



ICAS BULLETIN

Institute for China-America Studies

A Survey of Scholarship on US-China Relations

Twice a month, the ICAS Bulletin updates a global audience on American perspectives regarding the world's most important bilateral relationship. Research papers, journal articles, and other prominent work published in the US are listed here alongside information about events at US-based institutions.

COMMENTARY

**Sourabh Gupta
on China and BRICS's
Role in Global
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Featured Report

Creating a Stable Asia: An Agenda for a US-China Balance of Power

Michael Swaine, Wenyan Deng and Aube Rey Lescurc
Carnegie Endowment for International Peace, October 26, 2016

China's rise is leading a dramatic military and economic power transition in the Asia-Pacific. As the US and China are heavily engaged in the making of the "emerging Western Pacific order," these authors argue that a stable balance of power between the two countries is "necessary and feasible for both countries." To secure this stable balance of power, Chinese and American leaders should be clear of their regional long-term economic and security goals. The authors stress the importance of strong economic growth and firm commitments to free trade in this process, arguing that close economic ties between the US and China will benefit the entire region.

Publications

Understanding Strategic Cultures in the Asia Pacific

Ashley Tellis, et al
Strategic Asia, National Bureau of Asian Research, 2016-17

This executive brief considers the Asia-Pacific countries' strategic culture, or inherited concepts and beliefs that shape a nation's collective identity and values. The report looks at China, Japan, South Korea, India, and Indonesia to demonstrate how their security behavior is shaped by their individual cultures.

Beijing Talks Tough About “New Cold War” in Asia

Willy Wo-Lap Lam

China Brief, Vol 16(15), October 4, 2016

Willy Wo-Lap Lam discusses China’s war games with Russia as evidence of Northeast Asia’s move towards a new cold war, where the US and its allies (Japan and South Korea, mainly) are pitted against China, Russia and North Korea. Lam concludes that Chinese rhetoric about a new cold war could be followed by military action, citing the restructuring of the PLA as preparation for action, but notes that China would ultimately be more secure by making friends, not enemies, of its neighbors.

The EU, the South China Sea, and China’s Successful Wedge Strategy

Theresa Fallon

CSIS Asia Maritime Transparency Initiative, October 13, 2016

On the eve of the ruling, the EU made a "neutralized" statement saying it would "acknowledge" the tribunal’s decision on South China Sea. Calling it an "ultimate win without fighting" for China, Fallon sees the statement as resulting from Beijing’s intense lobbying efforts and investments in EU countries. She suggests that these economic and security interests drove EU members to refrain from taking a strong stand against China, which might have triggered trade or diplomatic retaliations from China.

Thoughts from the Chairman: The Ambiguous Benefit of Meetings in China

Scott Kennedy

CSIS, October 14, 2016

Scott Kennedy reflects on the recent increase in “political correctness” in China and the diminishing returns of dialogues between American and Chinese interlocutors. He notes how, at the US-China Strategic & Economic Dialogue, Chinese officials shifted the conversation from one of market-based innovation to the need for government support in certain industries. Kennedy noticed similar trends at the conference of governance and Binhai Forum on Peace and Development in Northeast Asia, and concludes that this is not only the result of political pressure for toeing the party line, but also genuine disagreements between Chinese and American views on liberal economic and political principles.

The Limits of China’s Influence in Pakistan

Sarah Watson

CSIS, October 17, 2016

Security is a major challenge to the China-Pakistan Economic Corridor (CPEC) program, a major Belt and Road component. Despite high expectations from China, Watson argues that the Pakistani government is not capable of providing adequate security protection for the CPEC. In addition, Watson describes some instances of Pakistani domestic politics standing in the way of some outcomes desired by Beijing. Watson raises questions on the effectiveness of China’s influence on Pakistan, claiming that China may "exert pressure but not control outcomes in Pakistan."

The Rebalance and Asia-Pacific Security: Building a Principled Security Network

Ash Carter

Foreign Affairs, October 2016

Five years after the launching of the rebalance policy, Secretary Carter reviews some achievements this policy has brought to the region. He says the rebalance has not only “reenergized” US economic and diplomatic engagement with Asia-Pacific countries, but also tightened the security linkage between US and its regional allies. While the US will continue its commitment to the rebalance policy, Carter calls for a “principled and inclusive security network” between US and its Asia-Pacific allies and partners. In the next phase, the Defense Department will carry out “more frequent and more complex training and exercises” and additional military investment to enhance regional stability and US presence in the region.

The Next US President’s Asia-Pacific Inbox: 8 Issues to Watch in Obama’s Final 100 Days

Ankit Panda

The Diplomat, October 19, 2016

Panda argues that Obama will leave his successor with a complicated inbox filled with unfinished business in the Asia-Pacific region. He identified eight key areas that will prove critical to the future of US policy in Asia: the status of TPP, the Philippines’ relationship with China, North Korea’s nuclear ambitions, India-Pakistan territorial disputes, Thailand after King Bhumibol’s death, Japan-Russian rapprochement, clashes in the East Asia Sea, and the future of Taiwan.

President Duterte Maintains Philippine-Japanese Partnership as He “pivots” to China

Renato Cruz de Castro

Asia Maritime Transparency Initiative, October 19, 2016

This analysis considers whether Philippine president Duterte’s anti-Western remarks and trip to China really signify a rejection of the US and a turn towards China. Castro argues that the Philippines’ recent actions are not a major pivot towards China, but a balancing between China and Japan, its two closest neighbors. Castro further notes that while Duterte has criticized the Philippine-US alliance, he has not extended his criticism to the Philippine-Japan security partnership.

Recalibrating US-China Relations in Southeast Asia

Multiple authors

Center for American Progress, October 25, 2016

This report is the product of a two-year study by the Center for American Progress and the China Institutes for Contemporary International Relations (CICIR) which assessed the impact of US-China relations on Southeast Asia. Based on its field research across six countries, the research team finds that Southeast Asian countries welcome US-China cooperation and both countries taking on more responsibilities in the region. They also largely expect positive outcomes for the future of US-China engagement in the region, although there are expectations that both the US and China pay more respect to the principle of ASEAN centrality.

Events

The US Presidential Election & China's Leadership Transition

Chicago Council on Global Affairs, October 12 2016

The upcoming US elections present a critical juncture in which both major party candidates envision vastly different trajectories for the US-China relationship. Next year, China will convene its 19th Party Congress, which is rumored to result in the largest turnover on the Central Committee in decades. Brookings' Cheng Li delivered a talk at the Chicago Council on the most important policy implications for these leadership transitions, focusing on US-China trade and security relations.

Recalibrating US-China Relations in Southeast Asia

Center for American Progress, October 25, 2016

CAP launched its research report of the same name at this event. Vikram Singh and Yuan Peng highlighted some key findings from this two-year study, including potential US-China partnership to strengthen defense, trade, and infrastructure in Southeast Asian countries. The speakers stressed that ASEAN should continue to be central to these projects.

Reconnecting Asia: Launch

CSIS, October 25, 2016

Reconnecting Asia is CSIS's first geo-economic initiative that tracks the data, locations, and analyses of ongoing and future infrastructure projects on the Eurasian continent. In the first discussion, four panelists shared their insights with CSIS's Matthew Goodman regarding the infrastructure gap in Eurasia, and discussed potential challenges. In the second discussion, Zbigniew Brzezinski expressed optimistic views about the future of US engagement in Asia. Although US, China and Russia have conflict of interests, he said conflict can be avoided under this triangular relationship. Calling China a "practical" actor, Brzezinski suggested that China and the US may not be real partners, but can get along given that both countries have more areas in which to cooperate than to compete.

Commentary

China Must Pursue Global Monetary Reform as BRICS Chair

Sourabh Gupta

In September 2006, on the margins of the 61st U.N. General Assembly session in New York, the foreign ministers of the (then) BRIC nations held their first-ever meeting. Ten years later, the grouping - with South Africa now included - has established itself as a supple entente of independent-minded rising powers, organized as a mutual support network that is committed to assisting each other's rise in the international economic order. The establishment of the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA) at the 6th Leaders Meeting in Fortaleza in July 2014, the announcement by the NDB of its first tranche of funding for green and sustainable projects for all five BRICS member states, and its successful issuance of a first green financial bond (denominated in renminbi), represent important steps towards the institutionalization of an economic agenda for the BRICS.

As China assumes the rotating chairpersonship and prepares to guide the grouping into its second decade of existence, the BRICS must graduate beyond its development finance orientation. It must gradually become the most important emerging market economy forum to discuss the overhaul of the international monetary system (IMS) – a system whose architecture has failed to keep pace with the dynamic changes in the shape and scale of cross-border finance.

In a reprise of the 1920s and 1930s, large short-term capital flows transmit economic upheaval across borders, and the monetary order is yet again failing to provide systemic liquidity management tools to cope with these episodes of extreme volatility. Likewise, even as the system is awash with liquidity, there is ironically a palpable shortage of the type of high-quality or safe assets (as a share of global GDP) that are widely used in cross-border transactions. While the dollar remains the system's principal reserve asset, U.S. authorities display little sense of obligation and interest in mitigating capital flow volatility, short of an extreme systemic crisis. Promising ideas to expand the global financial safety net for emerging market economies – the International Monetary Fund (IMF)-centered multilateralization of currency swaps; U.S. Federal Reserve-central bank swap arrangements; cross-border collateralized lending arrangements, etc. – have each foundered on the Fed's unwillingness to countenance any credit or legal risk. The Fed won't engage in such operations for lack of guarantees that indemnify potential losses on swap transactions (besides, its mandate is domestic); the U.S. Treasury, on the other hand, will not allow such financial resources to flow to, or be provided by, the IMF.

The modernizing of the International Monetary Fund's concessional financing facilities to adapt to today's capital flow realities has not fared much better. With each passing year, the gap between its original mandate - temporary lending to enable countries to tide over illiquidity-driven balance of payments crises - and the tools at its disposal keeps widening.

The European Stability Mechanism (ESM) armed itself against this new breed of capital flow-induced balance of payments crises with a financial assistance toolkit that includes temporary loans for macroeconomic stabilization, very short-term precautionary credit lines, and the facility to make primary and secondary market purchases of debt securities, as well as to provide loans and guarantees for direct and indirect capitalization of banks. Yet the key shareholders continue to deny the IMF almost all these tools behind the façade of moral hazard and defer any discussion on loss-sharing frameworks. Moral hazard never did restrain the key shareholders though from intentionally subverting the IMF's lending rules to provide Greece the largest Fund program ever relative to quota, setting a world record in terms of restructured debt volume and aggregate creditor losses during the Greek debt exchange, or turn a blind eye to Athens' mockery of IMF seniority by defaulting on a loan payment while continuing to repay private bondholders.

Going forward, in the short-term, the BRICS countries should press the IMF to introduce a Very Short-Term Liquidity Line which can disburse the entire amount of approved access upfront (linked to an indicator of capacity to repay) to pre-qualified countries and with no ex post policy conditionality attached. The BRICS countries should concurrently convert, and enlarge, their Contingent Reserve Arrangement (CRA) into an Emerging Market Crisis Prevention Fund that is large enough to lean against sharp swings – and self-fulfilling market panics - in an emerging market index of targeted bond prices such as EMBI+. Doing so would alleviate system-wide financial threats without having to suffer the moral hazard of catering to the financing requirements of any single economy.

Over the medium-term, the BRICS countries should aim to institute a broadening of existing Special Drawing Rights (SDR) arrangements within the monetary system, making its issuance automatic and

regular. They should also establish modalities to enable the Fund to guarantee SDR allocations to central banks on short notice or borrow on capital markets to fund its liquidity provision operations during periods of heightened market stress. Fund-provided guarantees of new sovereign debt issuance and automatic purchase of secondary market bonds of pre-qualified countries should also be contemplated, pending agreement among member states to recapitalize the Fund in the event of large capital losses. As a recent entrant to the SDR club with a strong balance of payments position, the People's Bank of China (PBoC), for its part, should support the broader usage of the IMF's "designation mechanism" by volunteering its readiness to freely swap renminbi for SDRs while bearing any depreciation risk on its own balance sheet. The risk of such losses is minimal. The value of the SDR and its interest rate, as a rule, has been more stable than the values and rates of its individual component currencies.

In the long-term, the BRICS countries must aim to return the IMF's machinery for collaboration on global monetary problems to its formative Bretton Woods design as a non-politicized, technocratic – not shareholder-run – institution. Its crisis prevention operations should tilt in the direction of automaticity rather than discretion and conditionality, akin to a central bank discount window willing to extend a substantial volume of credit for acceptable collateral on short notice. The IMF's single greatest intellectual failing at the time of its founding – the inability to factor in the role played by private capital movements – must also be remedied by amending its Articles of Agreement to grant the Fund explicit jurisdiction over members' capital accounts, including over source country flows.

The promotion of international financial stability, like infrastructure development, is a global public good. The incessant delay by the Fund's twin, the World Bank, to set up an infrastructure development fund had been a driving motive to create the Asian Infrastructure Investment Bank (AIIB). During China's Hangzhou G20 chairpersonship, the International Financial Architecture (IFA) Working Group was restored after a hiatus of three years and produced useful designs on the IMF's crisis resolution role. With the U.S. unwilling, or unable, to underwrite international financial stability in the post-bank-intermediated age of global finance, China's BRICS chairpersonship should similarly create an IFA Working Group and task its finance ministers and central bank governors to report useful designs on the IMF's crisis prevention and systemic liquidity management role to their Leaders Meeting in Xiamen in September 2017.

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