with South Korea, get in touch with Myanmar, Indonesia, and any other country that will deal with them.”<sup>44</sup>

### **China’s Perceptions and Policies Evolve, Strategy Remains the Same**

Although North Korea’s recent provocations are leading to a shift in China’s perception of North Korea and an adjustment of policy

\* Sanctions lifted by Japan include (1) some restrictions on the flow of people between Japan and North Korea; (2) reporting requirements for some currency transfers from Japan to North Korea; and (3) an embargo on some North Korean ships docking in Japanese ports. *Asahi Shimbun*, “Japan to Lift 3 Sanctions Against North Korea; Abduction Reinvestigation to Start,” July 3, 2014. [http://ajw.asahi.com/article/behind\\_news/politics/AJ201407030071](http://ajw.asahi.com/article/behind_news/politics/AJ201407030071); Linda Sieg and Kiyoshi Takenaka, “Japan Lifts Some North Korean Sanctions amid Report of Surviving Abductees,” Reuters, July 3, 2014. <http://www.reuters.com/article/2014/07/03/us-japan-northkorea-idUSKBN0F70NK20140703>.

† Japan and South Korea cooperate on security issues related to the North, especially in the context of the U.S.-Japan-South Korea relationship. However, bilateral cooperation between the two countries has recently suffered from political tensions between Tokyo and Seoul, according to U.S. officials in Seoul and policy experts who met with the Commission at the Asan Institute for Policy Studies. For a more comprehensive discussion of tensions between Japan and South Korea, see Chapter 3, Section 1, “China and Asia’s Evolving Security Architecture.”

‡ This is a reference to South Korea’s “sunshine policy” toward North Korea, which lasted from the late 1990s to the mid-2000s and was intended to build positive ties with the North.

toward North Korea, China's overarching strategy and objectives have not changed. China continues to prioritize reinforcing stability in North Korea with the aim of maintaining a credible buffer between itself and the U.S.-allied South.

### ***A Vibrant Debate on North Korea Emerges***

Beijing has allowed a vibrant public debate on the utility and wisdom of China's policies toward North Korea to emerge since North Korea's third nuclear test in 2013.\*<sup>45</sup> The spectrum of views ranges from proponents of China's current policy of supporting the Kim regime, to those calling for Beijing to pressure Pyongyang to moderate its destabilizing behavior,<sup>†</sup> to the "abandonment school" of strategists and commentators who argue North Korea is a liability for China and that Beijing should "cut its losses and cut North Korea loose."<sup>46</sup> Dr. Lankov characterizes the debate:

*We should keep in mind that North Korean studies remain a rather divided area in China. There are some specialists in China who are genuine supporters of North Korea's cause. Some of these people belong to an older generation of specialists who once studied the North as students, while some others merely see North Korea as a useful strategic buffer against the bullying United States. There are also experts who see North Korea as a troublesome anachronism, a fossil from a Maoist-Leninist past that most Chinese wish to forget about. However, even such people, often with close connection to South Korea, still tend to appreciate the strategic advantages presented by North Korea to China.<sup>47</sup>*

So far, the "abandonment school" of thought appears to be a minority view and has not gained traction among China's senior leaders. However, the ongoing debate reveals a demographic trend that may have implications for China's policy toward the North in the future. Ms. Kleine-Ahlbrandt's testimony to the Commission echoes Dr. Lankov's observation that Chinese public opinion on North Korea is subject to a generational divide, and asserts that younger Chinese "overwhelmingly view [North Korea] with pity and contempt."<sup>48</sup> It may be the case that future generations of Chinese leaders—those who have no memory of the Sino-North Korean camaraderie of the 1950s and who prefer China shed its reputation as North Korea's only patron—will calculate it is no longer in China's interests to support the North unconditionally.

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\* Similar debates emerged in China following North Korea's first and second nuclear tests in 2006 and 2009. U.S.-China Economic and Security Review Commission, *Hearing on Recent Developments in China's Relations with Taiwan and North Korea*, written testimony of Stephanie Kleine-Ahlbrandt, June 5, 2014.

<sup>†</sup> Chinese state-affiliated newspaper *Global Times* published an editorial by a prominent Chinese expert on North Korea which stated that North Korean missile launches "have already posed a grave threat to the security of neighboring countries," and opined that China should "impose a certain amount of pressure" on North Korea. Although commentaries such as this do not necessarily represent the views of the Chinese government, they suggest frustration over North Korea's behavior is on the rise in China. Zhang Liangui, "Pyongyang Missile Launch Risks Isolation," *Global Times*, May 18, 2014. <http://www.globaltimes.cn/content/849325.shtml>.

### ***China Begins to Take Denuclearization Seriously***

Although China historically has not viewed North Korean denuclearization as an urgent task, U.S. government officials in Seoul told the Commission that Beijing appears to be genuinely concerned about North Korea's accelerating nuclear program. Four distinct but related perceptions appear to be driving China's evolving threat perception. First, Kim Jong-un's decision to proceed with a third nuclear test despite China's strong opposition likely convinced Beijing that Kim Jong-un is both reckless and unconcerned about whether North Korea's provocations will anger China. Second, China perceives the United States could use a North Korean provocation as a pretext to deepen its military engagement in the region, an outcome China desperately seeks to avoid.<sup>49</sup> Third, China is concerned that the North's progress on its nuclear program could precipitate a nuclear arms race in Northeast Asia. In particular, China fears U.S. allies South Korea and Japan may develop nuclear weapons, which it believes would seriously degrade China's security environment.<sup>50</sup> Fourth, China recognizes that North Korea's leverage—vis-à-vis China and the rest of the international community—grows as its nuclear program becomes more credible. Notably, none of these perceptions reflects concern about North Korean nuclear weapons posing a direct threat to China. Rather, China's concerns relate to how North Korean nuclear weapons could precipitate second-order effects that could result in a more vulnerable security environment for China.

China's heightened sense of anxiety over North Korea's nuclear program has not led to a wholesale shift in China's North Korea strategy, but it appears to have informed one recent policy adjustment: Beijing's reinvigorated efforts to resume the Six-Party Talks.\* China's efforts to restart the Six-Party Talks have included holding a "Track 1.5" talk between officials from some of the countries involved in the Six-Party Talks;<sup>51</sup> sending Chinese Vice Foreign Minister Liu Zhenmin to conduct "shuttle diplomacy" visits to Seoul and Pyongyang;<sup>52</sup> holding meetings with senior U.S. officials;<sup>53</sup> and generally emphasizing the importance of the Six-Party Talks in official statements.<sup>54</sup>

China's motivations for restarting the Six-Party Talks are manifold. According to the Chinese Ministry of Foreign Affairs, the aim of the negotiations has always been to "keep them talking and not fighting."<sup>55</sup> Ms. Kleine-Ahlbrandt testified to the Commission that China's motives are more complex:

*China prioritized the talks because as Chair, it was guaranteed a central role in setting international policy toward [North Korea]. Beijing never expected that the talks would resolve the issue, rather, the process kept negotiations open and lessened the possibility of crises escalating, while allowing Beijing to exert control over the international re-*

\*The Six-Party Talks involving China, Japan, North Korea, Russia, South Korea, and the United States were established in 2003 to negotiate the termination of North Korea's nuclear program. After six rounds of negotiations, North Korea left the Six-Party Talks in 2009, and the negotiations have not resumed since. Jayshree Bajoria and Beina Xu, *The Six Party Talks on North Korea's Nuclear Program* (Council on Foreign Relations, September 30, 2013). <http://www.cfr.org/proliferation/six-party-talks-north-koreas-nuclear-program/p13593>.

*sponse by ensuring interaction with and influence over all parties.*<sup>56</sup>

An additional driver of China's desire to revive the Six-Party Talks, according to Ms. Kleine-Ahlbrandt, is Beijing's fear that Pyongyang will "cut a deal" with Washington to denuclearize or otherwise thaw relations, which would leave China with diminished leverage and little control over the situation on the Peninsula.<sup>57</sup>

Another potential indicator that denuclearization is a rising priority for Beijing is a growing emphasis on denuclearization in official Chinese statements. China's long-standing official line on North Korea has been "no war, no instability, no nukes."<sup>58</sup> This characterization conveys not only China's interests vis-à-vis North Korea, but also the prioritization of those interests, with denuclearization as the lowest priority.<sup>59</sup> Recently, however, some official Chinese statements, including those made at the July 2014 U.S.-China Strategic and Economic Dialogue, have begun to list "denuclearization" before "stability" in discussions of China's interests and priorities on the Korean Peninsula.<sup>60</sup>

### ***China Strengthens Sanctions Enforcement, but Problems Remain***

China's enforcement of UN sanctions against North Korea has improved somewhat since North Korea's third nuclear test. In March 2013, China appeared to enhance border inspections of cargo traveling from China to North Korea.<sup>61</sup> In April 2013, the Chinese government issued directives for "relevant agencies to take measures to strictly enforce" Security Council Resolution 2094.<sup>62</sup> In August 2013, Chinese diplomats told researchers from International Crisis Group that China was for the first time strictly enforcing sanctions on North Korea.<sup>63</sup>

These developments notwithstanding, gaps in China's sanctions enforcement remain. In testimony to the Senate Foreign Relations Committee in June 2014, U.S. Assistant Secretary of State for East Asian and Pacific Affairs Daniel R. Russel acknowledged China's efforts but insisted it "could do more to prevent North Korea from engaging in proliferation activities."<sup>64</sup> According to a UN Panel of Experts established to monitor enforcement of sanctions against North Korea, China's recent failures to fully enforce sanctions include:

- The Chinese port of Dalian in March 2013 appears to have served as a transshipment hub for five aluminum alloy rods (considered nuclear-related dual-use equipment by the International Atomic Energy Agency) from North Korea destined for Burma.<sup>65</sup>

<sup>56</sup>In addition to lax enforcement, China continues to use its position on the UN Security Council to weaken sanctions resolutions. According to Bruce Klingner, senior research fellow for Northeast Asia at the Heritage Foundation, "After the April 2012 missile launch, the U.S., South Korea, Japan, and the EU proposed adding 40 additional North Korean entities to the U.N. sanctions list. China vetoed all but three, severely limiting the scope of U.N. efforts against North Korea's prohibited nuclear and missile programs." Bruce Klingner, *North Korea: Sanctions, Nuclear and Missile Threat* (Heritage Foundation, April 2, 2014). <http://www.heritage.org/research/testimony/2014/04/north-korea-sanctions-nuclear-and-missile-threat>.

- China has made implementing UN prohibitions on transferring “luxury items” to North Korea difficult because its definition of “luxury goods” is much more limited than that of most other countries. For example, when Switzerland prohibited the sale of ski lifts to North Korea, a Chinese company acquired the contract and delivered the ski lifts to North Korea in January 2014.<sup>66</sup>

Indeed, China’s partial efforts to enforce sanctions after the nuclear test were probably intended to signal displeasure to North Korea rather than truly seek to isolate the regime and cut off inputs to the North’s missile and nuclear programs. This is unsurprising given China’s rhetorical aversion to formal sanctions in general. China does not view sanctions as an effective tool to pressure North Korea; instead, China believes the best way to deal with the North is to engage it through dialogue and economic exchange.<sup>67</sup>

### ***China Continues to Prioritize Stability***

The deterioration in Sino-North Korean relations has not led to a change in China’s long-standing strategic objective regarding North Korea: stability.\* Beijing emphasized this in February 2014 when Chinese Foreign Minister Wang Yi articulated China’s “red line” on the Korean Peninsula, saying, “We will not allow war or instability on the Korean Peninsula.”<sup>68</sup> According to subject matter experts who met with the Commission in Washington and Seoul, China fears a North Korean collapse could provide a pretext for U.S. military intervention in North Korea and allow Washington greater influence over the future of the Peninsula.<sup>69</sup> In Beijing’s view, a sustained U.S.-South Korea allied military presence on the Peninsula is inimical to China’s security interests, and China would perceive the crossing of U.S. troops into the North as an urgent deterioration of its already-degraded security environment. This view is informed by China’s perception that the United States seeks to encircle and contain China with regional alliances and partnerships in Northeast Asia. China’s overriding imperative to avoid such a scenario is what drives its economic and political support for Pyongyang.

#### **Does China Have Leverage over North Korea?**

The United States and South Korea frequently call on China to use its close relationship with North Korea to pressure Pyongyang to halt its nuclear program and cease its destabilizing behavior.<sup>70</sup> China’s ambassador to the United States Cui Tiankai called Washington’s and Seoul’s requests for China to pressure North Korea a “mission impossible,” and claimed China does not have the kind of leverage over North Korea that the United States and others think it has.<sup>71</sup>

\*Stability, in China’s perception, is characterized by the absence of unrest, upheaval, or other sudden shifts in a country’s internal situation and often is synonymous with regime stability.

**Does China Have Leverage over North Korea?—Continued**

Because China's economic and diplomatic support for North Korea is so great, Beijing's leverage over Pyongyang is indeed significant. Dr. Terry testified to the Commission that "by some estimates, Beijing provides some 80 percent of North Korea's consumer goods, 45 percent of its food, and 90 percent of its energy imports. Sino-North Korean trade accounts for nearly 90 percent of North Korea's global trade, while official Chinese investment accounts for almost 95 percent of foreign direct investment in the North."<sup>72</sup> Several experts in China and the West have suggested Beijing could pressure Pyongyang to cease its provocative behavior by cutting off (or threatening to cut off) its exports, particularly oil exports, to North Korea. According to Ms. Kleine-Ahlbrandt, China has used this leverage—albeit in a limited way—by charging above market prices for food or delivering oil at slower rates to "annoy and send messages to North Korea."<sup>73</sup> Dr. Lankov also told the Commission that China sometimes uses its leverage over North Korea to deter Pyongyang from undertaking provocative actions such as missile and bomb tests.

In reality, although China does have leverage over North Korea, Beijing's uncompromising commitment to stability prevents it from using that leverage. Beijing fears applying too much pressure on the Kim regime could be destabilizing. Ms. Kleine-Ahlbrandt testified that some Chinese strategists believe the amount of pressure required to force North Korea to denuclearize would be so great that it almost certainly would result in regime change, which to China could be a worse outcome than a nuclear North Korea.<sup>74</sup>

Witnesses who testified at the Commission's June 2014 hearing differed in their assessments of whether China will ever reach a "tipping point" at which it would deem the threat of a nuclear North Korea is greater than the threat of instability in North Korea and abandon its unconditional support for Pyongyang in favor of an approach more in line with that of South Korea and the United States. Dr. Terry opined China will only reconsider its support for North Korea if China "feel[s] like there is an imminent threat such as a conflict on the Peninsula."<sup>75</sup> Ms. Kleine-Ahlbrandt suggested China might reach a tipping point if North Korea instigated a major provocation along the China-North Korea border in a way that threatened China's own domestic stability.<sup>76</sup> Ambassador Joseph R. DeTrani, president of the Intelligence and National Security Alliance, suggested China may have already reached a tipping point. Referring to speculation that Beijing had gone to great lengths to convince Pyongyang not to carry out a planned fourth nuclear test in the spring of 2014,<sup>77</sup> Ambassador DeTrani said, "I don't think it's an accident we're not seeing a fourth nuclear test."<sup>78</sup>

### The Potential for North Korean Collapse: China's Interests and Potential Responses

Kim Jong-un has rapidly consolidated power since succeeding his father as North Korea's supreme leader in late 2011, defying expectations that his youth and inexperience would prevent him from exerting control over Pyongyang's elite leadership. Indeed, several subject matter experts consulted by the Commission in 2014 asserted that Kim Jong-un appears to have complete and unchallenged control over decision making in Pyongyang.<sup>79</sup> Kim Jong-un's successful purges of top Korean officials like his uncle, Jang Song-taek, demonstrate his ability to eliminate threats to his rule and command fear and respect from his inner circle.

Nevertheless, North Korea, like many authoritarian regimes, may be "stable until it's not,"<sup>80</sup> and the potential for regime instability or collapse exists.<sup>81</sup> Indeed, Kim Jong-un's mysterious disappearance from public view for 40 days in September and October 2014 prompted some outside observers to speculate that a coup had taken place in Pyongyang.<sup>82</sup> As this Report went to print, however, North Korean media reports suggest Kim Jong-un's absence was due to health problems and that he remains firmly in control of the country.<sup>83</sup>

In response to a North Korean regime collapse, Beijing would make its long-term strategic objectives for the Peninsula—most importantly restoring stability and ensuring continued Chinese influence—its top priority. China almost certainly would intervene in the event of North Korean regime collapse.<sup>84</sup> Its response would be scenario-dependent and based on what course of action it judges most closely aligns with its national interests at that moment. These responses could include:

- *Reinforcing Border Security:* China fears regime collapse or large-scale unrest in North Korea could precipitate a refugee crisis with potentially millions of North Koreans crossing the border into China. According to Bruce W. Bennett, senior defense analyst at the RAND Corporation and author of *Preparing for the Possibility of a North Korean Collapse*, China likely would avoid such a situation by deploying troops to seal China's side of the border with North Korea and potentially creating a buffer zone within North Korea in which to set up refugee camps.<sup>85</sup>
- *Securing Nuclear Weapons:* According to Dr. Bennett, interlocutors who met with the Commission in Seoul, and others, China likely would cross into North Korea to secure weapons of mass destruction, particularly nuclear weapons, in the event of regime collapse.\*
- *Maintaining a Strategic Buffer:* According to subject matter experts who met with the Commission in Seoul, China prefers a divided Korean Peninsula over a unified one because it values

\*North Korea's Yongbyon nuclear facility is about 80 miles from the Chinese border. Bruce W. Bennett, *Preparing for the Possibility of a North Korean Collapse* (RAND Corporation, 2013), pp. 89–90. [http://www.rand.org/content/dam/rand/pubs/research\\_reports/RR300/RR331/RAND\\_RR331.pdf](http://www.rand.org/content/dam/rand/pubs/research_reports/RR300/RR331/RAND_RR331.pdf). See also Andrew Scobell and Mark Cozad, "China's North Korea Policy: Rethink or Recharge?" *Parameters* 44:1 (Spring 2014): 58–60. [http://www.strategicstudiesinstitute.army.mil/pubs/parameters/issues/Spring\\_2014/5\\_ScobellCozad.pdf](http://www.strategicstudiesinstitute.army.mil/pubs/parameters/issues/Spring_2014/5_ScobellCozad.pdf).

North Korea as a buffer between itself and the U.S.-allied South. Should regime instability or collapse occur, China would take steps to ensure North Korea continues to serve as a strategic buffer.\* However, if China judged unification under the South to be the inevitable outcome of instability or collapse in the North, it likely would go to great lengths to ensure that U.S. troops on the Peninsula remain as far south as possible.

China is not the only country planning for contingency scenarios in North Korea. U.S. government officials in Seoul told the Commission that the United States in concert with South Korea plans for all contingencies on the Korean Peninsula. According to policy experts who met with the Commission at the Asan Institute for Policy Studies in Seoul, Chinese officials are reluctant—although less reluctant than in the past—to discuss North Korean collapse scenarios with their South Korean counterparts. At the unofficial level, however, Chinese and South Korean think tank and academic experts discuss North Korean regime collapse and participate in regime collapse war games.

China's mistrust of the U.S.-South Korea alliance, its alliance with the North, and its unique security priorities vis-à-vis the North prevent it from meaningfully engaging with South Korea and the United States in discussions about collapse scenarios and contingency planning.<sup>86</sup> As a result the three countries most likely to intervene in North Korea in the event of regime collapse—the United States, China, and South Korea—are not fully informed of each other's intentions, which could lead to accidents, miscalculation, and conflict should regime collapse occur.

### **U.S.-China Relations in the North Korea Context**

According to the Obama Administration, North Korea is the United States' biggest security concern in East Asia.<sup>87</sup> The *2014 Quadrennial Defense Review*, a legislatively-mandated review of the U.S. Department of Defense's strategy and priorities, describes North Korea's long-range missile and weapons of mass destruction programs as a "significant threat to peace and stability on the Korean Peninsula and in Northeast Asia" and a "growing, direct threat to the United States."<sup>88</sup>

Unfortunately, as the need for cooperation between China and the United States on North Korea grows more urgent, China increasingly views U.S. interests on the Peninsula as inimical to its own. As discussed earlier, the United States is central to China's calculus when it comes to devising and implementing its North Korea policies. Ms. Kleine-Ahlbrandt testified:

*When China looks at North Korea, it does so through an East Asian strategic lens with growing rivalry with the United States as the focal point. Despite its interests being seriously harmed by North Korean behavior, Beijing be-*

\*According to Dr. Bennett, such steps could include seeking to sustain the incumbent North Korean government, supporting a new, pro-China North Korean government, or occupying parts of North Korean territory along the Chinese border in order to maintain a buffer zone. Bruce W. Bennett, *Preparing for the Possibility of a North Korean Collapse* (RAND Corporation, 2013), pp. 89–90. [http://www.rand.org/content/dam/rand/pubs/research\\_reports/RR300/RR331/RAND\\_RR331.pdf](http://www.rand.org/content/dam/rand/pubs/research_reports/RR300/RR331/RAND_RR331.pdf).

*believes that Washington and its allies pose a larger threat to China's strategic interests than Pyongyang does. Consensus amongst analysts in Beijing is that the U.S.-led bloc is using North Korea and tensions in the South and East China Seas as excuses to deepen the Asia rebalance, strengthen regional alliances, expand military exercises and move missile defense and military assets to the region. China is increasingly uncomfortable with long-standing U.S. defense relationships with countries around China's periphery (including South Korea, Japan, Taiwan, the Philippines, Vietnam, Thailand, India, Pakistan, Afghanistan, and Kyrgyzstan). From the Chinese perspective, China-North Korea relations are intrinsically part of Sino-U.S. geopolitical competition in East Asia. As long as China continues to view the U.S. with such strategic mistrust and suspicion, a fundamental shift in its policy toward North Korea remains unlikely.<sup>89</sup>*

Moreover, China believes Washington (as well as Seoul) is as much to blame for instability on the Korean Peninsula as Pyongyang. For example, China resolutely opposes U.S. military exercises with South Korea, saying they provoke Pyongyang and contribute to a hostile environment on the Peninsula.<sup>90</sup> In some official statements, China appears equally disapproving of U.S.-South Korea military drills and North Korean nuclear test threats.\*

China's distrust of the United States likely will continue to inform China's approach to relations with North Korea, especially if U.S.-China security relations continue to deteriorate in other areas, such as over territorial disputes in the East and South China Seas. However, Dr. Terry assessed in her testimony to the Commission that the recent deterioration in relations between China and North Korea might present an opportunity for the United States to "take advantage of [China's] concerns" and pursue a more robust dialogue with China on the future of the Korean Peninsula.<sup>91</sup>

## Conclusions

- North Korea has the potential to be one of the most dangerous flashpoints in U.S.-China relations. Although regime collapse or a major humanitarian disaster in North Korea do not appear likely in the near term, such an event could lead to war on the Korean Peninsula, which likely would draw simultaneous military intervention jointly by the United States and South Korea and by China. At the current time, trilateral communication between these countries about their intentions and possible actions in the event of a major contingency in North Korea appears dangerously insufficient to avoid accidents, miscalculation, and conflict.

\*A Chinese Ministry of Foreign Affairs spokesperson replied to a question about tensions on the Korean Peninsula by answering that China is "opposed to any action that may lead to the escalation of tension. We disapprove of joint military drills and the threat of nuclear tests." China Ministry of Foreign Affairs, "Foreign Ministry Spokesperson Hua Chunying's Regular Press Conference on April 15, 2014," April 15, 2014. [http://www.fmprc.gov.cn/mfa\\_eng/xwfw\\_665399/s2510\\_665401/2511\\_665403/t1147430.shtml](http://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/t1147430.shtml).

- Sino-North Korean relations are at their lowest point in decades. This is driven largely by China's frustration over North Korea's destabilizing behaviors since late 2012, including a nuclear test and a high volume of missile tests. Beijing's frustration with Pyongyang notwithstanding, China continues to support North Korea in the interest of stability. China assesses that as long as the North Korean regime remains stable, North Korea will continue to exist as a buffer between itself and U.S.-allied South Korea. Preserving this buffer is the fundamental objective of China's relationship with North Korea.
- China appears to be genuinely concerned about North Korea's nuclear program. This concern is mostly over second-order effects of the North's nuclear advances. For example, China believes North Korea's continued progress on its nuclear program incentivizes the United States to strengthen its military presence and capabilities on the Korean Peninsula. Further, China believes the North's nuclear progress could prompt U.S. allies Japan and South Korea to develop their own nuclear programs. Either of these outcomes would constitute a major deterioration of China's security environment.
- Since 2013, China has redoubled its efforts to restart the Six-Party Talks. Although Beijing is skeptical North Korea will halt its nuclear program as a result of the Six-Party Talks, it values the forum because it ensures China will have a central role in the international community's interaction with North Korea and allows China to exert influence over the parties involved.
- China increasingly views U.S. interests on the Korean Peninsula as inimical to its own. Beijing assumes Washington uses North Korean provocations as a pretext to bolster the U.S. military presence and capabilities on the Korean Peninsula and justify a "rebalance" policy that is actually aimed at containing China.
- China's relationship with South Korea is significantly improving in both the economic and security realms. Beijing's efforts to strengthen ties with Seoul reflect China's frustration with North Korea and are meant in part to signal its disapproval to Pyongyang. China's pursuit of stronger ties with South Korea also is aimed in part at drawing South Korea away from its alliance with the United States. As its influence over South Korea grows, China judges it eventually will be in a stronger position to pressure South Korea to reduce its security ties with the United States.

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## SECTION 3: TAIWAN

### Introduction

The continued growth of cross-Strait trade and investment and the pursuit of cross-Strait trade agreements under President Ma Ying-jeou are raising public concern in Taiwan, including concern about uneven competition from mainland Chinese firms and exports and Taiwan's vulnerability to Chinese influence and economic coercion. Cross-Strait relations continue to deepen, but negotiations slowed in the past year due to a student-led protest movement that challenged the existing cross-Strait negotiation framework and ratification process. To counterbalance its economic dependence on China and increase its global competitiveness, Taiwan continued its longstanding efforts to diversify its trading partners through bilateral and multilateral trade agreements and to reinvigorate its economic relationship with the United States.

The United States and Taiwan raised the visibility of their relationship with the first visit of a U.S. Cabinet-level official since 2000 and a meeting under the bilateral Trade and Investment Framework Agreement that yielded positive yet limited steps forward for U.S. firms. In an effort to address the threat posed to Taiwan by China's military modernization, the United States and Taiwan maintain a strong but low-profile security partnership through military-to-military exchanges and arms sales.

This section—based on a June 2014 Commission hearing on cross-Strait and U.S.-Taiwan economic and security developments, briefings by nongovernmental experts on Taiwan throughout 2014, and staff research and analysis—examines Taiwan economic issues; cross-Strait political relations; Taiwan's international engagement; Taiwan military and security issues; and U.S.-Taiwan relations. This section concludes with a discussion of the implications of these developments for the United States.

### Taiwan Economic Issues

#### *Cross-Strait Trade and Investment*

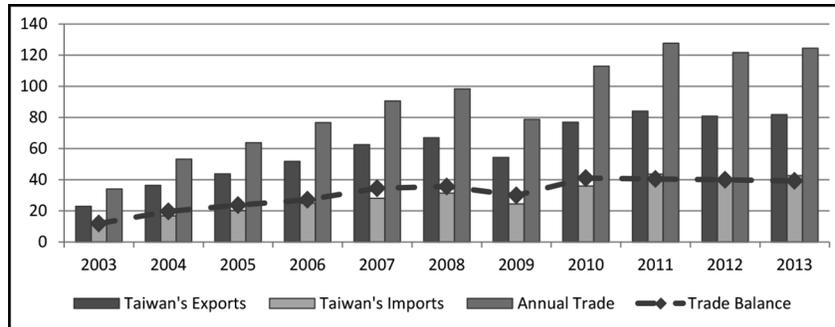
China is Taiwan's largest trading partner,\* largest export market, and largest source of imports. In 2013, annual cross-Strait trade reached \$124.4 billion, a nearly 27 percent increase since 2008 (see Figure 1). This expansion continued through the first seven months of 2014, growing 4.1 percent when compared with the same period last year. Taiwan's exports to China largely drive this relationship. They composed nearly two-thirds of total bilateral trade and accounted for Taiwan's \$39.2 billion trade surplus with

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\*China became Taiwan's largest trading partner in 2005. Bureau of Foreign Trade (Taiwan), "Trade Statistics." <http://cus93.trade.gov.tw/ENGLISH/FSC/>.

China in 2013. This year, China, for the first time, surpassed Japan to become Taiwan's largest source of imports.<sup>1</sup>

**Figure 1: Cross-Strait Trade, 2003–2013**  
(US\$ billions)



Source: Bureau of Foreign Trade (Taiwan).

Approximately 45 percent of the world's microchip\* output is exported to China for both domestic consumption and as components and other products for export.<sup>2</sup> Taiwan, the world's largest semiconductor manufacturer, has tapped into this market, supplying 31 percent of China's total imports of semiconductors in 2013.<sup>3</sup> Taiwan firms generally manufacture microchips and other semiconductor-related products in Taiwan for assembly and testing in China.<sup>4</sup>

Microchips are Taiwan's largest export to and largest import from China (see Table 1).<sup>5</sup> In 2013, semiconductor-related exports, including microchips, semiconductors, and printed circuit boards, made up three of the top five exports to China and accounted for nearly a quarter of Taiwan's total global exports of these products.<sup>6</sup> Microchips and semiconductors continued to dominate Taiwan's exports to China in 2014. A comparison of the first seven months of 2014 to the same period last year shows that semiconductor exports increased 21 percent and microchip exports increased 17 percent.<sup>7</sup>

**Table 1: Taiwan's Major Exports and Imports to China**  
(US\$ billions)

Top Taiwan Exports to China		
Product	2013	2014 (January–July)
Microchips	13.1	8.6
Liquid crystal display (LCD) products	12.4	6.1
Semiconductors	3.6	2.4
Cyclic hydrocarbons	3.4	1.9
Printed circuit boards	2.3	1.3

\* Semiconductor products such as microchips and printed circuits are incorporated into a wide range of modern electronics such as cellular telephones, computers, cars, military systems, and planes. Semiconductor Industry Association, "SIA Infographic." <http://www.semiconductors.org/clientuploads/Comms/sia-new-11-gr.pdf>.

**Table 1: Taiwan's Major Exports and Imports to China—Continued**

(US\$ billions)

<b>Top Taiwan Imports from China</b>		
<i>Product</i>	<i>2013</i>	<i>2014 (January–July)</i>
Microchips	5.4	3.7
Cellular telephones	3.2	1.7
Flat-rolled stainless steel	1.5	1.2
Electronic computers	2.0	1.1
Chemical elements for use in electronics	1.2	0.9

\* Re-export and re-import figures are included.

*Note:* Listed in order of largest amount based on 2014 figures.*Source:* Bureau of Foreign Trade (Taiwan).

The concentration of Taiwan's exports to China contrasts with the diversity of Taiwan's imports from China. Taiwan's imports of cellular telephones and electronic computers, the second and third largest imports, reflect China's dominance in manufacturing.<sup>8</sup> A 2013 Bank of America-Merrill Lynch report shows China assembled 70.6 percent of all the world's cellular telephones and 90.6 percent of all the personal computers produced in 2011.<sup>9</sup> Taiwan's imports of cellular telephones from China increased nearly 15 percent since 2012 to reach \$3.2 billion in 2013.<sup>10</sup>

Imports from China pose stiff competition for Taiwan's domestic industries, particularly steel manufacturers. Since 2009, Taiwan's imports of flat-rolled stainless steel from China have grown 1,257 percent and now account for nearly three-quarters of Taiwan's total stainless steel imports.<sup>11</sup> Tariff reductions by Taiwan and oversupply in China have driven down prices for mainland steel over the last five years.<sup>12</sup> Competition from these imports has forced some smaller Taiwan producers into bankruptcy, and the combined impact of Chinese and Korean steel imports led to a 30 percent decrease in production by Taiwan's top two stainless steel firms.<sup>13</sup> (For more information on overcapacity in China's steel sector, see Chapter 1, Section 1, "Year in Review: Economics and Trade.")

China is the leading recipient of Taiwan's foreign direct investment (FDI) as Taiwan's firms seek to take advantage of China's enormous market, relatively low labor costs, geographic proximity, and close historical, cultural, and linguistic ties. Taiwan's annual FDI to China reached a peak of \$14.6 billion in 2010 and has since tapered down to \$9.2 billion in 2013 (see Table 2). Contributing to this decline are lower profit margins as labor costs rose and as reduced demand from China for Taiwan manufactured goods cut exports.<sup>14</sup> Despite the decline, China accounted for 64 percent of Taiwan's total outward FDI in the first eight months of 2014.<sup>15</sup> Of this \$6.5 billion of investment, the leading recipients were financial and insurance (18.2 percent), wholesale and retail trade (13.0 percent), electronic parts and components manufacturing (10.7 percent), and chemical material manufacturing (10.1 percent).<sup>16</sup> This concentration in manufacturing reflects the cross-Strait production cluster, where Taiwan firms export components for assembly in China. In 2014, financial and insurance sector investment became the largest recipient sector due to greater market access and broader easing of

restrictions in China while manufacturing sector investment costs rose.<sup>17</sup>

**Table 2: Cross-Strait FDI Flows, 2009–2014**  
(US\$ millions)

	2009	2010	2011	2012	2013	January– August 2014
<b>Taiwan's FDI to China</b>	\$7,143	\$14,618	\$14,377	\$12,792	\$9,190	\$6,484
<b>China's FDI to Taiwan</b>	\$37	\$94	\$52	\$332	\$349	\$239

*Source:* Ministry of Economic Affairs, Overseas Chinese and Foreign Investment Commission (Taiwan).

Although restricted, Chinese FDI in Taiwan is growing rapidly.<sup>18</sup> Since 2010, Chinese FDI has grown nearly 300 percent from \$94 million to \$349 million in 2013 due to the loosening of investment caps and regulations\* on mainland investment into Taiwan under President Ma.<sup>19</sup> From June 2009 to August 2014, Chinese investment by value is concentrated in wholesale and retail trade (24.4 percent), banking services (18 percent), harbor port services (12.6 percent), and electronics parts and components manufacturing (10.4 percent).<sup>20</sup>

### ***Cross-Strait Economic Agreements***

Since President Ma's first term in office began in 2008, Taiwan and China have signed 21 agreements to broaden the cross-Strait economic relationship and deepen cross-Strait ties (see Table 3). The two most important of these agreements are the Economic Cooperation Framework Agreement (ECFA), signed in June 2010, and the follow-on Cross-Strait Services Trade Agreement (CSSTA).<sup>†</sup> The ECFA provides the foundation for future economic integration and lays out a roadmap for four subsequent agreements concerning investment protection, trade in goods, trade in services, and dispute settlement. ECFA has opened up cross-Strait trade, but critics argue that gains from ECFA and CSSTA largely benefit a few, large Taiwan firms at the expense of small and medium-sized enterprises.<sup>‡</sup><sup>21</sup>

\*For example, in March 2012, Taiwan loosened mainland investment caps originally set at a 10 percent stake in local firms and 50 percent in joint ventures in Taiwan's semiconductor, liquid crystal display, integrated circuit assembly and testing, microelectronics production equipment, and metal tool manufacturing sectors. Although, loosened, Taiwan government approval is still required for all investments, and controlling stakes or appointing managers in mainland investments is still prohibited. PWC, *Chapter 4: The Bigger Picture—China's Impact on the Semiconductor Industry 2012 Update*, September 2012. <http://www.pwc.com/gx/en/technology/chinas-impact-on-semiconductor-industry/assets/pwc-china-semicon-2012-chp4-pdf.pdf>.

<sup>†</sup>For more information on the ECFA and CSSTA, see U.S.-China Economic and Security Review Commission, Chapter 3, Section 2, "Taiwan," *2013 Annual Report to Congress*, November 2013, pp. 329–330.

<sup>‡</sup>In June 2010, President Ma and Dr. Tsai Ing-wen, then Chairwoman of Taiwan's main opposition party, the Democratic Progressive Party, weighed the benefits and risks of ECFA in a high-profile, televised policy debate. This was the first-ever televised debate on a major policy issue between the leaders of Taiwan's ruling party and the major opposition party outside of a presidential election.

**Table 3: Cross-Strait Agreements, 2008–2014**

Year	Agreement
2008	<ul style="list-style-type: none"> <li>• Cross-Strait Agreement Signed Between Straits Exchange Foundation (SEF) and Association for Relations Across the Taiwan Strait (ARATS) Concerning Mainland Tourists Traveling to Taiwan</li> <li>• SEF–ARATS Minutes of Talks on Cross-Strait Charter Flights</li> <li>• Cross-Strait Postal Service Agreement</li> <li>• Cross-Strait Air Transport Agreement</li> <li>• Cross-Strait Sea Transport Agreement</li> <li>• Cross-Strait Food Safety Agreement</li> </ul>
2009	<ul style="list-style-type: none"> <li>• Agreement on Joint Cross-Strait Crime-fighting and Mutual Judicial Assistance</li> <li>• Cross-Strait Financial Cooperation Agreement</li> <li>• Cross-Strait Air Transport Supplementary Agreement</li> <li>• Cross-Strait Agreement on Cooperation of Agricultural Product Quarantine and Inspection</li> <li>• Cross-Strait Agreement on Cooperation in Respect of Fishing Crew Affairs</li> <li>• Cross-Strait Agreement on Cooperation in Respect of Standards, Metrology, Inspection and Accreditation</li> </ul>
2010	<ul style="list-style-type: none"> <li>• Cross-Straits Economic Cooperation Framework Agreement</li> <li>• Cross-Strait Agreement on Intellectual Property Right Protection and Cooperation</li> <li>• Cross-Strait Agreement on Medical and Health Cooperation</li> </ul>
2011	<ul style="list-style-type: none"> <li>• Cross-Strait Agreement on Nuclear Power Safety and Cooperation</li> </ul>
2012	<ul style="list-style-type: none"> <li>• Cross-Strait Agreement on Investment Protection and Promotions</li> <li>• Cross-Strait Customs Cooperation Agreement</li> </ul>
2013	<ul style="list-style-type: none"> <li>• Cross-Straits Service Trade Agreement</li> </ul>
2014	<ul style="list-style-type: none"> <li>• Cross-Strait Collaboration Agreement on Seismological Monitoring</li> <li>• Cross-Strait Collaboration Agreement on Meteorology</li> </ul>

*Source:* Mainland Affairs Council (Taiwan).

The ECFA provided an early harvest program to reduce tariffs in both countries.\* President Ma highlighted the benefits of the program in April 2014, claiming Taiwan’s firms had saved over \$1 billion in customs duties.<sup>22</sup> However, the ultimate effects of the ECFA remain controversial. One report by the Legislative Yuan, Taiwan’s legislature, in 2012 found “a reverse effect on cross-strait trade” that instead boosted the share of China-made products in Taiwan. The report noted that market share of Taiwan’s early harvest products in China eroded for five consecutive years and raised public concern on the benefits of additional economic agreements with China.<sup>23</sup>

The CSSTA, signed in June 2013, would eliminate investment restrictions and other barriers across 80 service industries in China and 63 service industries in Taiwan. Taiwan’s service sector is already an important driver of Taiwan’s economy, accounting for 70 percent of its gross domestic product (GDP) and nearly 60 percent of its workforce.<sup>24</sup> This sector could benefit from a deal opening up China’s banking and financial industries to both investment and

\*An “early harvest” program allows negotiators in trade talks to lower trade barriers immediately to certain goods and services even before the final agreement on the entire agreement is reached.

imports of services.<sup>25</sup> Taiwan's financial and retail-related services compose roughly 25 percent of GDP and would gain advantages from liberalization through the ability to establish sub-branches in parts of China and greater access to the renminbi service platform.<sup>26</sup> But Taiwan's legislature has yet to ratify the agreement in the face of political and public opposition. Opponents of the CSSTA fear the agreement creates unfair competition for local firms and moves Taiwan closer toward political unification with the Mainland.

Trade agreements under ECFA—such as the Early Harvest Program and CSSTA—generally foster uneven competition between Taiwan's small and medium-sized enterprises and large, state-owned Chinese firms, according to JoAnn Fan, a visiting fellow at The Brookings Institution who testified at the Commission's June hearing.<sup>27</sup> The trade gains are usually limited to a few beneficiaries while most firms and workers “appear to be left without substantial recourses or trade adjustment compensations.”<sup>28</sup> For example, opening up the cross-Strait tourism sector would pit over 3,000 Taiwan small and medium-sized firms against three Chinese state-owned firms. Chinese and Hong Kong firms retain a near monopoly on Chinese tourists traveling to Taiwan, providing complete service for Chinese tourists—from travel agents to airline travel to hotel operators and tour bus companies.<sup>29</sup> Therefore, small Taiwan firms are unlikely to reap the expected benefits of opening up this sector in either Taiwan or China.

In March 2014, the Taiwan public launched massive protests, known as the Sunflower Movement, and pushed Taiwan's legislature to delay ratification of the CSSTA (see “The Sunflower Movement” later in this section). The protesters highlighted their concerns in a public statement:

*Regardless of the political division between pro-unification with China and those pro-independence for Taiwan, this trade agreement will allow large capital to devour the majority of small peasants, laborers and small businesses, not to mention the difficulties the future generation of Taiwan will face.<sup>30</sup>*

These protests played a large role in temporarily postponing cross-Strait negotiations and pushing the Legislative Yuan to implement an oversight mechanism on cross-Strait agreements and delay CSSTA ratification.<sup>31</sup> President Ma has since revitalized cross-Strait negotiations with the restart of discussions over a potential goods trade agreement in September, but it is unclear how successful these on-going negotiations will be given Taiwan citizens' strong opposition to the CSSTA.<sup>32</sup>

### ***Economic Security Issues Arising from Expanding Cross-Strait Ties***

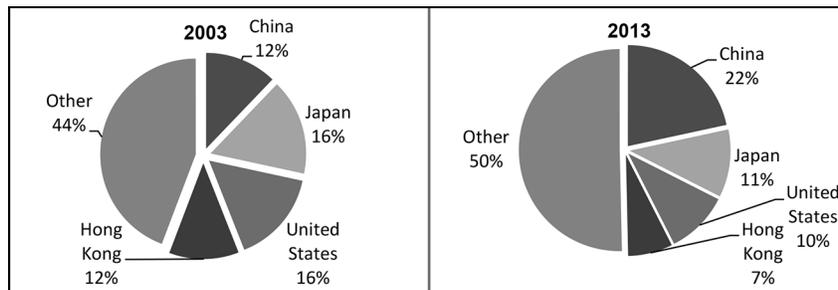
Cross-Strait economic integration presents numerous opportunities and risks for Taiwan. Large Taiwan firms have taken advantage of expanding market access in China and lower tariffs on goods exported to China to create advantageous production clusters.<sup>33</sup> For example, Hon Hai Precision Industry Company has successfully capitalized on China's relatively low-cost, skilled labor to become the world's largest electronics manufacturer and Apple Cor-

poration's main manufacturing partner.<sup>34</sup> In addition, Taiwan Semiconductor Manufacturing Company, the world's largest semiconductor manufacturer, benefits from lower tariffs as it exports its products to China for final assembly and testing and gains easy access into its customers' various electronic products' supply chains in China.<sup>35</sup>

At the same time, however, this integration has opened up sectors in Taiwan to greater mainland competition and raised Taiwan's vulnerability to China's political and economic coercion. A May 2014 investigation by *CommonWealth* magazine found that despite overall growth of Taiwan's exports to China, the market share of these early harvest products in China has declined.<sup>36</sup> Taiwan's steel sector, one of the expected beneficiaries of ECFA's Early Harvest Program, has faced significant financial losses from competition with Chinese firms that offered stainless steel at 30 percent lower prices.<sup>37</sup> The rapid growth of cheap, flat-rolled stainless steel imports from China spurred Taiwan to impose emergency, temporary antidumping measures in August 2013.<sup>38</sup>

As Taiwan's reliance on China as a trading partner has increased from 12 percent of annual trade in 2003 to 22 percent in 2013, its overall share of trade with its other major trading partners has necessarily decreased (see Figure 2). Demand from China accounts for approximately 26 percent of Taiwan's total exports, and China is now the largest source of Taiwan's imports at 17 percent, according to figures for the first seven months of 2014.<sup>39</sup> As China's economy slows and production costs in China rise, this dependency creates potential risks to Taiwan's export-dependent economic growth and returns on foreign investment in China.

**Figure 2: Comparison of Taiwan's Largest Trading Partners, 2003 and 2013**



Source: Bureau of Foreign Trade (Taiwan).

Furthermore, this dependency may provide additional leverage to China as it seeks to tie Taiwan closer to China and make progress on its long-term goal of unification with Taiwan. Taiwan is "facing a turning point" in cross-Strait relations, according to former U.S. Secretary of State Hillary Clinton. She warned of Taiwan's vulnerability from its increased reliance on China and linked Taiwan's greater economic dependency with political dependency. "Every time you make a decision, whether it is in a trade agreement or on flight routes, you must take a prudent view of the expected results and whether there may be unintended consequences," Secretary Clinton warned.<sup>40</sup>

### ***Chinese Influence in Taiwan's Media***

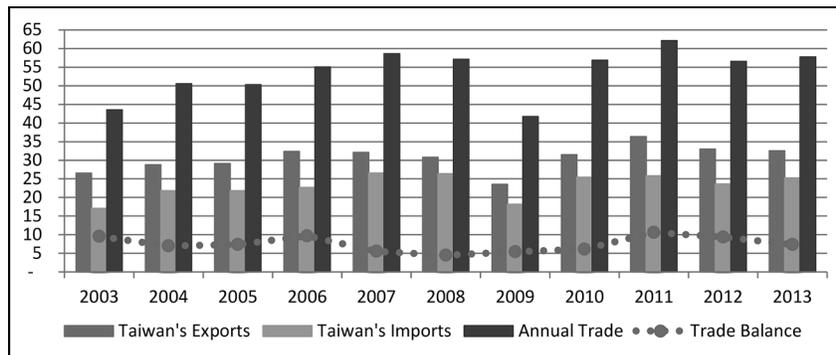
Potential investment in the publishing and media sector by high-profile Taiwan businesspersons who favor unification and/or have commercial interests in China continues to raise public concern in Taiwan about increasing Chinese influence on Taiwan's media.\* Furthermore, although Chinese investment in this sector is tightly regulated, Chien-Jung Hsu, adjunct research associate at Monash University in Melbourne, Australia, found China has stepped up its efforts to influence Taiwan's media directly. China does so by encouraging the purchase of Taiwan's media outlets by pro-China Taiwan businesspersons, pressuring Taiwan media owners to censor by offering or restricting mainland sales and investment opportunities, and purchasing increasing numbers of advertisements to influence public opinion.<sup>41</sup> Reporters Without Borders' *2014 World Press Freedom Index* emphasized this concern. "China's growing economic weight is allowing it to extend its influence over the media in Hong Kong, Macau, and Taiwan, which had been largely spared political censorship until recently."<sup>42</sup>

### ***Developments in U.S.-Taiwan Economic Relations***

The United States and Taiwan maintain a robust economic relationship. The United States continues to be Taiwan's largest foreign investor and is Taiwan's third-largest trading partner, accounting for 10 percent of Taiwan's global trade in 2013.<sup>43</sup> For the United States, Taiwan is its 12th largest trading partner, composing 1.7 percent of total U.S. trade in the first seven months of 2014.<sup>44</sup>

Annual bilateral trade reached \$57.3 billion in 2013 and continued to grow during the first seven months of 2014 (see Figure 3). Bilateral trade figures during this period grew 6.0 percent over the same period in 2013.<sup>45</sup> Taiwan maintained a \$7.4 billion trade surplus with the United States in 2013.<sup>46</sup> This surplus had been shrinking since 2011.<sup>47</sup>

**Figure 3: U.S.-Taiwan Trade, 2003-2013**  
(US\$ billions)



Source: Bureau of Foreign Trade (Taiwan).

\* For a recent example of a pro-China Taiwan businessperson's attempted acquisition of a Taiwan media outlet, see U.S.-China Economic and Security Review Commission, Chapter 3, Section 2, "Taiwan," *2013 Annual Report to Congress*, November 2013.

These trade flows, specifically Taiwan's exports to the United States, are more diversified than Taiwan's trade to China but similarly reflect the importance of the semiconductor industry to Taiwan's economy. Taiwan exports to the United States are mainly composed of manufactured parts and accessories and cover a relatively wide range of sectors including cellular telephones, motor vehicle parts and accessories, and office machine parts and accessories (see Table 4). By contrast, Taiwan's imports from the United States are dominated by semiconductor-related equipment, agriculture, and arms sales. Arms sales have constituted an important component of trade, with deliveries of U.S. arms to Taiwan amounting to \$3.0 billion from 2008 to 2011.<sup>48</sup> For more information, see "Developments in U.S.-Taiwan Military and Security Relations" later in this section.

**Table 4: Taiwan's Major Exports and Imports to the United States**  
(US\$ billions)

<b>Top Taiwan Exports to the United States</b>		
<i>Product</i>	<i>2013</i>	<i>2014 (January–July)</i>
Cellular telephones	2.6	1.4
Tractor and special purpose motor vehicle parts and accessories	1.5	0.9
Fasteners	1.3	0.8
Office machines parts and accessories	1.4	0.8
Microchips	1.4	0.8
<b>Top Taiwan Imports from the United States</b>		
<i>Product</i>	<i>2013</i>	<i>2014 (January–July)</i>
Semiconductor, microchip, and LCD manufacturing machines	3.1	1.9
Microchips	2.5	1.6
Miscellaneous	1.7	1.3
Petroleum and coal oils and oil products	0.9	0.6
Helicopters, satellites, and spacecraft launch vehicles	0.1	0.6
Iron and steel waste and scrap	1.1	0.6
Soy beans	0.6	0.5

\* Re-export and re-import figures are included.

Note: Listed in order of largest amount based on 2014 figures.

Source: Bureau of Foreign Trade (Taiwan).

Taiwan's largest U.S. import is the machinery to make semiconductors and liquid crystal display (LCD) products. Taiwan's imports of this machinery totaled \$3.1 billion in 2013, accounting for 26 percent of Taiwan's total import market of this machinery.<sup>49</sup> According to figures from the industry association SEMI, Taiwan's billions of dollars of investment in the last two years makes it the single largest semiconductor equipment market in the world.<sup>50</sup> This investment partly accounts for the 20 percent increase between 2012 and 2013 of Taiwan's imports of these machines, though growth slowed in the first seven months of 2014.<sup>51</sup>

Taiwan is also a major importer of U.S. agricultural goods, constituting the seventh largest U.S. agricultural export market in 2013.<sup>52</sup> In particular, soybeans have become a major export to Taiwan as Taiwan's demand for soybean meal for livestock feed grows. According to AgroChart's *2014 Annual Report*, the United States has once again become the largest supplier of soybeans to Taiwan and accounts for roughly 50 percent of Taiwan's import market. U.S. soybeans are favored over South American competitors partly due to their superior protein quality.<sup>53</sup> In 2013, soybeans were the sixth largest import from the United States at \$615 million. Demand in the first seven months of 2014 grew 36 percent in comparison to the same period last year.<sup>54</sup>

Despite the recent growth spurt in bilateral trade this year, U.S.-Taiwan economic relations have been largely unchanged since 2008. Annual bilateral trade grew only 1 percent from 2008 to 2013.<sup>55</sup> President Ma has sought to reinvigorate these ties by enacting trade liberalization policies and opening new bilateral trade talks. The American Chamber of Commerce in Taipei's *2014 White Paper* found that Taiwan's government has made significant progress in the last year on improving its business climate. Of the 103 suggestions for improving the business climate in its *2013 White Paper*, the organization noted resolution of six of the issues raised and satisfactory progress on 21 others.<sup>56</sup>

President Ma also hopes to establish a free trade agreement (FTA) or bilateral investment agreement with the United States but faces obstacles as a result of disputes over pork imports, pharmaceutical intellectual property rights, and private-equity investment regulations. In November 2013, former Taiwan vice president Vincent Siew led a large trade delegation of senior Taiwan industry leaders to the United States in support of enhancing the U.S.-Taiwan economic relationship.<sup>57</sup> This trip led to millions of dollars of investment in the United States and elevated U.S.-Taiwan economic and business relations within U.S. government policy.<sup>58</sup> More specifically, Hon Hai announced a \$30 million investment in a high-tech manufacturing facility in Pennsylvania and a \$10 million research and development fund at Carnegie Mellon University.<sup>59</sup>

President Ma has made significant efforts to revitalize the Trade and Investment Framework Agreement (TIFA) negotiations. The U.S.-Taiwan TIFA is an annual, high-level forum on economics and trade for trade dispute resolution, trade promotion, and investment cooperation. The TIFA talks were suspended in 2007 due to the dis-

pute over Taiwan's ban on importing U.S. beef\* and did not resume until the issue was partially resolved in 2013.†<sup>60</sup> In April 2014, the United States and Taiwan held their eighth TIFA meeting and noted progress on easing restrictions on cross-border data transfer in the financial sector and addressing the concerns of pharmaceutical firms regarding intellectual property rights.‡

However, future progress may be constrained by Congressional demands for the removal of Taiwan's restrictions on U.S. pork imports and additional improvement in pharmaceutical and private-equity disputes.<sup>61</sup> Although some progress has been made in the pharmaceutical and private-equity sectors, Taiwan's ability to reduce barriers on pork is hampered by its politically powerful domestic pork industry and aversion by Taiwan's citizens to the use of ractopamine in pork production.<sup>62</sup> Until this row is resolved, progress on advancing the U.S.-Taiwan economic relationship through trade agreements likely will remain limited.

### ***Diversification of Trading Partners***

Taiwan's export-oriented economy requires the expansion of economic ties with the Asia Pacific region to maintain its competitiveness as one of the world's largest suppliers of electronic products and components.<sup>63</sup> Taiwan's exports are a critical driver of its economic growth, accounting for 62 percent of GDP. Taiwan's international status and strong opposition from China limit its ability to negotiate FTAs or other trade liberalization accords, thereby placing its companies at a disadvantage.<sup>64</sup> For example, the FTA between South Korea, Taiwan's main economic competitor, and the United States eliminates tariffs for specific Korean imports and thereby provides Korean firms with a 2.5 to 10 percent price advantage over competitors in Taiwan.<sup>65</sup> Despite this disadvantage, Taiwan's GDP grew 2.1 percent in 2013 and is expected to grow 3.4 percent in 2014.<sup>66</sup>

Taiwan has placed a high priority on joining bilateral and regional trade agreements, but the government achieved little success in the past year. In 2013, Taiwan signed FTAs with New Zealand, the first country without official diplomatic ties with Taiwan to do so, and with Singapore. Although these agreements represent a step toward enhancing Taiwan's export competitiveness, trade

\*Taiwan banned imports of U.S. beef because Taiwan citizens were concerned over insufficient safeguards to prevent mad cow disease and U.S. farmers' use of ractopamine, a controversial feed additive that promotes leanness in meat. Ractopamine is widely used in U.S. pork and beef production, but Taiwan, the European Union, and China have banned the use of ractopamine based on health and safety concerns. J.R., "Gored," *Banyan Asia* (Economist blog), March 8, 2012. <http://www.economist.com/blogs/banyan/2012/03/taiwan-america-and-meat-wars>; Shirley Kan and Wayne Morrison, *U.S.-Taiwan Relationship: Overview of Policy Issues* (Congressional Research Service, April 22, 2014), pp. 34–36.

†The issue was partially resolved when the Taiwan government established a maximum residue limit for ractopamine in beef in September 2012, allowing U.S. beef exports greater access to Taiwan. In 2013, the U.S. became Taiwan's largest beef supplier by value. Cleo Fu and Emily Scott, "U.S. Beef Exports to Taiwan Realize 2013 as Record Year," *USDA Foreign Agricultural Service*, March 31, 2014. [http://gain.fas.usda.gov/Recent%20GAIN%20Publications/U.S.%20Beef%20Exports%20to%20Taiwan%20Realize%202013%20as%20Record%20%20Year\\_Taipei\\_Taiwan\\_3-31-2014.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/U.S.%20Beef%20Exports%20to%20Taiwan%20Realize%202013%20as%20Record%20%20Year_Taipei_Taiwan_3-31-2014.pdf).

‡Taiwan agreed to allow financial institutions to store their data on servers outside of Taiwan and has made progress in clarifying investment regulations in the private equity sector. In exchange, the United States agreed to allow imports of Taiwan guava and orchids. "U.S. Secures Pledges on Data Transfers, Pharmaceuticals from Taiwan," *China Trade Extra*, April 18, 2014. <http://chinatradeextra.com/201404182468024/China-Trade-Extra-General/Daily-News/us-secures-pledges-on-data-transfers-pharmaceuticals-from-taiwan/menu-id-428.html>.

with these two countries constitutes a relatively small share of Taiwan's overall trade.<sup>67</sup> Singapore is Taiwan's fifth largest trading partner, with roughly 5 percent of total trade, and New Zealand is the 38th largest, with one-fifth of a percent of total trade.<sup>68</sup>

Taiwan is in various stages of negotiating FTAs with Australia, Brunei, Chile, India, Indonesia, Israel, Japan, Malaysia, Paraguay, Peru, the Philippines, and Vietnam.<sup>69</sup> Taiwan already has conducted feasibility studies on the economic impact of proposed FTAs with India, Indonesia, and Malaysia.<sup>70</sup> Taiwan and the Philippines are currently in the process of conducting a similar study.<sup>71</sup> Details about the status of the other negotiations are limited due in part to China's opposition to such agreements.<sup>72</sup>

In April, Taiwan's then Economic Minister Chang Chia-juch said that many countries shelved their FTA negotiations with Taiwan for the rest of this year due to concern that Taiwan public opposition to the ratification of the CSSTA would similarly occur with any future negotiated FTA with Taiwan.<sup>73</sup> Although a potential factor, countries seem more concerned over China's opposition than that of the Taiwan public. In August, Chinese Ambassador to Malaysia Huang Huikang openly expressed China's opposition to a proposed Taiwan-Malaysia FTA, likely discouraging both Malaysia and other potential partners from upsetting one of their largest trading partners.<sup>74</sup> Former Indian Prime Minister P.V. Narasimha Rao highlighted this concern and said, "Establishing a relationship with Taiwan should not spoil our relationship with [China], which is far more important than [Taiwan] to the Indian establishment."<sup>75</sup>

Beyond bilateral FTAs, Taiwan seeks to join the two major Asian regional trade agreements currently under negotiation, the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP).<sup>\*</sup> The RCEP<sup>†</sup> is a proposed free trade agreement between the Association of Southeast Asian Nations (ASEAN)<sup>‡</sup> and six other Asian countries<sup>§</sup> that would encompass over half of Taiwan's annual trade.<sup>76</sup> Taiwan has also expressed interest in joining the TPP as a way to counterbalance its economic dependence on mainland China. The TPP is a free trade agreement under negotiation among 12 countries that together purchase 32 percent of Taiwan's total exports.<sup>77</sup> Taiwan's government has made significant efforts to become a party to the negotiations by lobbying current participants and amending over 900 laws and regulations.<sup>78</sup> Mr. Rupert Hammond-Chambers, president of the

<sup>\*</sup>The countries negotiating the TPP are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. Alexander Bernard and Paul J. Leaf, "The U.S., TPP and Taiwan," *The National Interest*, April 24, 2014. <http://nationalinterest.org/feature/the-us-tpp-taiwan-10300>. "TPP Talks Made Progress, Barring Thorny Issues," *Jiji Press* (Japan), July 13, 2014. <http://the-japan-news.com/news/article/0001421519>.

<sup>†</sup>Launched in November 2012, the RCEP seeks to broadly liberalize trade in goods and services, encourage investment, establish a dispute settlement mechanism, and foster economic and technical cooperation. Rohit Sinha and Geethanjali Nataraj, "Regional Comprehensive Economic Partnership (RCEP): Issues and Way Forward," *Diplomat*, July 30, 2013. <http://thediplomat.com/2013/07/regional-comprehensive-economic-partnership-rcep-issues-and-way-forward/>.

<sup>‡</sup>ASEAN is composed of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. ASEAN, "ASEAN Member States." <http://www.asean.org/asean/asean-member-states>.

<sup>§</sup>Participants in the RCEP negotiations are ASEAN, Australia, China, India, Japan, New Zealand, and South Korea. Rohit Sinha and Geethanjali Nataraj, "Regional Comprehensive Economic Partnership (RCEP): Issues and Way Forward," *Diplomat*, July 30, 2013. <http://thediplomat.com/2013/07/regional-comprehensive-economic-partnership-rcep-issues-and-way-forward/>.

U.S.-Taiwan Business Council, highlighted President Ma's efforts in his testimony to the Commission. "We are seeing a degree of unilateral reform within Taiwan that frankly we haven't seen since the WTO [World Trade Organization] accession days in the 1990s," he said.<sup>79</sup>

## **Cross-Strait Political Relations**

### ***The Sunflower Movement***

Cross-Strait relations reached a potential turning point in 2014 as protesters occupied Taiwan's legislative chamber for 23 days in opposition to the CSSTA. The grassroots protest movement, later called the Sunflower Movement, ignited a public debate in Taiwan about the agreement, delayed its ratification, and temporarily postponed negotiations of other cross-Strait agreements. Looking ahead, the Taiwan public's concerns about the impact of cross-Strait relations on Taiwan's economy and political autonomy, as well as continued civic activism in Taiwan, could force the Taiwan and Chinese governments to change the way they have approached the relationship during the previous six years of cross-Strait rapprochement.<sup>80</sup>

The Sunflower Movement was sparked when Kuomintang (KMT) legislator and convener of the Legislative Yuan's Internal Administration Committee Chang Ching-chung announced the CSSTA would be put to a vote—despite Taiwan's legislature having failed to conduct a review of the agreement, as the KMT and the Democratic Progressive Party (DPP), Taiwan's main opposition party, had previously agreed.<sup>81</sup> Prior to this announcement, KMT and DPP legislators were locked in a dispute over the procedure for the review.<sup>82</sup> Mr. Chang's announcement led protesters, mostly comprised of university students, to occupy the legislative chamber on the evening of March 18, 2014 and to remain there until April 10. During the occupation, on March 30, more than 100,000 people demonstrated outside Taiwan's presidential office.<sup>83</sup>

The protesters asserted the Ma Administration negotiated the CSSTA in an opaque manner, failed to properly evaluate the impact on Taiwan's industries, and tried to force it through the legislature without a review. They expressed concerns the agreement will negatively impact Taiwan's small and medium-sized enterprises, hurt employment opportunities in Taiwan, and increase China's influence over Taiwan.<sup>84</sup> They also raised concerns regarding the potential for the agreement to open opportunities for large numbers of Chinese citizens to emigrate to Taiwan.<sup>85</sup> Although the DPP shared some of the Sunflower Movement's concerns about the CSSTA, the DPP did not organize the movement.<sup>86</sup>

The Ma Administration argued Taiwan must ratify the agreement to increase its economic competitiveness and to avoid falling further behind South Korea in the number of FTAs it has signed. The Administration also warned that the dispute over the CSSTA will hurt Taiwan's credibility in trade negotiations with other countries.<sup>87</sup>

The unease voiced by the Sunflower Movement represents broader public concern in Taiwan about cross-Strait relations and Taiwan's growing economic dependence on China.<sup>88</sup> The movement re-

flects a resurgence of civic activism in Taiwan. Over the previous two years, mass protests and other forms of activism by Taiwan civil society organizations occurred in response to a range of issues.<sup>89</sup> The leaders of the Sunflower Movement had been involved in several civil society organizations and social movements beginning in 2008.<sup>90</sup>

The occupation of Taiwan's legislative chamber ended after legislative speaker Wang Jin-pyng, a member of the KMT, promised that the legislature would create an oversight mechanism for cross-strait agreements before Taiwan legislators meet to discuss the CSSTA.<sup>91</sup> Taiwan's legislature has made little progress since then toward passing an oversight bill.

Following the end of the occupation of the legislative chamber, Taiwan and China postponed a meeting, originally scheduled for April 2014, during which the two sides had planned to continue negotiating a goods trade agreement.<sup>92</sup> They also planned to discuss a dispute resolution mechanism and the establishment of representative offices, among other areas of cooperation.<sup>93</sup> The two sides resumed negotiations in September 2014.<sup>94</sup> However, even if other cross-strait agreements are signed, the legislature is unlikely to discuss their ratification until it passes a cross-strait oversight bill.

If enough time passes without the ratification of the CSSTA, Beijing may conclude cross-strait cooperation agreements are no longer meeting its objectives and pursue a more destabilizing, unilateral approach to Taiwan. However, for the time being, Beijing has chosen to increase its efforts to win "hearts and minds" in Taiwan. After the end of the occupation of Taiwan's legislative chamber, the Chinese government sought to present an image of openness, humility, and respect toward the needs and desires of the people of Taiwan and to focus on "the grassroots" of Taiwan society. President Xi's statements during his meeting in May 2014 with chairman of Taiwan's People First Party James Soong reflected Beijing's intent to show it is aware of and willing to address the ways in which cross-strait economic integration may not be benefiting certain groups in Taiwan.<sup>95</sup> During the visit to Taiwan in June 2014 by the director of the Taiwan Affairs Office (TAO)\* Zhang Zhijun, the first ever visit to Taiwan by a TAO director, in addition to meeting with his counterpart Mainland Affairs Council (MAC)† Minister Wang Yu-chi, Director Zhang met with members of a Taiwan aboriginal group, religious leaders, farmers, and small businesses. He also met with students but not with the Sunflower Movement's student leaders, who had requested to meet with him.<sup>96</sup> Protesters gathered at several locations along Director Zhang's route. Moreover, due to confrontations between protesters and police, he canceled three events that he was to attend at the end of the visit.<sup>97</sup>

During the trip, Director Zhang said, "We know that Taiwan people cherish very much the social system and the life style they have chosen. . . . We in mainland China respect what Taiwanese people have chosen."<sup>98</sup> While Director Zhang's statements in Taiwan were

\*TAO is an agency within China's State Council that is responsible for overseeing China's cross-strait policies.

†MAC is a cabinet-level agency in Taiwan's executive branch that is responsible for overseeing Taiwan's cross-strait policies.

conciliatory, the Chinese government's actions and statements regarding Hong Kong, such as its 2014 white paper on the "one country, two systems" policy, undermine its efforts to create a favorable image for itself among the Taiwan public. Witnesses testified to the Commission that people in Taiwan closely follow developments in Hong Kong.<sup>99</sup> In August 2014, after the Chinese government announced its decision to rule out the open nomination of candidates for Hong Kong's chief executive, Wu Jieh-min, a researcher at Taiwan's Academia Sinica, said the decision "should serve as a red flag for Taiwan that Beijing could also break its promises to Taiwan no matter how rosy cross-strait ties appear right now."<sup>100</sup> In September 2014, the student association of Taiwan's National Tsing Hua University created an Internet-based petition to express support for university students in Hong Kong who organized a boycott of classes to protest the Chinese government's decision.<sup>101</sup> Approximately a week later, protesters gathered in the lobby of the Hong Kong Economic, Trade, and Cultural Office in Taipei to express their opposition to the Hong Kong police's use of pepper spray and tear gas against protesters in Hong Kong and to voice their support for democracy in Hong Kong.<sup>102</sup> Reflecting public sentiment, the Taipei Economic and Cultural Office in New York, Taiwan's New York representative office, in early October stated, "The protests [in Hong Kong] clearly show that the so-called 'one country, two systems' formula does not work and that Beijing has failed to keep its promises. We empathize with the people of Hong Kong and their demands for true democratic elections."<sup>103</sup> At the time of writing of this Report, the situation in Hong Kong continues to develop. (For more information about developments in Hong Kong and the connection between Hong Kong and Taiwan, see Chapter 3, Section 4, "Hong Kong.")

### ***Negotiations and Meetings***

Several weeks prior to the Sunflower Movement, Taiwan's semi-official Straits Exchange Foundation (SEF) and its Chinese counterpart, the Association for Relations Across the Taiwan Strait (ARATS),\* signed two agreements on cooperation in the areas of earthquake monitoring and meteorology.<sup>104</sup> These agreements reflect a continuation of President Ma's focus on cross-Straits economic and other areas of cooperation rather than issues of sovereignty and security. President Ma has pursued this approach to cross-Straits relations since he was first elected in 2008 based on the Taiwan public's continued aversion to political talks due to its concern that such talks might move the sides closer to unification.

Furthermore, Taiwan and China reached a milestone in cross-Straits relations by holding the first formal talks between the heads of MAC and TAO since Taiwan and China split in 1949 following the Chinese civil war. At the meeting—held in February 2014 in

\* SEF and ARATS facilitate cross-Straits negotiations in the absence of formal ties between the governments of Taiwan and China. Although SEF and ARATS are semiofficial organizations, they receive direction from their respective governments. Richard Bush, director of the Brookings Institution's Center for East Asia Policy Studies, explains, "Representatives of SEF and ARATS may open their joint meetings and then attend to preserve the fiction that these are not governmental interactions, but the individuals who are conducting the negotiations are officials from the relevant government agencies." Richard C. Bush, *Uncharted Strait: The Future of China-Taiwan Relations* (Washington, DC: The Brookings Institution Press, 2013), p. 59.

Nanjing, China—MAC Minister Wang and TAO Director Zhang agreed to create a mechanism that, according to Minister Wang, will allow direct communication between the heads of the agencies, their assistants, and their deputies.<sup>105</sup> Prior to the meeting, communication between the two agencies took place at the working level; however, top-level officials could not directly contact one another. According to a TAO spokesperson, during the meeting Director Zhang said he hopes the mechanism will “eliminate and reduce misjudgment, misunderstanding, and various kinds of interference.”<sup>106</sup>

In addition to enhancing communication, Taiwan and China took an important step toward an agreement on opening representative offices on each side’s territory. One major point of disagreement concerned whether personnel from these offices will be able to visit their own citizens who have been detained by the other government. The Taiwan government insisted its representatives in China should have this right, but the Chinese government was initially reluctant to agree.<sup>107</sup> After the MAC–TAO meeting in Nanjing, during which the two sides discussed the issue but could not come to an agreement, Minister Wang explained that Beijing was concerned a Taiwan representative office would resemble a diplomatic facility in its functions.<sup>108</sup> However, China subsequently conceded to Taiwan on this point, and, in March 2014, Minister Wang announced that SEF and ARATS agreed that representative offices should have the right to conduct visits to their detained citizens.<sup>109</sup> The two sides are still negotiating a final agreement on representative offices.

In 2014, leaders of the Chinese Communist Party (CCP) continued to meet with Taiwan politicians from the pan-blue\* coalition during these politicians’ visits to China. Prior to People First Party Chairman Soong’s visit to China, honorary chairman of the KMT Lien Chan also visited China and met with President and CCP General Secretary Xi. This inter-party dialogue has served as a forum for communication between Taiwan and China since Mr. Lien and Mr. Soong met with then President Hu Jintao in China in 2005. DPP legislators have criticized these exchanges for their lack of legislative oversight and for being outside of Taiwan’s democratic structure.<sup>110</sup>

### **Taiwan’s International Engagement**

China’s insistence on the “one China principle” precludes any country or international organization from simultaneously recognizing China and Taiwan, thereby restricting Taiwan’s full participation in the international community. For example, Taiwan is unable to participate in the International Court of Justice, the International Maritime Organization, the World Intellectual Property Organization, the International Criminal Police Organization, and the International Atomic Energy Agency.<sup>111</sup> The Taiwan government also continues to be excluded from the United Nations Framework Convention on Climate Change.<sup>112</sup> A joint study by the World Bank and Columbia University found that “Taiwan may be the place on Earth most vulnerable to natural hazards.”<sup>113</sup>

\*The pan-blue coalition refers to the KMT, the People First Party, and the New Party.

Nevertheless, Taiwan pursues greater international space by maintaining its official diplomatic relations with 22 countries,\* expanding its participation in international organizations through creative diplomacy, and strengthening economic partnerships with countries other than China.

The U.S. government supports Taiwan's efforts to expand its international engagement and has played a key role in Taiwan's entry into or retaining of a seat in international organizations, including the Asia Pacific Economic Cooperation forum, the World Trade Organization, and the Asian Development Bank.<sup>114</sup> In October 2013, Deputy Assistant Secretary of State Kin Moy said that "with [U.S.] support, Taiwan has participated as an observer in the World Health Organization, or 'WHO,' Assembly for four consecutive years."<sup>115</sup> In 2014, Taiwan was invited again to participate as an observer in the World Health Assembly.<sup>116</sup>

In 2008, China and Taiwan reached a tacit understanding—or what President Ma unilaterally declared to be a "diplomatic truce"—to stop poaching each other's diplomatic partners in order to maintain positive momentum in the cross-Strait relationship.<sup>117</sup> The truce appears to still be in place despite The Gambia's severing of diplomatic relations with Taiwan in November 2013. Beijing has not established diplomatic ties with The Gambia since the decision, and no public evidence exists to suggest China enticed or pressured the West African country to break diplomatic relations with Taiwan. Taiwan's Foreign Minister stated that The Gambia's decision was related to Taiwan's refusal to grant the country additional financial aid that it had requested.<sup>118</sup> The Gambian president may have mistakenly calculated China would establish diplomatic relations with The Gambia after it split with Taiwan or that China would provide The Gambia with aid or other benefits exceeding what Taiwan provided, even without diplomatic relations. Such a calculation could explain the president's willingness to cut ties with a country which former Gambian Foreign Minister Sidi Sanneh described on his blog as the president's "most important diplomatic partner."<sup>119</sup>

The cross-Strait diplomatic truce has enabled Taiwan to retain most of its diplomatic partners during President Ma's tenure. However, should cross-Strait relations sour, Taiwan may find it difficult to maintain some of these relationships. According to Zhang Zhexin, a research fellow at the Shanghai Institute for International Studies, Beijing has rejected overtures from at least five countries with diplomatic relations with Taiwan since President Ma's election in 2008. Moreover, the lack of diplomatic relations with these countries has not prevented them from engaging in extensive business activity with China, including Chinese companies exploring investment projects in Nicaragua and Honduras.<sup>120</sup> Some of their governments also are increasing contact with the Chinese government. For example, in November 2013, the government of São Tomé and Príncipe and the Chinese government agreed to

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\* The following countries have official diplomatic relations with Taiwan: Belize, Burkina Faso, the Dominican Republic, El Salvador, Guatemala, Haiti, the Holy See, Honduras, Kiribati, the Marshall Islands, Nauru, Nicaragua, Palau, Panama, Paraguay, Saint Christopher and Nevis, Saint Lucia, Saint Vincent and the Grenadines, São Tomé and Príncipe, Solomon Islands, Swaziland, and Tuvalu.

open a Chinese trade office in the Central African country. Then, in June 2014, the president of São Tomé and Príncipe visited China in what he said was an effort to seek investment in a deep-water harbor and to support his country's economic development.<sup>121</sup>

## **Taiwan Military and Security Issues**

### ***Cross-Strait Military Balance***

Although relations between the governments of Taiwan and China have improved dramatically since 2008, China's military modernization continues to focus on improving its ability to conduct military operations against Taiwan and to deter, delay, and deny any U.S. intervention in a cross-Strait conflict. Over the last decade, the balance of military power across the Taiwan Strait has shifted. China's military now appears to possess an increasing advantage over Taiwan's military. Moreover, the increased range and capabilities of China's power projection platforms have largely negated Taiwan's historic geographic advantages in a cross-Strait conflict.

In contrast to this assessment, Ian Easton, research fellow at the Project 2049 Institute, testified to the Commission that there has not been "a fundamental shift in the cross-Strait military balance. Rather, the situation remains fluid and dynamic."<sup>122</sup> He explained internal PLA documents and technical studies indicate the PLA believes it is unable to gain air superiority over Taiwan with its current precision strike capabilities. In addition, he asserted Taiwan so far has countered the PLA's strike capabilities with targeted investments in missile defense and radars, infrastructure hardening, rapid runway repair capabilities, and military training. Many of Taiwan's improvements in these areas have been supported or enabled by the United States.<sup>123</sup>

Notwithstanding pessimistic PLA assessments of China's capabilities and areas of excellence within the Taiwan military, the Commission assesses the expanding number and increasing effectiveness of China's military assets points to an increasing military advantage for China over Taiwan. China currently has approximately 2,100 combat aircraft and 280 naval ships available for a Taiwan conflict, as well as overlapping air and missile defense coverage over most of Taiwan. About 600 of China's combat aircraft and 90 of China's submarines and surface ships are modern. China continues to expand its fleet of modern platforms rapidly while regularly upgrading legacy platforms with new weapon systems as they become available. By comparison, Taiwan has approximately 410 combat aircraft and 90 naval combatants.<sup>124</sup> Fewer than 330 of Taiwan's combat aircraft and about 25 of Taiwan's surface ships are modern.<sup>125</sup> Taiwan has not acquired a modern combat aircraft or naval combatant since the mid-2000s. For a definition of modern combat aircraft and naval combatants, see Chapter 2, Section 2, "China's Military Modernization."

Moreover, China's vast arsenal of short-range ballistic missiles and cruise missiles would provide it with a crucial advantage in a conflict with Taiwan. William Murray, associate research professor at the U.S. Naval War College, testified to the Commission that a Chinese short-range ballistic missile attack on Taiwan's air bases

likely would render the runways temporarily unusable and prevent the Taiwan Air Force from taking off during the early hours of a conflict. Follow-on short-range ballistic missile and cruise missile attacks then could destroy aircraft that were stuck on the runways. In addition, a surprise short-range ballistic missile attack on Taiwan's naval ports while ships were still moored could destroy many of the Taiwan Navy's destroyers and frigates. Those Taiwan surface combatants already at sea during the attack then would be vulnerable to strikes by China's large number of sea-, air-, and land-based antiship cruise missiles.<sup>126</sup> Furthermore, short-range ballistic missile and cruise missile strikes against Taiwan's command and control infrastructure would hamper the Taiwan military's ability to coordinate its response to a PLA attack.<sup>127</sup>

Mr. Murray testified about the challenge Taiwan faces in defending against China's short-range ballistic missiles. He said:

*In 2002 China had 350 [short-range ballistic missiles] with an estimated accuracy, or Circular Error Probable (CEP), of approximately 300 meters. By 2012, China had over 1,100 missiles deployed to units opposite Taiwan, with CEPs on the order of 20 meters. This level of accuracy, increased inventory, and the targeting flexibility provided by multiple types of warheads means that [short-range ballistic missiles] now provide China new options against Taiwan.*<sup>128</sup>

Mr. Murray added that Taiwan's Patriot missile defense systems are costly and "will likely stop no more than 323 of the ... short-range ballistic missiles China could fire. This arms race between Chinese [short-range ballistic missiles] and Taiwan's Patriot interceptors is thus one Taiwan cannot win, and cannot afford to continue."<sup>129</sup>

Beyond their utility during a cross-Strait conflict, China's large and diverse inventory of short-range ballistic missiles also provides China with "significant psychological coercive value," according to Mark Stokes, executive director of the Project 2049 Institute.<sup>130</sup> Mr. Stokes testified to the Commission in 2010 that "every citizen of Taiwan lives within seven minutes of destruction, and they know that."<sup>131</sup>

A combination of factors has led to the shift in the cross-Strait balance of power, including China's large defense budget and annual increases in defense spending for more than 20 years, Taiwan's smaller defense budget and decreases in defense spending, and Taiwan's limited ability to acquire platforms and weapon systems on the global market.

- Cross-Strait defense spending trends since 2001 have dramatically shifted in China's favor. The officially reported budget gap between Taiwan and China in 2014 totaled more than \$120 billion.<sup>132</sup> For more information on China's defense spending, see Chapter 2, Section 2, "China's Military Modernization."
- Taiwan's defense budget as a percentage of GDP has decreased from 3.8 percent in 1994 to 2 percent in 2014.<sup>133</sup> This decline is due largely to political gridlock in Taiwan and competing

budget priorities. Furthermore, President Ma during the first six years of his tenure has had little incentive to increase the defense budget. Improved cross-Strait relations have reduced the Taiwan public's perceptions of the threat posed by China to Taiwan,<sup>134</sup> and domestic and social welfare issues have become more salient as Taiwan's economy attempts to recover from the global financial crisis and its workforce ages.

- Taiwan does not have the expertise and experience to design and produce certain weapon systems, and in many cases it has been unable to procure these systems from other countries. Aside from the United States, no country has been willing to sell major platforms and weapon systems to Taiwan since the early 1990s due to pressure from the Chinese government.<sup>135</sup>

Keenly aware of the threat posed by China's military modernization, Taiwan is attempting to expand and upgrade its military capabilities with a combination of domestic production and acquisition from the United States. Major domestic programs under development or recently completed include the following:

- *Air-to-Ground Cruise Missiles:* In January 2014, the Taiwan Air Force introduced a new domestically-produced air-to-ground cruise missile, called the Wan Chien. Taiwan has already upgraded over half of its Indigenous Defense Fighters to be capable of carrying the missile. In a cross-Strait military conflict, Taiwan could use the Wan Chien to attack military targets on China, including runways, missile bases, and radar installations.<sup>136</sup>
- *Antiship Cruise Missiles:* In February 2014, Taiwan media reported the country will begin to produce a supersonic long-range antiship cruise missile that eventually will be deployed to land-based mobile launchers along Taiwan's coast.<sup>137</sup> The new missile will complement Taiwan's existing land-based fixed and mobile antiship cruise missile units, which are equipped with an earlier version of the missile, as well as Taiwan's extensive inventory of sea-based antiship cruise missiles. The land-based variant of the missile will be more survivable and lethal than its naval predecessor, providing Taiwan military commanders with increased operational flexibility and enhancing Taiwan's ability to target the PLA's amphibious ships during a Chinese invasion of Taiwan.<sup>138</sup>
- *Missile Corvette:* In March 2014, the Taiwan Navy received the first ship in a new class of catamaran-style missile corvette from Taiwan's Lung Teh Shipbuilding Company.<sup>139</sup> Taiwan may build as many as 12 of these ships.<sup>140</sup> The new corvette has better range, endurance, and sea-keeping ability than Taiwan's current patrol ships, and it will be armed with long-range antiship cruise missiles. The ship will provide the Taiwan Navy with greater survivability, due to the ship's stealth features, and lethality in a potential cross-Strait conflict as well as increase the Taiwan Navy's ability to patrol the East and South China seas.<sup>141</sup>

- *Unmanned Aerial Vehicles (UAVs)*: Taiwan is said to be developing its first UAV capable of carrying munitions. This UAV also will have stealth capability, according to a Taiwan official.<sup>142</sup> The Taiwan Army already has 32 UAVs designed for intelligence, surveillance, and reconnaissance (ISR) missions that are based on Taiwan's southeastern coast. Taiwan reportedly is considering establishing a second UAV base in southwestern Taiwan.<sup>143</sup>

Select military equipment Taiwan is acquiring or pursuing from the United States includes the following:

- *P-3C Orion Maritime Patrol Aircraft*: In late 2013, Taiwan received the first four of 12 P-3C Orion maritime patrol aircraft that it agreed to purchase from the United States in 2007. Taiwan is scheduled to receive five more in 2014 and the remaining aircraft in 2015.<sup>144</sup> Taiwan incorporated the P-3C into the command post and field training portions of the 2014 Han Kuang military exercise.<sup>145</sup> The aircraft will supplement and ultimately replace Taiwan's aging S-2T maritime patrol aircraft. The P-3C will increase the capability and endurance of the military's fixed-wing maritime patrol aircraft force, improving Taiwan's ability to perform antisubmarine warfare and ISR.
- *Apache Attack Helicopters*: In November 2013, Taiwan received the first six of 30 AH-64E Apache helicopters that it agreed to purchase from the United States in 2010.<sup>146</sup> As of September 2014, Taiwan had received 18 more helicopters, with the six remaining helicopters scheduled to be delivered by the end of 2014.<sup>147</sup> These helicopters are armed with a chain gun and can also carry air-to-air or air-to-ground missiles or rockets.<sup>148</sup> Taiwan likely would use these helicopters to counter a PLA invasion force that was approaching or had already landed on Taiwan territory.<sup>149</sup>
- *Fighters*: In October 2012, the United States awarded Lockheed Martin a \$1.85 billion contract to begin performing a mid-life upgrade on Taiwan's existing fleet of 145 F-16 A/B fighter aircraft. The upgrades are scheduled to occur from 2017 to 2021 in groups of about 24 aircraft.<sup>150</sup> In March 2014, the U.S. Air Force cancelled the budget for the Combat Avionics Programmed Extension Suite upgrade for 300 of its own F-16 fighters in the Department of Defense's (DoD's) 2015 budget request.\* Although Taiwan and the United States apparently plan to move forward with the mid-life upgrade program, the cost of upgrading each Taiwan F-16 almost certainly will increase without cost sharing with the U.S. Air Force.<sup>151</sup> Even with the scheduled upgrade to Taiwan's F-16 A/Bs, in August 2014, the deputy director general of the Department of Strategic Planning in Taiwan's Ministry of National Defense indi-

\*As of October 2014, Congress has not yet passed a National Defense Authorization Act for Fiscal Year 2015. To date, the National Defense Authorization Act for Fiscal Year 2015 (H.R. 4435) passed by the U.S. House of Representatives would require the Secretary of the Air Force to provide a report to the House and Senate Armed Services Committees on the effects of canceling the Combat Avionics Programmed Extension Suite program.

cated Taiwan is still considering procuring F-16 C/Ds from the United States.<sup>152</sup>

- *OLIVER HAZARD PERRY-Class Guided-Missile Frigates:* In April 2014, the U.S. House of Representatives passed H.R. 3470, a bill authorizing the sale of four decommissioned and unarmed PERRY-class frigates to Taiwan. Taiwan subsequently announced it would only purchase two of the ships if they are made available, due in part to budget constraints.<sup>153</sup> After being fitted with Taiwan weapon systems, these two ships would supplement the eight PERRY-class frigates already serving in the Taiwan Navy and help to offset the planned retirement over the next few years of Taiwan's eight KNOX-class frigates, which specialize in antisubmarine warfare.<sup>154</sup> While the U.S. Senate has yet to consider H.R. 3470, in November 2013, the Senate Foreign Relations Committee did approve S. 1683, a related bill that awaits consideration on the Senate floor.<sup>155</sup>
- *Submarines:* In 2001, the United States approved Taiwan's request to purchase diesel-electric submarines via the foreign military sales process. However, the sale has stalled for a number of reasons on both sides. These include partisan political gridlock in Taiwan's legislature, delays in Taiwan's commitment of funds, and disagreements between Washington and Taipei over costs. Furthermore, the United States has not built a diesel-electric submarine since the 1950s or operated one since 1990. In late 2014, the Taiwan media reported the Taiwan Ministry of Defense has decided to pursue an indigenous submarine program. The ministry's spokesperson said Taiwan would prefer to procure new U.S. submarines but due to the stalling of the procurement process Taiwan will "pursue both foreign procurement and domestic building plans in tandem." He added, "We welcome the US and other free, democratic countries to collaborate with us to advance our indigenous submarine-building program."<sup>156</sup> The U.S. government has not said whether it will authorize the transfer of technology to an indigenous submarine program in Taiwan. Taiwan's current fleet of four submarines includes two former U.S. boats that were built in the 1940s and transferred to Taiwan in the 1970s.

### ***Taiwan Defense Policy and Reform***

As explained to the Commission by Mr. Easton, "even more important than advanced weapons are the investments Taiwan is making into high quality military personnel."<sup>157</sup> Taiwan originally planned to complete its transition to an all-volunteer force by the end of 2014, but due to low recruitment rates it pushed the completion date to 2017.<sup>158</sup> In addition to recruitment challenges, the establishment of an all-volunteer force has been more expensive than expected, and Taiwan has had to divert funds from other portions of the defense budget, including operations and investments, to ease the rising personnel costs.<sup>159</sup> Taiwan also has sought to offset some of the rising costs resulting from the recruitment and reten-

tion of an all-volunteer force by downsizing its active duty force. Taiwan aims to shrink the active duty force from 275,000 to 215,000 troops by the end of 2014<sup>160</sup> and to as few as 170,000 troops by 2019.<sup>161</sup>

Moreover, the all-volunteer force transition could adversely impact Taiwan's reserve force, which presently consists of over 2.6 million personnel and is tasked to help defend against a PLA invasion and to support disaster relief efforts.<sup>162</sup> Previously, Taiwan conscripts performed one year of active duty service before becoming reservists. Under current Taiwan law, men born after 1994 are required to undergo four months of active-duty service, a length of time that critics assert is inadequate to prepare them to be effective soldiers.<sup>163</sup> At the end of four months, the conscripts enter Taiwan's reserve system. Reservists participate in military training every two years and in military exercises every year.<sup>164</sup>

### ***Taiwan Military Training and Activities***

The Taiwan military routinely conducts a range of exercises to maintain combat readiness; test and improve its capabilities and war plans; integrate new weapons systems; and demonstrate to the Taiwan public, China, and the United States that it has a credible deterrent capability. In some exercises, Taiwan also seeks to assert its territorial claims and demonstrate freedom of navigation. Major Taiwan military exercises and activities in late 2013 and 2014 included the following:

- *Humanitarian Assistance/Disaster Relief to the Philippines:* In November 2013, the Taiwan military provided humanitarian assistance/disaster relief to the Philippines following Typhoon Haiyan. Taiwan Air Force C-130 cargo aircraft and a Taiwan Navy amphibious ship delivered relief supplies and equipment to the Philippines. This marked the first visit by a Taiwan Navy ship to the Philippines in 10 years.<sup>165</sup> The relief supplies and equipment which the Taiwan military transported to the Philippines were donated by Taiwan nongovernmental organizations and were valued at approximately \$8.25 million.\*<sup>166</sup>
- *ADIZ Exercise:* In February 2014, Taiwan's Coast Guard, Navy, and Air Force carried out combined drills and patrols in the area of the East China Sea where its Air Defense Identification Zone (ADIZ) overlaps with the ADIZ announced by China in November 2013. (For a discussion of the ADIZ, see Chapter 2, Section 1, "Year in Review: Security and Foreign Affairs.") According to official Taiwan press, the exercise demonstrated that "Taiwan is pursuing its own national interests despite China's announcement . . . of a new ADIZ that heightened tensions in the region." Exercise participants included

\*The Taiwan government made a monetary donation of \$921,000 to relief efforts. The Chinese government donated \$100,000 in cash and \$1.4 million worth of relief supplies. Ministry of Foreign Affairs (Taiwan), "Love and Empathy Transcend Boundaries: Relief Aid Extended by the Republic of China to the Philippines in Wake of Typhoon Haiyan." <http://www.mofa.gov.tw/Upload/WebArchive/1304/8cdc1037-5708-4eb2-8f82-c33d8c006c6f.PDF>; Jane Perlez, "China Increases Aid to Philippines," *New York Times*, November 14, 2013. [http://www.nytimes.com/2013/11/15/world/asia/chinese-aid-to-philippines.html?\\_r=0](http://www.nytimes.com/2013/11/15/world/asia/chinese-aid-to-philippines.html?_r=0).

two coast guard vessels, two navy frigates, an antisubmarine aircraft, a helicopter, and two fighter aircraft.<sup>167</sup>

- *South China Sea Landing Exercise*: In April 2014, the Taiwan Navy and Marine Corps conducted an amphibious landing to re-take control of Itu Aba (also known as Taiping Island),\* an island in the Spratly Islands (see Figure 4), from a notional enemy force in the Taiwan military's largest exercise in the South China Sea since 2000. Exercise participants included two marine companies, 20 amphibious assault vehicles, and multiple advanced frigates, amphibious ships, and coast guard personnel.<sup>168</sup> In addition to increasing the number of its military exercises in the South China Sea, Taiwan is upgrading its military and civilian infrastructure on Taiwan-controlled islands in the region. Taiwan is expanding the wharf on Itu Aba, currently only capable of accommodating small ships, to enable larger ships to dock there. Taiwan also is renovating the island's runway, including upgrading its drainage system and lights. These projects are expected to be completed by the end of 2015.<sup>169</sup>

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\*Taiwan and China have almost identical claims in the South China Sea. Both Taiwan and China claim to have historic and legal rights in the South China Sea and they illustrate their claims with the nine-dash line. (For further discussion of China's sovereignty claims, see Chapter 3, Section 1, "China and Asia's Evolving Security Architecture.") According to Taiwan academics, in recent years, unnamed U.S. officials have expressed concern that Taiwan and China might cooperate on the issue of territorial disputes in the South China Sea. Although, on several occasions, the Chinese government has proposed that Taiwan and China cooperate on this issue, the Taiwan government has refused to cooperate with China. Chou Yi-ling and Maia Huang, "MAC Sees No Room for Cross-Strait Cooperation on Territorial Issues," Central News Agency (Taiwan), May 15, 2014. <http://focustaiwan.tw/news/acs/201405150040.aspx>; J. Michael Cole, "Taiwan-China Ties in South China Sea Concern US," *Taipei Times*, June 6, 2012. <http://www.taipeitimes.com/News/front/archives/2012/06/06/2003534621>; and Peter Dutton, "Three Disputes and Three Objectives: China and the South China Sea," *Naval War College Review* 64:4 (Autumn 2011): 44–45.

**Figure 4: South China Sea**

Source: New York Times, "Territorial Claims in South China Sea." <http://www.nytimes.com/interactive/2012/05/31/world/asia/Territorial-Claims-in-South-China-Sea.html>. Adapted by the U.S.-China Economic and Security Review Commission. Locations of various features are not exact.

- *Han Kuang*: In May 2014, the Taiwan military held the command post component of its annual Han Kuang exercise, Taiwan's only national-level joint exercise. This year's command post exercise focused on defending against a simulated PLA full-scale invasion of Taiwan that included attacks against Taiwan's east coast launched from China's new aircraft carrier, the *Liaoning*. Taiwan conducted the field training component of Han Kuang in September.<sup>170</sup> According to Taiwan officials, the exercise included Taiwan's largest maritime live-fire drill in 10 years.<sup>171</sup> Typically, a team of around 50 U.S. military personnel observes the Han Kuang exercise from various sites throughout Taiwan. The observation teams include senior retired military officers, mid-level active duty or reserve officers, mid-level civilian analysts, and contractors.<sup>172</sup>
- *Response to PLA Flights through Taiwan's ADIZ*: On August 25, 2014, the Taiwan Air Force deployed fighter aircraft to follow PLA surveillance aircraft that entered Taiwan's ADIZ multiple times on their flights to and from the South China Sea. These are highly unusual actions for PLA aircraft, which historically have avoided flying through Taiwan's ADIZ.<sup>173</sup> According to J. Michael Cole, editor-in-chief of *Thinking Taiwan*,

PLA aircraft may have entered Taiwan's ADIZ to "to gauge Taiwan's surveillance capabilities and response mechanism. Chinese electronic surveillance aircraft last year committed similar intrusions near Okinawa and close to the disputed Senkaku/Diaoyu islets in the East China Sea to—it is speculated—evaluate Tokyo's ability to respond (Japan's response was to scramble F-15 aircraft). Soon thereafter, China declared its controversial ADIZ over the East China Sea. Some analysts believe that China is drawing up plans to establish an ADIZ in the South China Sea, though Beijing has yet to give any concrete indication that it intends to do so."<sup>174</sup>

### ***Computer Network Defense***

In addition to China's conventional military forces, China's computer network operation capabilities also pose a major threat to Taiwan. According to the Taiwan Ministry of National Defense's 2013 *National Defense Report*, "Once a conflict arises, these operations will enable [China] to cripple our command, control and logistics network, which will affect the normal operation of the [Taiwan] Armed Forces' information systems, and delay its contingency response time."<sup>175</sup>

To address the cyber threat from China, the Taiwan military is attempting to enhance information security awareness through increased education, inspections, and exercises. It also plans to bolster the cyber defense of its command, control, communications, and information platforms.<sup>176</sup> These measures supplement the steps Taiwan has taken in recent years in this area, which include increasing spending on cyberwarfare capabilities, establishing an additional cyberwarfare unit within the Ministry of National Defense, and building a facility for cyber defense training against simulated attacks on critical infrastructure.<sup>177</sup>

### ***Cross-Strait Espionage***

The counterintelligence risks to Taiwan and U.S. military information and equipment in Taiwan are increasing as cross-Strait ties expand and Chinese citizens visit Taiwan in greater numbers. China now has greater access to Taiwan and better opportunities to conduct intelligence operations against Taiwan citizens both in Taiwan and China. In 2013, nearly three million Chinese tourists visited Taiwan, up from around 300,000 in 2008.<sup>178</sup>

In the last two years, Taiwan has arrested at least eight former or active military officers, including one flag officer, for suspected espionage.<sup>179</sup> In April 2014, a former Taiwan Air Force major was found guilty and sentenced to 20 years in prison for providing the Chinese government with classified information related to Taiwan's E-2K airborne early warning aircraft, a U.S. system which Northrop Grumman first delivered to Taiwan in 2005.<sup>180</sup> In addition to gathering strategic, operational, tactical, and technical intelligence, these activities are intended to demoralize the Taiwan military and public and increase concerns in the U.S. government and military about the security of defense information and technology provided to Taiwan.

The Taiwan military is implementing measures to counter Chinese intelligence activities. These measures include enhancing security at military bases, heightening awareness among the military of espionage threats, and requiring some military personnel to take more polygraph tests.<sup>181</sup> For example, in 2012 the Taiwan Ministry of National Defense instituted a policy to require ministry personnel posted overseas, including attachés and procurement officials, to return to Taiwan once a year for a polygraph test.<sup>182</sup>

The counterintelligence threat to Taiwan is not limited to military personnel; it also extends to civilian researchers. In 2014, Chinese and Taiwan media reported Chen Kun-shan, the former director of the Center for Space and Remote Sensing Research at Taiwan's National Central University and a top expert on remote sensing technology, had defected to China and taken a position with the State Key Laboratory of Remote Sensing Science at Beijing Normal University.<sup>183</sup> Taiwan media reported that an anonymous source within Taiwan's intelligence community said Dr. Chen's former position would have given him access to classified information about the Taiwan military and Taiwan's methods for analyzing intelligence about China.<sup>184</sup> He also would have been familiar with Taiwan's remote sensing technology. In China, Dr. Chen may contribute to Chinese research projects that have applications for the PLA.<sup>185</sup>

Although U.S. media reporting tends to focus on China's intelligence successes against Taiwan, Mr. Easton testified that Taiwan has an impressive track record of espionage against China:

*Since 2004, China has suffered from dozens of Taiwanese espionage cases. Taiwan's agents have included the leadership of China's Air Force Command Academy, a Central Committee member, and more. Recent examples of success include Taiwan's ability to collect detailed information on China's anti-ship ballistic missiles, drones, and airbases. Taiwan also obtained timely forewarning of China's intention to declare an air defense identification zone over the East China Sea in November 2013. This allowed the [Taiwan] National Security Council to call an emergency meeting and deliberate in advance of Beijing's declaration.*<sup>186</sup>

## **U.S.-Taiwan Relations**

### ***Developments in U.S.-Taiwan Political Relations***

April 10, 2014 marked the 35th anniversary of the passage of the Taiwan Relations Act. Leading up to the anniversary, U.S. and Taiwan government officials praised the state of bilateral relations, saying the relationship is the strongest it has been in over three decades.<sup>187</sup> U.S. Environmental Protection Agency Administrator Gina McCarthy's visit to Taiwan in April, the first by a Cabinet-level official since June 2000, reflects this positive momentum in U.S.-Taiwan relations.<sup>188</sup> In a speech at National Taiwan University, she spoke about U.S.-Taiwan collaboration and Taiwan's leadership on environmental issues.<sup>189</sup> The U.S. and Taiwan governments have co-hosted meetings involving participants from around the world on topics such as port sustainability, electronic waste,

and environmental information.<sup>190</sup> U.S. cabinet-level visits to Taiwan help to strengthen ties between high-level U.S. and Taiwan officials, reinforce the bilateral partnership, and express U.S. support to Taiwan.\*

Although the relationship has recovered from a period of heightened tension and weakened trust from 2002 to 2008, some analysts point out there is still much room for improvement.<sup>191</sup> Mr. Hammond-Chambers, in his testimony to the Commission, described the relationship as “adrift” and “underwhelming” due to the lack of “significant goals and objectives.”<sup>192</sup> Mr. Hammond-Chambers and Vincent Wei-cheng Wang, professor at the University of Richmond, testified that the U.S. government probably has been complacent regarding Taiwan because it assumes the warming of cross-Strait relations and greater economic engagement will lead to lasting peace in the Taiwan Strait.<sup>193</sup> Dr. Wang cautioned that even though the United States and Taiwan “share common values, commercial interests and [a] historical relationship,” the two sides must constantly “cultivate and manage” the relationship.<sup>194</sup>

#### ***Developments in U.S.-Taiwan Military and Security Relations***

Taiwan continues to be one of the largest buyers of U.S. arms in the world. From 2008 to 2011, Taiwan agreed to purchase approximately \$18.3 billion of U.S. arms.<sup>195</sup> However, the U.S. government has not authorized a major arms sale to Taiwan since 2011,† leading some analysts to question whether the United States is doing enough to make defense articles available to Taiwan. Randall Shriver, president and chief executive officer of the Project 2049 Institute, testified to Congress that “[the Obama Administration] needs bolder and more visible measures to fulfill U.S. obligations to Taiwan consistent with notification requirements under the Arms Export Control Act.”<sup>196</sup>

David Firestein, vice president for the Strategic Trust-Building Initiative at the EastWest Institute, testified to the Commission that U.S. policy toward Taiwan is falling short of its goal of enhancing Taiwan’s security. He said:

*It is fair to say that U.S. policies, as implemented, do not seem to be able to keep pace with events in the region, particularly the rapid and well-documented development of China’s military capabilities. To put it in simple terms, the United States is selling arms to Taiwan at an arithmetic pace, while China’s military capabilities are developing at something closer to a geometric trajectory. On these terms, this is a game that the United States and Taiwan cannot win.*<sup>197</sup>

\* Administrator McCarthy was originally scheduled to visit Taiwan, in addition to China, in December 2013, but she postponed the Taiwan portion of her trip for unknown reasons. Shirley Kan and Wayne Morrison, *U.S.-Taiwan Relationship: Overview of Policy Issues* (Congressional Research Service, April 22, 2014), p. 16.

† The executive branch is only required to notify Congress of arms sales through the foreign military sales process that meet or exceed the following values: \$14 million in major defense equipment, \$50 million in defense articles or services, and \$200 million in design and construction services. Thus, there may have been U.S. arms sales to Taiwan that did not exceed these amounts since 2011. Piin-Fen Kok and David J. Firestein, *Threading the Needle: Proposals for U.S. and Chinese Actions on Arms Sales to Taiwan* (EastWest Institute, September 2013), p. 71. [http://www.ewi.info/sites/default/files/TAS%20Final%20%2528ISSUU%20VERSION%209\\_17\\_2013%2529](http://www.ewi.info/sites/default/files/TAS%20Final%20%2528ISSUU%20VERSION%209_17_2013%2529).

Mr. Firestein also explained that the U.S. executive branch’s practice of “bundling” announcements of arms sales to Taiwan creates misperceptions of U.S. policy that could affect U.S. diplomatic efforts. He offered that, “By issuing more frequent, but smaller-scale, notifications, the United States can perhaps mitigate some of the public diplomacy problem without affecting the content of the sales at all. . . . This approach might also sensitize the Chinese—including the Chinese public—to the sales to a greater degree than is the case now with less frequent, larger notifications.”<sup>198</sup>

In addition to U.S. arms sales to Taiwan, U.S. training and consultations are a key component of the bilateral security relationship. For example, the U.S. provides training to Taiwan fighter pilots, special operations personnel, and rapid runway repair personnel. Furthermore, members of Taiwan’s military study at U.S. military educational institutions.<sup>199</sup>

In an important development, military-to-military contact increased in 2013. In 2013, DoD personnel conducted more than 2,000 visits to Taiwan, compared to approximately 1,500 visits in 2012.\*<sup>200</sup> Nevertheless the U.S. practice of limiting the highest rank of U.S. military personnel who can visit Taiwan to colonels and captains (O6-level) prevents the most senior U.S. officers from gaining firsthand knowledge of the Taiwan military and the operational environment in a potential cross-Strait conflict. Mr. Easton explained to the Commission:

*Our most difficult operational plan calls for the U.S. military to fight shoulder-to-shoulder with Taiwan’s military. How can the President of the United States, this or any future president, be assured that we could seamlessly do that if we don’t allow our military leaders to go out and see the battlespace firsthand? If you’ve not been out to the offshore islands, Kinmen, Matsu, Tungyin, Penghus, if you’ve not seen the 18 invasion beaches on Taiwan’s west coast, and if you don’t have that personal relationship, I think that’s a mistake.*<sup>201</sup>

### **Role of Taiwan in U.S. Rebalance to Asia**

The Obama Administration recognized the importance of the Asia Pacific when it committed to “rebalance” U.S. government attention and resources to the region in 2011. The strategy intends to strengthen U.S. economic, diplomatic, and security relations throughout the Asia Pacific, both bilaterally and multilaterally, with a “whole-of-government” approach to policy implementation. However, some analysts have suggested the Obama Administration has not adequately incorporated Taiwan into the U.S. rebalance to Asia policy, pointing to several important speeches and documents about the rebalance by then Secretary of State Clinton, President Obama, and then National Security Advisor Thomas Donilon.†<sup>202</sup>

\* DoD personnel conducted nine exchanges with Chinese military personnel in China in 2013. The total number of DoD personnel who participated in these exchanges is unavailable. U.S. Department of Defense, *Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2014*, June 5, 2014, p. 71.

† However, in a November 2011 speech about the rebalance to Asia policy, then Secretary of State Clinton spoke about Taiwan and cross-Strait relations. She said, “We have a strong relationship with Taiwan, an important security and economic partner, and we applaud the progress that we have seen in cross-Strait relations between China and Taiwan during the past three

The Administration may feel constrained in addressing Taiwan's role in the rebalance policy, particularly regarding military cooperation, by the unofficial nature of U.S.-Taiwan relations and concerns about the impact of openly including Taiwan in the rebalance policy on U.S.-China relations.

According to some analysts, Taiwan could play an important role in the U.S. rebalance to Asia given its geographic position, relatively advanced military capabilities, large and vibrant economy, and robust democracy.<sup>203</sup>

In the military realm, Taiwan's strengths in ISR could support U.S. efforts to promote security and stability in the Asia Pacific. Mr. Stokes and Russell Hsiao, non-resident senior fellow at the Project 2049 Institute, explain:

*Taiwan is uniquely positioned to contribute to regional situational awareness of the air, space, sea and cyber domains. Peacetime air surveillance data can be fused with other sources of information to better understand PLA Air Force tactics and doctrine. Long range [ultra high frequency] early warning radar data could fill a gap in regional space surveillance. The Taiwanese Navy has a firm grasp of the unique undersea geography and hydrological environment of the Western Pacific Ocean. . . . Taiwan's geographic position and willingness to contribute to a regional common operational picture, including maritime domain awareness, air surveillance, and space surveillance and tracking, could be of significant value for both disaster response and military purposes.<sup>204</sup>*

Taiwan and the U.S. military also could cooperate on surveillance for missile defense. In May 2014, Representative Randy Forbes added a provision to the House National Defense Authorization Act for Fiscal Year 2015 requiring the U.S. Missile Defense Agency to evaluate the potential for linking Taiwan's highly advanced early warning radar to U.S. sensor and missile defense systems.<sup>205</sup>

Beyond sharing technical ISR data, the U.S. government could learn from Taiwan's unique insights into China, the PLA, and Chinese cyber operations. As Mr. Easton points out, Taiwan has a "long history of leveraging its close cultural, linguistic, and economic ties to China for collecting traditional human intelligence" and Taiwan's research centers possess "unique expertise and historical experiences—as well as unparalleled access to data."<sup>206</sup>

In the area of China's cyber operations, Taiwan's cybersecurity experts possess in-depth knowledge of Chinese cyber tactics, techniques, and procedures. For more than a decade, Taiwan's information networks have been a major target for Chinese hackers. These hackers have tried new tactics, techniques, and procedures on Taiwan's networks before using them against networks in other countries.<sup>207</sup>

Cooperation with Taiwan on the development of defense technology is another area in which the U.S. military could benefit

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years and we look forward to continued improvement so there can be peaceful resolution of their differences." Hillary Clinton, "America's Pacific Century" (Honolulu, HI, November 10, 2011).

from Taiwan's strengths. Taiwan has a great deal of expertise in information and communications and cruise missile technology. It also is able to produce these technologies at lower cost than the United States.<sup>208</sup> Mr. Stokes and Mr. Hsiao suggest "Taiwan and the U.S. may find mutually beneficial ways to integrate their efforts including in defense-related R&D and low cost, high quality electronic components that could reduce costs for U.S. weapon systems."<sup>209</sup> This kind of collaboration also could have the benefit of increasing interoperability between U.S. and Taiwan military platforms and systems.

In addition to defense and security, economics and trade are a major part of the rebalance to Asia policy, with the TPP as the central economic policy initiative. Taiwan has made joining the multilateral trade agreement a priority. In April 2014, President Ma told an audience at the Center for Strategic and International Studies that "a TPP with Taiwan's membership would not only assure Taiwan's economic security, but would also help strengthen the economic presence of the U.S. in the Asia Pacific region."<sup>210</sup> Although there are substantial political obstacles in Taiwan and the United States to Taiwan joining the TPP, the U.S. government in 2014 welcomed Taiwan's interest in the TPP.<sup>211</sup>

Finally, in line with another aspect of the rebalance to Asia policy, Taiwan can play a role in the development of democracy and the promotion of universal rights and freedoms in the Asia Pacific. Taiwan is a vibrant democracy in a region with many authoritarian governments. As an example of democratic governance, human rights, freedom of expression, and rule of law to its neighbors, most importantly to China, Taiwan can support positive change in these countries. Highlighting Taiwan's achievements in these areas in official statements could support and augment U.S. efforts to promote democracy and human rights in the region and around the world.<sup>212</sup>

### **Implications for the United States**

The United States and Taiwan maintain a strong relationship built on shared values, commercial interests, and commitment to assist Taiwan's defensive capability. Taiwan's position as a major U.S. trading partner, and its important role in the global hi-tech supply chain, make it vital to U.S. economic interests. Taiwan companies are leaders in the global semiconductor industry and their need for advanced U.S. machinery has made semiconductor, microchip, and LCD manufacturing machines the top U.S. export to Taiwan. In addition, Taiwan's role as a regional leader in democracy, human rights, and environmental protection further strengthens this relationship and provides opportunities for regional partnering.<sup>213</sup>

Six years of cross-Strait rapprochement have been beneficial to the United States by temporarily reducing the likelihood of military conflict, enhancing regional stability and development, and allowing U.S. policymakers to address other priorities in the U.S.-China and U.S.-Taiwan relationships.

However, improved cross-Strait relations have not resolved the fundamental sovereignty issues between Taiwan and China. Deepening economic integration has increased Taiwan's dependence on

China's economy and raised its vulnerability to Chinese economic and political coercion. China could leverage this dependence to advance its goal of unification with Taiwan.

In addition, China's military modernization presents an intense challenge to Taiwan's ability to defend itself and the U.S. military's ability to intervene successfully in a cross-Strait conflict. It also improves China's ability to use the threat of military force to coerce Taiwan into making political concessions. Mr. Easton testified to the Commission that "if the PLA used all the tools at its disposal in a coordinated fashion, it could turn the defense of Taiwan into the democratic world's most stressful military challenge. To put it another way, no other U.S.-friendly democracy faces the level of military threat that Taiwan does."<sup>214</sup>

Taiwan is confronted with the question of how to meet the requirements of national defense while also addressing domestic and social welfare issues. Taiwan is taking steps to enhance its defensive capabilities and increase the quality of its military personnel, but some members of Congress and outside observers have raised questions and concerns about whether Taiwan's defense spending is sufficient to address the threat from China's military modernization.<sup>215</sup>

Separate from questions regarding Taiwan's defense spending, in the 2000s, the question of whether the Taiwan military, government, and public would resist a PLA attack on Taiwan was the subject of much discussion by U.S. analysts. Lieutenant Commander John E. Lee, USN, described the issue as follows: "In a conflict with [China], Taiwan's 'will to fight' is its strategic center of gravity—the source of massed moral strength, whose degradation would have a decisive impact on Taiwan's ability to resist the enemy."<sup>216</sup> Since then there has been little discussion of this issue. However, Mr. Cole has written about Taiwan's will to fight in recent years, and he asserts that "once bombs and missiles, however precise, [begin] raining down on Taiwan, killing family members, friends, and neighbors, most Taiwanese would rally round the flag."<sup>217</sup>

More broadly, Taiwan's role in regional stability extends beyond the Taiwan Strait due to its territorial claims in the East China Sea and the South China Sea. In 2013, Taipei contributed to stability in the East China Sea with the fisheries agreement it signed with the Japanese government. With regard to the South China Sea, Taiwan is pursuing a fisheries agreement with the Philippines that, according to a Taiwan official, the two countries are close to signing.<sup>218</sup> Analysts have proposed Taiwan could also help reduce tension in the South China Sea by clarifying its definition of the nine-dash line, which is the basis for both Taiwan's and China's claims in that area.<sup>219</sup>

### Conclusions

- Under President Ma, cross-Strait economic relations have deepened with the expansion of trade and investment and the signing of numerous economic agreements. However, these agreements face increasing public and political opposition. The Taiwan public's concerns about the effects of cross-Strait economic integration on the country's economy and political autonomy led to

a temporary postponement of cross-Strait negotiations and a push for increased oversight of cross-Strait agreements by Taiwan's legislature.

- Prior to the Sunflower Movement, cross-Strait relations reached a milestone with the first formal talks between the heads of Taiwan's Mainland Affairs Council and China's Taiwan Affairs Office in February 2014. After a temporary postponement following the protests, Taiwan and China restarted trade negotiations in September, but the Taiwan legislature will unlikely ratify any new agreements until it agrees on a formal legislative oversight process for cross-Strait agreements.
- U.S.-Taiwan relations took positive but small steps forward this past year with progress in the bilateral Trade and Investment Framework Agreement (TIFA) talks, the first trip to Taiwan by a Cabinet-level official since 2000, and recent growth in bilateral trade. Remaining obstacles to further progress in the TIFA talks are disputes over pork imports, pharmaceutical intellectual property rights, and private-equity investment regulations.
- The United States and Taiwan continue to engage in a robust but low-profile security partnership, including increased military-to-military contact in 2013. However, the U.S. government has not authorized a major arms sale to Taiwan since 2011, which allows China to further tip the cross-Strait balance of power in its favor.
- Taiwan has expanded its international engagement in recent years, but China continues to restrict Taiwan's participation in most international organizations. Furthermore, Taiwan's discussions with other countries regarding bilateral free trade agreements have reportedly stalled due to those countries' hesitation over China's opposition and questions about Taiwan's ability to ratify any negotiated free trade agreement following strong public opposition to the Cross-Strait Services Trade Agreement.
- Despite the recent cross-Strait rapprochement, the core sovereignty and security issues between Taiwan and China remain unresolved. China's military modernization has significantly increased Beijing's ability to conduct military operations against Taiwan and to deter, delay, and deny any U.S. intervention in a cross-Strait conflict. Taiwan's recent focus on developing innovative and asymmetric military capabilities and continued acquisition of major conventional platforms and weapon systems from the United States have improved Taiwan's military capabilities. However, the cross-Strait balance of power has shifted decidedly in China's favor.

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## SECTION 4: HONG KONG

### Introduction

This section examines the controversy over implementing electoral reform in Hong Kong's 2017 chief executive election and the resulting pro-democracy protests; China's increasing military presence in Hong Kong; and Hong Kong's declining freedom of the press. It is based on briefings by foreign government officials, meetings with subject matter experts, and independent research. The section concludes with a discussion of the implications of China's growing interference in Hong Kong's political development for the United States. At the time of writing (October 29, 2014), events surrounding Hong Kong's electoral reform process were still developing.

### Controversy over Electoral Reform

Throughout the reporting year, debate surrounding how to elect Hong Kong's next chief executive in 2017 reflected a broader struggle regarding China's role in Hong Kong's political development. China's "basic policies" concerning Hong Kong are outlined in the 1984 Sino-British Joint Declaration, a legally binding international treaty that dictated the terms of Hong Kong's handover from the United Kingdom in 1997.<sup>1</sup> In the Joint Declaration, China granted Hong Kong a "high degree of autonomy," and promised that "Hong Kong will retain its current lifestyle and legal, social, and economic systems until at least the year 2047," while China would administer Hong Kong's defense and foreign affairs in accordance with the "one country, two systems" policy.<sup>2</sup> The Joint Declaration also established that Hong Kong's chief executive will be appointed by China's central government "on the basis of the results of elections or consultations to be held locally."<sup>3</sup>

Hong Kong's mini-constitution, the Basic Law, serves to legally implement China's obligations under the Joint Declaration.<sup>4</sup> The Basic Law holds that the "ultimate aim" for the development of Hong Kong's electoral system is to select the chief executive "by universal suffrage upon nomination by a broadly representative nominating committee in accordance with democratic procedures."<sup>5</sup> In the reporting year, Hong Kong's government advanced the electoral reform process to achieve the goal of implementing universal suffrage in the 2017 chief executive election. Pro-democracy advocates in Hong Kong supported not just expansion of suffrage to all Hong Kong's voters, but also relaxation of nominating requirements for potential candidates. While Beijing's decision on Hong Kong's electoral reform allows all eligible voters to participate in the next chief executive election, it proposes a nominating mechanism that will likely impede democratic candidates from standing

for election. This violates commitments made in the Basic Law to uphold election by “democratic procedures.”

### ***Electoral Reform Framework Proposed by Beijing***

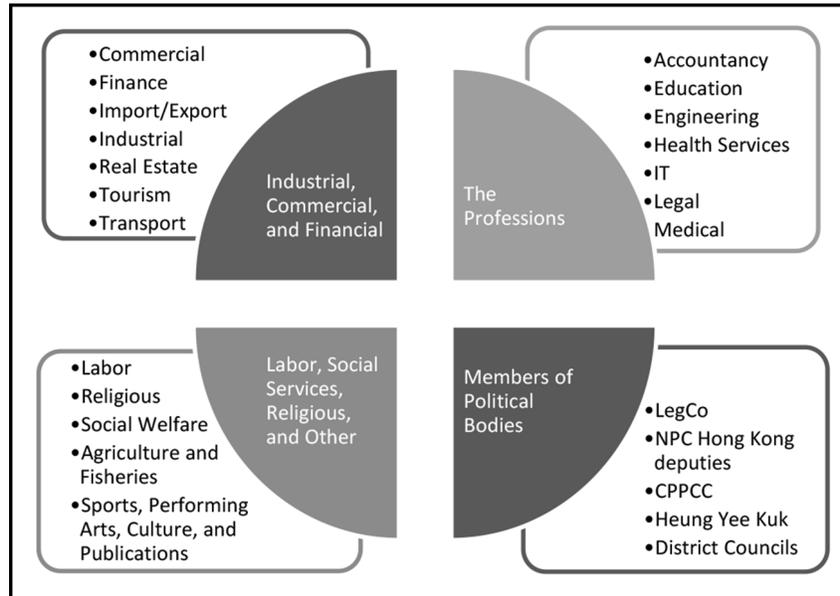
On August 31, 2014, China’s National People’s Congress (NPC) issued a decision that set new parameters for electing Hong Kong’s next chief executive. NPC’s ruling declared that in 2017 the chief executive may be elected by universal suffrage by the city’s 5 million eligible voters.<sup>6</sup> While implementing universal suffrage is considered a milestone for Hong Kong’s political development, the NPC’s decision—hailed by Beijing as “historic progress”<sup>7</sup>—ironically limits the choice of candidates that voters will have if Beijing’s proposal is approved by Hong Kong’s Legislative Council (LegCo).<sup>8</sup>

Currently, to be nominated, a potential chief executive candidate must be supported by no fewer than 150 members (or 12.5 percent) of the 1,200-member election committee, which since Hong Kong’s handover has also been responsible for electing the chief executive.<sup>9</sup> While election committee membership has expanded from 400 members in the first chief executive election to 1,200 members in the 2012 election, election committee members represent a mere 0.03 percent of Hong Kong’s registered voter population.\*<sup>10</sup> Moreover, election committee members are exclusively selected from four major “sectors” (see Figure 1). With strong business and political ties to mainland China, many members are local elites seeking to gain favor with Beijing.<sup>11</sup> One member of LegCo estimated that nearly 80 percent of election committee members are controlled by Beijing.<sup>12</sup> As a result of its small size and bias, the current nominating mechanism cannot reasonably be considered “broadly representative” as required by the Basic Law.<sup>13</sup>

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\*As of July 25, 2014, Hong Kong’s registered voters numbered 3,507,786. Hong Kong SAR’s Voter Registration Bureau, “Voter Registration Statistics,” July 25, 2014. <http://www.voterregistration.gov.hk/eng/statistic2014.html#1>.

**Figure 1: Composition of the Election Committee**  
(Selected Subsectors)



Source: Hong Kong SAR Government, "Let's Talk and Achieve Universal Suffrage," December 2013, pp. 55–56. [http://www.2017.gov.hk/filemanager/template/en/doc/Con\\_Doc\\_e\\_\(FINAL\)\\_with\\_cover.pdf](http://www.2017.gov.hk/filemanager/template/en/doc/Con_Doc_e_(FINAL)_with_cover.pdf).

Implementing universal suffrage in the 2017 election will improve upon the current election configuration in which only a minuscule fraction of Hong Kong's voters can participate, but Beijing's proposed framework for nominating chief executive candidates is more restrictive than the current mechanism. According to the NPC, only two or three candidates may be nominated to stand for election in 2017. Each candidate must be supported by more than 50 percent of the nominating committee, compared with 12.5 percent in the 2012 election.<sup>14</sup> Beijing announced that the 2017 nominating committee shall be formed "in accordance with the number of members, composition, and formation method of the Election Committee,"<sup>15</sup> such that the new nominating committee is expected to maintain the same pro-Beijing bias as the current election committee. Democracy advocates in Hong Kong worry that, though all eligible voters would have the opportunity to participate in the next chief executive election if Beijing's proposed framework is approved, the proposed nominating mechanism rules out the possibility of "genuine" democratic election because voters will only be able to choose among two or three Beijing-approved candidates.<sup>16</sup>

Beijing's proposal also stipulates that the chief executive must be a "patriot"<sup>17</sup> who "loves the country and loves Hong Kong."<sup>18</sup> In remarks made in 1984 regarding the transfer of Hong Kong's sovereignty to China under the "one country, two systems" policy,

former Chinese leader Deng Xiaoping\* identified a “patriot” as “one who respects the Chinese nation, sincerely supports the motherland’s resumption of sovereignty over Hong Kong, and wishes not to impair Hong Kong’s prosperity and stability.”<sup>19</sup> In contrast, Beijing’s current interpretation of the term “patriot” suggests that Hong Kong’s next chief executive should be loyal to the Chinese Communist Party (CCP). In an article published by state-run media outlet *Global Times* on September 10, 2014, Chen Xiankui, a professor of Marxism at the Renmin University of China, wrote that “love of party and love of country are one and the same in modern China,” implying that loyalty to the CCP is requisite for patriotism.<sup>20</sup> Hu Xijin, editor-in-chief of the *Global Times*, likewise argued on September 3 that separation of love of the Party from the concept of patriotism is a “poisonous arrow” fired by those with “ulterior motives” seeking to undermine China’s unity.<sup>21</sup>

Beijing’s conflation of loving the country with loving the Party extends to Hong Kong’s administrators. During a press conference explaining Beijing’s electoral reform proposal, Li Fei, deputy secretary-general of the NPC Standing Committee (NPCSC), stated “it goes without saying” that chief executive candidates must love both the country and the Party.<sup>22</sup> After democracy advocates in Hong Kong reacted angrily toward the patriotism requirement, NPCSC chairman Zhang Dejiang reportedly said the next chief executive “doesn’t have to love the Communist Party, or uphold the Communist Party,” according to Michael Tien, deputy chairman of a small, pro-Beijing political party in Hong Kong.<sup>23</sup> Zhang clarified that candidates “can’t be against the Communist Party and one-party rule.”<sup>24</sup> It is unclear whether conflicting views on patriotism among government officials are due to “ideological divergence” within the CCP or rhetorical confusion.<sup>25</sup>

While the “one country, two systems” principle and the Basic Law stipulate that the chief executive is “accountable” to both the Chinese and Hong Kong governments,<sup>26</sup> nowhere does the law mandate that the chief executive must be a patriot or loyal to the CCP. Likewise, according to Deng Xiaoping’s original explanation of the “one country, two systems” policy, Hong Kong’s leader need not “be in favor of China’s socialist system,” but only “love the motherland and Hong Kong.”<sup>27</sup> However, in a strongly-worded white paper on the implementation of the “one country, two systems” policy in Hong Kong issued on June 10, 2014, China’s State Council Information Office reasserted the central government’s position on how the policy applies to Hong Kong’s administrators. The white paper, a high-level document intended to explain Beijing’s policies to foreign audiences, addressed what Beijing considers the “many wrong views” surrounding Hong Kong’s political development that stem from “confused” and “lopsided” understanding of the “one country, two systems” principle.<sup>†</sup><sup>28</sup>

\*Though Deng never assumed the position of Communist Party Chairman, he held a working majority in the party’s leadership, and was considered China’s de facto ruler from the late 1970s through 1997.

†China has in the past issued white papers on Xinjiang (2003, 2009), Taiwan (1993, 2000), and several papers on separatist threats in Tibet. Open Source Center, *Hong Kong: White Paper Reaffirms China’s Predominance Over Political Reform*, August 25, 2014. ID: CHR20140825 61421053.

**China's White Paper on the Practice of  
"One Country, Two Systems"**

- *Hong Kong's Autonomy:* The white paper emphasized that Beijing maintains "overall jurisdiction" over Hong Kong, and that the "high degree of autonomy" guaranteed in Hong Kong's Basic Law is derived "solely from the authorization by the central leadership." The State Council asserted that, for Hong Kong, "there is no such thing called 'residual power.'" In accordance with the "one country, two systems" principle, the existence and preservation of Hong Kong's capitalist system "is subordinate to and derived from 'one country'."<sup>29</sup>
- *Universal Suffrage:* The white paper proclaimed Beijing's commitment to implementing a conditional form of universal suffrage in the 2017 chief executive election, which "must serve the country's sovereignty, security and development interests" and "tally with Hong Kong's actual conditions." Any system of universal suffrage "must conform to HKSAR's [Hong Kong Special Administrative Region] legal status as a local administrative region directly under the central government" and in "accord with" relevant NPCSC resolutions.<sup>30</sup>
- *Mandatory Patriotism:* The white paper asserted that "loyalty" and "loving the country" are "basic political requirements for Hong Kong's administrators."<sup>31</sup> This assertion echoed claims made by Chinese officials throughout the reporting year that the next chief executive of Hong Kong should abide by the principle of "love the country, love Hong Kong" and should not oppose nor confront China's central government.<sup>32</sup>

The barristers of the Hong Kong Bar Association (HKBA) have argued the requirement that Hong Kong's chief executive love China is "highly questionable as a matter of law" and "cannot possibly be a reasonable restriction" as it contradicts articles in the Basic Law that guarantee the right to stand for election in keeping with "democratic procedures."<sup>33</sup> Moreover, the HKBA has also argued that the categorization of Hong Kong's judges and judicial officers as "Hong Kong's administrators" upon whom a political requirement is imposed, as stated in the white paper, would send the message that Hong Kong's courts are "part of the machinery of the Government and sing in unison with it."<sup>34</sup>

- *Foreign Intervention:* The white paper warned of "outside forces" that are attempting to "use Hong Kong to interfere in China's domestic affairs," and called on readers to "prevent and repel the attempt made by a very small number of people who act in collusion with outside forces" from interfering with Beijing's interpretation of "one country, two systems" in Hong Kong.<sup>35</sup> Chinese state-run media and Chinese officials warned that Western-backed "color revolutions"<sup>36</sup> and "street politics"<sup>37</sup> bring not democracy but chaos comparable to that in Ukraine and the Middle East.

While the existing system has twice allowed democrats to run,\* requiring potential chief executive candidates to satisfy Beijing's standards of patriotism and earn approval from a largely pro-Beijing nominating committee makes it unlikely that a democratic candidate will be nominated, marking a "colossal step backwards" in Hong Kong's political development, according to former head of Hong Kong's civil service Anson Chan.<sup>38</sup> As such, Beijing's proposal appears to conflict with Article 45 of the Basic Law, which calls for election by universal suffrage in accordance with "democratic procedures."<sup>39</sup> Activists argue that Beijing's proposal also violates Article 25 of the International Covenant on Civil and Political Rights (ICCPR) as established by the United Nations Human Rights Council, which stipulates:

*Every citizen shall have the right and the opportunity, without any of the distinctions mentioned in article 2 and without unreasonable restrictions:*

- (a) *To take part in the conduct of public affairs, directly or through freely chosen representatives;*
- (b) *To vote and to be elected at genuine periodic elections which shall be by universal and equal suffrage and shall be held by secret ballot, guaranteeing the free expression of the will of the electors;*
- (c) *To have access, on general terms of equality, to public service in his country.*<sup>40</sup>

Article 39 of the Basic Law states that the ICCPR "shall remain in force and shall be implemented through the laws" in Hong Kong.<sup>41</sup> Therefore, any nominating mechanism that impedes certain candidates from standing election based on political affiliation is inconsistent with Article 39 and Article 45 of the Basic Law.

Considered by some scholars to be "the worst outcome imaginable,"<sup>42</sup> Beijing's plan for Hong Kong's next chief executive election may also be designed to shut down aspirations for democracy in the Mainland. Larry Diamond, founding co-editor of the *Journal of Democracy* and senior fellow at Stanford University's Hoover Institution, said that the "Iranian-style rigged system" proposed by China offers no progress toward democracy, and is "not even an effort to gesture toward democracy."<sup>43</sup> Hu Jia, a prominent Chinese dissident in Beijing, believes that, as Hong Kong is a "mirror for people on the Mainland," "the outcome of this battle for democracy will also determine future battles for democracy for all of China."<sup>44</sup> By offering only "fake" democracy, Beijing may be sending a message to Tibet, Xinjiang, and even Taiwan that political change must ascribe to Beijing's rules.<sup>45</sup>

There are few remaining options for rectifying Hong Kong's electoral system before changes to the 2017 electoral method are finalized. A proposal based on Beijing's framework will not be adopted unless it is approved by two-thirds majority in LegCo. If the pro-

\* The two pro-democracy (or, "pan-democrat") chief executive candidates who stood for election in the past are Civic Party legislator Alan Leong Kah-kit in 2007 and Democratic Party legislator Albert Ho Chun-yan in 2012. Li Xueying, "China Insists on Right to Choose Candidates for Hong Kong Leader," *Straits Times*, August 31, 2014. <http://www.straitstimes.com/news/asia/east-asia/story/china-insists-right-choose-candidates-hong-kong-leader-xinhua-20140831>.

posals is not approved, Hong Kong will maintain its current electoral system under which the largely pro-Beijing election committee would choose the chief executive in 2017.<sup>46</sup> All 27 pan-democratic LegCo members (of 70 total members) vowed to veto a final proposal that is based on Beijing's framework,<sup>47</sup> but NPCSC Deputy Secretary-General Li Fei said that it would be a "big step backwards" if LegCo did not approve the plan.<sup>48</sup> Another possibility is that the formation of the nominating committee, yet undetermined, will not be as closely modeled on that of the election committee as expected. If the electoral base of the nominating committee were expanded, democratic candidates might still have a chance of being nominated. Regardless of which electoral configuration is chosen by Hong Kong, the NPCSC has the final say on any changes to the Basic Law, including changes to electoral methods.<sup>49</sup>

Some analysts believe that Beijing's display of control over Hong Kong's political reform may reflect the central government's perception that Hong Kong's economic importance to China is declining. According to a report issued on August 27, 2014, by Trigger Trend, a Guangzhou-based research firm, Hong Kong is becoming a "mere second-tier city" in China.<sup>50</sup> Based on comparisons of Hong Kong's annual gross domestic product (GDP) growth with that of major regional cities in China, the report concluded that Guangzhou, Shenzhen, and Tianjin will overtake Hong Kong in terms of GDP by 2017, while inland cities including Chongqing, Chengdu, and Wuhan will catch up by 2022.<sup>51</sup> Hong Kong has long been the gateway to foreign investment in China, and is consistently ranked near-top in global competitiveness by international organizations.\* However, if China accomplishes its lofty economic reform goals to internationalize the renminbi, liberalize its capital account, and reform the banking system, Hong Kong's role as a middleman in facilitating capital flows into China may shrink, according to the Chinese Academy of Social Sciences, a government think tank.<sup>52</sup> China is only obligated to maintain Hong Kong's status as a market economy until 2047 in accordance with the Sino-British Joint Declaration; if the two economies are less integrated at that time, Hong Kong's designation as a market economy is susceptible to change.

### ***International Response to Beijing's Proposed Electoral Reform Framework***

In July 2014, the United Kingdom (UK) parliament's Foreign Affairs Committee (FAC) launched an inquiry into the UK's relations with Hong Kong 30 years after the signing of the Joint Declaration.<sup>53</sup> The inquiry aims to determine whether Britain and China are "living up" to commitments made to preserve residents' lifestyle, rights, freedoms, and social system for 50 years after the handover. Lord Chris Patten, the last colonial governor of Hong Kong, believes that the United Kingdom has a "continuing moral and political obligation" to ensure that China keeps the commitments it made.<sup>54</sup> The inquiry has been met with suspicion and fierce opposition from Chinese officials, who call for it to be can-

\*In 2014, Hong Kong ranked second by the World Bank in ease of doing business; fourth by the International Institute for Management Development in world competitiveness; and first by The Heritage Foundation in economic freedom.

celled as it interferes in China's internal affairs.<sup>55</sup> Liu Xiaoming, Chinese ambassador to Britain, warned FAC chairman Richard Ottaway that the inquiry does not "serve the prosperity and stability of Hong Kong, or the healthy development of China-UK relations," and that it "will ultimately harm the interests of Britain."<sup>56</sup>

In response to Beijing's election framework proposal, the U.S. Department of State warned that Hong Kong's stability and prosperity are dependent on maintaining the city's status as "an open society with the highest possible degree of autonomy and governed by rule of law."<sup>57</sup> After U.S. national security advisor Susan Rice met with top Chinese officials in early September 2014, U.S. officials said "the ability for people of Hong Kong to choose their leadership based on the will of voters" is fundamental, and while Beijing's proposal is one step of the electoral reform process, "there's further to go."<sup>58</sup> Following the eruption of pro-democracy protests in Hong Kong in late September 2014, White House Press Secretary Josh Earnest said the legitimacy of the chief executive would be diminished if voters were not given "a genuine choice of candidates that are representative of the peoples' and the voters' will."<sup>59</sup> When U.S. Secretary of State John Kerry addressed the electoral decision protests in a meeting with Chinese Foreign Minister Wang Yi in Washington, DC, on October 1, 2014, Mr. Wang insisted that "Hong Kong affairs are China's internal affairs," and that "illegal acts that violate public order" will not be tolerated.<sup>60</sup> Hua Chunying, spokesperson for China's Ministry of Foreign Affairs, reaffirmed that China "firmly opposes external forces supporting illegal activities, such as the [democracy campaign known as the] Occupy Central movement," and is "opposed to any foreign and external interference in China's internal affairs by any country."<sup>61</sup> President Obama is expected to raise the issue with Chinese President Xi Jinping in November.<sup>62</sup>

### ***Hong Kong's Democratic Movement***

The people of Hong Kong remained politically active throughout the year, as demonstrated by the high volume of protests held. Notably, on June 4, 2014, the 25th anniversary of the Tiananmen Square massacre, more than 100,000 Hong Kong residents gathered to commemorate the victims of China's crackdown on peaceful student protest. The largest since 1989,<sup>63</sup> the vigil mirrored growing discontent among some Hong Kong residents with China's historical attempts to restrict civil liberties. On July 1, 2014, the 17th anniversary of Hong Kong's handover, democracy advocates peacefully participated in one of the largest marches in Hong Kong's history, from Victoria Park through the Central business district. Estimates of attendance vary widely: police said that the number of marchers peaked at just over 98,000, while the University of Hong Kong and *South China Morning Post* estimated the total was closer to 150,000. Pro-democracy group Civil Human Rights Front, organizer of the march, estimated that 510,000 people marched during the eight-hour demonstration.<sup>64</sup>

Intense political campaigning in the lead-up to the central government's decision on electoral reform in 2017 spurred reactions from groups across the political spectrum. Democracy advocates drew wide support from students, middle-class voters, independent

media,\* and members of the city's judiciary. The most prominent pro-democracy force, known as Occupy Central with Love and Peace (Occupy Central), is a civil disobedience campaign organized in 2013 to advocate for democratic elections in Hong Kong. Since its inception, Occupy Central has widely publicized that 10,000 of its participants will occupy Hong Kong's Central business district, effectively blocking access to government offices and buildings that operate there, unless Beijing accepts sufficiently democratic elections in Hong Kong.<sup>65</sup>

Both Hong Kong and Chinese authorities expressed disdain for the Occupy Central movement. Current Chief Executive Leung Chun-ying (CY Leung) and Chinese Vice President Li Yuanhao denounced the movement as illegal, and threatened that carrying out any protests would "delay universal suffrage."<sup>66</sup> On August, 17, 2014, protesters supporting Beijing's view and estimated to number between 88,000 and 111,000 marched through the city to express their opposition to Occupy Central, which they claimed would disrupt peace and prosperity in Hong Kong.<sup>67</sup> Amid allegations that marchers were bribed to attend, one Chinese-language news source reported that the Federation of Hong Kong Shenzhen Associations might have arranged for as many as 20,000 people to march in exchange for \$38 and a free lunch.<sup>68</sup>

Occupy Central also attracted criticism from multinational companies. The Big Four global accounting companies (Ernst & Young, KPMG, Deloitte Touche Tohmatsu, and PricewaterhouseCoopers) jointly issued advertisements in three Chinese-language newspapers stating their opposition to Occupy Central, warning that it threatens rule of law and disrupts business with multinational clients.<sup>69</sup> After pulling valuable advertisements from pro-democracy news outlets (see "Declining Freedom of the Press," later in this section), British bank HSBC urged investors to sell stock in Hong Kong companies citing "negative news flows" regarding Occupy Central that could serve to "sour relations with China and ... hurt the economy."<sup>70</sup>

Leading up to Hong Kong's annual July 1 march marking the region's 1997 handover, Occupy Central organized an unofficial city-wide referendum on three electoral reform proposals, all of which advocated some form of public nomination (see Table 1).<sup>71</sup> Nearly 800,000 Hong Kong residents, or 22.4 percent of registered voters, participated in the referendum.<sup>72</sup> Of the three proposals, about 42 percent of voters backed that of the Alliance for True Democracy, which gives nomination privileges to the public, political parties, and nominating committee members. Nearly 90 percent of voters wanted LegCo to veto any government proposal that does not allow for genuine fair nomination of chief executive candidates.<sup>73</sup> Public nomination has since been ruled out by the Chinese government, arguing that the Basic Law mandates nomination by a "broadly representative" nominating committee.<sup>74</sup>

\* In this section, independent media refers to media sources that retain a high degree of freedom from political intervention and commercial influence, and promote democracy and freedom of speech in Hong Kong. "Hong Kong In-Media," Multiple Journalism. <http://www.multiplejournalism.org/case/hong-kong-in-media/e-a-c-c-a-e-i>.

**Table 1: Referendum Proposals for Chief Executive Nomination**

<b>Proposal Originator</b>	<b>Supporters</b>	<b>Nomination Requirements</b>
Alliance for True Democracy	Democratic and Civic parties; 26 pro-democracy legislators (of 27 total); Joseph Cheng (convener).	Candidates require either support of at least 1 percent of registered voters; endorsement from political parties that have won at least 5 percent of votes in the previous legislative election; or, direct election by nominating committee. <sup>75</sup>
Scholarism and Hong Kong Federation of Students	Civic Party; Joshua Wong (convener).	Candidates require support of at least 1 percent of registered voters. <sup>76</sup>
People Power	2 legislators; Wong Yuk-man and Albert Chan (conveners).	Candidates are nominated by the public, LegCo members, and district council members. <sup>77</sup>

Voter turnout surpassed expectations despite “one of the largest cyberattacks in history” temporarily shutting down the voting website.<sup>78</sup> Matthew Prince, chief executive of online security firm CloudFlare, explained that the distributed denial-of-service (DDoS) attacks on the voting site, considered to be among the “most sophisticated” DDoS attacks ever seen, shut down the site by hijacking computers scattered across the world with malware or viruses and using them to send requests to the site in extremely rapid succession.<sup>79</sup> According to Young Wo-sang, poll IT advisor and convener of the Internet Society of Hong Kong’s security and privacy working group, 30 to 40 percent of the 10 billion DDoS attacks came from IP addresses registered to mainland firms in Hong Kong.<sup>80</sup>

In the week leading up to the National Day holiday, which celebrates China’s founding, on October 1, 2014, public dissatisfaction with Beijing’s electoral reform proposal broke out in waves of protest throughout Hong Kong. On September 22, thousands of Hong Kong university students commenced a five-day strike by boycotting classes and demanding “genuine” electoral choice.<sup>81</sup> The Hong Kong Federation of Students, organizer of the boycott, estimated that 13,000 of Hong Kong’s 78,000 undergraduate students attended a democracy rally originating at the Chinese University of Hong Kong on September 22.<sup>82</sup> By Friday, September 26, university students were joined by approximately 1,500 grade school students outside the home of CY Leung where they demanded to discuss Hong Kong’s democratic future with him.<sup>83</sup> Receiving no response, a group of about one hundred protestors gathered near the government headquarters. Some attempted to breach a barricaded area known as Civic Square that was blocked by police, who used pepper spray and arrested some protestors.<sup>84</sup>

With participants estimated to number close to 200,000,<sup>85</sup> protests continued to escalate into the early morning of September 28, when riot police fired 87 cans of tear gas at protestors in order to clear the swelling crowds from the business district roadways.<sup>86</sup> Cheung Tak-keung, assistant commissioner of Hong Kong police,

said police had “no alternative” but to fire tear gas—considered a tactic of “minimum force”—to control crowds.<sup>87</sup> One day later, inspired by “the courage of the students and members of the public in their spontaneous decision to stay” despite police action, Occupy Central organizers announced the movement’s official commencement ahead of schedule to join student protests.<sup>88</sup> The protesters—now comprising Occupy Central, the students, and other supporters—adopted the moniker “Umbrella Revolution” to describe the movement, as many demonstrators used umbrellas to shield themselves from pepper spray and tear gas.<sup>89</sup>

After riot police were withdrawn on September 29, protesters continued demonstrating through National Day on October 1. Some protesters, including Occupy Central co-founder Benny Tai Yiu-ting and organizers of the Hong Kong Federation of Students, demanded that Mr. Leung step down.<sup>90</sup> While removing Mr. Leung from office would placate protesters’ demands in the short-term without obstructing Beijing’s plan for electoral reform, any new leader to take office before Beijing’s reforms are implemented would be selected by the electoral method currently in place.<sup>91</sup> On October 2, the Communist Party newspaper *People’s Daily* reported that the central government would continue “unswervingly” to support Mr. Leung.<sup>92</sup> Public criticism of Mr. Leung intensified, however, following revelations of his failure to disclose payments he received totaling \$6.4 million from an Australian engineering company during his term as chief executive.<sup>93</sup> According to Mr. Leung’s statement, he is not required by Hong Kong law to disclose the payments.<sup>94</sup>

In reaction to the Umbrella Revolution protests, Hong Kong Chief Secretary Carrie Lam said on September 29 that further government discussions on political reform would be postponed until the Hong Kong government could “re-examine the situation and find a better time to introduce the next round of consultations.”<sup>95</sup> Mr. Leung said that protesters should not expect the NPC to reconsider or reverse their ruling on Hong Kong’s electoral reform because “the Chinese government won’t give in to threats asserted through illegal activity.”<sup>96</sup> An advisor to Mr. Leung indicated that the Hong Kong government’s strategy for handling the protests was to “wait and patiently deal with the crisis . . . to resolve it peacefully,”<sup>97</sup> but an editorial published in the *People’s Daily* on October 2 threatened that the “consequences will be unimaginable” for protesters, who “incited the masses, paralyzed transportation, disrupted businesses, stirred up conflict, and interfered with the daily lives of Hong Kong people,” and accused Occupy Central of obstructing Hong Kong’s “smooth transition to democracy.”<sup>98</sup>

With no clear resolution in sight, demonstrations over Beijing’s decision continued through October in the face of pressure from police, the public, and violent gangs. Starting October 3 and continuing sporadically throughout the protests, gangs suspected of having links to the Triads, an organized crime group, infiltrated crowds supporting and opposing the Occupy Central protests, provoking violence among peaceful demonstrations in the Mong Kok district. According to police superintendent Dan Ng Wai-hon, up to 200 suspected gangsters, of whom more than 40 were arrested in connection with the October 3–4 attacks for fighting and illegal

gathering, “were well-organized and came with a purpose,” though police are still investigating their exact motives.<sup>99</sup> On October 15, clashes between protesters and police over the removal of barricades to resume traffic flow resulted in the beating of a handcuffed protester by seven police officers, who were later suspended.<sup>100</sup>

Following the cancellation of two previously scheduled negotiations, Hong Kong government officials met with five student leaders on October 21 to discuss their perspectives on electoral reform.<sup>101</sup> In response to students’ concerns that the Hong Kong government’s July 2014 report to Beijing on popular political views misled the NPC and influenced its proposed guidelines, Chief Secretary Lam conceded that the government was willing to submit a new report to Beijing acknowledging the popular discontent stirred up by the NPC’s electoral reform decision.<sup>102</sup> The students and other protesters intend to continue demonstrating until their demands for an open nominating process are met, but Mr. Leung reiterated that the Hong Kong government “cannot make something that is not in the Basic Law possible,” and “the Central Authorities . . . will not retract the decision of the Standing Committee.”<sup>103</sup> At the time of writing (October 29, 2014), student protesters and government officials remained deadlocked over Beijing’s decision.

### ***Macau and Taiwan Follow Hong Kong***

Inspired by Occupy Central’s June referendum, democracy activists in Macau held their own informal referendum from August 24–30, 2014, to determine whether residents support universal suffrage in the 2019 chief executive election.<sup>104</sup> Only hours after the referendum began on August 24, police arrested five participants, including poll organizer Jason Chao, on charges of “qualified disobedience,” and started shutting down polling stations.<sup>105</sup> Despite heavy police interference, nearly 9,000 residents cast their votes through an online polling website similar to that used in Hong Kong’s referendum. The results of the poll showed that 89 percent of participants do not trust the current chief executive, Fernando Chui, and that 95 percent of participants support universal suffrage in the 2019 chief executive election.<sup>106</sup> Chief Executive Chui was re-elected to office on August 31 by a 400-member pro-China election committee.<sup>107</sup> He was the only candidate.<sup>108</sup>

For Taiwan, the reform outcome in Hong Kong serves as a warning that, if Taiwan were reunified with China, Beijing would not likely adhere to its promise to protect Taiwan’s civil liberties. In 1982, the NPC made a constitutional provision for reunifying Taiwan with China as a special administrative region under the “one country, two systems” principle, exactly like Hong Kong.<sup>109</sup> Under this provision, “Taiwan’s current social and economic systems [would] remain unchanged, its way of life [would] not change, and its economic and cultural ties with foreign countries [would] not change.”<sup>110</sup> On September 26, 2014, President Xi reaffirmed China’s “firm and unwavering stance” that the best way to reunify Taiwan with China would be under the “one country, two systems” framework.<sup>111</sup> Alan D. Romberg, director of the East Asia program at public policy think tank the Stimson Center, argued that China’s strongly-worded white paper on the application of the “one country, two systems” policy in Hong Kong strengthened the case for Tai-

wanese independence as Hong Kong's "high degree of autonomy" has come under threat.<sup>112</sup>

Democracy advocates in Hong Kong and Taiwan have become more engaged under the shared threat of China's control. Activists in Hong Kong and Taiwan have supported each other throughout both Hong Kong's democratic movement and Taiwan's Sunflower Movement, in which participants occupied the Legislative Yuan in March and April 2014 to protest the Cross-Strait Services Trade Agreement (see Chapter 3, Section 3, "Taiwan," for fuller treatment of Taiwan and the Sunflower Movement). Taiwan's main political parties, typically fiercely divided, similarly expressed regret at Beijing's decision to limit electoral reform in Hong Kong. President Ma Ying-jeou expressed a "high degree of concern and support for [the] Hong Kong people's continuing fight" for democratic progress, while a spokesman from rival Democratic Progressive Party said that Beijing's decision "casts a shadow over the process of democratization."<sup>113</sup>

Following the breakout of Umbrella Revolution protests in response to Beijing's decision, President Ma reaffirmed that he "fully understand[s] and support[s] Hong Kong residents' demand for free nomination and election of Hong Kong's chief executive, and urge[s] the Mainland authorities to listen carefully to the voices of Hong Kong residents and handle the matter in a peaceful and cautious manner."<sup>114</sup> On Taiwan's National Day, October 10, President Ma reiterated his strong support not just for Hong Kong's democratic movement, but for the Mainland's as well, stating "now is the most appropriate time for mainland China to move toward constitutional democracy."<sup>115</sup>

### **China's Increasing Military Presence in Hong Kong**

Heightened activity by the People's Liberation Army (PLA) in Hong Kong throughout the reporting year alarmed Hong Kong pro-democracy advocates and media, as well as international observers. Under Article 14 of the Basic Law and in accordance with the "one country, two systems" policy, China's central government is responsible for the defense of Hong Kong. As such, the PLA's Hong Kong garrison is tasked with the following functions to "vigorously safeguard China's sovereignty and territorial integrity":<sup>116</sup>

1. To guard against and resist aggression, and to guarantee Hong Kong's security;
2. To shoulder the responsibility of defense and patrol duty;
3. To take charge of military installations;
4. To undertake relevant foreign military affairs.<sup>117</sup>

One indicator that Chinese military presence in Hong Kong will continue to expand is the Hong Kong Town Planning Board's unanimous approval on February 14, 2014, to rezone an area of public space measuring 2,970 square meters along the waterfront of Victoria Harbor where a Chinese military port is being constructed.<sup>118</sup> The establishment of the "Central Military Dock" (CMD) was originally provisioned in 1994 under the Sino-British Defense Land

Agreement (DLA), and its construction is now near completion.<sup>119</sup> Government officials said that the CMD would be used for “conducting military training, berthing military vessels, running ceremonial activities and carrying out pier maintenance,” though the dock will be open to the public when not in use.<sup>120</sup>

Public objections to the CMD construction plan were significant; during the public consultation period, only 0.1 percent of about 19,000 comments favored the plan.<sup>121</sup> One of the most contentious points was the Town Planning Board’s decision to rezone the area from “open space” to “military use.”<sup>122</sup> Opponents of the CMD argue the rezoning not only disrupts public access to the waterfront promenade,\* but ensures that public access and law enforcement in that area fall under the discretion of the commander of the PLA garrison rather than the Hong Kong police.<sup>123</sup> While Annex III of the DLA guaranteed that the “Hong Kong Government will leave free 150 meters of the eventual permanent waterfront . . . for the construction of a military dock after 1997,” it did not stipulate that zoning should be altered in any way.<sup>124</sup>

In protest of the CMD construction plans, four activists forced their way into garrison headquarters on December 26, 2013, calling for the PLA to “get out” of Hong Kong.†<sup>125</sup> In a move widely perceived as retaliatory, the PLA staged its first air-and-sea drill of 2014 in Victoria Harbor less than one month after the protests. The January 24, 2014, drill was carried out by two frigates and three helicopters, and was intended to make the PLA “more familiar with the air-and-sea situation of Hong Kong and improve its ability to handle emergency situations,” according to state media.<sup>126</sup> Ni Lexiong, a naval expert and professor of Political Science and Law at Shanghai University, contended the drill was “aimed at warning the public that Hong Kong could continue to enjoy a certain level of freedom, but should not challenge the central government’s political authority, with military means being Beijing’s last step to maintain Hong Kong’s prosperity and stability.”<sup>127</sup>

The CMD is the 19th military site in Hong Kong transferred from the British Army to the PLA as a Military Installations Closed Area (MICA), 18 of which currently cover an area totaling 2,700 hectares (27 square kilometers).<sup>128</sup> Hong Kong’s Garrison Law stipulates that all restricted access military zones must be defined by the garrison “in conjunction with” the Hong Kong government, while the “locations and boundaries” of such zones shall be declared by the Hong Kong government.<sup>129</sup> However, an undisclosed PLA radar station and compound atop Hong Kong’s tallest mountain, Tai Mo Shan, was discovered in July 2014.<sup>130</sup> The military and security publication *Jane’s Defense Weekly* reported the station is likely an electronic and signals intelligence (ELINT/SIGINT) facility, though the PLA refused to confirm, citing “military secrecy.”<sup>131</sup> The facility is behind fences that restrict public access. Dr. Kenneth Chan Ka-lok, a LegCo member of the Civic

\* When the CMD section of the promenade is closed for military use, the public can use a pedestrian walkway to the south of the dock area. Hong Kong Security Bureau, e-mail exchange with Commission staff, October 17, 2014.

† The four activists were subsequently arrested and convicted for breach of the Public Order Ordinance. Hong Kong Security Bureau, e-mail exchange with Commission staff, October 17, 2014.

Party, supported conducting a judicial review over the garrison's non-disclosure of the construction and use of the facility because "the public has no knowledge about this and [LegCo] cannot find anything about it from documents filed to the legislature."<sup>132</sup> With regard to the compound, which is not listed among Hong Kong's 19 designated military sites (including the CMD), Dr. Chan said the PLA "should follow the Garrison Law provisions to designate the place as a military site with restricted public access."<sup>133</sup>

On July 1, 2014, the same day as the annual march marking Hong Kong's handover, the PLA opened three military bases for public viewing of the barracks.<sup>134</sup> The garrison displayed several new pieces of military equipment during the "open day":

- Small arms: Type 11 pistol, Type 06 (QSW06) silenced pistol, and Type 10 (QBU10) antimateriel rifle
- The garrison's first two Type 056 Jingda-class corvettes: Huizhou (596) and Qinzhou (597)
- Logistics vehicles: Dong Feng EQ2102J-based trucks<sup>135</sup>

New equipment is often first tested by the garrison before being introduced more widely into PLA service.<sup>136</sup> Among the previously used pieces of equipment displayed was a Z-9WA helicopter armed with two 23mm cannons.<sup>137</sup>

Some Hong Kong commentators believe that the central government could deploy garrison forces to quell democracy protests and that recent increases in military activity are in part meant to intimidate protesters.<sup>138</sup> For example, during "counter-terrorism" drills open to the public that were conducted on July 1, PLA soldiers at the bases were seen carrying riot shields and pepper spray for the first time.<sup>139</sup> While the garrison "does not interfere in Hong Kong affairs," the Hong Kong government may by law request assistance from the garrison as necessary "in the maintenance of public order and in disaster relief."<sup>140</sup> Further, if the NPCSC decides that Hong Kong is in a state of emergency which "by reason of turmoil . . . endangers national unity or security and is beyond the control of the [Hong Kong] government," the central government in Beijing "may issue an order applying the relevant national laws" at its own discretion.<sup>141</sup>

Alan Hoo, chairman of the Basic Law committee and a Hong Kong delegate to the Chinese People's Political Consultative Conference (CPPCC), likened the Occupy Central movement to recent terrorist attacks in Kunming and Xi'an, and claimed that Occupy Central threatens China's national security.<sup>142</sup> According to Hoo, Occupy Central not only justifies PLA intervention under a state of emergency, but also "fosters the legislation of Basic Law Article 23," which mandates:

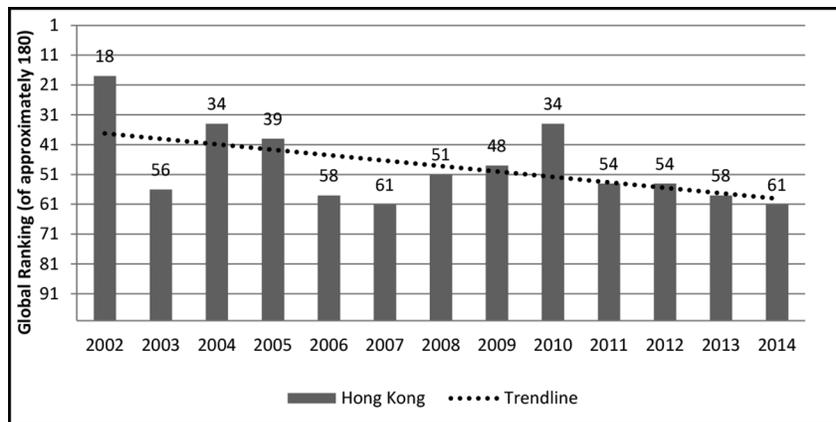
*The Hong Kong Special Administrative Region shall enact laws on its own to prohibit any act of treason, secession, sedition, subversion against the Central People's Government, or theft of state secrets, to prohibit foreign political organizations or bodies from conducting political activities in the Region, and to prohibit political organizations or bodies of the Region from establishing ties with foreign political organizations or bodies.*<sup>143</sup>

In 2003, an anti-subversion bill proposed under Article 23 was shelved after 500,000 Hong Kong residents protested its implementation.<sup>144</sup> Earlier this year, mainland academics insisted that Hong Kong temporarily adopt Beijing's national security laws until its own Article 23 legislation is passed.<sup>145</sup> Jasper Tsang Yok-sing, president of the LegCo, said that such a proposal is not consistent with Article 23 of the Basic Law, which stipulates that Hong Kong's government should enact its own laws to handle subversion against the central government.<sup>146</sup>

### Declining Freedom of the Press

The reporting year was considered “the darkest for press freedom for several decades” by the Hong Kong Journalists Association (HKJA), as demonstrated by the region's continued fall in global press freedom rankings (see Figure 2).<sup>147</sup> According to Freedom House, a U.S.-based independent watchdog organization that ranks countries by press freedom indices, violence against journalists and pressure from mainland China were two factors that contributed to the downward trend in Hong Kong's press freedom dating back to 2004.<sup>148</sup> Likewise, Reporters Without Borders' 2014 world press freedom index indicated that “growing subjugation” of the Hong Kong administration and media to China's central government is “increasingly compromising media pluralism.”<sup>149</sup>

Figure 2: Hong Kong's Global Press Freedom Ranking



Source: “Freedom of the Press,” Reporters Without Borders, 2002–2014. <http://en.rsf.org/>.

Self-censorship on the part of reporters and media outlets alike remained prevalent in Hong Kong in the reporting year.<sup>150</sup> According to a report from the Committee to Protect Journalists, more than half of Hong Kong's media owners hold political appointments in two of China's main political bodies, the NPC and the CPPCC, including Charles Ho of the Sing Tao news group; Richard Li (son of Li Ka-shing, commonly referred to as the richest person in Asia) of Now TV and the *Hong Kong Economic Journal*; and Peter Woo of i-Cable television.<sup>151</sup> As a result, political considerations tend to overshadow objective reporting. According to a 2012 survey of jour-

nalists conducted by the HKJA, nearly 40 percent of respondents said that “they or their supervisors had recently played down information unfavorable to China’s central government, advertisers, media owners, or the local government.”<sup>152</sup>

In the run-up to the 2017 election, the role of the press in determining Hong Kong’s democratic future has become even more critical. Members of the press and media outlets perceived as hostile to Beijing’s interpretation of “one country, two systems” continued to suffer professional and physical attacks, exemplified by the plight of one of Hong Kong’s few remaining independent newspapers, *Ming Pao*. In January 2014, *Ming Pao* announced the abrupt dismissal of its chief editor, Kevin Lau Chun-to, after nearly two years on the job. Though *Ming Pao* claimed Mr. Lau was simply moving to a new position, journalists and scholars speculated that Mr. Lau’s removal was retaliation for *Ming Pao*’s criticism of government policies and its revelation of the political scandals that derailed 2012 pro-Beijing chief executive candidate Henry Tang under Mr. Lau’s tenure.<sup>153</sup> *Ming Pao* also partnered with the Consortium of Investigative Journalists in January 2014 to publish an investigation into the overseas tax-haven accounts of Chinese officials.<sup>154</sup>

Out of concern for the preservation of Hong Kong’s press freedom, more than 90 percent of *Ming Pao*’s editorial staff petitioned the paper to cite reasons for Mr. Lau’s dismissal, while hundreds of protesters gathered outside *Ming Pao*’s offices calling for media independence.<sup>155</sup> Rallies for press freedom continued throughout February 2014, when popular radio host Lee Wai-ling, who is known for her Beijing-critical commentary, was dismissed without explanation by Commercial Radio Hong Kong (CRHK), one of Hong Kong’s two commercial radio broadcasting companies.<sup>156</sup> To continue broadcasting, CRHK must apply to extend its license, issued by the Hong Kong Broadcasting Authority, by August 25, 2015. It is an “open secret,” according to former CRHK broadcasting director Cheung Man-ye, that outspoken program hosts are often forced to leave due to government pressure when a broadcasting company is applying for license renewal.<sup>157</sup>

On February 26, less than two months after his dismissal, Mr. Lau was critically injured by a knife-wielding assailant in Hong Kong’s Sai Wan Ho neighborhood.<sup>158</sup> Prompted by the belief that the attack (and previous attacks on journalists)<sup>159</sup> was initiated by pro-Beijing assailants in an effort to threaten free media, nearly 10,000 protesters took to the streets on March 2, 2014, in support of Hong Kong’s press freedom, carrying banners reading “They Can’t Kill Us All.”<sup>160</sup> Two suspects found in southern China’s Guangdong Province were charged with Mr. Lau’s assault, and admitted that, as members of Hong Kong triad gang Shui Fong, they were each paid approximately \$130,000 to harm but not kill Mr. Lau and then go into hiding on the Mainland.<sup>161</sup> Hong Kong Police Commissioner Andy Tsang Wai-hung said that the attack had “nothing to do with press freedom,” but that the assailants were merely hired hitmen.<sup>162</sup> Less than one month after Mr. Lau’s attack, two Hong Kong media executives were attacked by four assailants with metal bars, an act condemned by the HKJA as another sign of Hong Kong’s deteriorating press freedom.<sup>163</sup>

### History of Attacks on Journalists in Hong Kong

- *March 2014*: Lam Kin-ming and Lei Lun-han, executives with a new publication, *The Hong Kong Morning News*, were assaulted by four assailants with metal pipes.
- *February 2014*: Kevin Lau Chun-to, former chief editor of the investigative newspaper *Ming Pao*, was badly injured by a knife-wielding assailant.
- *July 2013*: Sze Wing-ching, founder of free Hong Kong daily *am730*, had his car window smashed by two men as he was driving in downtown Hong Kong.
- *June 2013*: A car was rammed into the gates of the residence of Jimmy Lai, founder of the pro-democracy Next Media Group, and an ax and machete were left behind at the scene.
- *June 2013*: Chen Ping, publisher of the political weekly *iSun Affairs*, was beaten by two men wielding batons.
- *July 2008*: Jimmy Lai and pro-democracy leader Martin Lee were the targets of a failed assassination attempt.
- *November 2005*: A small homemade bomb was sent to *Ming Pao's* editorial offices along with a threatening letter, injuring one female employee.
- *August 1998*: Albert Cheng, host of talk radio's popular "Tea-cup in a Tempest" program, was slashed with carving knives on his way to work and seriously wounded.

Source: Isabella Steger, "Thousands Take to the Streets to Support Hong Kong Press Freedom." *Wall Street Journal*, March 2, 2014. <http://online.wsj.com/news/articles/SB10001424052702304585004579414611826771446>.

Beijing continued to exert political and economic pressure on businesses that advertise in pro-democracy media sources, further suppressing Hong Kong's press freedom. Hong Kong's Next Media Limited (Next Media), the publisher of the outspoken paper *Apple Daily*, was reportedly boycotted by its two biggest advertisers at the instruction of China's central government.<sup>164</sup> According to Next Media executive Mark Simon, HSBC and Standard Chartered banks were pressured by the central government's liaison office in Hong Kong into ending their long-held advertising relationships with *Apple Daily* in September 2013.<sup>165,166</sup> Mr. Simon reported that prior to the boycott, the two banks spent approximately \$3.8 million on advertisements in *Apple Daily* annually.<sup>167</sup> In addition to the losses incurred by the banks' boycotts, Next Media reported that additional advertising boycotts on the part of Beijing-dependent firms cost the company at least \$26 million annually, or 10 percent of its present value.<sup>168</sup>

Manipulation of media advertising by the central government is likely retaliation for the independent media's outspoken pro-democracy stance. Jimmy Lai, owner of Next Media and the "most powerful critic of the Chinese Communist Party in Hong Kong," has been an outspoken political activist since the 1989 Tiananmen Square massacre.<sup>169</sup> Under his leadership, Next Media released an online

animated video mocking Bloomberg's alleged self-censorship—based on commercial interests—to axe a story on the private wealth of Communist party elites in October 2013.<sup>170</sup> Bloomberg later denied the allegations.<sup>171</sup> Next Media and *Apple Daily* also face the threat of cyber attacks in retaliation for critical reporting. In the days leading up to Occupy Central's unofficial referendum on June 20, *Apple Daily's* website was flooded by more than 10 billion DDoS attacks in a 24-hour period, many originating from IP addresses in China and Russia.<sup>172</sup> *Apple Daily* suspected that the attacks were “carried out by hackers from China, trying to suppress Hong Kong people's determination to fight for democracy and to attack the pro-universal suffrage Next Media group.”<sup>173</sup>

Independent media suffered another blow on July 26, 2014, when popular pro-democracy news website House News unexpectedly announced its closure, citing intense political pressure.<sup>174</sup> Tony Tsoi Tung-ho, House News co-founder and outspoken supporter of Occupy Central, explained his fear of the political atmosphere in a note he posted on the site:

*Hong Kong has changed. To act as a normal citizen, a normal media outlet and to do something right for society is becoming difficult, or even terrifying—not that you feel alienated, but fearful. The ongoing political struggle makes people very anxious—many democrats are tracked and smeared. Their past records have been dug up. A sense of White Terror\* lingers in society and I feel the pressure as well.*<sup>175</sup>

Mr. Tsoi also noted that the popular news aggregator site was not profitable because advertisement revenues were disproportionately low.<sup>176</sup> House News co-founder Leung Man-tao explained that “many big companies don't place advertisements on our website because of our critical stance towards the government and Beijing.”<sup>177</sup> In his shutdown announcement, Mr. Tsoi claimed that Hong Kong's tense political atmosphere and “abnormal society” have twisted the market, forcing House News to abandon its core democratic stance.<sup>178</sup>

### Implications for the United States

In accordance with the United States-Hong Kong Policy Act of 1992, the United States supports Hong Kong's high degree of autonomy. Beijing's interpretation of the “one country, two systems” policy and infringement on civil liberties guaranteed to Hong Kong in the Sino-British Joint Declaration not only undermine Hong Kong's high degree of autonomy, but also reflect the Chinese government's failure to comply with international commitments. Moreover, Beijing's application of “one country, two systems” in Hong Kong holds ominous implications for Taiwan if it were to be reunified with China under the same framework. The United States shares with Hong Kong an interest in upholding democratic values,

\*The term “white terror” also refers to a period from 1949 to 1987 when several thousand perceived opponents (Communist or pro-Taiwanese independence) of Chinese Nationalist Party leader Chiang Kai-shek were incarcerated and executed in Taiwan. Many victims were intellectual and social elite.

human rights, rule of law, independent journalism, and open and fair market competition, all of which are essential for Hong Kong's continued prosperity and development as an international financial center.

### **Conclusions**

- China's central government has put forth a framework for the election of Hong Kong's next chief executive in 2017 that effectively excludes democratic candidates from nomination and allows Beijing to control the outcome. This proposal conflicts with standards set forth in Hong Kong's Basic Law and the International Convention on Civil and Political Rights, and runs counter to international commitments made by China in the 1984 Sino-UK Joint Declaration to preserve Hong Kong's "high degree of autonomy" and way of life for 50 years following its 1997 handover from the United Kingdom.
- Increased Chinese military activity in Hong Kong signals China's determined presence there and serves to intimidate pro-democracy activists from participating in the Occupy Central movement and other peaceful movements out of fear of military retaliation.
- Increased infringement on Hong Kong's press freedom, particularly in the forms of violence against journalists and political pressure on advertisers, threatens the media's ability to serve as a watchdog. The steady erosion of press freedom is a worrying trend that has worsened over the last ten years, and appears to be targeted at outspoken pro-democracy media.

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## RECOMMENDATIONS

### *China and Asia's Evolving Security Architecture*

The Commission recommends:

- Congress require the Administration to submit a one-time inter-agency report clarifying the progress of the Asia rebalance policy.
- Congress emphasize the value of the U.S.-Australia alliance in its interactions with Australian legislators.
- Congress express support for Japan's efforts to exercise "collective self-defense" in its interactions with Japanese legislators.
- Congress examine the Administration's progress on greater intelligence, surveillance, and reconnaissance (ISR) integration and sharing between the United States and its allies and security associates in East Asia and Oceania. In addition, Congress should support efforts by the Department of Defense to improve ISR capabilities of allies and security associates in East Asia and develop a "common operating picture" for the East and South China Seas.
- Congress urge the Administration to encourage allies to develop their missile defense capabilities.

### *Recent Developments in China's Relationship with North Korea*

The Commission recommends:

- Appropriate Congressional committees require the Departments of Defense and State to jointly produce a classified report on U.S. efforts to engage with China, South Korea, and Japan on issues related to North Korean stability. The report should include a discussion of prospects for political crisis or regime collapse in North Korea; a discussion of each country's outlook and approach to contingency planning for North Korea collapse scenarios; a detailed explanation of the current state of engagement between these countries on contingency planning for North Korea collapse scenarios; and an overview of existing track two dialogues aimed at enhancing understanding and cooperation among these countries on issues related to North Korean stability, to include an assessment of the effectiveness of these track two dialogues.
- Congress require future classified and unclassified Department of Defense reports on 'Military and Security Developments Involving the Democratic People's Republic of Korea' to include a full discussion of China's activities impacting the military and security situation in North Korea.

- Congress support nongovernmental organizations that encourage democracy and promote human rights and economic liberalization in North Korea.
- Congress support nongovernmental organizations that facilitate exchanges and dialogues between the United States, Japan, South Korea, and China on issues related to security and weapons proliferation on the Korean Peninsula.
- Members of Congress and Congressional staff in their interactions with official delegations from China exchange views on North Korea.

### ***Taiwan***

The Commission recommends:

- Congress direct the Administration to permit and encourage official travel to Taiwan for uniformed military personnel above the level of O6 and urge Cabinet-level officials to make more frequent visits to Taiwan to promote commercial, technological, people-to-people, and military exchanges.
- Congress urge the Administration to make available to Taiwan the arms and equipment it needs for its self-defense, consistent with the Taiwan Relations Act, due to the shifting cross-Strait military balance.
- Congress encourage the Administration to increase its public support of Taiwan's participation in international organizations such as the United Nations Framework Convention on Climate Change.
- Congress encourage the Administration to strengthen economic cooperation between the United States and Taiwan to further their economic growth and prosperity.

### ***Hong Kong***

The Commission recommends:

- Congress adopt a resolution urging China to keep its commitments to allow broadly representative nomination and election of Hong Kong's chief executive by universal suffrage in accordance with democratic procedures as articulated in the 1984 Sino-British Joint Declaration on the Question of Hong Kong, the Basic Law of the Hong Kong Special Administrative Region, and the International Covenant on Civil and Political Rights.
- Members of Congress, when visiting mainland China, also visit Hong Kong to engage with high-level administrators on such issues as democratic election.
- Members of Congress, jointly with members of British Parliament, promote Hong Kong's high degree of autonomy in accordance with the Sino-British Joint Declaration and the Basic Law.
- Congress renew the biennial reporting requirements of the U.S.-Hong Kong Policy Act of 1992.

- Congress reconvene a congressional caucus on Hong Kong to ensure continuous attention to the region's democracy and civil rights issues.