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# Reform Strategies of China's Supply Side from the Evolution of the Global Value Chain Division

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Since the beginning of 1990s, the international division of labor has experienced significant transformation. The model global value chain division has become a new normal for economic globalization and international labor of division. The global value chain is better embodied by the global supply side that is closely related to our life, including the domestic supply side of our own nation. Therefore, an objective understanding of the trend of global supply side, especially the characteristics of the division evolution of global value chain, contributes to a clearer general guidance and strategy of Chinese domestic supply side reform.

## ***I. The Trend and Characteristics of the Division Evolution of Global Value Chain***

### **i. Enterprises, specially the multinational corporations are the micro-foundation for the division of global value chain.**

At present, enterprises, especially the multinational companies, through foreign direct investment or / and non-equity methods such as outsourcing, distribute different phases of production in different countries and regions, which in return help them to grab the commercial chances by the international differences, such as the natural resources, policies and regulations, and institutional circumstances etc. In this way, a product or service entails the cooperation of many enterprises from many economies, and the different production processes and its added value are achieved in different economies.

### **ii. North America, Europe (mainly Western Europe), East Asia, Australia and New Zealand are the three core areas leading the global value chain division.**

The production, trade and investment of the rest parts of the world are revolved around three regions. At present, the United States, Germany, Japan, respectively, are the three core areas of the dominant countries in these regional divisions and other economies' division of labor is subject to these three core countries. These three regions have a clear picture of division where the United States is the major leader for "innovation" in the North American division of labor and trade zone, Germany, for European division of labor and trade zone, Japan for East Asia, and

*The central government has emphasized on the supply side reform. The division of labor in the global value chain weighs heavily to a nation's economic growth. Thus China should be engaged in the supply side reform and earn itself a better place in the global value chain division.*

Australia and New Zealand for “manufacturing” in their part.

**iii. There is a coincidental consistence in the evolution of the global value chain division and the development of regional economic integration.**

The North America Free Trade Area (NAFTA) and the European Union (EU) are the two successful models of regional integration. They happen to cover the global value chain division of the two core areas. In order to link up the three core regions, the key economies such as the United States, Japan and the European Union, try to build organizations across regions and those are the TPP and TTIP. If the TPP, TTIP and NAFTA are combined together, we will see a huge free trade zone group, dominated by the United States and other developed economies, which is likely to evolve into a new multilateral system. It can be expected that the global value chain division of labor is reshaping the pattern of the world economy, the new rules and system of international economic and trade.

**iv. The economies with higher per capita income are more likely to become China's "friends" rather than “enemies” in the sense of the global value chain.**

On one hand, China is still a "double low" state (i.e. a country with a low per capita income and leveled at a low end in the global value chain); on the other hand, whether at the overall level or at individual industry level, China tends to import more added value from higher-income economies and to export more added value to the higher-income economies.

**v. China is becoming much more involved into the global value chain division, even more than the United States.**

Measures by the proportion of foreign added value, China’s correlation with the world is kept increasing, whose extent is higher than the one measure by imported intermediate goods. China’s association with the United States, Japan, South Korea, China, Taiwan, and Germany is closer; but judging from the trend, China’s correlation with the United States and Germany is on the rise while the connection with Japan, South Korea and Taiwan is become loose. Most Chinese industries’ value chain correlation indexes, based on the input and output, exceed over 1.5, even higher than the United States. The number of increasing indexes is much larger than the falling ones.

***II. Policy advices for China’s reform of the supply front***

That the global value chain belongs to the global supply side is the solid fact that China is faced with. It should be our strategies for supply side reform to level China up in the global value chain, promote the

transformation and upgrading of the domestic supply side in order to escalate Chinese economy to the medium and high level. Thus, the policy suggestions are as follows:

**i. The global value chain factors should be concluded in the reform to form a global value chain oriented strategy.**

Whether the new opportunities brought by the division of global value chain can be translated into the actual benefits of the participants, to a large extent depends on the participants' strategies and policies. For a long time, the United States has been closely concerned about the value chain, industry chain, supply chain and its security issues. The U. S. Department of Homeland Security early in 2007 had in particular issued the "Enhancement Strategy for Global Supply Chain Security". In 2008, America proposed the "Comprehensive National Cybersecurity Program" to establish a comprehensive approach to manage the global supply chain risk. Furthermore, in 2012, the White House released the "National Strategy for Global Supply Chain Security" and introduced in 2013 "National Strategy for Global Supply Chain Security: the Updated Version for Implementation". In 2014, America released the "Framework for Improving Critical Infrastructure Cybersecurity". The United States' strategic intentions require our specific attention, and China needs to pay close attention to make a difference in this regard.

**ii. China should establish and improve the statistical methods and system based on global value chain as soon as possible with the international community.**

The reality shows that the division of the global value chain has posed threats to the conventional statistical methods and system. For example, the traditional customs' gross trade statistics greatly overestimated the China's trade surplus with the US; if measured by the added value of trade, this surplus is lower about 25%. Besides, if the real effective exchange rate of RMB against the U.S. Dollar is measured by the global value chain method, the result is about 6.8 and in this way, RMB is likely to continue to depreciate. To cite another example, the revealed comparative advantage (RCA) indexes of China's industries or products, calculated respectively according to the value added trade and gross trade, will vary largely. It suggests that a new statistical methods and system based on global value chain is beneficial not only to the accurate calculation of the current situation of Chinese domestic supply side, but to the reassessment of many aspects of the existing supply side reform, such as the exchange rate policy, FTA strategy and trade and investment policy, as soon as possible.

**iii. China should improve its position in the global value chain division**

**through the continuous upgrading of its endowment structure and institutional structure.**

The ultimate factor that determines a country to smoothly and successfully climb the global value chain and promote the transformation and upgrading of the domestic supply side mainly includes two aspects: endowment structure and institutional structure. First of all, the kind of endowment structure decides the kind status and supply side in the division of labor status and supply side. China should effectively enhance the endowment structure through education and technology development, and thus to provide human resources for getting a higher position in the global value chain and for the transformation and upgrading of the supply side. Secondly, the evolution of global value chain is the result of the ongoing specialization of division. Division of labor booms productivity, and thus reduces the degree of scarcity, but it may increase transaction costs on the other hand. A good economic organization and institutional structure is defined by its ability to reduce transaction costs and improve the efficiency of specialization. With a good economic organization and system structure, endowment structure can be effectively upgraded.

**iv. China needs to pay special attention to the development of the private sectors, especially the multi-national corporations, which works to provide a solid micro basis for rising in the global value chain and transforming the domestic supply side.**

The status quo of the world division of labor is an objective reflection and result of the evolution of the global value chain division which by its own is the result of the choices of the market and the enterprise. Enterprises, especially multinational companies, the embodiment and realizer of all kinds of advantages, are main body for a nation to climb up in the global value chain. Data show that compared with the major developed economies, China's world-class multinational companies are inferior to the other counterpart, in terms of the number and internationalized level, which doesn't match with China's rapid development and status in the world economy. It also impairs China's rising in global value chain and the transformation and upgrading of domestic supply side.

**v. China should actively participate in global value chain management and international cooperation of global value chain security.**

The specialization of the global value chains is an unavoidable trend. For China, the crucial question lies not in the participation in the global value chains specialization, but in how to achieve effective involvement in that division of labor and in the process to gradually improve their own status in the international division of labor. China needs to improve the international cooperation in the global value chain management and

security with the "double high" countries (i.e., a country with the higher level of per capita income, located at a high position of the global value chain). This cooperation is as important as the international cooperation in monetary and fiscal policies. Creating a friendly international environment for the global value chain will eventually benefit all the parties concerned, and also help China to promote the reform, upgrading and transformation of its domestic supply side.

*Translator/Huang Ruixin*

# Will Mixed Reforms of Local State-owned Enterprises Hinder the Overall Restructuring of Supply-side?

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Ownership is a core matter concerning national economic development. The notion of “mixed ownership economy” was first put forward in the Report of the 15th National Congress of CPC in 1997. It signified that China had changed its mentality of “Planned Economy Only”. Sixteen years later, the Third Plenary Session of the Eighteenth CPC Central Committee once again promoted “the positive development of mixed ownership economy with cross-shareholding and mutual integration of state-owned capital, collective capital, private capital, etc.” Mixed reforms of state-owned enterprises once again become a hot issue in economic development. Different fields from the society put forward their different points of view about this topic from their different standings and perspectives.

Despite heated discussions in many places, specific measures still haven’t come into effect except the Guiding Opinions about Mixed Reforms of Local State-Owned Enterprises, which makes it impossible for the mixed reforms of local state-owned enterprises to be carried out into practice. Previously, controversies about mixed reforms of Sinopec Sales Company from the society show precisely that ownership reform is delayed and is hindering the structure adjustment of supply side. From the economic theory “monopoly,” this article will discuss about mixed reforms of state-owned enterprises, with the hope to clarify the thinking about current structural adjustment in China's economic supply-side.

## ***1. The Economic and Thinking History of Mixed Ownerships***

In order to offer a fairer review of mixed reforms of state-owned enterprises, it is necessary to briefly look back to the two stages of thinking in economic development. From 1940 to 1960, on how to develop the economy of developing countries, there had been opinions emphasizing on the importance and necessity of planned economy. Believers of planned-economy held the opinion that the markets in developing countries were not complete both structurally and functionally. Therefore, if the government did not plan the national economy, it was difficult to guarantee the efficient allocation of resources. Economic development lied not in the spontaneous activity of the private sectors, but in the arrangement of state sectors. Theoretically, national economic plan can be achieved by establishing the structure model to ascertain the

*China's economic development in the new situation inevitably comes to economic reform and transformation, in which the development of mixed ownership economy has been emphasized again in the third Plenary Session of the 18th CPC Central Committee. The adjustment of China's economic supply side structure is closely related to the reform of state-owned enterprises. At this stage, we can try to eliminate the monopoly of state-owned enterprises. This article will discuss the relationship and development of the two from the perspective of economic theory - "monopoly".*

number of indicators, and using quantitative policy tools to fulfill this goal. Based on this theory, at the beginning of the founding of new China, all the regions implement planned economy, emphasizing full government control over production. But it turned out that, emphasis on the planned role of the government had weakened the role of the market mechanism, and the state-owned sector monopoly gradually lost its production incentives, which hinder the progress in productivity.

By the 1960s, the outcome of implementing planned economy for the developing countries was all kinds of economic troubles. Economists had to re-evaluate theories and policies of the past and make major amendments and changes. Therefore "neo-classical revival" appeared. The theorists criticized "planned-economy only" economy pattern, and started to take into account the incentive function of the private sectors. Influenced by this "neoclassical revival" in 1984," Decisions on economic reform was adopted in the Third Plenary Session of the Twelfth CPC Central Committee and for the first time it put forward that, China's socialist economy is "planned commodity economy with the basis of public ownership instead of planned economy." When Zhu Rongji came into office as Vice Premier, he resolutely broke the convention of "iron bowl, iron wages, iron chair(civil service jobs for life)" in state-owned enterprises all over China, and opened the curtain of the reform of state-owned enterprises. From 1998 to 2000, three years' reform of state-owned enterprises were in full swing, during which time tens of millions of state-owned enterprise workers were laid off, redistributed, or bought out across the country, and a large number of state-owned enterprises went bankruptcy, was restructured or reorganized. Thus, as it can be seen, reforms that impacted the interests of certain groups of state-owned enterprises were never quiet. Radical reform of SOE achieved remarkable results. After these reforms, these previously in-debt state-owned enterprises started to make profits. Yet, because a large number of private companies were only allowed to enter the downstream industry, many state-owned enterprises that monopolized local public resources became highly profitable ones.

## ***2. Why monopoly in mixed reforms of state-owned enterprises must be eliminated in supply-side structural reforms?***

From the effect of monopoly on the performances of state-owned enterprises, studies have several findings. First, in the comparison of different forms of ownerships of the enterprises, monopolized state-owned enterprises have the lowest efficiency, the lowest growth rate of total factor productivity while enterprises of private sectors have a remarkably high efficiency. Second, in the industry with a variety of property ownership structures, structure variables of state-owned property

in monopolized industry have a significant negative effect on industrial performances. Similar results come out from the perspective of agency costs: agency costs in monopolized state-owned enterprises were the highest among all kinds of ownerships. Some literature also finds that state-owned enterprises with financial monopoly is not only inefficient, but also take up a lot of local fiscal expenditure because of loose budget constraints. They also delay the progress of local private enterprises, which will be a burden to supply-side structural reforms.

Limitations to the structural reforms of supply-side also come from monopolized state-owned financial sector, which are manifested in two interrelated features. First, the structure of financial reform is inhibited. Generally speaking, the service supply of monopolized financial sector shows a very strong "financial repression", manifested not only in the fact that long-term interest rates are far lower than that of the market, but also in the monopoly of state-owned banks and the access barriers. Second, private economy, as a drive of economic growth, is faced with all forms of discriminations in financial credit and loans from monopolized state-owned financial sectors. The studies find that although non-state sectors contributed to more than 70% of China's GDP, they only received less than 20% of official loans from the banks in the past decade. The rest more than 80% of bank loans were gone to state sectors.

Therefore, though having a low productivity, state-owned enterprises have access to surplus financial resources because of monopoly, while private sectors, though with a high productivity, fall short of enough financial resources for development out of discriminations from monopolized state-owned financial sectors. Under such an economic environment, supply-side reform takes place with monopoly and suppression from the state-owned enterprises and the financial sectors. Thus, it is impossible to avoid the misallocation of resources or achieve optimal combination and effective allocations of resources. It could also easily lead to a waste of idle resources on ineffective supply, which will definitely results in a low productivity.

Only with competitive market law can the allocations of resources become more rational, more efficient, and more productive. The reform of state-owned enterprises should emphasize on coordinated allocations of resources between state-owned and non-state-owned enterprises and establish a fair competitive market. The reform will combine the low-cost private sector as well as the management concept of "less asset, more market," with financial advantages of state-owned sectors. The dominant position of state-owned economy will only be strengthened in some core industries. These measures will coordinate and clarify the connection

between the government and the market. Through mixed ownership, the reform will make full use of the high efficiency of the market economy, and dig into the incentive potential of market economy to leave the market to play a decisive role in the effective allocations of resources.

### ***3. The dilemma of mixed reforms of state-owned enterprises***

Modern economic theory has pointed out the basic approach to the improvement of governance in the process of mixed reforms of state-owned enterprises. However, to establish a modern enterprise system is not an easy task for the local government. The goal of corporate governance lies in two important aspects. First, enough freedom should be given to experienced operators for the operation of businesses. Owners that lack market experience should not make too much intervention in business operations. Second, the operators should work in the interests of the owners of the business, and make good use of the freedom from the owners. Thus, effective supervision and restriction can be guaranteed toward the operators of businesses. With the deepening of mixed reforms of SOEs, control from the inside of the enterprises represented by runners of the monopoly sectors is strengthened, and at the same time, local governments intervene in state-owned enterprises. This fact not only leads to the failure of the management of the officials but also causes the monopoly of public resources exchanged by power of the working official. As a result, monopoly state-owned operators are not reluctant to run the market, and the owners do not understand how to run a company. What's more, there is not a clear distinction between the government and the enterprise because adequate entrepreneurs have no incentive to wade in this muddy water, and effective private capitals do not have the opportunities to make contributions to the improvement of efficiency of the core sectors.

This embarrassing situation reflects the dilemma of mixed reforms of state-owned enterprises. First, it is necessary to give business operators sufficient operational autonomy in order to improve the operational efficiency. But local government would rather choose to tolerate the resultless monopoly of "their own officials" with no experience, than take the risks of innovative operation of the experienced "outside entrepreneurs." Second, though the supervision and control from the state as the owner of the enterprise are necessary, some Government officials are too self-righteous to follow the laws of the market. Some would supersede the market with administration, which makes such monitoring and control hinder the initiative spirit of experienced entrepreneurs to participate in the operation of the running of businesses.

### ***4. How to test the results of the mixed reforms of state-owned***

*enterprises?*

Because of endless disputes, at this stage, mixed reforms of state-owned enterprise are in the experimental stage and generally there are three attempts to eliminate monopoly of state-owned enterprises. Firstly, the development of each region is relatively mature now, and non-public capital has grown up. Industries with strong competitiveness in the market start to take shape. All these facts allow more state-owned enterprises and other forms of enterprises to be combined into mixed ownerships and encourage non-public enterprises to participate in the reform of state-owned enterprises. Secondly, In the regional emerging industries and industries where control of the state-owned sectors of economy is further enhanced, non-state-owned capitals are now allowed shares in state-owned capital investment projects. Thirdly, there has been mixed forms of ownerships in many regions, but they have a high dependency on human resources. What's more, in enterprises where the contributions of human capital are easy to evaluate and test, the staff can hold shares, which forms the market-oriented incentive system of the core staff.

Currently opinions on the opening of "property" and "industry" are not unified. The property opening goal of reformers is "unification of four capitals all over the country" which tries to achieve capital integrations of state-owned capital, private capital, domestic capital and oversea capital. The goal of industrial opening is to get rid of state-owned monopoly. However, both of them are hindered by the gainers of the advantages. Perhaps, the breakthrough in the reform test is capitalization of the enterprises, which means steering management mode of state-owned enterprises to the management mode of capitalization of state-owned enterprises. And by the asset securitization from the financial sectors, we can promote mixed reforms of state-owned enterprises. To promote the capitalization of the management of state-owned assets, what needs to be done first is to steer government-controlled state-ownership to joint-stock system. Thus, the owners will be separated from the runners, and two freedoms can be achieved within the corporate system. First, it allows a greater mobility of the state-owned capital in the industry; second, it protects independent running of businesses and make it possible to make progress and become stronger. This reform does not rely on administrative power to change the business structure of individual enterprises. Instead, through the help of the financial markets, dynamic optimization of state-owned capital is achieved, along with the restructuring of the supply side in state-owned economy. The goal of reform and layout adjustment of state-owned capital should be to reduce monopoly, and improve the efficiency of operation as the goal, thus to make capital act out its role

with value as orientation.

### ***5. Economic advice on the strengthening of mixed reforms of state-owned enterprises***

Today, it is vigorously advocated that "reform policies should be practical." Faced with long-term problem of economic development of mixed reforms of SOEs, we call on all regions to strengthen research of economic base according to local characteristics. The first question is that the scope of mixed ownership is not clearly defined and evaluated. Researchers need to mark out a clear range to define what kind of state-owned enterprises can adopt mixed ownership, and offer an evaluation system of various regions.

Second is the problem of mechanism design of mixed ownership. Past studies understood mixed ownership mere as a restructuring of the share-holding which do not involve corresponding reform of corporate governance mechanism. This is the important reason for the failure of mixed ownership reform. Again, together with mechanism design, economists need to answer the question of how to build up a modern corporate system in correspondence with regional characteristics. Finally, they need to corroborate the relationship among the empirical nature of the enterprise, structure and market efficiency, and offer support from business ownership to supply-side restructuring.

Perhaps with the consensus of economic thinking, barriers of the implementation of mixed reforms of state-owned enterprises can be cleared out and the smooth progress of market-based supply-side reforms can be guaranteed.

*Translator/Hua Zhiyun*

# The Key Issue of the Supply Front Reform: Free Flow Strategy of Human Capital

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## ***1. The premise: respect the inherent law of industrial upgrading and consumption upgrading.***

The consumption demand of Chinese residents has experienced several large-scale updates. The consumption structure of urban and rural residents is on a transitory stage from survival consumption to services consumption and new requirements have been raised toward consumption structure and consumer goods quality. If the consumption supply could not meet the requirements raised by the consumption restructuring, the vigor of consumption will not be released.

The industrial upgrading and consumption upgrading have their inherent laws that the supply-side reform should respect. On the one hand, China's basic industry is still manufacturing. It would contribute to the transformation and upgrading of manufacturing industry if we can combine it with the new thinking and methods brought out by Internet. On the other hand, we should cultivate and develop strategic new industries to promote the quality and raise the development level of the whole industry. What's more, we should also push forward the development of a multi-level and multi-domain service industry, laying equal stress on producer services and consumer services, modern services and traditional services.

## ***2. The assurances: promote the transformation of public finance and services and activate the innovation of enterprises.***

Firstly, we should greatly increase the expenditure of public services in the public budgets of our government, in order to push forward the transformation of public finance. The supply structure of public product is restricted by the development stage. When the GDP per capita surpasses 3000 dollars, the emphasis of our government expenditure should be moved to some public services like environment protection, education, medical treatment, public housing and elderly care. At the primary stage of economic development, the expenditures on economic construction and social infrastructure take a large proportion of the whole financial expenditure, which cuts short the budget on public services. As a result, the government services on education, medical treatment and elderly care are insufficient. In return, the residents have to increase their savings out of risk anticipation. This situation has to be changed.

Secondly, we should separate the providing responsibility and the

*The author holds the key to China's reform of the supply front is to set up free flow strategy of human capital. Therefore, we should respect the inherent law of industrial upgrading and consumption upgrading, raise the percentage of public services of the government expenditure, lay emphasis on the cultivating and training of human capital of the enterprises and achieve the goal of equalization of public services.*

production responsibility of public products and public services. Our government has the responsibility and obligation to provide public services and products like environment protection, education, medical treatment, public housing and elderly care. However, the producing subjects of these products and services could either be public departments, private enterprises or social organizations. As to the providing of public services and products, we should break the pattern in which the public departments are the only supplier and allow all kinds of capitals to enter the field of public services and products, so as to stimulate competition between the public departments, the private departments and the public and the private departments.

Government, as the responsible party of providing public services and products, should perform its function by market mechanism, so that it can increase the efficiency of producing public products and optimize financial expenditure. After adjusting the mode of economic development, it is estimated that the growth of government revenue will face obstacles. So that the market competition mechanism, such as establishing social organizations, public services outsourcing and public-private partnership, should be introduced to the performance of government functions to alleviate fiscal difficulties.

Thirdly, we should sort out our relation with enterprises and the society in order to ease the fiscal burden.

First of all, local governments should cut off the blood-transfusion type bond with local enterprises. Due to the achievement assessment or social stability, some local governments tend to support these zombie companies that are no longer able to make profits. As a result, those zombie companies could not die completely leading to overcapacity and overstocking.

Then, the government should create all kinds of opportunities for the establishment and development of enterprises, provide new enterprises with a tolerant surviving and developing environment, so that all sorts of companies are willing to innovate and upgrade, also, the innovation vigor of enterprisers and individuals can be stimulated. On the one hand, the government should reduce taxes, cancel and loosen all kinds of restricts, making enterprisers and entrepreneurship take the leading role of the market. On the other hand, the government could set up venture capital funds, venture investment funds, angle funds and entrepreneurship funds for graduate to encourage new entities and industries in the market.

Once again, special attention should be paid to the development of social enterprises. They provide public services and have revenue as well. The rest of the revenue, apart from the part spent on keeping daily operation, is not for dividend, but will be spent on public services again. This can

help the social enterprises develop faster and at the same time the fiscal burden falls dramatically.

### ***3. The key: build up the free flow strategy of human capital.***

For the restructuring, upgrading and innovating of an enterprise, human capital is fundamental. Therefore, during the process of supply-side reform, we should put emphasis on building up the free flow strategy of human capital.

Firstly, we should lay stress on the human capital training of start-up enterprises and retraining of the collapsed enterprises. The supply-side reform always comes along with the birth and death of enterprises. Relevant departments should strengthen the planning, cultivating and training of the market-oriented talents to meet the demand of human capital in emerging enterprises and solve the problem of training and re-employment of laid-off workers.

Secondly, we should designedly arrange for the low-skilled labors to enter the market, so as to maintain a good labor gradation during the urban development. The high-skilled labor force and low-skilled labor force are mutually complementary and mutually dependent. During the urban development, high-skilled labors serve as the engine. Together with the improvement of education, they are leading the urban development and bringing up the need for low-skilled labors at the same time. The population and economic activities worldwide are gradually highly concentrated on metropolitans and their radiant areas. It benefits from the gathering of high-skilled labors. It has generated the external nature of human capitals, the complementary of high-skill labors and low-skilled labors and the consumption externality. And these facts together increase the need for low-skilled labors. Thus the high-skilled labors and low-skilled labors could gather harmoniously in metropolitans.

Thirdly, we should promote equalization of public services and make sure the low-skilled labors have the equal chance of having education, medical treatment, elderly care and other public services. Although the income gap between high-skilled labors and low-skilled labors is hard to reduce in the short term, we should promote equalization for the urban migrants on the aspects of education, medical treatment, and social security, reduce the precautionary savings and minimize the distinction brought by income differences. In addition, the public service equalization can reduce the saving will of low-skilled labors and enhance their consuming intention. Therefore, the overall consumption level would be improved.

*Translator/Ji Yingyun*

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# Alerts in China's Reform of the Supply Front

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During the 2016 parliamentary sessions of China, dubbed as "two sessions", President Xi Jinping stressed that to promote supply front reform, the government has to make full use of 'additions' and 'subtractions' in its work, balance the present and the distant future, hold well its strength and rhythm, recognize principal and non-principal contradictions as well as coordinate relations of the government and market. However, tendentious problems keep cropping up during the reform. This paper summarizes and analyzes problems to note as follows:

## **1. Halfway "Subtractions"**

In the process of cutting capacity and purging zombie companies, local governments of some provinces and cities held that 'only if inevitable, bankruptcy liquidation should never be applied' to state-owned zombie companies. Although de-capacity through annexation and reorganization, equity transaction and so on bets to ease social conflicts out of mass unemployment and reduce the loss of state-owned resources, we should never neglect principle of efficiency and avoid the aggravation of long-term leftover problems as well as lurking economic risks in order to avoid present short-term contradictions. Local governments should first make clear their core advantages in regional economic development and the leverage of local issues in the nation. They should put conduct bankruptcy liquidation towards industries which are not local advantageous industries or key industries and corporations where production capacity is excessive. In the meantime, they ought to assist the staff resettlement work as well as re-training and re-employment programs so that a better social security service can be established as the safe haven for employees rather than corporations.

When conducting 'subtractions' in supply-side reform, local governments should take warnings from Japan which took pains to deal with zombie companies in 1990s. Both theoretical and empirical literature show that Japan's failure to stripe bad assets off and conduct bankruptcy liquidation thoroughly at that time still hinders the innovation and entrance of Japanese corporations and influence its long-term economic growth. Only if burdens can be alleviated from corporations and capacity can be truly resolved in the industry would social productive forces increase.

## **2. Unfulfilling "additions"**

*At present China is deepening the structural reform of the supply front. However, inevitable problems keep cropping up in the process. The central and local governments have to utilize 'additions' and 'subtractions' in their work.*

Many “additions” were undertaken in the institutional reform of farmland. Recently, five departments jointly issued interim procedures with regard to experimental units for the mortgage of rural land contract management right. It indicates that relevant reform is accelerated. It’s worth noting that relevant supporting measures have to keep up to avoid excessive costs and high risks of the mortgage of rural land contract management right which would hinder the course of experimental units. In several underdeveloped areas, value assessment of land contract management right lacks frame of relevance. It may lead to either overrated or underrated prices. Moreover, it would be hard to liquidate and recourse bank equity. In view of the mortgage use, although agricultural production and operation are given priority to, they are susceptible to the climate and seasons. Therefore, their mortgage risks are relatively higher. Local governments, especially those of underdeveloped areas should on one hand accelerate the establishment of risk compensation fund so as to encourage financial institutions to support agriculture through innovation. On the other hand, they should actively expand channels for agricultural derivatives and internet agriculture and enhance success rates of programs concerning the mortgage of rural land contract management right by means of guidance and coordination.

While undertaking ‘subtractions’ such as streamlining administration and delegating power to the lower levels, governments should also conduct supervision ‘additions’ for supply-side reform. Right now, in response to supply-side reform, more additions are required in areas such as food safety, drug safety and environmental protection requires. On one hand, local authorities have to strictly enforce safety laws and regulations and never neglect environmental protection standards under the presence of stabilizing economic growth. On the other hand, central authorities ought to raise target level of product quality if necessary or increase level-to-level administration of product quality. They should never set or maintain low standards to shelter cooperation. Instead, they should infuse impetus to upgrade the industrial structure and offer security mechanism for “additions” concerning middle and high-ended products in supply-front reform.

### ***3. Irregularity in the coordination between “additions” and “subtractions”***

Current estate markets in second and third-tier cities brave relatively high pressure in de-stocking. Local authorities could combine ‘additions’ with ‘subtractions’ as a mix of solutions. Preferential policies can be offered. For instance, farmers should be allowed to purchase property in urban areas; real estate developers be asked to lower down prices; investors

be allowed to purchase and rent their property. These policies would take effect to some extent. However, during implementation, there still exist various problems. Real estate developers are unwilling to offer enough price reduction. The interests of farmers couldn't be protected. Comparatively speaking, real estate developers enjoy more resources and connections. They find it easier to contact with local officials and appraisal agencies in de-stocking while farmers in hope of buying houses in urban areas and other customers are in unfavorable situations. Among cities promoting old city reconstruction programs, some witnessed price devaluation of demolished houses, overvaluation of resettlement, shrinkage of demolition scheme, to name just a few. All of these are resulted from forceful de-stocking for real estate developers, which might impoverish farmer and spell hidden social problems.

In the long run, governments should on one hand actively promote the combination of 'additions' and 'subtractions' in real estate de-stocking; on the other hand, they should maintain neutrality as well as reduce lend-seeking and rent-setting space. Only if real estate developers recognize the reality and give reasonable price recession could real estate markets realize voidance. Moreover, to protect interests and consumer surplus of purchasers including farmers are conducive to market recovery, economic development and social stability in the long term.

*Translator/Hua Zhiyun*

# Policy Advice on China's Reform of the Supply Front

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On November 10th, 2015, President Xi Jinping stressed on the conference of the central leading group of financial and economic development that we should strengthen the reform of the supply front at the meantime of expanding aggregate demand. And Premiere Li Keqiang stressed once again on November 17th when presiding over the conference on which the 13th five-year plan was drawn out those efforts should be paid to both the supply and demand sides to promote the development of industries to a middle or even high level.

## ***I. The Importance of Boosting Reform of the Supply Front***

### **1. Resolve unmatched supply and demand to promote economic growth**

Since the reform and opening up to the outside world, China has witnessed rapid economic growth in quite a long period of time. Resident incomes have increased by years, enabling China to join the group of middle countries, and the population proportion of middle class has also kept an annual growth, meaning that requirements on consumption level have been gradually enhanced. Actually, the advancement of consumption level means not only higher requirements on the quantity of consumption but also higher demands over its quality. But over a long term China has achieved its economic growth in an extensive way, paying more attention to the output value yet ignoring the advancement of the quality of products, and finally causing the disparity between the supply of social products and the residents' consumption demand. And this kind of disparity is mostly reflected in the quality of products. Domestic citizens have strong consumption demands which domestic enterprises cannot satisfy especially in the aspects of quality and variation, thus causing the mismatch of the supply and demand of products which displays as excess supply of low-end products and short supply of high-level ones. Therefore, promoting reforms of the supply front and reducing the disparity between supply and demand could further boost the economic growth of China.

### **2. Enhance the engineering level of enterprises and promote industrial upgrade**

Though nowadays the proportion of China's service industry has exceeded

*Maintaining healthy and stable growth in the "new normal" environment is a key issue confronting the economic development of China. Under such circumstances, the central economic decision-making institutions put forward new ideas of carrying out "Structural Reforms of the supply front" when exercising macroeconomic control, and thus reform of the supply front has become a hot issue in China's economic reform.*

that of manufacturing industry, the latter one remains a major reflection of the core competitiveness of a country. Ensuring the idea of powerful manufacturing country and relevant policy orientation, transferring the extensive growth of manufacturing industry to advancement based on fine production, increasing the proportion of added value of products and moving toward the high-end of industry chain are the key points when carrying out reforms of the supply front. For quite a long term, insufficient research input and low innovation level of enterprises in China have always been synthesis results of various elements. It will not work if we try to change the equilibrium situation and enhance the innovation capacity of enterprises through carrying out reforms in one or several aspects. Thus the reform of the supply front is really a systematic project which involves various enterprises, government, citizens and some other various elements.

## ***II. Policy Advice on the Reform of the Supply Front***

### **1. Carry out the policy of uneven tax break and lead resources to efficient enterprises**

Studies show that the macro tax burden of our country has been near to that of high-income countries since 2009. And in 2014 the proportion of the macro tax burden calculated in a comprehensive way has reached 37%. Under the circumstances where the speed of economic growth has decreased, tax reduction would help reduce the operating cost of enterprises and increase their return of investment. However, in order to better promote reforms of the supply front, the government should not reduce tax in a universal way. Tax system must serve to lead resources flow to efficient enterprises. First, reduce taxes when it is an innovation-oriented investment. As to encouraging independent innovation and technical progress of enterprises, the reduction of marginal tax rate could decrease the research input cost and thus encourage enterprises to invest more to enhance their innovation capacity. Second, reduce taxes when the enterprises are small and macro ones. Small and macro businesses have incomparable advantages over other kinds of enterprises in the aspect of increasing employment. Nowadays small and macro businesses with less than 300 thousand RMB in sales enjoy the privilege of tax reduction for 20% in China. This measure has reduced the survival pressure of small and micro businesses, yet there are still more space for our country to relax the restrictions and enable more businesses of this kind to enjoy the privilege. Although increasing the threshold of taxation may cause the decrease of fiscal revenue in a short term, this measure will finally benefit the growth of small and micro businesses and serve to cultivate the tax base in a long period of time.

## **2. Reduce government expenditure and create a system under which the central and local governments share financial risks.**

The economic growth of the U.S. during the period when Reagan took power was an typical successful case of following the “Supply-front Economics” . Measures taken in that period mainly includes the reduction of tax rate, government intervention, and government expenditure. The decrease of individual income tax rate enabled the increase of disposable income and labor supply. And the decrease of corporate income tax enabled the increase of the return on investment of enterprises and boosts their investment inclination. Tax reduction would result in the decrease of fiscal revenue, which requires the government to cut government expenditure and thus reduce its financial risk. Nowadays, the local governments of China are faced with large financing gap and high financial risks which may get more severe when the policy of tax reduction is carried out. Under such circumstances, the Central government should share the risks with local governments to avoid their bankruptcy and keep the society sound and stable.

## **3. Weed out zombie companies and laggard enterprises with surplus productivity, and give support to small and micro businesses as well as service industry.**

Zombie companies and laggard enterprises with surplus productivity occupy plenty of resources for production yet hardly carry out efficient production. Actually, the greatest resistance of changing the situation is that local governments refuse to let these enterprises go bankrupt because of the production value and jobs they could create in a short term. Under such circumstances, the Central government need to transfer its standards of evaluating local governments, changing the GDP-oriented evaluation mode of the old days. But weeding out zombie companies and releasing surplus productivity may be accompanied by layoff of employees. Thus the governments should increase employment through supporting small and micro businesses and developing service industry. Small and micro businesses and service industry are the main force in absorbing labor forces. According to the data from the Statistical Bureau, over 1 million jobs will be created with each 1% economic growth in the service industry, a ratio twice of that in the manufacturing industry. Therefore, small and micro industries as well as service industry will become the “job container” in the future. Thus the government should carry out reforms of the household registration system and accelerate urbanization, providing a channel for labors to flow freely among different districts. Serving as a major production input factor, labor force should really be given top priority when carrying out reforms. The implement of reforms

of household registration system will enable the free flow of labor forces among different districts and finally leading them to the most efficient districts and production departments. At the meantime , urbanization will also be accompanied by more demands, which will then help release laggard productivity.

**4. Accelerate the development of the capital market, diversify the financing channels of innovative enterprises and thus reduce the financing cost of such enterprises.**

Research and development innovation as well as business venturing all need strong financial support and financing cost keeps serving as an important element in enterprise innovation and the entrepreneurship of businessmen. Compared with physical investment, research and development projects of enterprises suffer more information asymmetry, which further weaken enterprises' financing capacity. The reason behind this is that the complexity and heterogeneity of the research and development projects make it difficult for people outside the projects to estimate their potential value. And enterprises are often unwilling to disclose detailed R&D information because they are worried that they may lose the first mover advantage once their achievements in the initial stage are imitated. In addition, it is also very difficult for enterprises to use achievements of R&D (intangible assets such as patents and business secrets) achievements as security for loans, which means that the financing cost in the outside sector will be further increased. In order to change the situation and reduce the cost, measures such as developing capital market, relaxing the capital market access system and broaden the financing channel of innovative enterprises should be taken.

**5. Stick to the management of the demand side through the “three carriages (the government, the company and the consumer)” at the meantime of carrying out reforms of the supply front.**

The results of reforms of the supply front toward economic structure and quality are not achieved at one stroke. Instead, they may be gradually displayed in quite a long term. This feature goes hand in hand with the rules of R&D innovation. The innovation of products and the advancement of technology require the accumulation of knowledge. Therefore, the positive effects posed by innovative R&D projects such as “Made in China 2025” and “Industry 4.0(a strategic high-tech program launched by Germany)” will all be reflected in a period of time. Thus in order to guarantee that our country could achieve a smooth and steady economic transition in the situation of the new normal, the government could never give up its management in the demand side before that.

*Translator/ Zhuang Fei*

# The Supply–front Reform: The Key to Resolve Tensions between Doctors and Patients

Li Ting, *Research Institute of Chinese Economy, Fudan University*

## 1. The systematical reasons for doctor-patient conflicts

On the one hand, the conflict between the doctors and the patients lies in the features of medical service. On the other hand, it is because of the reality of its being “too expensive and difficult to see a doctor.” Below are three reasons that attribute to this problem.

### 1.1 The disappearance of supply and demand mechanism of price balance

“Difficulty in getting medical service” can be attributed to an imbalance between supply and demand of the price mechanism of medical market. From the perspective of demand, as income increases and medicare improves, people have a higher demand of the quantity and quality of medical services, and when the prices of medical services are the same, most patients choose the first-class hospitals. From the perspective of supply, because the payment is much lower than the actual cost of medical services, the importance of the doctor is not reflected by a reasonable transparent income, therefore, it’s difficult for the medical service industry to attract enough intellectuals. Along with the lack of standardized and unified clinical training system, qualified doctors constitute only a small proportion of all the doctors, which makes supply of medical services unable to meet the demand.

### 1.2 The monopoly and profit-pursuing of public hospitals further deteriorate the doctor-patient conflicts

Existing medical services are mainly provided by public hospitals, the fact of it’s being “too expensive to see a doctor” originates from market forces and profit-driven nature of public hospitals. Because government subsidies account for only 10% of public hospital revenue, being profit-driven has become an inevitable choice for public hospitals. Low price of medical services and the medicine price system of “deduction from the drugs” lead to the fact that doctors are dependent on drugs and excessive medical care. After spending a large amount of time and emotion, patients also pay high medical expenses, and bear the consequences of over-medication, which would inevitably lead to conflicts between doctors and patients.

### 1.3 The characteristics of Medical Service

*In recent years, medical disputes become the focus of the attention of the public and the media. Why the conflict is becoming more and more acute when health care reform is in full swing with a remarkably high medical care coverage and security? What’s the root of the conflict between doctors and patients? Why the new medical reform ends up exacerbating the contradiction between doctors and patients and the conflict between supply and demand of medical services? What’s the right the path of health care reform to solve the contradiction between doctors and patients in today’s environment? What role should the government play in it? This article is going to answer all these questions.*

Three characteristics mark out medical services. First, doctors have the expertise that the patients do not have (asymmetric information); second, medical services concern the health and life of the patients; third, there is a lot of uncertainty of the result of medical services. There is also the possibility of over-treatment. Uncertainty in the results of medical services also increases the chance of conflicts between doctors and patients.

## ***2. Why the doctor-patient relationship was not improved after the new health care reform?***

The new health care reform started from 2009 focuses on the following aspects of reform: expanding coverage ratio of rural and urban areas, improving protection degree of healthcare, the full implementation health care of major diseases of urban and rural residents, the implementation of the separation of revenue and expenditure in primary health care institution, the promotion of essential drug system in primary health care institution and the advocacy of nature of "public welfare" of public hospitals and so on. Achievements are mainly manifested in the demand side: in a short period of time, it has achieved universal health care and improved health service utilization. However, the supply-side reform is not successful, for it has not changed the ill-functioned price mechanism, therefore it does not help ease the contradiction between doctors and patients. To a certain extent, it even intensifies the doctor-patient conflicts.

Firstly, since there is no price difference in different levels of hospitals, increased demands for medical services from the improvement of the health care system basically flock to first-class hospitals. Secondly, due to essential medicine system, primary medical institutions cannot provide some common prescription drugs. What's more, separation between revenue and expenditure also reduces the enthusiasm of primary medical service personnel, which leads more patients to choose high-grade hospitals. These two reforms also exacerbate the difficulty of getting medical service and the vacancy of idle primary care resources. Thirdly, in advocating "public welfare" of public hospitals, financial support for the hospitals has not increased, and the profit-pursuing motivation of healthcare service provider has not changed. On the contrary, it becomes even more expensive to get medical service. Fourthly, supply-side reform to get rid of "hospitals' reliance on drug sales," to boost the reform of public hospitals and encourage social construction almost make no progress, and the quantity and quality of medical services are not in line with increased demand. This is the root of the more and more serious doctor-patient conflicts in recent years.

## ***3. Future layout of reform: Why market-oriented path is more suitable***

*to current China?*

One of the reform paths is to continue the leading road of public hospitals, but the government should offer adequate financial support to public hospitals so that all hospitals have to do is to provide medical services and not have to sell drugs. What's more, doctors should be given more opportunities to get enough sunlight revenue in order to attract the best talents into the industry. Patients should be provided health care by their needs instead of prices. Second path of reform is that medical services should be provided by the market, in which case the doctor becomes a free man, and the market mechanism determines the value of their services. Differentiation of quality and price of medical services should be allowed under the prerequisites of guarantee of the quality of medical service.

The first path is more in line with the principle of fairness, but it requires a lot of financial investment and in the absence of the price mechanism, referral system is needed to improve the efficient allocation of medical resources. For the second reform path there are two main concerns. First, the existing high-quality medical resources will move toward high-end, in which case low-income groups will be affected. What's more, it seems like a violation of ethics to use market mechanism to regulate the demand for health services. Second, private hospitals have a strong motive to make profits, which may harm the interests of the patients. Although two roads of health care reform both have advantages and disadvantages, we think the second path is more suitable for current Chinese for the following reasons.

Firstly, the government has not made enough preparation for the first reform. The new medical reform started in 2009 emphasized on public hospitals as "public welfare", but support for the hospitals has not increased significantly, "public welfare" stay only as a slogan, the status-quo of "hospitals' reliance on drug sales" has not improved.

Secondly, doctors as people within the system, are limited by the formulation, professional title evaluation, research requirements, and the situation is hard to change. When there is no market pricing system, the income of the doctor is linked with seniority and experience, which makes it difficult for the doctors to focus on improving professional competence and have "patient first" awareness.

Thirdly, the government, as the operators of public hospitals and managers of medical market, is difficult to guarantee fair regulation. "Blur of the distinction between management and office," is a chronic illness of the existing health care system. It's difficult for the department

of management to treat private hospitals the same way they treat public hospitals, and when problem happens in public hospitals, authorities often try their best to cover the fact, the result of which is that public hospitals become bolder and bolder, and people cannot trust the management department.

Fourthly, concerns for medical services provided by private sectors can be addressed through market competition. Although private hospitals are profit-driven, the charm of the market mechanism lies in the fact that when there is sufficient competition, everyone will strive to provide lower prices and better services to attract patients, which is beneficial to themselves as well as others. In the past few years, there had been a lot of negative news on private hospitals. It is the result of the fact that the department of management pays much attention to preview instead of afterward regulation. To set up an administrative access threshold to healthcare market often leads to the problems of rent-seeking and inadequate competition. Plus, those institutions that enter into the healthcare industry are not necessarily of high efficiency and good quality service. And when there are no afterward government regulations, along with the inadequate market competition, the hospitals will inevitably have an incentive to make the patients pay more. Bad reviews of private hospitals are also connected with the fact that they are unable to attract excellent physicians. Good doctors are at the core competitiveness of health care market. When the doctors break loose from formulation of careers and become free practitioners, the quality of medical services in private hospitals will be better.

Fifthly, the nature of medical services does not mean that the government working as the supplier of medical services is more conducive to social welfare. Medical services are not public goods, and the status quo of public hospitals is enough to explain that public hospitals are not necessarily “public welfares.” Under the the distorted price system and the monopoly of high quality medical resources, excessive medical treatments can also happen in public hospitals, which will cause damage to the patients. A lot of foreign literature have studies on the differences about the different forms of ownerships of hospitals and it has not found out the advantage of public hospitals on operational efficiency, service quality and price. As to who should provide medical services, it should be decided on those that supply better service, lower prices, higher efficiency. Obviously, only market can answer this question.

#### ***4. What should the government act in the following health care reform?***

The government should also play an important role in market-oriented health care system.

Firstly, we should further improve the health care system. Government should ensure that people are accessible to medical services when struck by diseases.

Secondly, a comprehensive training system should be established. Medical services do not have the characteristics of public goods, but good doctors are. If the doctors become freelance, competing hospitals will have no incentive to train doctors. Therefore, the government should establish a clinical training system to ensure the quality of medical services.

Thirdly, the government should provide basic medical services to fulfill the medical needs of low-income groups. One concern of marketization is the limit of excellent medical resources in the short term and differentiated medical services, which will cause it impossible to guarantee the health services of middle and lower income groups as excellent doctors have entered the high-end market and the rest are not qualified enough. This is indeed a problem very likely to arise in the process of marketization. In present medical market, the prices go wrong and patients obtain scarce medical resources by spending a lot of time queuing or asking favors or paying at a much higher price from the scalpers. This is the typical characteristic of planned economy. Although marketization of medical services may impair the benefits of patients of low-income in the short term, from a long-term perspective, the value of medical services is clarified through the market and more talented people will thus be willing to be a doctor. When the suppliers in the medical market are improving, the bottom line will be a lesser problem. But the increase of good doctors is a process, during which time, in order to ensure the welfare of low-income groups, the government should supply some high-quality medical services to low-income groups at a low price in collaboration with referral system. They should also build up a sound clinical training system, improve the overall ability of the reserved medical personnel and be a guardian of primary health care institutions.

Fourthly, the government should supervise the market and punish misconducts. Because of the asymmetry information in medical services, the gaining of such information is marked with the characteristics of public goods: the more it is shared, the higher its value. But the production of information requires a huge cost. Yet, the market that is driven by profits lack such motivation and power to produce and supply medical information. Government has a responsibility to change the asymmetric information in medical services and implement necessary regulation and punishment.

*Translator/Hua Zhiyun*

# Further Exploration of Artificial Intelligence Requiring Cooperation from Both Political and Business Sides

Liu Jia, *Dean of School of Psychology, Beijing Normal University*

## ***An Expected Result from AlphaGo, an Indication of New Life Form***

The exponential development over the past two years has proven that artificial intelligence has the advantage to beat human brain over the game of go. Early in October 2015, AlphaGo had beaten Fan Hui, a 2-dan go professional and reigning 3-time European Champion, at a solid victory of 5:0, which already indicated that the power of artificial intelligence should not be ignored. The result of the game war between machine and human mind this March, as usual, would not be surprising, for it is just a matter of time for computer to win over human mind. If AlphaGo were not to defeat Lee Sedol this year, it is bound to in the next one or two years. And one or two years, compared with the long and extensive span of wisdom evolution, could just equal to the present. Therefore it is safe to say that the unparalleled emergence of AlphaGo will mark as a milestone in the evolution and revolution of civilization and intelligence.

The core working mechanism of AlphaGo is centered on Deep Learning, an artificial neural network. However, early in 1980s, the artificial neural network, simulating the working manner of human brain, has already come into being with the peak development in 1990s. Yet due to the limits on computing capability and storage capacity of computers then, artificial intelligence failed to show a solid ability on problem-solving, thus being put aside at the time. Therefore, what remains at the core of AlphaGo, the Deep Learning, has remained all the same; what has changed is the improvement on the computing capability to resolve complicated problems as well as on the storage capacity. One thing worth noticing is that what AlphaGo has revealed is not only the breakthroughs on the go, but more significantly, the huge revolution that artificial intelligence will bring into various fields, one of which is automatic driving. Once prevailed, self-driving will greatly improve logistics efficiency while immensely trimming down the cost, transforming both the industrial and GDP structures of a nation. Automatic driving is not something unreachable in the far distance; instead, it will become one of the major transport ways in the next five or ten years. When that comes, human driving will turn into a competitive sports game or a way for recreation just as horse riding. Hence, the emergence of AlphaGo neither tells the losing out of human being in certain area nor the demise of human

*The victory of AlphaGo, an artificial intelligence program, not only signals the start of a new round of industrial evolution but also indicates that life will evolve toward a new form. Human beings should embrace this new life carrier so to achieve standing inheritance of knowledge and experience of its race. Both the government and investors should cultivate long term strategic investment insights so as to seize new economic growth points.*

dignity; instead, it announces the beginning of a new round of industrial revolution.

However, while cheering at the fact that computer has liberated human being from the simple repetitive work, we should also come to realize that such advancement would also mean a fading of superiority in mankind or even the extinction of itself. As the interconnection and computers' capabilities continue to improve, artificial intelligence will develop further, releasing numerous labor force which otherwise would take up simple and repetitive work. These released labor force will shift into doing work of more creativity and in return help to enhance the development of artificial intelligence. Once the singularity comes, artificial intelligence will generally surpass human wisdom, which means the future of human beings will run into gradual demise, just as the human ancestor Homo Neanderthalensis once did. The coming of singularity is not far away – radical opinions hold that it will come into reality in 2050, and from a conservative point of view, the author reckons that it will happen within 100 years. In other words, such a historical moment in the evolution of civilization and intelligence may be witnessed by our generation. But it is worth pointing out, in particular, that such replacement is not the cruel genocide inflicted upon one species by another as shown in the movie the Terminator, an absolutely hostility between human wisdom and artificial intelligence. On the contrary, the distinction and replacement of a species by another is only a natural phenomenon if looking from the perspective of life evolution. Human itself is only a tiny part of biological evolution, just as the then dinosaurs in the whole journey. If silicon-based life is a better form for survival, then it is natural for life to transit from carbon-based ones to silicon based ones. In this sense, human being is not running into extinction but continues to exist in another life form. It is an expansion of civilization, a progress of intelligence.

### ***Embracing, Instead of Impediment***

In most Hollywood blockbusters, artificial intelligence normally represents the terminator of human being. It is just due to such an anthropocentrism mindset that some people try to prevent artificial intelligence from out of control through preemptive measures. The most famous one shall be what is described as The Three Laws of Robotics in Isaac Asimov's I, Robot, a science fiction collection: One, a robot may not injure a human being or, through inaction, allow a human being to come to harm.; second, a robot must obey the orders given it by human beings except where such orders would conflict with the First Law; three, a robot must protect its own existence as long as such protection does not conflict with the First or Second Laws. However, this worry or restriction

is both impracticable and redundant. Why impracticable? Just as we are not sure about how human being develops its self-consciousness during the 400 million years of evolution, we are not quite able to precisely control every step in the progress of artificial intelligence. This is because evolution tends to have the nature of explosive growth. Therefore having accurate and planned control of the evolution of artificial intelligence is far more difficult than a controlled and orderly release of the power from an H-bomb explosion. Then why redundant? The key of evolution lies in the inheritance and development of civilization. The carrier of human intelligence – human body, has inborn shortcomings. Body is fragile, for any problem in an organ (for example, the necrotic of liver because of liver cancer) may cause the death of the whole body; for computers, however, all it requires is only a change of the components when a breakdown happens. This fragility in human body means that all the experience accumulated, knowledge acquired and wisdom developed along the growth of the individual entity will disappear with the demise of the entity; descendants can only learn what their predecessors left through pieces of words, shards of memory. In this sense, the knowledge and experience of human race is not easy to be reserved and passed on and thus not easy to be shared and learned. Such being said, why don't we just put aside the stubborn clinging onto the form of body and embrace the new form of life? Instead of making every effort to take precautions against artificial intelligence, it is better for us to infuse our wisdom and emotion into the machine, evolve with the new life form and head toward the immortal with a new life form.

### ***Discovering New Economic Growth Point with Long Term Strategic Insight***

Human brain, the research focus of psychology and brain science, is the best teacher for artificial intelligence. To have a profound understanding of the nature of human psychology and the working mechanism of human brain will bring essential inspiration to the evolution of artificial intelligence. But this does not necessarily mean that artificial intelligence should completely copy the working mode and rules of human mind just like if cars are to surpass human being's speed, it is not to imitate the way human walks but to invent the wheels for cars. By the same token, human being can map out a unique evolutionary path for artificial intelligence based on the unique features of artificial intelligence such as big data storage and high speed computing.

Among the 100 priorities put forward at the Two Sessions this year, to develop brain science and brain-like intelligence technology has remained on top of all. Both of the subjects are closely related to the development of

artificial intelligence. However, compared with advancement in developed countries, studies in China still lag behind in terms of both breakthrough and innovation. This is not to say that China lacks the interest or chance in exploring this field, but that so far we do not have the motivation as strong as the Western countries. The reason that Google develops AlphaGo is not for taking a lead in playing go, but for seizing the opportunities in major business demand and national emergencies such as financial trading, precaution and intervention in individual or state crisis. This strong driving force is helpful for the conversion of theoretical studies towards actual application. However, in China, most of the investors are “the coal owners”, a rich group with very little education who made their fortune overnight through coal trading business. They have large amounts of capital but lack strategic investment insights. As the coal owners cannot make a good judgment on the pioneering new things which will lead future human development as well as become the new growth point for economic development, they have directed too much capital onto those low-end (such as O2O) or short-sighted (such as smart phones) projects. For some real high-tech companies based on the development of brain science, such as Deep Mind, the company which develops AlphaGo, the coal owners cannot see the huge potential. Therefore, from the author’s viewpoint, it is necessary for both individual and institutional investors to cultivate their insights through acquiring knowledge about the latest development in the scientific front, or they should hire professionals to help make judgment. For governments, there are at least three things it can do: First, listening to the voices and embracing the new ideas from the forerunners and leaders of each industry. For this, think tanks can act as an idea gatherer to assist the policy makers in keeping up with the latest progress of the times. Second, encouraging innovation and entrepreneurship and supporting the development of high-tech industries. Third, cultivating the creativity and critical thinking of the people through quality education. The current educational system has extremely ignored the part that gifted education could do, which is why it is difficult to cultivate industrial geniuses and talents. Hence, it is a must to promote the talent education among the people.

*Translator/Wen Jieling*

# Prejudice Against Robots Should Be Discarded

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***If robots could beat human beings over open-ended questions, then that should be shocking.***

Some professionals in the go community, who once vowed solemnly that human would win in the competition, will find it difficult to see such a result. Yet for me, I am not surprised. Although I did not make any forecast on the result simply because too many factors are involved, still I believe that artificial intelligence will be the ultimate winner, if not this time. I agree with what most people say online, that go is a game with fixed rules – a closed question, and sooner or later machine will undoubtedly defeat human on such closed questions of any field. For example, when a human and a robot are playing football together, if the game rules were changed during the game, the human would be able to keep playing; yet for the robot, it is difficult for it to respond in a short time because the robot is just programmed for fixed-rule activities. Therefore, what strikes me is not that Alphago defeated human being in the go-playing, but that one day robots can compete with human on open questions such as writing, painting and designing.

***Study of artificial intelligence requires preparation from the perspective of Ethics.***

Stephen Hawking claims on several occasions that as artificial intelligence develops further, it is not impossible that one day robot could be strong enough to result in the demise of human. I am doubted about that. However, what is certain is that studying artificial from the perspective of Ethics should be added to the total research map. In Hawking's description, artificial intelligence would ultimately tread over human, which not only refers to that artificial intelligence would take over the jobs from human beings, but that robots would completely exceed human in terms of both physical and mental power. Such an imagination is still a blur in the distance. More persuasive evidence should be gathered to prove robot's abilities. Otherwise it is too early to draw the conclusion.

I always believe that all products need the guidance from Ethics if they were to be used in an ethically right way, and since robot obviously is one kind of products, it is without exception. The current information technology has already presented threat to the safety of personal privacy.

*If robots could beat human beings over open-ended questions, then that should be shocking. As study about artificial intelligence explores deeper, it is essential to look at the issue from the perspective of Ethics and human beings should remove the prejudice against robots.*

Big data, for instance, which is as influential as artificial intelligence, would inflict some negative impact on human's personal privacy, if not used correctly. It is urgent, therefore, to realize a balance between the promotion of big data technology and the protection of citizen's right of privacy. By the same token, it is significant to study how to minimize the damage that a robot could cause on human being. The discussion on setting industrial safety standards through robot encoding is a progress in this regard. Such considerations shall be carried out far before the artificial intelligence is powerful enough to cause that damage.

When philosophers contemplate industrial ethical problems, the damage which could be caused upon human beings by potential industrial accidents will be taken into discussion. Moreover, it is also significant to tackle the source of danger once it happened and track back the causes to those who should be held accountable. For example, when a car broke down, it should be made clear whether the problem lies in the engine, driver or the scheduling. One tricky issue about robots is that once technology reaches certain level and enables robot to think and make decision independently, and such self decision-making ability presents certain threat to the safety of human being, how should we assess and determine the responsibilities of the robots? This is a significant question. It seems absurd to bring the robots under justice within the current legal system, but this is exactly the kind of question that philosophers deal with. Perhaps this is why it is popular to bring philosophers into the discussion about the ethical principles of robotics in Western world (e.g. Google).

***Prejudice against robots should be removed.***

People always worry that what if someday robot may cause the extinction of human race. Such anxiety is just similar to what we think about extra-terrestrial beings. What good it will do as they come from so far away just to say hello to us? Will they try to kill us? Possibly this is their real motivation. Such prejudice also exists on the issue of robots. But let's just suppose that someday the intelligence of robots would exceed human's, why do they need to kill us? Human beings possess a high level of intelligence, so much so that we can cultivate our responsibilities for nature: that we should protect the environment around us, that we should not kill other creatures which share the planet with us and that we understand the values of environmental protection. Why wouldn't robot have a peaceful coexistence with human beings? Why wouldn't robots share the beautiful planet with all creatures? What if they believe in religion belief just as all the sincere human religious practitioners do that all should be treated with kindness? It is time for us to drop this long-existent prejudice against robots.

*Translator/Wen Jieling*

# Artificial Intelligence Witnesses a Bright Prospect, yet Human Being is in Ultimate Control of the Whole Course

Zhang Wenqiang, *Director of Laboratory of Artificial Intelligence Study, Fudan University*

## ***AlphaGo's victory over Lee Sedol, not surprising***

Of the two games on March 9 and 10 with AlphaGo – a computer program developed by Google DeepMind, versus Lee Sedol – a top professional go player worldwide, the artificial intelligence harvested a complete victory over human player. But such a result, for Mr. Zhang Wenqiang, the director of Laboratory of Artificial Intelligence Study at Fudan University, is no surprise. Mr. Zhang gave the example of IBM's Deep Blue – a typical representative of artificial intelligence earlier – winning over Garry Kasparov, a world-renowned chess grandmaster back in 1997 to indicate that the then global eye-catching event, when looking back from now, is just another progress in the history of technological development.

## ***Disparity on artificial intelligence study exists between China and the US. For China to catch up, the key lies in coordination between industrial, academic and research circles through mechanism innovation.***

Mr. Zhang pointed out that for the US to take the lead in artificial intelligence study globally, there are two reasons. First, innovation from universities proves to be a strong catalyst. Research institutes at Stanford and MIT, for instance, provide a huge talent pool and theoretical support for the development of AlphaGo. Second, the industrial circle also invests extensive financial and human resources in the cause. Mr. Zhang pointed out that technological giants such as Google and Facebook all have their own laboratories to conduct research and study on artificial intelligence. Therefore, a close cooperation between the academia and the industrial circle serves as the key for the US to be in the leading place in artificial intelligence studies.

During the interview, Mr. Zhang gave comment on the efforts in promoting “Internet +” and artificial intelligence study in China in recent years. He believes that the current efforts will be blessing for further development. China's artificial intelligence study witnesses a bright prospect.

Meanwhile, Mr. Zhang also told that disparity on artificial intelligence study exists between China and the US. He further pointed out that

*AlphaGo's defeat of human go player is just another proof of technological development. A disparity on artificial intelligence study exists between China and the US, for China to catch up the key lies in coordination between industrial, academic and research circles through mechanism innovation. Future development of artificial intelligence still relies on improvement in both hardware and algorithm. During the course it is difficult for machine to replace human brain; ultimately human being would be in whole control.*

the fundamental problem lies in the mechanism for innovation. In Mr. Zhang's viewpoint, China needs to learn from the Western countries in terms of building a systematic mechanism for innovation.

Mr. Zhang shared his thoughts on how to make up the difference from three aspects. Firstly, on the state level, the government should list development of "Internet +" and artificial intelligence into top priorities. Secondly, academic circle should act as a talent source for innovation for innovative achievement would be a natural outcome once with the great support from the talented professionals. Lastly, the industrial circle should cultivate the foresight and patience when investing in artificial intelligence. Huge amount of money is a must when the development is in its infant stage during which the newly emerging technology is not expected to generate fat profit margins. Mr. Zhang believes that China has the chance to chase up the US if it can make the full use of the synergy from the academia, research circle and industry.

***Development of artificial intelligence: the basic lies in the hardware while the core relies on algorithm.***

Mr. Zhang pointed out reasons for the fast development in artificial intelligence in recent years from two aspects. On the hardware level, rapid achievement has been realized in computing capacity and computing resources. Algorithms that required long time to calculate out results in the past now give answers within moments. On the theoretical level, Deep Learning – the artificial neural network of AlphaGo – is greatly different from those shallow ones in the past. AlphaGo's win has fully shown the great and beyond-human effectiveness of big data sample learning and reinforcement learning, behind which is the extensive data of historical game records, a collection of human wisdom and talent. For future development of artificial intelligence, Mr. Zhang believes that it is essential to push forward the progress on both hardware and algorithm. To put it more specifically, enabling hardware to process complex algorithms at a lower cost and improving the smartness of machine will be significant. Mr. Zhang even assumed that whether robots could have emotion would be a research direction in the future.

***For computers to replace human brain? Rather difficult.***

Mr. Zhang believes that it is very difficult for computer to replace human brain. Based on his many years' experience he told us that the more we learn about artificial intelligence, the more we know about the deficiencies of artificial intelligence. At present development of artificial intelligence worldwide is still in an early stage. Even for top machine like AlphaGo, it is only possible for it to defeat human brain in some respects – the rule-based fields such as computing and searching. Mr. Zhang further points

out that currently as the developers of artificial intelligence are not fully clear about how human brains work, it is not very possible to completely empower robots the way as a human brain does.

***Artificial intelligence also needs to obey ethical principles. Ultimately human being will have it all in hands.***

Mr. Zhang told us that during the robot research there is a set of ethical rules to guide and set the bottom line for robot behaviors so as to avoid the risk of evildoings. But to ditch the research just because there is potential risk would simple equals to throwing the baby out with bathwater. The easiest way to stop wrongdoing is just to unplug the power, Mr. Zhang joked. In general, neither pessimism nor exaggeration is helpful; ultimately human being is in control of the whole course.

*Translator/Wen Jieling*

# Sino-Russian Relations: Critical Moment in Deepening and Developing Cooperation

Feng Shaolei, *Director of the Centre for Russian Studies*  
*at the Key Research Base of Humanities and Social Sciences at the Chinese Education Ministry*

No matter in terms of domestic transition or the ever-changing international milieu, the Sino-Russian bilateral relationship is at an important turning point.

Since the end of the Cold War, both China and Russia has spontaneously undergone three similar stages in their respective domestic institutional transition. In the 1980s, both China and Russia began the first stage of reform, with market and democracy as the starting point. They mainly emulated Western institutions, promoting modernization and institution reforms. At this stage, both countries experienced severe challenges in transition and Sino-Russian strategic partnership was established as well. The first decade of the new century is the second phase of transition in both China and Russia. What is common is that both countries' economy has gone gangbusters within the favorable global economic surroundings. Especially the state-owned economy has been enhanced unprecedentedly, the country's autonomy and subjectivity has been strengthened, and their international influences have been greatly expanded. Objectively speaking, now both countries are facing the third stage of transition.

Against the backdrop of new-pattern international and domestic politics, economy and security, both countries are preparing to enter a completely new stage, which continues the past in essence. This stage is neither similar to that of the 1980s and the 1990s, nor is it to the first decade of the new century. That is, at this stage these two countries should both ensure the state's strong role in their respective socio-economic development while maintaining stability, and give full play to the role of market-based regulation, improving their democratic decision-making levels. In Russia, there appear calls for reform according to the "political economics of crisis" logic; while in China, the government, under both Xi and Li, advocated innovation and development through government decentralization and market's bigger role based on ensuring political stability, in addition to a clear direction of national development. Although the real start of any reforms is never easy, yet the internal logic and challenges of both countries' domestic process are bound to come to this stage eventually. As a matter of fact, both countries' similarities during the domestic transition have provided an important prerequisite for the development and promotion of their bilateral relationship.

*Both China and Russia are located at the complex Eurasian geopolitical environment, which is different from that of the United States as a "safety island".*

According to the external international environment, current international political development has entered a new era in the wake of the end of the Cold War. During this period, although the United States is still today's most powerful country, yet the U.S.-dominant West can no longer be the lord of all it surveyed as before. A diversified power structure and more diversified ideas, concepts will be difficult to deter. The challenges, which the emerging economies are facing, indicate that they still cannot substitute the West's potentials in a short term. Nevertheless, undoubtedly, they represent the future long-term direction of development; the G20 and emergence of a series of new international mechanisms during the international financial crisis is an important sign of this change actually; the globalization has been hindered while regional political and economic competition has become a new focus, which is a manifestation of current re-adjustment of international efforts. In short, greatly different from the relatively stable situation dominated by the West in the 25 years after the end of the Cold War, a new transitional form with continued unrest and uncertain prospects will last a long time.

For the Sino-Russian relationship, this external environment means both opportunities and challenges. Importantly, both countries should not drift with the current but instead adhere to the planned direction, by summarizing, deepening and developing the Sino-Russian strategic cooperative partnership. In the meantime, they should also advance with the times, to innovate and improve.

Politically speaking, there is profound background explaining why Sino-Russian relations are not "expediency". Both China and Russia have their own long history of civilizations and traditions. We have experienced similar hardships on the road to modernization, forming opinions towards political development different from that of the West. We also have to face an external environment full of disorderly competition, complex and diverse patterns of interests, which is excessively ideology-driven, even kind of "rent-seeking" or "demonized". It is quite natural that both countries come together, understanding and supporting each other.

However, regarding the future orientation of Sino-Russian cooperation, to what extent, do we have mature ideas about the future political positions of both countries within the international community? Should we attempt to achieve "revolutionary transition" or "reform" of the current international order? These questions should be answered clearly. Looking in-depth into this complex issue, we can find not only the Western powers still exert pressures on China and Russia, but also the power structure at global and regional levels is generally discrete, and even some places have been almost out of control, or even caught in anarchy. Therefore,

both countries' choices are bound to affect the overall situation.

From an economic perspective, China and Russia, as the largest developing countries and the largest transition countries, these two neighbors have natural and convenient geographical conditions to achieve economic complementarity. The decision, achieved by two politicians Xi Jinping and Vladimir Putin regarding the “coordination” of “One Silk, One Road” Initiative and Eurasian Economic Union, has become a far-sighted political one, promoting their bilateral economic cooperation under new situation. Currently, this “coordination” is based on both the institutional framework of the Shanghai Cooperation Organization, and consultations between China and the Eurasian Economic Union, as well as tests through China-Mongolia-Russia trilateral cooperation. Moving forward, it is foreseeable that there will be a broader basis and space for Sino-Russian economic cooperation.

The principle of international political economics shows that international economic success primarily depends on political cooperation, particularly political cooperation among those great powers. Therefore, to promote the Sino-Russian bilateral economic cooperation, the key is not the necessity of cooperation but instead the way to promote. To this end, both sides need to rationally grasp some key issues in perceptions.

First, for China and Russia, two countries with enormous land and undergoing tough transition, it is far more difficult for them to form a cooperative mechanism, in the general sense, than those smaller market economies. For Sino-Russian economic cooperation, it is imperative to go beyond the conventional thinking. For example, at the beginning of the new century, FTA cooperation between China and Russia was proposed, but so far, it has just been put onto the agenda, indicating the difficulty of this issue. Whether it means that the FTA cooperation is not suitable for Russia and China, or whether we still need to think about more ideas, or whether we should promote economic cooperation by means of new methods combined with the FTA, these are the questions to be answered.

Secondly, I have once heard old experts, who have been working for years engaged in Sino-Russian economy and trade, proposed completely different views. Some hold that any effective cooperation between China and Russia is difficult to achieve without government initiatives or effectively promoting. While others argue just the opposite, they think only private sectors can truly survive and cooperate. On the issue of Sino-Russian cooperation, whether the cooperation could be pushed forward depends on the governments and enterprises, especially how to define the functional boundaries of each private enterprise and how to effectively match them.

Third, just when we advance triumphantly, welcome the advent of a new round of cooperation, we still cannot ignore the problem of implementation of Sino-Russian economic cooperation. Although there used to be a lot of cooperation programs, yet they were delayed for a long time and nothing was done finally. Is it on the earth the problem of the proposals themselves or is there lack of effective security system or norms?

From a security perspective, there are at least the following aspects, which are important foundations for Sino-Russian cooperation, which still need further clarification and to be dealt with safely.

Both China and Russia are located at the complex Eurasian geopolitical environment, which is different from that of the United States as a “safety island”. The objective situation, naturally, enables both China and Russia to resort to mechanisms and surroundings, which can buffer and counteract the effects of various external pressures against the domestic situation. In this regard, how can both countries care about the other’s comfort without inheriting the traditional “spheres of influence” approach? When some Western prominent scholars have played up this background, this is an issue both in theory and international law. In particular, we need to carefully recognize and distinguish it in practice.

Second, in addressing the issue of regional cooperation mechanisms, a series of regional crises in recent years prove that the Asia-Pacific region cannot simply copy the practices of other regional security systems. The establishment of the Shanghai Cooperation Organization has set a model for regional and sub-regional cooperation. How can both China and Russia further deepen their cooperation in regional and sub-regional security systems? For instance, how can we further establish the regional role of the Shanghai Cooperation Organization? How can we further coordinate the two functions of security and economy at the same time? How can the SCO both enlarge while improving its efficiency, including how to attract the younger generation, how to enhance their attention to and participation in the SCO? There is really a long way to go.

Finally, for China-Russia-U.S. trilateral relationship, there seemingly does not exist a platform for their mere coexistence and direct interaction, but they actually interact with each other incessantly. It can be said that this is the most important group of multilateral relationship in the world. The international history shows that the trilateral relationship is the basic framework, which is never inferior to any bilateral relationship. Sino-Russian relationship provides some important principles to handle trilateral relations, for example, no conflicts, no confrontations and no aiming at any third parties. How to ensure this set of trilateral relationship

not to repeat the tragedy of the Cold War? This may be the most critical issue in contemporary international political life.

In accordance with the above analysis, optimistically speaking, whether both countries are likely to enter the third phase of domestic transition, or whether the international configuration after the Cold War will enter the second period, in fact, both provide opportunities for the improvement of China-Russia-U.S. trilateral interaction. Even the prevailing terrorism also promotes the trilateral cooperation. However, on the other hand, we cannot deny there also exist possibilities of undesirable scenarios in the future.

The key lies in that there doesn't emerge a significant domestic transition in the United States like that in both China and Russia, nor has there occurred theoretical reflections like those in China and Russia. In other words, when it is unlikely for the American ideology to change in reality, it seems that both countries' politicians and elites should first shed light on the prospects of China-Russia-U.S. trilateral relationship.

# The Risks of the Penetration of Religion Extremism in the Context of the Belt and Road Initiative

Qiu Wenping, *Director of Religious Studies Office, Religion Research Institute, Shanghai Academy of Social Sciences; Visiting Fellow of University Think-tank of Shanghai*

The “Belt and Road” initiative or strategy is intended not only to break through the Western containment and blaze the economic trail to Europe. It also aims to promote the economic development of border areas and quickly integrate them into the modern civilization system, so as to achieve long-term security and stability in Xinjiang. Without the stability and harmony in Xinjiang, the “One Belt One Road” strategy of development will always be poorly based. So all the economic development and cultural as well as religious exchanges should revolve around this core objective. Therefore, when developing the economy, we must consider the penetration of religious extremism to the Muslims in China by taking advantage of “One Belt One Road”. Pan-Islamism, Pan-Turkism and Wahhabism were originally established against the Western colonialism and for national independence and, but they are also extremely xenophobic and intolerant at the same time. ISIS and other Islamic extremist religious organizations that derived from the sects are increasingly rampant in Central Asia, causing no small impact in our country. Therefore, the most important issues in the field of ideology is how to join the similarly third-world Islamic countries to develop economy and eliminate the real path of religious extremism while preventing against the erosion of religious extremism in its numerous names on the Chinese Muslims .

*The most important issues in the field of ideology is how to join the similarly third-world Islamic countries to develop economy and eliminate the real path of religious extremism while preventing against the erosion of religious extremism in its numerous names on the Chinese Muslims .*

## ***I. We must stay vigilant on the religious infiltration of Saudi Wahhabism and Pan Turkism.***

Islamic religious extremism originated from several ideological sources in the Sunni and Shia. As a large number of Sunni Muslims are distributed in a vast area, there are more extremist organizations in this sect. And 90% of Muslims in China are Sunni, China suffers more seriously from it. The Saudi Arabian King Abdullah once announced a law condemning any form of atheism and any challenges to doubt Islam as “terrorism”. Although this bigoted rule is only a domestic law of Saudi Arabia, it has essentially reflected the Saudi Wahhabi’s strong exclusion of and discrimination against other religions, especially the atheists. This nature of intolerance, in its dissemination, inevitably produces of extreme hostility against other nations, especially nations that are not religious. Wahhabism exerts a quite serious impact on China, because its spread and

penetration to the Chinese Muslims can be dated back to history and it is expanding rapidly by the promotion of the Muslims in China.

Meanwhile, Turkey continues to provoke China on the ethnic problems and interfere with China's internal affairs, posing a more imminent threat than the US in undermining our border stability and ethnic harmony. Recently, Turkey has tied itself in the Middle East political turmoil. If China is not able to force Turkey to abandon its whim of Turkic empire in its perilous time, when it recovers, it will inevitably aggravate its contest against China. The "One Belt One Road" is not only an economic project; more importantly, it is a political campaign to boost the economic growth in the frontier and ethnic areas and to build a fortress guarding against the frenzy religious extremism. The omission of Turkey in its diplomacy and publicizing is only a disguised encouragement for the stowaway and the three kinds of forces, posing cultural threat to the "Belt and Road" initiative.

## ***II. The mosques have no authentic doctrine in the religious boom in Xinjiang.***

Islamic religious extremism is the root of violence and terrorism facing the world, and the repeated violence in Xinjiang were conducted in the name religion. So most people have a misunderstanding of the religious atmosphere in Xinjiang, believing that it is a very religious province. In fact, while Xinjiang has the world's highest density of mosques, most imams only receive primary or junior high school education. As many of them can only recite Koran in Arabic, they know little about the religious text, let alone the doctrine. So it is difficult for them to distinguish the orthodox doctrine from religious extremism. The reason is that people in south Xinjiang receive generally a low level of education and are far away from modern civilization, so there is no way to broaden their own vision for the religion, resulting in a confused religious belief. Therefore, it is very easy for religious extremism and ethnic separatism to find their market and living space, carrying out religious brainwashing with their simple and rude pyramid-selling.

Historically, the central government has been wavering on the religious problem in Xinjiang, it takes strict and laissez-faire policies alternately. The dealing of the core issue – training the imams, is in lack of systematic planning and respect, so the grass-root imams harbor psychological resistance against religious management and are unable to guard the doctrine against the intrusion of religious extremism. For instance, there are as many as 1,700 mosques in Shache County, but only two imams can receive training in Urumqi Islamic Institute each year. And a large number of imams and religious students are struggling with political study and

have no opportunity to learn religious knowledge. It results in a situation where the imams preach politics in mosques, which the secret preaching classes take possession of the right to interpret the doctrines, spreading falsehoods and inciting violence.

***III. The benefits brought by the “Belt and Road” initiative should be enjoyed by all ethnic groups.***

Only when the interests of the people are guaranteed can the people be united for common development and long-term stability in the frontier region. The number of ethnic Muslims in Xinjiang ranks the highest in the nation, but the northern Muslims, such as the Kazakhs, the Uzbeks, are hardly involved in terrorist violence, a prove that Islam is not the source of violence and terrorism. The particularity of Uighur has its historical origins and real living pressure. The Uygur population is over 9 million, according to statistics, and in fact, is certainly more than 10 million. But Gobi and deserts cover most of the lands in Southern Xinjiang, with only a few oases suitable for habitation. If the government does nothing in population control and per capita income, the chaos in southern Xinjiang will persist.

The issue of foreign exchange for the frontier ethnic minorities has always been a dilemma for the government, a dilemma between violence control and cultural communication, a dilemma that causes continuous smuggling from Xinjiang to Yunnan provinces. While the control is a correct way to maintain social stability and thinking, from the macro perspective of “One Belt One Road”, the economic and cultural exchanges between China and Central Asia, West Asia as well as the Middle East is the trend and the hope of the people. And the various Muslim ethnicities in Xinjiang have natural advantages in religion, ethnicity and language. They also aspire to improve their living situation in this wave of economic growth. Meanwhile, the construction of the Silk Road is also in urgent need of these people and channels. The major questions that we encounter currently are how to organize the minority people and train the young Muslims towards modern civilization. In maintaining stability and lasting peace, we need more innovative thinking.

In view of the above problems, this article proposes the following suggestions.

1. In developing the economy, we must consider preventing the religious extremism from staging a large-scale invasion into China in the disguise of “One Belt One Road”.

As the rise of China as a superpower is an internationally recognized fact, the extreme right Christian constitutionalism and extreme left Islamic

religious extremism are to both strengthen their missionary efforts in China, in a bid to influence our domestic and foreign affairs. There are more than 20 million Muslims in China, and the invasion of ISIS and other Islamic extremist religious organizations have caused no small impact. A major ideological issue during the implementation of “One Belt One Road” is to join hands with the Third-World Islamic countries to build common economic development and eliminate the real path of religious extremism, while preventing the erosion of various kinds of religious extremism to the Chinese Muslims.

2. The training of imams and talibs (religious students) must be considered from a political perspective. The Islamic Institute should expand the scope of enrollment and training. In addition to politics, the systematic training of religion should be a priority. At the same time, we should enhance the religious exchanges with more moderate Islamic countries in Southeast Asia and West Asia, jointly discussing how to restore the "Mean" and "green" Islam, which are the essence of the doctrine. The campaign against religious extremism in Xinjiang can only rely on grassroots imams and the succeeding talibs as they can affect the majority of the Muslims, so their support is the core issue.

3. In the background of the “Belt and Road” initiative, we can introduce a large number of secularized audio and video products from Central Asia, West Asia and the Middle East, translate and promote them. We should strongly support television and film production that is close to Xinjiang life, with particular attention to cultivate producers and directors proficient in both Uighur and Chinese languages. With regard to the various Uighur channels in Xinjiang, there are only a few in-depth programs about the life of ordinary people and even fewer good movies and TV series. Without high-quality and large quantities of promotion, it is useless to discuss getting rid of the religious extremism and accepting the modern civilization.

4. The bilingual education in the frontier area should be mutual rather than one-way. For the long-term development of the frontier, the bilingual students from all ethnic groups are not only fundamental for the construction of the border regions, but also an urgent need for the building of the “One Belt One Road”. If ethnic language courses are offered in all frontier schools, it will not only take care of the national feelings of the ethnic minorities, but will also cultivate a large number of bilingual talents of all ethnic groups and solve the employment problem of a large number of college students who speak minority languages. The bilingual education in Xinjiang is poorly received by the Uygur not only because of the extremist propaganda but also the uselessness of the learning.

Taking into account the actual situation in the Xinjiang, we can include the Uighur, Kazakh and other minority languages in the National College Entrance Examination, languages to supplement or replace the foreign language subject, increasing the motivation for all nationalities to learn each other's language.

5. The cooperation between Chinese and Arabic universities should not be confined to colleges in Muslim regions, Shanghai and other areas with abundant university resources should also be involved. We need to take Xinjiang Muslim students into our consideration instead of giving them up for possible risk. On September 12th, 2015, the Third China-Arab University Presidents Forum was held in Yinchuan. In the China-Arab Universities Strategic Cooperation Action Plan, which was jointly issued by many Chinese and Arabic universities, it was proposed to expand the scale of joint training of college students in the coming four years. From the macro perspective, the economic and cultural exchanges between China and Central Asia, West Asia as well as the Middle East is the trend and the hope of the people. Meanwhile, the construction of the Silk Road is also in urgent need of Xinjiang minority people and channels. The Xinjiang Muslim university students are very good students. But if they are not provided more living space and political growth space, after going back to work in Xinjiang, they will have strong religious rebellion. And this is a fact-proven point.

*Translator/Wang Youping*

## Forging Cross–Straits Forum 2.0

Duan Zhezhe, *FDDI Research Assistant, National Chengchi University*

Before Lee Shu-chuan, the former Secretary-General of Kuomintang (KMT), left office, he had submitted to Hung Hsiu-chu, Chairperson of the Party, a report on reform of party affairs – a summary of his visits to 21 cities and counties of Taiwan since the loss of election in January, claiming that in order to change KMT’s pro-CPC image the Cross-Straits Forum should be canceled and replaced by some specific consultation on cross-strait issues. This argument has caused great controversy both inside and outside the party. We should keep a close eye on such changes so as to adjust related policies in time and appropriately respond to the shift of social climate in Taiwan. Basically we think that the Cross-Straits Forum (short for Cross-Straits Economic, Trade and Culture Forum) has accomplished its periodic task and should be upgraded into version 2.0 with adjusted contents and direction.

### ***I. Historical Course of Cross-Straits Forum (Version 1.0)***

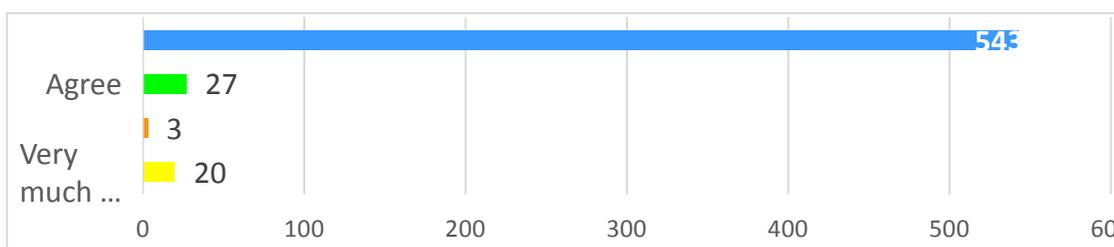
The Cross-Straits Forum at its initial stage, serving as a platform for contacts between the two sides, achieved quite a few fruitful results. In 2005 when Lien Chan, president of KMT then, had a historical meeting with Hu Jintao, president of CPC, the two leaders reached an agreement which was called Shared Visions for Cross-Straits Peaceful Development (or Five Shared Visions in short), among which one vision was to establish a KMT-CPC platform. In April 2006 the First Cross-Straits Forum (the official name is Forum for Economy, Trade and Culture of Cross-Straits) was held in Beijing, during which the two sides proposed policy recommendations on promoting exchange and cooperation in fields such as economy and commerce, direct flight and agriculture through co-advice. During Chen Shui-bian’s presidency a series of policy recommendation was proposed in each year’s forum. In 2008 when Ma Ying-jeou took office, with the pressure from Ma Lien Chan had to give out his predominance in the forum. After Ma was reelected in 2012, the mainland side began to shift focus on the political issues, urging the two sides to engage in political negotiation. In 2014 the Tenth Cross-Straits Forum was adjourned until May 2015. Eric Li-luan Chu led the delegation to attend the forum in 2015, but issues on the meeting did not cause much attention in the public. Both sides needed to reexamine the actual effect, content and form of the forum from then on.

*The Cross-Straits Forum was set to serve as a platform for cross-strait communication. The social changes in Taiwan should be concerned when building communication platforms between the two sides. We should upgrade the current forum and transform it into a problem-solving oriented one with new direction.*

## II. Necessity of Cross-Straits Forum

The Cross-Straits Forum at its establishment was to serve as a bridge for cross-strait communication, but as Tsai Ing-wen, the newly elected president, is going to take office, the DPP-led government would not tend to state clear of its stance on “1992 Consensus” and “One China, Respective Interpretations”. Therefore it is necessary to strengthen the contact between cross-strait parties through the forum. This opinion wins support from Chen Shei-Saint. He thinks that the future of cross-strait relations would stay in vague after May 20. If the relations worsened, the Cross-Straits Forum would be helpful to the development of cross-strait ties. Alex Tsai even says, “If KMT were to discard the Cross-Straits Forum between itself and CPC, DPP would be eager to set up a new one with the mainland. The situation is just the same as that of the Cross-Strait Service Trade Agreement and the Cross-Strait Agreement Supervisory Act. When KMT supported the trade service agreement, DPP criticized it as a pro-CPC measure, but after KMT steps down, it will take up the agreement without hesitation. The same is with the supervisory act.” The poll conducted online by CTnews from April 4, 2016 to April 5, 2016 showed that 90% of the voters disagree to abolish the forum (see Chart one). After the former chairman of KMT Eric Li-luan Chu’s advocate for transformation of the forum and the former deputy chairman Hau Lung-bin’s proposition on keeping the forum going, Lin Te-fu – the party whip of KMT in Taiwan’s Legislative Yuan – also stated that the Cross-Straits Forum must be maintained if the scale of the meeting were to be reduced. Except the Secretary-General Lee Shu-chuan, other officials of KMT agreed on maintaining the forum. Hence, the newly appointed Chairperson Hung Hsiu-chu finally made it clearly that it is necessary to maintain the Cross-Straits Forum between the KMT and the CPC, but for the future direction of the forum, both sides can make adjustment. In general retaining the forum is necessary, for it fits with the mainstream expectations from people of Taiwan.

*Chart one online voting results on Alex Tsai’s “not to abolish the Cross-Straits Forum”, April 4, 2016-April 5, 2016, CTnews*



### ***III. Cross-Straits Forum 2.0, a More Practical One***

The Cross-Straits Forum was set to serve as a platform for cross-strait communication with the core pursuit of striving for the interests of Taiwan. However, as the pro-CPC image of KMT has stirred up the sentiment from the people and numerous cross-strait platforms sprouted during the presidency of Ma Ying-jeou, which has made the Cross-Straits Forum nothing but a nominal meeting, voices of discarding the forum thus come up inside KMT. Therefore, we should pay attention to the social changes in Taiwan when building communication platforms between the two sides. We should upgrade the current forum and transform it into a problem-solving oriented one with new direction. Firstly the focus of issues should be shifted onto those youth-related and grassroots-related ones. It is important to release the dividend for people of Taiwan to share through tackling the current problems and to deepen Taiwan's reliance on mainland's economy. Secondly it is necessary to reduce the forum size and shift onto civil issues. As KMT will be out of power in the near future, the forum can be changed into serving for civil communication and exchange with a smaller scale. Thirdly the forum can be combined with some new mechanisms or institutes, such as the Taiwanese Business Service Center proposed by KMT, so as to serve Taiwanese business circle in mainland better.

*Translator/ Wen Jieling*

# Threat Perceptions and Security Concepts in China – The Development of China's Strategy White Papers

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Security in China combines strong beliefs with big uncertainty. Whereas in the People's Republic of the 20th century threats were predominantly perceived as stemming from military forces outside of china borders, over the last 30 years we a threat perception shifting over to national vulnerability. Its peaks show up in economic, socio-political and meanwhile economic dimension. Security as absence of threat has changed from a property of national territory to a relationship between multiple players outside of the state.

China prepares for conflict on its way to peace. In this essay's first part we analyse the historical development of nowadays witnessed threat perceptions. The second part beholds threat scenarios as narrated in these days – and how China plans to safeguard its citizens' security.

## 1.How China thinks Security

### 1.1Historical Development

Although China's speed of development in these days remains unequalled, its thousands years of history cannot be neglected and still influence society and decision makers to a remarkable degree. A culture sets assumptions about the order of the universe and defines causalities, who is admitted on the (political) stage, which kinds of events, activities and institutions are relevant, who is trustful and who poses a threat. Culture affects security and security strategies on two levels:



Figure 1: Effects of China's security culture

*Over the last few years threat responses in China shifted from territorial integrity concerns to vulnerability reduction and risk containment. On the other side, Chinese Armed Forces are preparing for an uncertain war. This paper analyses threat perceptions and narratives in China in order to better understand the country's security policies and responses. Historical strategy culture forms up to a specific tradition of threat perception and therefore needs to be respected for a better understanding of actual operations. From 1998 on China publishes its Strategy White Papers that serve both as internally aligning guidelines and externally appeasing agenda-setters. This paper analyses frequency and intensity of threat perceptions and countermeasures across nine White Papers.*

China's cultural background in security consists of the so-called Seven Military Classics, which origin from the 5th century BC to the 10th century AD. They were written under highly different social, intellectual, political and strategic circumstances. Not only military decision-makers, but also political institutions and its members, who availed of strategic responsibilities, were influenced. Numerous evidence shows how political elites vividly shared and discussed the content of the Classics.

The Classics show – to different degrees – an evident tendency towards the policy *si vis pacem, para bellum* (“if you want peace, prepare war”). When seeking long-term peace – so this paradigm – a state should be ready to take military actions. These are historically grown recommendations for political and security-related behaviour and focusing on real politics. China's strategic behaviour balances two culturally dominating poles: Confucian pacifism and the *para bellum*-paradigm. The content of the Seven Classics shows a stark contrast between Confucian principles of a harmonious together and the tendencies of Chinese military science. In six of the seven books we discern a dichotomy between the “declared” strategic doctrine along communicated Confucian state polity and the operational politics along offensive strategies, that understand security as zero-sum game. How does China solve this contradiction?

China's ancient and proven strategy mechanism can be summed up to *Quanjian*. This principle puts strategic flexibility on first place. Its meaning „adjust to change“ translates into playing a military dominant role in times of power supremacy and forging pacts and alliances, trade, subversion and marriage in times of inferiority. This flexibility steers Chinese strategies and operations till today and makes them hard to discern for a linear-analytical viewpoint. Basically every Chinese strategy therefore depends on the balance of power. At the same time it is the main ingredient to each strategy to foster opportunities in many ways – also non-conventional ones – for coining and exploiting own advantages and manoeuvring opponents into adverse situations. The reality of Chinese security politics draws its parallels to this intellectual background: especially in times of relative power its emperors decided for an offensive strategy. In history, confucianism did not fully make its way into foreign (security) politics in real life.

The stronger China was, the more forceful it reacted in crises and for “active defence”. How often military conflicts with an involvement of China took place, can be seen in Fig. 2. It is important to remark, that in this graphic we do not see all those situations, where China defused conflicts and avoided military clashes. That means, from the number of conflicts alone we cannot conclude to a general behaviour of China. The

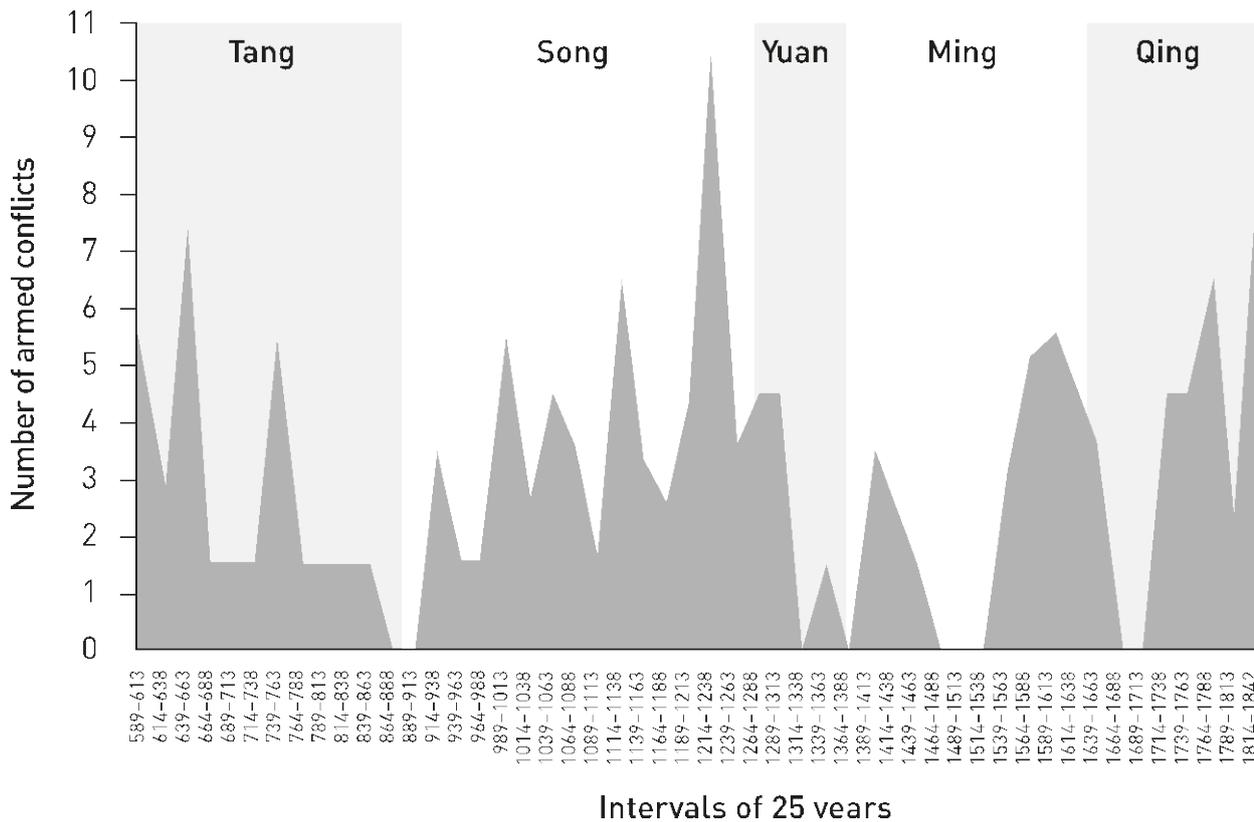


Figure 2: Armed conflicts in Chinese history

Chinese War Chronicles, published by the Press of the PLA, the number of 921 military conflicts can be found, of which 181 were started by foreign forces.

With this glance at China's old history and its state-philosophical fundament we can conclude, its elites cultivate a "cult of defence". Military deployments are performed under the title of a "just war" which results in a mechanism of choosing military solutions in case of conflicts and at the same time being convinced of being a peace-loving nation. Additionally China (rightfully) developed the self-perception of being a victim of foreign forces – starting with nomadic invasion, but especially with the onset of the colonial age and the decline of the Qing dynasty in 19th century. As a conclusion, compensatory measures would be just by this time.

Also historically China was afraid of internal tensions. In order to keep its legitimation of leading the nation well respected, China favoured the aforementioned Confucian pacifistic culture in its communications. This narrative till today dominates China's communiqués on internal and external security.

### 1.2 China becoming a global player

PR China was born in war in 1949, survived its adolescence in the Korean War, rehearsed war with the Soviet Union, led wars in Vietnam and India and prepared for a clash with Taiwan. War as lingering threat, but also as preventive measure, coined China's industrial planning, its diplomatic relations and by that also its internal communication to its citizens. When China adds a "with Chinese characteristics" to its actions, ideologies or philosophies, it often immerses into an intricate history of armed conflicts.

Mao Zedong regarded the international struggle for dominance by armed conflicts as unavoidable. His policies concentrated on ramping up military power and war-resistant industries from the 1960s on. So he ordered the Central Military Commission, the highest military institution, to prepare planning a "fast war, total mobilization and nuclear war". Industries were relocated to the core of the country, in many cities tunnel systems were built, emergency plans for nuclear strikes were developed and mass mobilizations were exercised. Starting with the border conflicts with Soviet Union in 1969 the PLA set its focus in building up resources and training in tank- and aircraft-defence for warding off first waves of soviet attack.

Deng Xiaoping saw armed conflicts with China's opponents rather in the far future. The collapse of the Soviet Union and unrest in 1989 added a new facet to threat perception: China's internal vulnerability which is tightly connected to the satisfaction of 1.4 billion citizens. This results in a striking dichotomy between *para bellum*-polity for safeguarding the heartland's security and the internal (economical) politics, which must stabilize society. This combination is China's leading thought when interacting with foreign countries – and is becoming more and more pointed.

## ***2. Actual perception of dangers, risks and threats***

### **2.1 How China communicates Security**

Whereas till Mao's demise main threats were located outside of Chinese borders, China's leaders assigned highest priority to internal stability from the late 1980s on. Internal unrest resulting from social imbalances became more prominent and could disrupt economic upturn – which would cause further dissatisfaction and could finally subvert leadership and lead to civil war.

In order to grant security in the country, China understands, it must take care of its external relations, as they both influence the internal perception of the national position and also are of highest importance for protecting China's own interests. Therefore Beijing understands, an increasingly clear position within the international community is of high importance.

From 1998 on China publishes its so-called “Strategy White Papers” biannually and under changing titles. In these official documents both internal stakeholders and international players are informed, how China perceives security, its threats, and plans to safeguard it. Besides leveraging internal legitimation – already Confucius stated, an emperor who does not take care about its people’s well-being, shouldn’t be such one – these documents can facilitate international cooperation and conflict management – and increasingly strategic deterrence.

China’s Strategy White Papers not only represent the position of the PLA, but are fully steered by Central Communist Party (CCP) and government. Therefore they not only cover military topics, but also political, economic and diplomatic issues. In several fields, these white papers are amended by additional documents, such as in “The Science of Military Strategy”, the PLA Daily, official documents published by the Ministry of Defence, speeches and magazines. Other topics are solely covered in the White Papers in a broad sense.

An Analysis of threat perceptions in the best case can induce future developments and eventually can conclude to recommendations. Therefore a sound understanding of dynamics of perceptions and consecutive strategic answers is important. For China we can approach such an understanding by examining the development of its White Papers.

Therefore we have to evaluate the validity of China’s White Papers. Seeing these publications as “deception” by incorrect elements of any kind would lead nowhere: the documents are formulated in a broad sense and specific numbers are not given for critical points. However, still a strategic heavyweight on intended areas is possible. Anyhow, China would encounter severe problems, in case it did not align its strategy execution along these papers. Distrust into China’s official communications would hamper future international collaboration. In the country itself these documents justify and explain the reasons of eventually even powerful measures and actions. To renounce this medium of legitimation would put government and party under severe stress in explaining its behaviour.

When China is writing about its perception of dangers, risks, threats and its planned countermeasures in its White Papers, we want to examine them over time. The importance of certain aspects can show up in quantitative and qualitative ways. In order to track quantities, we will examine how often certain notions appear in the texts (in the original Chinese version). We will analyse the quality of a notion by assigning a number from zero to ten that reflects, how much importance the selected White Paper assigns to this word. Additionally we mark years, when a notion gets positioned in a new or remarkably prominent way.

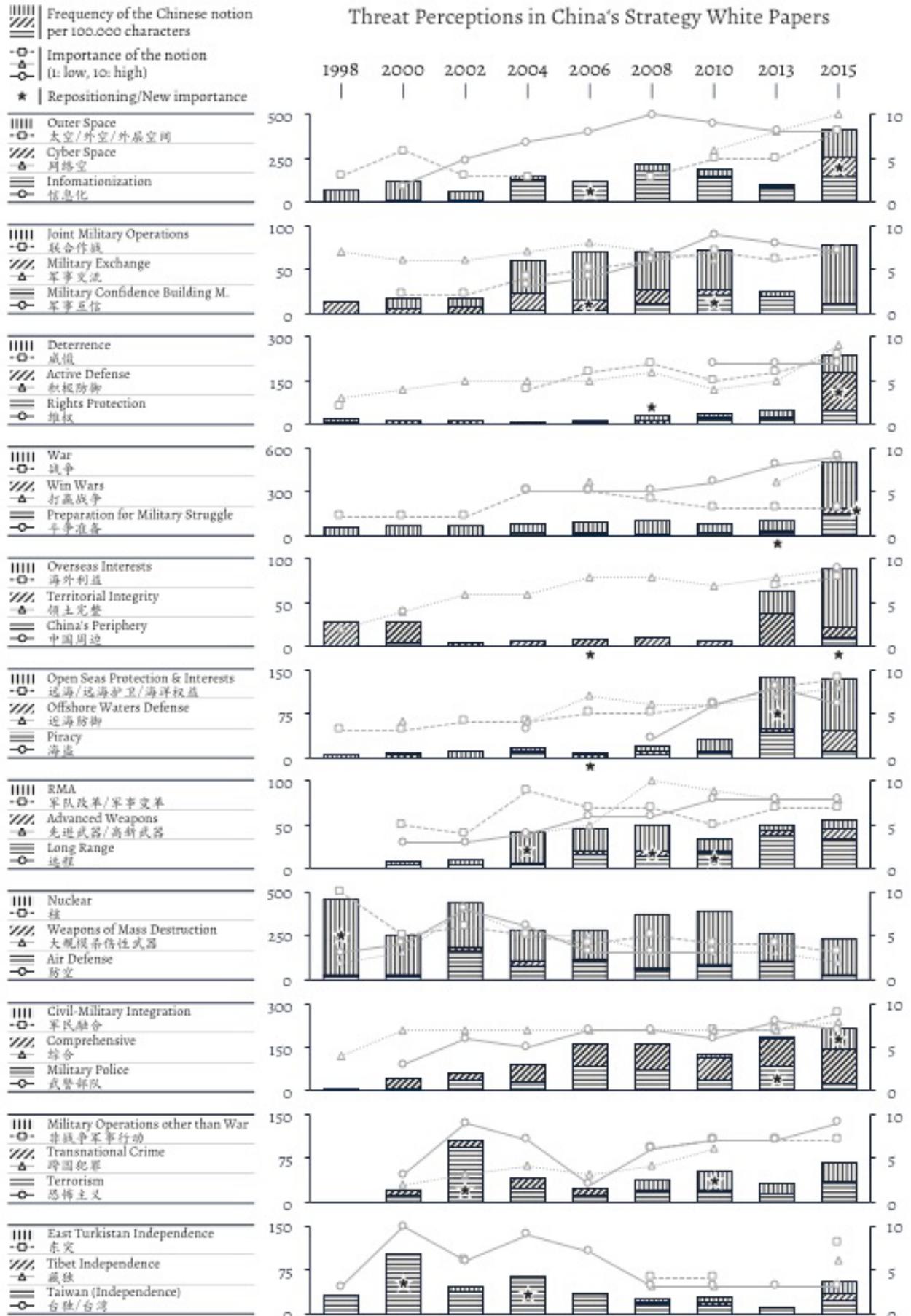


Figure 3: Threat perceptions in China's Strategy White Papers

## 2.2 What threatens China?

### International Powers and Security of the Periphery

China's often diffuse positions in the interaction of international powers on one hand stem from Deng Xiaoping's strategy of representing a "low profile" and on the other hand from the still ongoing integration China's into multilateral cooperations. Beijing's still low experience in exerting "soft power" as well as newly targeted spaces of power projection let China progress at a careful pace – but as we will see later, with a more decisive profile meanwhile. At the moment, China cannot afford becoming an uttered enemy to any economy due to its comprehensive economic ties. Simultaneously the country wants to roll out its interests more and more internationally. Since 2015 the US are declared as an opposing power in the West Pacific. For Russia a new model of collaboration has to be invented. Being the enemy's enemy does not suffice any longer for a positive forecast along the axis Beijing–Moscow. China's engagement in Central Asia via the "One Belt, One Road"-initiative regional power distributions get shifted and nobody expects Russia to play a passive role there. A common rehabilitation with Japan is still standing out and makes the country still to a hostile force. But how exactly do dangers, risks and threats look like for China – and how does it plan to react?

From the 1990s on China remarks in its Strategy White Papers, that major wars are out of expectation. Hegemonial tendencies still pose a threat, but they still were balanced by multipolar cooperation. This viewpoint gets reviewed in 2015: this is the first year when China accuses the US of building up its military presence in the Asian Pacific region and driving a strategy of rebalancing. Herein we can see, how China advances from its cautious culture to a clearer opposing stance. This shift from a "Harmonious World", so the state narrative till 2014 to the "Chinese Dream" testifies a growing self confidence of China.

From 2008 on China sets its agenda on strategic deterrence and from 2015 on (in clear accordance to Mao's thoughts and the Seven Military Classics) it pronounces the adjective "active" in its defence. Defence relates to proceeding in a diplomatic way that saves resources, and uses stratagems in an astute way to avoid conflicts and creates global harmony (respecting its own targets). Active will be the actions of China as soon as non-military measures seem not to reach their targets. In upcoming conflicts we can – also according to its military history – expect China to act more actively, as far as its capacities allow to. The strategic fundament is crafted so far, that also preventive strikes in countries of potentially hostile forces are regarded as meaningful and justified. From 2006 on China formulates its targets as follows:

*"The country must possess powerful defensive capabilities and counterattack capabilities that should be able to deter enemy, play an important role in maintaining global equilibrium, and ensure the implementation of our independent and peaceful foreign policy."*

Whereas in the 1990s China assessed conflicts with India or Vietnam as the most probable ones, the following years the Taiwan conflict overthrew this perception totally. The target setting of these years sounded: control the emergence of war diplomatically, win the war if necessary and resort to a favourable peace as fast as possible. From 1993 on, China concluded from findings from the Gulf War that less massive troop deployments but rather local operations and precise weaponry would be the preferred military measure of the future. For the PLA this meant upgrading its Navy (including amphibious troops), Air Force and the so called Second Artillery, the rocket troops. The increased importance of the topic Taiwan in the years 2002 and 2004 moved the perceived future theatres of conflicts from neighbouring countries to the maritime area. An armed conflict with Taiwan from a certain level of intensity on would have involved the US, what explains China's armament in this direction. China's anti-aircraft powers in this context were pronounced stronger in 2002, what hasn't been surpassed till now. A defensive position in potential air attacks would have to be avoided at any cost, as it would have resulted in a critical disadvantage, what led to an intensified armament of the PLA Air Force (PLAAF).

Since 2014 China works on increasing combat readiness of its armed forces ("preparation for military struggle"). This readiness should be amplified from 2015 on: now the PLA should not be solely ready – but especially capable of winning wars explicitly. In the year 2006 China still pronounced the capability of controlling conflicts – but this feature has been moved to the background by offensive competencies.

*"Winning war is the prerequisite for checking war, but checking war is something more difficult and more complicated and requires a higher level of stratagem employment and greater strategic patience. To check war, we must react actively check and cope with crises."*

At the same time China does not intend to pull the international community into a weapons race. For this reason, but also for gaining hands-on military expertise from international military mission contributions, we witness a continuous increase of China's involvement in joint military operations (UN). From 2010 China adds the aspect of confidence building measures (CBMs), what sums up to troop visits, exercises and treaties. China mentions high-ranking mutual visits, but also operational troops exchange with Russia and the EU as well as dialogues

with the US. Latter will become increasingly important for creating acceptance of China's international engagements.

We found an extremely remarkable emphasis of "overseas interests" for the first time in the year 2015. China's international investments rise exponentially and bring opportunities for converting cash and overcapacities to power and benefit. Especially South-East and Central Asia, East Europe, Africa and nowadays Central America are investment targets, that should be protected against political and economic disruptions:

*"With the growth of China's national interests, its national security is more vulnerable to international and regional turmoil, terrorism, piracy, serious natural disasters and epidemics, and the security of overseas interests concerning energy and resources, strategic sea lines of communication (SLOCs), as well as institutions, personnel and assets abroad, has become an imminent issue."*

### **Open Seas Protection**

Beijing's fleet is tightly connected to an answer on potential threats from foreign forces – its incapability to ward off colonial powers, especially England, in the 19th century was the onset of a century of humiliation, which ending Beijing intends to show very clearly. Especially in 2000, as Taiwan's quest for independence got critical, China ramped up its fleet investments with a strong increase of the military budget. After successfully deescalating the Taiwan topic, China increases its range of influence: „shift its focus from „offshore waters defence“ to the combination of „offshore waters defence“ with „open seas protection““. The maritime space is regarded as risk area from 2010 on, if hostile forces would get hold of it. China would be menaced first by military posts and bases close to its own shoreline and consecutively control over trade routes (such as the new maritime silk road) and access denial to natural resources. 2013 China states „Japan is making trouble over the issue of the Diaoyu Island“ and proceeds with constructing reefs to islands and military posts – and therefore regular state territory in the South Chinese Sea. This puts China in an open discourse with the Philippines, Vietnam and Malaysia. China's growing fleet will play a decisive role in the next frictions in this region.

As strategic outpost for increasing its range, Beijing already constructed a 3,000 m long airstrip on Fiery Cross Reef of the Spratly Islands, which will enable any airplane to land and take off. After buying its first aircraft carrier Liaoning from Russia, it is in the midst of building an own second one with increased capacity. It will be secured even over high distances by frigates and submarines, which also are a development focus. Another

element of increased reach is coming from the Second Artillery Force, which from 1st January 2016 on will be restructured to the “Rocket Force” (PLARF). This force already avails of a rocket arsenal that affects more than 12,000 km.

One more maritime risk and from 2008 on explicitly stated as security threat is piracy. China actively secures with several vessels the trading routes east of the Horn of Africa.

Also in the maritime realm China now realizes what it missed compared to a colonializing Europe: securing its overseas interests via a navy with relevant range and power.

### **Technology**

2004 the “Revolution in Military Affairs” (RMA) gets fully acknowledged to force China to an adaption of the PLA in the areas of technology and readiness. 2006 the content of RMA focuses on “Informationization”, which should be achieved by all branches of the PLA as fast as possible. Chinas outspoken target is to „win local wars under informationization“ from 2015 on. For this purpose Beijing on the 1st January 2016 installed the Strategic Support Force (SSF) on the highest level of the Chinese Armed Forces. Its area of responsibility will be cyberspace and outer space. Exactly those two topics became a salient point in China’s Security Strategy, as the country discovered how foreign powers invested in these capabilities whereas China thinks to still lag behind.

### **Nuclear Weapons**

China in 1964 affirmed its non-first use (NFU) policy of nuclear weapons. Nuclear threat scenarios from the 1990s on got de-prioritized with a certain relief of the planning troops, because Russia assured its NFU bilaterally with China in 1994. Realistic answers to nuclear threats overwhelmed (not only) China’s strategists. Nonetheless the geopolitical framework for futures scenarios was understood as “information war under nuclear deterrence”. Under this title China reacts on the US-American shift from deterrence to pre-emptive strikes with military means, which was the US answer to the events from 11th of September. For such a extensive scenario China also reckons with a deployment of tactical nuclear weapons of comparably low yield. In times of high tensions in the Taiwan conflict, China assessed possibilities of a nuclear first strike. It was reasoned, that a potential first strike of China would reduce US-American interests of intervening in this conflict and from that on reduce the probability of a further nuclear strike. We hold it as very remarkable, that the US-American policy of the “New Triad” already became obsolete in this context. The combination of conventional weapons with nuclear

scenarios for China was less deterring than motivating to revert to a well-proven strategy: in ancient times, when China was under military pressure from barbarians, the state chose preventive strikes as solution – as far as its capacities allowed so. Para Bellum was when dealing with barbarians as well as when assessing nuclear scenarios a solution of choice. After 2004 the nuclear scenarios lost significance in China's Strategy White Papers. Only in 2013 NFU is not referred to explicitly, but its meaning can be found in the description of the PLASAF's strategy.

### **Hybrid threats and MOOTW**

Beijing started in 2010 to communicate, how non-traditional threats are increasing. For China this means hybrid threat scenarios such as cyber warfare and sabotage, economic downturns and social unrest. In the beginning of 2016 Beijing for instance had to peg the Renminbi very actively for countering a devaluation, which was classified as attack on the national economy.

Besides hybrid scenarios China also acknowledges how the increasing complexity caused by the interlinkage of national with international and traditional with non-traditional risks is posing new dangers. China accounts here terrorism, climate change, nuclear proliferation, information insecurity, natural disasters, health threats and transnational crime. A heavyweight was put on terrorism countermeasures in 2002, that led to an increase of (military) police forces and non-military national security organs.

These new threats get a response since 2010 by a focus on “Military operations other than war”, but from 2015 on also by an ameliorated civil-military collaboration and a more comprehensive notion of security. For China this results in a deep-going military reform, as the PLA might be involved in simple daily civil activities, but a potent collaboration between military and administration on a top-level would be a novelty.

### **3. Conclusion**

China's threat perceptions showed a strong change in 2015. The country emphasized its international interests significantly higher than before and counters hybrid scenarios – still in an organizationally fragmented, but increasingly integrated way. Xi Jinping's Military Reform will be the decisive step to achieve effective responses. Five “battle zones” will integrate ground forces, navy and air force as well as the strategic support force and the party will lead the military commission more directly. Doing so will develop a modern military force that can act swiftly and efficiently. With this evolution China will be capable of responding forcefully with oncoming threats – but also it will create new critical situations. Beijing's

gain in power will not only reduce threats, but by self-consciously projecting its power, China will also reap some whirlwind.

Foreign forces can only be advised to step together with China into comprehensive and constructive cooperation. A violation of these should have not only diplomatic consequences, but also – far more important – well pondered economic shifts. If the international community manages an open-minded attitude of strategic reassurance and resolve, the rise of China can become a multilateral development to new stability and acceptance.

# The Islamic State: The Danger that China Would Rather Not Name

Eyal Propper

In November 2015, China strongly condemned the Islamic State, which executed a Chinese hostage in Syria, and the jihadist al-Murabitoun group in Bamako, Mali, which killed 27 people, including three Chinese nationals. At the same time, the global media's comparison of the brutality and evil of the Islamic State with the cruelty of Genghis Khan, who at his peak controlled Central Asia and China, has almost certainly not escaped Chinese attention. It is therefore worth considering whether Chinese attitudes toward the Islamic State have changed over the course of the past two years, and if so, in what way; how growing alarm about the influence of the Islamic State on the stability of China is expressed; and how the regime is preparing to meet this new threat, especially in terms of international cooperation in the struggle against terrorism.

## *Activity by the Islamic State and its Proxies in China*

At a press conference toward the end of the annual meeting of the Chinese Parliament in March 2015, Zhang Chunxian, Communist Party Secretary of the Xinjiang Uyghur Autonomous Region and a member of the Chinese Communist Party Politburo, confirmed—in a statement published in the official Chinese media—that “some Xinjiang residents have crossed the border illegally to join the Islamic State. The group currently has a growing international influence, and Xinjiang is affected by it, too.” Zhang did not disclose information on the number of Muslims who had joined the Salafi jihad forces, but Chinese publications indicated that approximately 300 Chinese had joined the circle of foreign combatants in Syria and Iraq.

Turkey serves as a center for recruiting students and young Muslims from China, who are then sent to training camps and operations in Syria and Iraq. In an article that appeared in December 2014 in the *Global Times*, a publication sometimes used to deliver blunt party messages, a Chinese expert on terrorism claimed that Turkey's ambiguous policies made it possible for young Chinese of Uyghur origin to obtain passports, which enabled them to go to Syria and join the Islamic State. A clip published by the organization in Syria in early 2015 showed an 80-year-old Uyghur, a former imam in Xinjiang, who had left the province with his family in order to join the fighters after, in his words, “60 years of Chinese oppression.” The clip also depicted 10 year-old children training to “drive

*The growth and expansion of the Islamic State over the past two years, as well as its power to transcend borders, has been watched by the entire world with much alarm. For its part, China too has extended its activity during this period, and consequently, its economic and political interests in many regions, including the Middle East. Chinese companies and citizens are thus potential targets for extremist terrorist groups — a point made poignantly by the leader of the Islamic State, who referred to our suffering brethren” in his Ramadan speech of July 2014 and began the list of guilty countries with the Chinese, “who are hurting our (Uyghur) brethren” in the province of Xinjiang.*

the Chinese heretics out of Turkistan.”

Responding to a question about reports of Chinese joining the Islamic State, a spokesperson from the Chinese Foreign Ministry replied: “We have noted the recent report about Chinese citizens joining the ISIS. We are verifying and will follow up on this.” She proceeded immediately to add that China was in direct danger of terrorism by the East Turkistan Islamic Movement (ETIM). Cheng Guoping, Chinese Vice Minister of Foreign Affairs, recently clarified his country’s position at a press conference published only outside China by confirming that there was a concrete connection between the East Turkistan Islamic Movement and the Islamic State.

### ***Terrorist Attacks in China***

Over the past two years, both Chinese citizens and foreign visitors have been injured in a number of terrorist attacks inside China, which the government has been quick to ascribe to the East Turkistan Islamic Movement. In contrast to earlier attacks, which had been aimed at government buildings and security forces in Xinjiang, these occurred in various locations in China, including Beijing, and were aimed at civilians.

On October 28, 2013, a car driven by a Muslim from Xinjiang hit pedestrians in Tiananmen Square and caught fire. All three people inside the car and two passersby were killed in the attack, and about 40 were injured. The terrorist attack, which occurred near the government buildings in central Beijing, was a warning sign for Chinese Communist Party leaders. The government accused the East Turkistan Islamic Movement and arrested some of its operatives. On March 1, 2014, a group armed with knives attacked passengers in the railway station of Kunming, the capital of Yunnan Province in southwestern China, killing 29 civilians, and wounding 140. On April 30, 2014, a bomb exploded in the railway station of Urumqi, the capital of Xinjiang Province; one person was killed and 79 injured. A month later, on May 20, 2014, a number of explosive devices were thrown into a market square in Urumqi, killing 39 civilians and wounding 94. This series of attacks induced the party leadership, led by Party General Secretary and President Xi Jinping, to hold a special two-day meeting of the “main working group on the subject of Xinjiang” immediately after the May 2014 attack. Following the meeting, Xi was quoted in the media as saying that China would step up its international cooperation in the struggle against terrorism and build “walls made of copper and steel” and “nets spread from the earth to the sky” in order to capture terrorists.

In accordance with decisions made at the meeting, security forces were reinforced in those parts of Xinjiang where Muslims were a majority, and

a tough stance was taken against them. Communications networks used by Muslims were heavily monitored, and the ban on women wearing burkas and veils in public places as well as men growing beards was strictly enforced. Students and Muslim government employees were reportedly forbidden to fast during the month of Ramadan. In addition, China is preparing for the possibility of a terrorist offensive in its major cities, and its security forces conduct terrorist attack emergency drills in key public spaces.

### ***International Cooperation in the Struggle against Terrorism***

Has China decided to bolster its cooperation with Western countries against Islamic State elements due to its growing anxiety over the potential spread of terrorist attacks on its territory? The answer to this question lies in China's consistent refusal to join coalitions and alliances, partly due to its traditional policy of non-intervention in the internal affairs of other countries. In this case too, China is portraying its policy as independent and distinct from that of the United States and other Western countries. The Chinese argue that not all Muslim believers should be classified as enemies, and that those committing terrorist attacks should be isolated as criminals, but they do not represent true Islam. According to this argument, the spread of a phenomenon such as the Islamic State in Syria and Iraq results in part from the instability caused by the United States, which has resorted to military force instead of proceeding with sensitivity and relying on cooperation with the Muslim world. As a display of its independent policy, China has not yet joined any international coalition in Iraq and Syria, and has not involved itself in military actions against Salafi groups outside of China.

The detailed statement by the United States and China at the conclusion of their annual high level strategic dialogue in late June 2015 exposes the gaps between the two countries. Despite direct US involvement in the struggle against the Islamic State and President Obama's clear statements on the global effort to combat the phenomenon, the joint sections in the document that discuss the situation in Syria, Iraq, and the war on terrorism do not include any direct mention of the danger of the Islamic State — almost certainly due to Chinese opposition. The section addressing the situation in Syria and Iraq notes that the two countries “reaffirmed their joint commitment to resolve the Syrian issue through political means...and called on the international community to step up humanitarian assistance.” The statement on the struggle against terrorism simply asserts; “The United States and China condemn all forms of terrorism and concur on the global threat posed by terrorist organizations.

As a permanent member of the United Nations Security Council.

China supported the resolutions taken by consensus against Salafi jihad organizations. These as well as UN Security Council Resolution 2170, passed on August 10, 2014, and Resolution 2199, passed on February 10, 2015, were directed against the Islamic State and its operations. The first of these was in fact passed when China held the presidency of the Security Council. Chinese Ambassador to the UN Liu Jieyi was quoted in the Chinese media as saying: “China actively participated and played a constructive role in the consultations on the draft resolution,” which were designed to extend sanctions against “relevant terrorist groups.” His remarks as reported do not refer explicitly to the Islamic State. The same is true of the UN Security Council Summit on Terrorism, held during the UN General Assembly in September 2014. Here Chinese Foreign Minister Wang Yi spoke about the dangers of international terrorism and mentioned the East Turkistan Islamic Movement’s use of violence within China. Although he spoke about China’s intention to allocate 60 million yuan for emergency humanitarian assistance in Iraq, he did not specify the reason behind this need. Perhaps the earliest sign of a shift in this cautious attitude lies in the summary declaration of the seventh BRICS summit of five countries in Ufa, Russia, in July 2015, which condemned terrorism, violence, and severe human rights violation by the Islamic State. A test of this shift will be China’s policy following the execution of a Chinese citizen by the Islamic State in November 2015, an act that was condemned sharply by President Xi.

### ***Conclusion***

Since the turn of the millennium, the political and economic status of China has improved gradually and consistently, transforming the country into the world’s second leading economic power. China’s companies have expanded their business, and its citizens are now working and traveling all over the globe, including the Middle East. The American call to China a decade ago to behave as a “responsible shareholder” with respect to global problems has become ever more relevant over the years.

China’s traditional policy of refraining from open intervention in the internal issues of other countries is thus put to the test at a time when borders between countries in the Middle East are being erased, and the destructive forces responsible continue to blur even more borders and may perhaps affect China itself. Yet an examination of China’s statements and mode of operation in both the multilateral and bilateral sphere indicates that despite growing challenges, China has not altered its policy of “restraint” which includes maintaining a low media profile and avoiding involvement in alliances and coalitions that could mark it as a key player in the combat against Salafi Islam, along with a focus on its own terrorist

challenges and resistance to calls for independence in Xinjiang.

China's use of force against the Uyghurs in Xinjiang makes the country a potential target of the Islamic State and makes terrorism a concrete threat to its citizens. Official information on Chinese Uyghurs joining the foreign fighters in Syria and Iraq, and the danger to which they allegedly expose China upon their return home, indicates that Beijing is worried about the effects of the Islamic State on the stability of Xinjiang Province as well as attacks against Chinese on foreign soil. Nonetheless, China prefers to act independently, as it has done in other situations and with discreet cooperation that allows it to upgrade its capabilities without disclosing information on its methods for dealing with Muslims and other groups regarded by the Communist Party as liable to jeopardize stability and the Party's rule.

As part of its plan to strengthen its control over hostile factions, the regime expedited discussions on the formulation of a new bill on the struggle against terrorism. A draft of the "Terrorism Law," presented in March 2015 at the annual plenum of the Chinese Parliament, revealed that the regime intends to tighten further its supervision of social media and the flow of information. The draft evoked severe criticism outside of China, mainly relating to the option of unlimited monitoring of internet traffic and foreign companies inside China. This will force the Beijing regime to reconsider the new bill before giving it final approval.

In the international arena, China has more than once expressed its disappointment with the West, as led by the United States, which, instead of supporting the struggle against Uyghur terrorism, has questioned the accuracy of the information coming from Beijing, while criticizing the country's human rights record and the tough measures taken against the Muslim population in Xinjiang. China therefore prefers to pursue cooperation with countries (such as the BRICS states) that do not intervene in its internal affairs and can also teach it methods to fight terrorism. Among other moves, China is conducting joint maneuvers with Russia and a number of other countries in Central Asia within the Framework of the Shanghai Cooperation Organization (SCO), and is seeking cooperation with Middle East regimes that it regards as stable, such as Iran and Israel.

The ideal solution for China is to find a path that will dissociate it from the chaos that reigns in large expanses of the Middle East, distance itself from Salafi jihad terrorists, and prevent them from penetrating Chinese territory'. This will make it possible for China to maintain internal stability and Party rule, by building operational capabilities in counterterrorism and firewalls for controlling the flow of information.

as well as additional, complementary capabilities.

The return to China of Uyghur veterans with a revolutionary attitude molded by the Islamic State, with training and experience in terrorist funding and attacks as well as organizational and interpersonal connections, could jeopardize stability in Xinjiang and inspire terrorist activity within China and against Chinese citizens abroad. As a result China is likely to step up its security and intelligence coordination with other countries threatened by Salafi terrorism, such as Israel. The possibility of recruiting China as an active member in the international coalition depends on the coalition's ability to persuade decision makers in Beijing that cooperation of this kind would strengthen China in its war against separatism, bolster the legitimacy of its regime in the struggle against terrorism, and help it preserve internal stability. The more the threat increases, the clearer these points will become to Chinese Communist Party leaders.



# *Inviting Contributions to China Watch 2016*

To construct new-type think tanks, promote the conversion between research and policy-making advice, and provide more high-quality reports and advices, Fudan Development Institute and Centre for Think-tanks Research and Management in Shanghai decide to solicit contributions from Chinese and overseas scholars to *China Watch*. *China Watch* focuses on hot issues in various fields of China. In the first semimonthly, it selects the latest achievements of top foreign think tanks, themed by ‘International Perspectives and Forefront Issues’; in the second one, it collects the policy analysis of Chinese experts, themed by ‘Chinese Think Tanks and Contributions to Development’.

## ***Requirements***

1. This contribution should be policy analysis or advice, reflecting author’s deep thinking of forward-looking and comprehensive issues. Topics include but are not limited to Chinese domestic affairs, foreign policies, economy, society, education and other issues involving China’s development.
2. The English edition could be articles published by foreign think tanks or major media in English (if the article is in other foreign language, please attach a 200-word abstract), or English research achievements of yourself. If the contribution is accepted by editorial department, it will be translated by the referrer or editorial department.
3. The Chinese edition is open to all the institutions and individuals. The topic is decided by yourself and the language should be succinct and not academic. 3000 words are proper, and there should be an introduction of the author within 100 words in the end. If the contribution is involved in sensitive issues, please burn it onto disc and post it to the editorial department with paper edition instead of sending it by email.

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# CHINA WATCH

# WATCH CHINA

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