

CHANGES IN TURMOIL

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PREFACE

Turmoil intertwined with changes -- a recap of what the year of 2018 has left us.

The Trump administration has disrupted the world's political and economic landscape by frequently threatening to withdraw from international treaties and initiating trade wars with its partners. It was the very first time since the end of World War II that the US has exhibited such a high level of discontent with the world political and economic order, and worse still, has undermined arbitrarily and haphazardly the very rules established by itself. While Washington's motives can largely be boiled down to the narrow-minded and selfish pursuit of its interests under the "America First" banner, Trump, often as a spoiler, has fully demonstrated how uncertain, unconstructive, and even destructive his actions have been.

Current affairs change year by year, and the main causes vary. The US was the primary cause for most of the changes in 2018. Governments of different countries have been eagerly coping with the uncertainty brought about by the Trump turmoil. Major political and economic powers, such as China, Russia, Japan, and the European Union, have stepped up efforts to unwaveringly defend multilateralism and uphold the international free trade system and principles. They have done so by actively promoting bilateral or multilateral free trade arrangements, lessening financial dependence on the US, and strengthening defense and economic cooperation with each other. These efforts reflect that the world has realized the necessity and urgency of self-reliance and self-improvement in the 'post-America' era.

From a long-term perspective, the current turmoil is the continuation of international political and economic changes since the 2008 financial crisis. The inducement comes from the change in the balance of power and the adjustment of interest ties. It has manifested in the form of the reformulation of nations' strategies and policies, and consequently, has led to a new round of cooperation, coordination, frictions, and conflicts among nations.

In 2018, China experienced unprecedented pressure from the US' changing policies. The confrontation between Beijing and Washington has never been so prominent. However, we must be aware that pressure from the US is somewhat inevitable, especially as China's rise has entered into a critical stage. Responding to the pressure, we must bear in mind that it is the 40 years' reform and 'opening-up' that makes China prosperous and strong. Only by firmly sticking to the path of reform and 'opening-up' can we reach the glorious future of our development.

Looking ahead to 2019: the world will still be largely plagued by continuing chaos, constant changes, and various uncertainties. Facing the great changing international environment, China needs to maintain a calm mindset and an optimistic attitude, and undertake positive and measurable actions on the world stage.

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1. International Political Landscape: Seeking Changes in Turmoil

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The international political arena of 2018 featured turbulence and turmoil. Through the promotion of the so-called "America First" policy, the Trump administration of the United States has constantly stirred up the international political landscape and became the primary source of chaos on the international stage. In the face of such turbulence triggered by, and intensified through, the actions of the Trump administration, countries around the world, after undergoing a 'wait-and-see' period, have stepped up efforts to cope with the situation, by adjusting existing policies and embarking on new strategic moves.

Turmoil

One important factor leading to the chaotic international political environment is the 'America First' policy put forward by the Trump administration, which in turn led to an increase in the uncertainty of the international political system. Consequently, conflicts among major powers surged and turbulences were widely spotted on the global and regional level.

Firstly, chaos has been witnessed in the international political order. As the world's only super power in terms of comprehensive strength and influence, the US, under the Trump administration, has ironically become the primary source disrupting the current international political order. Following a series of withdrawals from international agreements and organizations like the Trans-Pacific Partnership in January 2017, the Paris Agreement in June and the UNESCO in October, Washington continued this momentum of disengagements in the year 2018. These include a string of exits from, or cancelations of, the following agreements: Iran's nuclear agreement in May; the UN Human Rights Council in June; the Optional Protocol concerning the Compulsory Settlement of Disputes to the Vienna Convention on Diplomatic Relations, the Treaty of Amity between US and Iran signed in 1955, the Universal Postal Union, all of which took place in October, as well as the latest backdown from Intermediate-Range Nuclear Forces Treaty between the US and Russia. If the disruptions can be likened to a 'black swan event', then the Trump administration's behaviors resembled more like a rampant 'black rhinoceros' that is to say, the administration has been a substantial trouble maker on the world stage.

Secondly, this chaos has been witnessed in the international economic and trade order. Ignoring widespread opposition from countries across the globe, the Trump administration insisted on launching an unprecedented 'global trade war' and triggered a slew of trade disputes. Take the most eye-catching China-US trade friction for example. On February 27th, the US Department of Commerce announced the decision to levy significant amount of import tax on shipments of aluminum foil from China in the name of so-called anti-dumping and anti-subsidy measures. It also imposed tariffs totaling \$250 billion on Chinese products in three rounds that kicked off on July 6, August 23 and September 24, respectively. Trade disputes initiated by the US have seriously overshadowed bilateral trade relations, with the two parties embroiled in an unprecedented period of friction. Meanwhile, the US has also threatened to levy more taxes on other major economic powers such as India, the European Union, Japan, Canada, Mexico and Korea, by leveraging Washington's economic might and rectifying or even reshaping international trade mechanism. These combined actions are poised to deal a heavy blow to the existing international economic and trade order.

Thirdly, US-Russia relations continue to deteriorate. In light of a series of alleged incidents such as the poisoning of a Russian ex-spy, Russia's alleged interference in the US election, and the Russia-Ukraine dispute, the US has imposed multiple rounds of sanctions against Russia, including deporting Russian diplomats, adopting sanction measures to 272 individuals and entities related to Russia and freezing Russian assets in the US, all of which further soured bilateral ties. Regardless of Moscow's strong opposition, Washington decided to pull back from the Intermediate-Range Nuclear Forces Treaty. Turning away from nuclear non-proliferation, the US has endeavored to upgrade its nuclear arsenal on an all-rounded front and lower the threshold for using nuclear weapons. In a tit-for-tat fashion, Russia exhibited the tendency to adopt every measure to 'ensure security', by enhancing its nuclear arsenal and the 'second strike' ability. All these measures have further eroded the two countries' strategic trust that is already considered fragile.

Fourth, China-US strategic competition has increased in intensity. Against trade frictions, the US has exerted pressure on China on many fronts, including security, military, science and technology, as well as humanities and people-to-people exchanges. They were exemplified by the following measures taken by Washington to suppress China's development: painting China as a 'revisionist country' and 'strategic competitor'; promoting the so-called 'Indo-Pacific' strategy by aligning with Japan,

Australia and India to isolate China; continuing to advocate the 'Freedom of Navigation' in South China Sea; limiting the enrollment of Chinese students to study high-tech related subjects in the US; imposing sanctions on Chinese high-level military officials in the disguise of restrictions on Russia's arms procurement; strict inspections and restrictions on Chinese investment in the US; blaming China for the so-called 'cyber-attacks', etc. Such strings of efforts have contributed to the expansion and intensification of China-US rivalry.

On the fifth point, the mess in the Middle East remained unsettled. A number of soothing signals in the region were witnessed, with vast lost lands reconquered by Syria's government troops, the Assad regime strengthening its hold over the country, the extremist organization ISIS neutered through force. This has also raised the hopes of a peaceful settlement of the Syria problem through diplomatic measures. Nevertheless, the muscle-flexing game among the US, Russia and other major powers in the Middle East has yet to wane. The arrest of American pastor Brunson prompted the US to impose sanctions against Turkey, causing the sudden devaluation of the Turkish Lira and straining US-Turkey relations. The bilateral ties were further damaged in light of the divergence over the death of Saudi journalist Jamal Khashoggi. The incident also caused the simmering Saudi-Turkish conflict to resurface and uncertainties remained. Trump administration's decision to move the US embassy from Tele Aviv to Jerusalem has sparked bloody conflict between Israel and Palestine. Washington's betrayal of the Iranian nuclear protocol has rapidly deteriorated US-Iranian relations and prompted Iran to adopt even tougher anti-US policies. On Dec 3, Qatar, which has deep grievances with Saudi Arabia, announced it would withdraw from the OPEC in Jan 2019, becoming the first Middle East nation to exist from the world's largest oil organization, showing early signs of fraction. On Dec 19, the US announced 'comprehensive' and 'swift' withdrawal of troops from Syria in a sudden fashion, a striking move that further complicates the already delicate geopolitical situation in the Middle East.

On the Sixth point, the security chaos in Europe has escalated. The already strained Russia-Ukraine relationship became tenser following the Kerch Strait conflict that broke out on Nov 25. Russia conducted large-scale military exercises in the Black Sea and the Crimea region, and assembled large-scale troops on the Ukrainian border. Meanwhile, the Ukrainian border guards were put on alert, conducting missile tests and military exercises, and threatening to end the Friendship Treaty with Russia. The two sides were on the verge of confrontation on the border areas and did not rule out the possibility of serious military conflict. Meanwhile, Western countries condemned

Russia in tandem. On the one hand, the US dispatched warships to the Black Sea, threatening that it will not choose to 'sit idle' but vowed to let Russia bear 'painful and serious consequences' in the event of further action. NATO claimed it will also take 'collective action' in response to Russia's 'act of aggression'. With this deepened level of intervention in the Ukrainian issue from Western countries, Russia-Ukraine conflict has become a potential flashpoint of confrontation between Russia and the West.

Onto the seventh and last point, populist sentiments continued to stir up the international political landscape. Affected by issues such as refugees, unemployment, economic downturn and the widening gap between the rich and the poor, populist movements around the world are on the rise, leaving many countries embroiled in internal instability and, consequently, this has reshaped the world's political structure. For example, on Nov 17, more than 100,000 people in France wore yellow vests to protest price hikes in oil and fuel taxes. The following riot on Dec 1, biggest of its kind in Paris in 50 years, has forced the government to cancel original policies and severely eroded the political root and support of the Macron administration. Germany, which is long known as an economic powerhouse with stable political setup, has also witnessed major disputes aroused by immigration issues. The internal factions have barred the smooth formation of the cabinet and forced Chancellor Merkel to abandon the ambition for re-election. Belgian Prime Minister Charles Michel offered his resignation on Dec 18, a victim of political infighting over migrant policies. British Prime Minister Theresa May confirmed she would not lead the Conservatives into the next general election as she strived to rescue her Brexit deal and keep her cabinet intact. In Latin America, several Right Wing and even Far Right politicians won elections in their respective countries. The most notable case is Jair Bolsonaro, who is dubbed 'the Brazilian Donald Trump' became president in a landslide win on Oct 29. This marked a 'right-wing' turn across Latin America that could bring more uncertainties to the region.

Seeking Changes

In the face of a series of unconventional and unreasonable policies adopted by the Trump administration, as well as the consequent international political chaos, many countries have begun to realize that such eccentricities do not come by impromptu. Instead they are reflections of the general consensus held by presiding US politicians who will continue to advance such policies despite the opposition of other countries. In light of this context, more and more countries have started to contemplate measures

to respond to a world with a reckless US and with unexpected changes that could come along.

For example, facing US' overall pressure that originated from trade frictions, China maintained its strategic focus and competed with the US in a cautious manner. As an avid supporter of global free trade, China firmly upholds the international multilateral trade system. Meanwhile, by carrying out friendly policies with neighboring countries, Beijing has sought to improve bilateral ties with Japan, India and Korea in a bid to hedge strategic pressure from the US. While certain European nations still have disputes with China in the realms of fair treatment in trade and investment, technology transfer and intellectual property rights protection, the two sides both opposed Washington's unilateral trade measures. The EU has also expressed the intention to enhance strategic communication and coordination with China to counter the growing uncertainties in the world economic and trade system.

The actions of the Trump administration have also alienated key allies and prompted economies such as the European Union and Japan to seek self-protection. For example, after the US withdrew from the Trans-Pacific Partnership (TPP), Japan took the lead in pushing forward a separate 'Comprehensive and Progressive Trans-Pacific Partnership Agreement'(CPTPP) together with 10 other countries. On March 8, a total of 11 relevant countries officially signed the CPTPP. On June 29, the Japanese Parliament officially approved bills to champion multilateral trade in the region - an important step to build a multilateral trade order in the region and contain the spread of the Trump administration's trade protectionism. On July 17, Japan and the EU signed the Economic Partnership Agreement (EPA) in Tokyo, under which 94 percent of the tariffs on European exports to Japan would be lifted, including categories like cheese and wine. Meanwhile, the EU also pledged to gradually eliminate tariffs on 99 percent of Japanese products. On Dec 8 and 12, the Japanese parliament and the European Parliament successively approved the EPA, which is scheduled to enter into force on Feb 1, 2019. The two economies contributed to nearly 30 percent of global GDP, occupy 40 percent of global trade volume, and are home to 600 million people. The creation of the world's largest free trade zone thus far marks a clear sign of joint opposition to trade protectionism.

Apart from opposing the US' withdrawal from the Iranian nuclear agreement and signing free trade agreement with Japan, European countries are mulling to form an independent joint arms force. This is due to Washington's arbitrary exit from the Intermediate-Range Nuclear Forces Treaty and forcing NATO allies to increase their

share of military spending. From the EU's perspective, the US pullout of the treaty will expose the entire Europe to Russia's intermediate-range missiles, posing a direct threat to the security of the EU and consequently severely weakened EU's strategic trust in the US. Hence, Europe has taken on a separate approach by building up defense capabilities and no longer pins hope on Washington's wavering security promises. In early November, French president Macron called for the building of a 'real European army', claiming that Europe needs to strengthen its own defense capabilities and lessen its reliance on the US. While being slammed by US president Donald Trump, the proposal won support from German chancellor Angela Merkel.

In the Middle East, in light of the ongoing chaos, US' allies such as Turkey, Saudi Arabia and Israel, as well as regional powers like Iran have been adjusting their respective foreign policies. For example, the expansion of the Peshmerga, the Kurdish armed fighters backed by the US to fight against ISI, has become a source of concern for Turkey. On Dec 14, Turkey warned that it was determined to cross Syria's northern city of Manbij and the East of Euphrates, a move deemed by the US as 'unacceptably unilateral'. In light of the pressure from the US, Turkey chose to soothe ties with Russia, even claiming to procure the advanced S-400 air defense system from Moscow. This has sparked a new round of tension between the two countries. Iran, adept at playing the checks and balances game, joined hands with the EU in objecting to US' retreat from the Iranian nuclear protocol and strived to enhance security cooperation with Russia and Turkey. The Netanyahu administration of Israel has expressed huge 'disappointment' in US' military retreat from Syria. It reiterated the stance of taking proactive measures in Syria to contain the expansion of Iranian influences. All these will inevitably lead to escalating rivalries for regional leadership. A new round of geopolitical struggle, filled with uncertainties, is likely to resurface in the Middle East.

Prospect

The Trump administration's increasingly 'self-interested' behaviors, together with its arrogance towards international mechanism and rules, have resulted in more geopolitical 'vacuum' and intensifying turmoil in the international system. The ongoing chaos is also forcing countries to contemplate ways to respond and counterbalance.

First, concerted efforts are needed to oppose unilateralism and trade protectionism, and maintain the international free trade system. The global trade war, which was

launched by the US and went against the historical tide, has cast a shadow over global economic growth, and is likely to deal heavy blows to different countries' roles and functions in the global supply chain, thus rupturing the existing system. This will severely disrupt trade structure, send world economic and trade system into potential recession, and even trigger systemic crisis. Such severe conditions are forcing countries to take proactive actions by adjusting industrial policies for the sake of self-protection.

As such, geopolitical tension is set to be intensified, given the fact that the US has prioritized 'major power competition' on top of its foreign relations agenda, by exerting constant and ever-increasing pressure on countries like China, Russia and Iran. Meanwhile, the Trump administration has adopted a 'revisionist' approach, embracing the likes of the United Nations, WTO, IMF and the World Bank only when they serve US interests and abandoning them when they fail its narrow mandate. Such unilateralism stances towards international mechanisms exemplify Trump's intention to reshape the international order that is centered around the US. All these have contributed to the precarious rise in uncertainties in international politics. The situation is likely to be further exacerbated and thus it is expected that further regional security crises and military conflict will result.

Third, a retreat was witnessed in the long-standing Trans-Pacific and Trans-Atlantic relations between the US and Japan, as well as the US and the EU. The rising divergence in interests have further shaken the security, political, diplomatic, economic and trade systems that these countries are long accustomed to. Many nations, including the US' traditional allies, have consciously kept a distance with Washington and are repositioning themselves through strategic adjustment in the new global structure.

Looking into international political arena of 2019: The massive impact and destructiveness of the Trump will endure, as the upcoming mid-term election and the foreseeable hurdles from the Democratic Party are likely to prompt Trump to take further provocative actions in the realm of foreign affairs, which could only exacerbate international political environment. Meanwhile, other countries marginalized by the US will continue to deal with, and fight against it, by seeking to form issue-specific alliances and enhance strategic coordination. Countries are likely to make joint efforts or hedge their bets on policies in response to an increasingly unpredictable US, as well as an ever complex and uncertain world. These will lead to a new round of adjustment and even restructuring of the international political landscape.

2. The World Economy: Escalating Uncertainties?

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The world economy has its own logic of development, and its growth constantly shapes the overall global pattern. The analysis of the world economic situation features different perspectives. From the perspective of growth, the world economic growth in 2018 was relatively good. But from the perspective of economic governance and economic order, the world economy faced huge uncertainties. In a certain sense, with the outbreak of Sino-US trade war, the world economy officially entered a critical stage of reshaping its order in 2018. It is increasingly difficult for the original international economic order and rules to adapt to the new scenarios, and the economic interaction between big countries has also entered a new era of adjustment.

China and the United States Leading the World Economic Growth

China and the US played increasingly prominent roles in the world economy. Both China and the US achieved roughly sound economic growth in 2018, and made obvious contributions to the world economy. Due to the tax reduction at the end of 2017 and the wealth growth from a robust stock market, the US economy continued to grow strongly in 2018. The annual GDP growth in the US was expected to reach around 3% to mark one of the best years since the financial crisis. Driven by the 3% growth rate, the US GDP was set to exceed the US\$20 trillion mark, making it the first country in the world to break this threshold. China's economic growth was equally impressive. Despite a raft of unfavorable internal and external factors, China's GDP growth remained at around 6.7%, and was the world's No.1 in terms of absolute GDP growth. As global growth engines, both China and the US posted strong performance, resulting in a robust growth in the world economy in 2018. The global annual growth rate was expected to exceed 3.5%, marking the best performance in recent years.

Although China and the US injected strong momentum into global economic growth, trade frictions between the two nations seriously hurt the stability of the world economy. In particular, sudden escalation of the trade war between the two countries in the second half of 2018 quickly became one of the biggest uncertainties in global economic development. Market confidence was weakened, stock markets fluctuated sharply, and commodity price volatility increased, with negative effects continuing to

emerge.

In general, the global economic landscape is still on track to embrace structural changes. Firstly, the rapid development of China and the US has enabled the two nations to consolidate their positions as the two leading economies, as they continuously extended their edges over other economies. As two major economies, China and the US increased their share of the world economy to around 40%, which was the highest proportion in any single year since the beginning of the 21st century. Compared with China and the US, Japan and EU lagged further behind in 2018. Secondly, the GDP gap between the US and China further shrank. Based on purchasing power parity (PPP) with adjusted exchange rates, the GDP gap between the US and China continued to diminish. It's still a general trend that China's economic aggregate is expected to catch up with or even surpass that of the US in the next 15 years. If calculated based on PPP, China has actually expanded its advantages over the US in terms of economic aggregate. Thirdly, economic growth of developing countries and emerging economies continued to be faster than that of developed economies, and their proportion in the world economy continued to rise.

Significant Changes in the Global Economic Philosophy

In 2018, global economic philosophy changed dramatically. The Washington Consensus, which advocates free trade and open markets, has encountered serious challenges. Even the US, the proponent of the Washington Consensus, did not follow the basic ideas of the consensus. Driven by the US, global economic philosophy has seen three major shifts.

The first was a shift from a market-based economy to nationalism. Driven by national interests and intensified strategic competition among major powers, major economies took apparent measures to intervene in their domestic markets. Governments frequently formulated a variety of policies, continuously stepped up intervention in the markets, and attempted to shape market direction in order to win competition over other nations while striving to maximize absolute economic interests for their countries. Governments played a more prominent role domestically and globally, and, to a certain extent, their roles were even bigger than what were seen during the Financial Crisis. As one of the most typical cases, US President Donald Trump broke with tradition to publicly accuse the Fed of raising interest rates, in a bid to block the Fed's monetary policies.

The second shift was from liberalism to protectionism. As the US became a key example of prioritizing its own interests, global protectionism generally intensified, while global free trade turned relatively weak. In order to protect the interests of domestic industries and enterprises, some economies adopted obvious protectionist policies in the fields of trade, investment and technology. In the trade field, frequent threats or punitive tariffs triggered a chain reaction and corresponding counter-measures, temporarily resulting in an increase in the average tariff level globally. In the investment field, overuse and even abuse of “national security” to restrict foreign investment became prominent, and global foreign direct investment plunged. In terms of technology transfer, technology protectionism became more obvious. The US, EU and other developed nations have introduced more protective measures to suppress the rational transfer of technology.

The third was a shift from a virtual economy to a real economy. Compared with the virtual economy like the service industry, much more emphasis has been placed on the real economy. All major economies tried to lure back or retain manufacturing, making it a vital industrial sector. Meanwhile, they also took the initiative to adopt various forms of supporting policies in order to create a better environment for the development of the manufacturing industry. Some economies also worked out targeted industry policies to foster a number of high-end manufacturing sectors of strategic importance.

Regional Economic Cooperation Has Been Strengthened

Although global economic growth improved in 2018, due to the US government’s huge dissatisfaction with distribution of benefits amid globalization, the large-scale trade wars it launched have seriously undermined the cooperation foundation of global governance. Also as global economic philosophy began to change course, it has led to major obstacles for global economic governance in 2018. Firstly, cognitive differences in economic globalization have hindered the advancement of global economic governance. Global economic governance is essentially the result of the development of globalization. Without a global consensus, it is difficult to form effective global economic governance. Pursuing a zero-sum game is obviously not the thinking that could advance globalization. Secondly, weakness of the multilateral mechanism for global governance has led to a lack of institutional conditions for global economic governance. The US government ignored the seriousness and importance of international mechanisms by continuously withdrawing from global organizations, while attacking inherent principles of the multilateral mechanism, and

trying to adjust the multilateral mechanism into a platform to better serve its own interests. The binding force of the multilateral mechanism has been greatly weakened. Major international economic institutions such as the IMF and the WTO faced difficulties in coordinating economic policies among major economies. In the midst of difficulties, the international economic governance system can only be adjusted and adapted through further reform and improvement. In particular, as the top two major economies, the US and China had intensified competition in all aspects in 2018. The US has defined China as a “strategic competitor.” Sino-US frictions were not limited to trade and investment, but also gradually spread to finance and currency sectors, which directly increased the difficulty of cooperation between the two countries in global economic governance. The lack of consistency in the two major powers in global economic governance will not only make it lose momentum, but also create a new field for strategic games between the two big countries.

However, in the absence of positive highlights in global economic governance, regional economic integration has made gratifying progress. After the US withdrew from the Trans-Pacific Partnership (TPP), the remaining 11 members signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) based on the original TPP rules, expressing strong will to continue to promote regional economic integration. In addition to the CPTPP, two major economies, the EU and Japan, reached a bilateral free trade agreement this year. This agreement is by far the world’s largest free trade agreement, covering 28% of global GDP and 37% of total trade. China firmly pressed ahead with negotiations of regional free trade agreements in a bid to work with other members to reach the Regional Comprehensive Economic Partnership (RCEP) as early as possible. The willingness of the 16 members in the RCEP to reach an agreement has increased significantly, and negotiations have also made substantial progress. Nearly 80% of all negotiations had been completed as of 2018, up from less than 50% in 2017. If the RCEP is reached, it will cover nearly half of the world’s population, 40% of global trade, and nearly one-third of global GDP. Recent developments in these bilateral and regional-level FTA negotiations indicated that economic globalization and trade liberalization have not come to an end. Both developed and developing economies still have much momentum to promote the in-depth development of economic globalization. In the absence of a major breakthrough in multilateral economic governance at the global level, many positive practices at the regional level will effectively dispel concerns about de-globalization and help counter the trade protectionism provoked by the US.

Uncertainty to Escalate in 2019

The world's economic situation in 2019 is even more confusing. The three biggest uncertainties determine the world's economic trend in the coming year, and they also determine the possible direction of the shift in the international economic structure in the future. The first is the prospect for US economic growth. Judging from the economic cycle and structural factors, the risk of recession in the US economy will increase in 2019. If the US economy goes into recession, then the world economy will face serious challenges. The risks and pressures facing the world economy will rise dramatically. The second is the trend of Sino-US trade war. At the end of 2018, the heads of state of China and the US reached an intent of "truce" in Argentina, and the relevant working groups are striving to reach an agreement that is acceptable to both countries. However, the Sino-US trade war will still face an uncertain future in 2019, and a serious outbreak of confrontational policies cannot be ruled out at certain periods. By then, there will be a serious negative impact on international trade and the development of the global economy. The third is the development of the European economy. On the one hand, there is still a lot of uncertainty in the outcome of Brexit, and the possibility of a no-deal exit still exists. If Britain really leaves the EU in this way, it will bring shocks to the UK and EU economies in the short term. On the other hand, the deep social and institutional contradictions within the EU, which have been revealed by the Yellow Vest Movement in France, are also breaking out. In 2019, it cannot be ruled out that European countries may face political events similar to the Yellow Vest Movement. This will also lead to a weakening of the European economy.

3. Chinese Diplomacy:

Stabilizing Neighboring Relations and Promoting Opening-up

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China has established President Xi Jinping's thoughts on diplomatic as guidelines for China's diplomacy for the new era in 2018. While coping with China-United States trade dispute in a calm manner, Beijing has seized the opportunity to comprehensively ameliorate relations with neighboring countries, which is notably reflected in the 're-set' of China-India and China-Japan relations, as well as the alleviation of tension in the Korean peninsula. At the same time, China has made active efforts in mediating in neighboring hot issues, promoting regional cooperation and pushing forward its own opening-up. All these have made China a leader in regional cooperation and a guard of regional peace and development.

Stabilizing China's Neighboring Environment

In 2018, US President Donald Trump constantly undermined existing international rules and unilaterally proposed changes in agreements and rules with US' major trading partners. Under such pressure and background, China has managed to improve relations with India and Japan by 're-set' respective bilateral ties in 2018. Firstly, China-India relations experienced a remarkable turnaround after the Donglang(Doklam) standoff. Since February 2018, both parties have been sending positive signals to explore improve of ties with the first informal summit in Wuhan. Indian premier Modi made a phone call to Chinese president Xi Jinping on the day when China's national two sessions (the annual meetings of the National People's Congress, and the Chinese People's Political Consultative Conference) concluded, paving the way for the Wuhan informal summit. The two leaders held a meeting in Donghu, center of the Wuhan city from April 27 to 28. The pair reached broad consensus after having a candid and in-depth exchange of views on the overall, long-term and strategic issues in international environment and bilateral relations, as well as their respective national development visions and internal and external policies. Subsequently, the two leaders continued to meet during the Shanghai Cooperation Organization Summit in Qingdao in June, the Johannesburg BRICS Summit in July and the G20 Argentina Summit in November, all of which served to improve strategic mutual trust between the two countries.

Secondly, Sino-Japan relations was greatly improved, with the leaders of two states

paying reciprocal visits in 2018. From May 8 to May 11 2018, Premier Li Keqiang paid an official visit to Japan and attended the Seventh Summit Meeting among the People's Republic of China, Japan and the Republic of Korea. This is the very first official visit of a Chinese Prime Minister to Japan in 8 years after the two countries embroiled in a dispute revolving around the 'island purchase' issue in 2012. The two sides have unanimously agreed to establish a Sino-Japanese public-private sector committee on 'The Belt and Road Initiative in a bid to advance cooperation in economic and industrial projects in a third country. On the security front, both sides have agreed to launch a defense communications mechanism. From Oct 25 to Oct 27, Japanese Prime Minister Shinzo Abe was in Beijing for the first formal bilateral visit by a Japanese leader to China in nearly seven years, a sign of apparent thaw in China-Japan relations, which has entered a new stage featuring 'coordination and cooperation'. The two countries have made breakthroughs in financial cooperation and joint development of third-party markets, by re-jumpstarting bilateral local currency swap agreement with a scale of 200 billion yuan, and promoting the Belt and Road initiative in third-party countries (outside of China and Japan). Subsequently, the Japanese government revised "Indo-Pacific Strategy" to "Indo-Pacific vision", reducing its geopolitical connotation.

Third, China helped to cool regional hot spot issue by actively mediating in a variety of procedures to solve the conflict . China has played a constructive role in the North Korean nuclear issue. Kim Jong-un, chairman of the Workers' Party of Korea and chairman of its State Council, paid three visits to China in three months. In June, Kim and US President Donald Trump finally touched down for the historical meeting in Singapore. In September, Kim and Korean President Moon Jae-in met in Pyongyang and issued the "Pyongyang Joint Declaration of September 2018", a clear sign of improving ties between North and South Korea and the appeasement of tension in the Korean peninsula. China has played an active part in this process, by promoting the improvement of bilateral ties, supporting Pyongyang-Washington dialogue and bolstering all efforts from relevant parties to promote the denuclearization of the peninsula.

China also worked hard to cool down tensions in the South China Sea. China has reached consensus with ASEAN nations on a draft code of conduct regarding the South China Sea called "Single Draft COC Negotiating Text", marking a major step forward. During the China-ASEAN summit on Nov 14, leaders from China and 10 ASEAN countries agreed to complete an initial review of the draft negotiating text in 2019. Chinese Premier Li Keqiang put forward the vision of wrapping up the

negotiation in three years, which reflected China's sincerity, determination and confidence in maintaining the peace and stability of the South China Sea together with ASEAN countries. Meanwhile, on Oct 22, China and ASEAN kicked off the first maritime exercise, the ASEAN-China Maritime Exercise 2018, which was the first-ever organized exercise between ASEAN and China, as well as the bloc with any other dialogue partners. This holds wider significance to China and ASEAN's collective willingness and determination to maintain regional peace and stability, as well as enhance mutual trust in strategic security.

In addition, China also played an important role in handling the Rohingya crisis between Myanmar and Bangladesh. On Sept 27, 2018, an informal three-party meeting between China, Myanmar and Bangladesh was held at the United Nations in New York. Three important consensuses were reached during the meeting that paved the way for repatriating refugees in Rakhine State. Another conflict mediation was related to conflicts between Afghanistan and Pakistan. Following the first meeting of the Foreign Ministers of China Afghanistan and Pakistan in December 2017, the second such meeting was held in December 2018, which led to the establishment of a pragmatic cooperation dialogue mechanism among the trio. Significant consensuses were reached in the areas of people's livelihood and infrastructure building. Through its tangible actions, China has materialized its role as an important promoter of regional peace and development.

Promoting Regional Cooperation and Economic Opening-up

In light of major changes in global economic and trade cooperation, China has stepped up efforts to lead regional economic cooperation. First, it actively promoted collaboration in the Asia-Pacific region. The 7th China-Japan-Korea Summit revived after a pause of nearly three years, which has injected new impetus to the trilateral economic and trade ties. Following the adoption of the Japan-led CPTPP, China is also pushing ahead with the materialization of the RCEP. On Nov 14, 2018, Premier Li Keqiang urged all parties to have a sense of urgency in the negotiation and strive to reach an agreement in 2019. He also announced that China and ASEAN nations have finally gone through all domestic procedures for the upgraded FTA. The materialization of the upgraded FTA will further enhance China-ASEAN economic and trade relations, signaling China and ASEAN countries' firm will to uphold multilateralism and free trade.

Meanwhile, with the changing political and security environment in Northeast Asia,

the region's economic cooperation has gained refreshing momentum. From Sept 11 to 12, 2018, President Xi Jinping attended the Fourth Eastern Economic Forum in Russia and strived to promote cooperation between China's northeast region and Russia's Far East area. The two countries signed a number of documents of intent including "Far East Economic and Trade Investment Development Plan and Memorandum of Understanding for 2018-2024" and "Memorandum of Understanding on the Establishment of Business Council of the Russian Far East and Baikal Region and Northeast China".

On the global level, China remains an unwavering supporter of globalization. The spirits were emphasized in keynote speeches delivered by President Xi Jinping on the opening ceremony of the China International Import Expo on Nov 5 and the APEC CEO Summit on Nov 17 titled " Harnessing Opportunities of Our Times To Jointly Pursue Prosperity in the Asia-Pacific". Such propositions were also reflected in the Shanghai Cooperation Organization Summit in Qingdao in June and the China-Africa Cooperation Forum in September.

During the celebration of the 40th anniversary of reform and opening up on Dec 18, China further demonstrated its determination to adhere to 'development' as its top priority and unswervingly deepen reform and opening-up. The Belt and Road Initiative is an important starting point for China to usher in cooperation in the surrounding regions. In 2018, China has made remarkable progress in implementing the initiative with neighboring countries and completed quite a few major projects. On Aug 30, the China-Maldives Friendship Bridge, the first cross-sea bridge in the Maldives, opened to traffic, marking an important milestone in carrying out the Belt and Road Initiative by the two countries. A total of 22 cooperation projects were in the pipeline under the auspices of the China-Pakistan Economic Corridor, of which nine were accomplished and 13 were under construction. Nepali Prime Minister K. P. Sharma Oli wrapped up a successful official visit to China from June 19 to 24, 2018, during which the two countries promised to strengthen bilateral cooperation under the framework of the Belt and Road Initiative. The two sides have agreed to enhance connectivity in ports, highways, railways, aviation and telecommunications and build a so-called "Cross-Himalayan Three-Dimensional Interconnectivity Network". On Sept 7, China and Nepal signed a transportation agreement in Kathmandu, allowing Nepal to use four Chinese seaports and three land ports to trade with other countries.

Many key countries related to the Belt and Road Initiative have experienced smooth domestic power transition and the potential impact on co-creation of BRI-related

projects remained limited. On July 2018, Imran Khan, chairman of Pakistan Tehreek-e-Insaf (PTI), was elected the country's new prime minister. From Nov 2 to Nov 5, 2018, Khan paid his inaugural official visit to China and made a keynote speech during the first China International Import Expo. Concerns over China-Pakistan relations were dispelled by the signing of the "Joint Statement between the People's Republic of China and the Islamic Republic of Pakistan on Strengthening China-Pakistan All-Weather Strategic Cooperative Partnership and Building Closer China-Pakistan Community of Shared Future in the New Era", through which the two sides have reached new consensus on the building of China-Pakistan Economic Corridor. In August 2018, Malaysian Prime Minister Mahathir Mohamad's successful visit to China also symbolized the smooth transition in the construction of Belt and Road Initiative-related projects.

In short, China has made important progress in diplomacy, especially in dealing with neighboring countries. Looking forward to 2019, we have solid reasons to believe that China's neighbouring diplomacy will continue along the path of building a community of shared future. Trump's self-willed diplomatic moves have undoubtedly acted as an important external stimulus to prod China to improve relations with neighboring countries. With the second "Belt and Road International Cooperation Summit" on course to be held in 2019, China is set to play an even more important role in shaping regional peace and stability, and promoting economic development.

4. U.S.: The ‘Trump’ Turmoil

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Entering into the second year of his presidency, President Trump has taken more unconventional measures in diplomacy to implement his “America First” policy, which has had a series of negative impacts on world political and economic landscapes and left the Sino-US relations in a rather severe situation.

Disrupting World Economic and Political Landscapes

Firstly, US withdrawal from various international arrangements has been a severe blow to multilateralism and international institutions. Most of current international political, economic and security mechanisms were established by the United States after World War II. The design of the rules has largely reflected US interests and value preferences and has served as an important pillar of the American hegemony. However, the Trump administration has grown increasingly discontent against the existing international system. The arrangements are deemed to be economically unfair to the US and give other countries more competitive edges. On the security front, the US has to bear too many obligations, but its allies stand to enjoy long-term free rides. Excessive political constraints have also undermined US sovereignty. With the “America First” perspective, the administration is increasingly seeing international mechanisms as ‘eroding’ rather than ‘promoting’ US national interests.

After leaving the Paris Agreement, the Trans-Pacific Partnership Agreement and the UNESCO in the previous year, the Trump administration also pulled out of the Iran Nuclear Deal, the UN Human Rights Council, the Universal Postal Union, and even threatened to withdraw from the 1987 Intermediate-range Nuclear Forces Treaty with the Soviet Union. The reckless retreat indicated the Trump administration’s scorn for multilateralism and its overweening disposition. It has not only seriously undermined the international community’s cooperative efforts on major issues such as tackling climate change and peacekeeping operations in the Middle East but also challenged the universal values of multilateralism and international cooperation in the era of globalization.

The second great impact on the global economic landscape can be ascribed to the US protectionism. The Trump administration has tried to reshape economic and trade

relations with trading partners through measures like imposing additional tariffs. Trump has forced economies like Mexico, Canada, the EU, and Japan back to the negotiating table and accept Washington's requests. The US has launched an unprecedented trade war against China by restricting Chinese companies' investment in the US and preventing China from acquiring advanced US technologies. The ongoing Sino-US trade war has been the largest trade war in history and a fierce contest between the world's first and second largest economies. US' reckless behaviors to unilaterally manipulate the existing economic and trade rules have led to violent swings to the world market, disrupted the global supply chain, and undermined the international economic order. The impact will be significant and long-term. According to WTO statistics, the G20 countries have adopted 40 new trade restriction measures from May to October in 2018, covering a trading volume of about \$481 billion. The volume was six times higher than the previous period and marked the highest one since WTO started tracking G20 trade data in 2012. Three-quarters of the measures pointed to tariff rise, many of which were retaliation against US tariffs on the steel and aluminum imports starting from March. World trade growth in the first half of 2018 was down 2% from the second half of 2017.

The US also forced the reform of the WTO through extreme measures like reaching high-standard trade agreements with Mexico and Canada, as well as blocking the appointment of members of the WTO's Appellate Body which crippled the WTO's dispute settlement mechanism. International economic rules have been undergoing profound adjustment. The US has adopted a policy mixed of protectionism, unilateralism and the establishment of new economic and trade regulations to simultaneously promote the "conservatism, fragmentation and high-standardization" tendencies in the international economic and trade system.

Finally, the redefinition of US-EU relations also has an impact on US ties with its alliance. Trump's "America First" policy has caused deep divergences between the US and the EU on issues like trade, the Iran Nuclear Deal, and climate change. The EU countries were greatly shocked when Trump called the EU a 'foe' during his trip to Europe in July. He also harshly criticized French President Macron's proposal for a European army. The contradictions and differences between the US and the EU on security, economy, trade, value, and international order have grown prominent, posing the greatest challenge to US-EU relations since the end of World War II.

Responding to the "Trump Shockwave"

The world has to find ways to respond to the "Trump shockwave."

One is through negotiations. Canada, Mexico, Japan, and the EU were forced to sit on the negotiating table and redistribute interests through bargaining and compromises.

The second is to unite and seek self-improvement. Japan took the lead to rescue the faltering Trans-Pacific Partnership Agreement, and 11 Asia-Pacific countries finally signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership without the participation of the US. Japan and the EU have ratified the EU-Japan Economic Partnership Agreement respectively. Once fully fledged in early 2019, it will be the largest free trade agreement in the world. The EU is also in pursuit of defense independence. In December 2017, the European Council adopted a decision to establish Permanent Structured Cooperation, and 25 member states agreed to participate. This permanent framework allows member states to develop defense capabilities, invest in shared projects, and enhance military strength so as to forge a more flexible EU defense system that is more independent of the US. In 2018, member states approved 17 military cooperation projects under this framework. French President Macron and German Chancellor Merkel have respectively called for the establishment of a ‘real European army’ to promote independent European defense. Their proposals won support from the European Commission, Spain, and other EU countries.

The third is to reduce financial dependence on the US. Russia has developed its own system for financial transfers that would protect its banks from a potential shutout of the SWIFT global transfer system in case of harsher U.S. sanctions. The EU is working on an independent European settlement system to enhance its autonomy in trade, economic and financial policies. The EU has also officially issued an initiative to recommend wider use of the euro in economic and strategic sectors. China has launched yuan-denominated crude oil futures to compete for pricing power in energy trade and to promote RMB internationalization.

The fourth is to establish “Coalitions of Willing.” Facing the Trump administration’s unilateralism and protectionism, China, Japan, the EU, and other countries have joined forces to maintain multilateralism and the free trade system, which may cause a reorganization of international political alliances.

The Hardship during the Transition of Sino-US Relations

The Trump administration has regarded China as a ‘strategic competitor,’ a ‘foe,’ and a ‘revisionist power’ since 2017. Washington’s series of major adjustments to foreign

policy with Beijing have jeopardized Sino-US relations.

First, the two countries have been competing across the board. Politically, the US aimed to not only prevent China from challenging the US-led global and regional order but also limit China's 'infiltration' into American society. Economically, the Trump administration attempted to address issues on trade imbalance and market access restrictions with China, deter China's science and technology advancements, and intervene China's industrial policies. In terms of security, Washington has to cope with the rise of China's military strengths and curb China's geostrategic expansion.

The second is the de-linkage. In order to prevent China from acquiring US's high-tech, Washington has deemed it necessary to cut the two countries exchange mechanisms on technologies. To this end, a series of measures have been taken, such as forcing China to change related policies towards foreign enterprises, limiting Chinese investment in the US, prohibiting Chinese students and scholars from studying and conducting scientific researches on sensitive subjects in the US. Moreover, the Trump administration has required US defense contractors to move their production bases out of China to promote the partial decoupling from China on the industrial chain, thus reducing the risks caused by the dependence of US defense industry on China.

The third approach is to impose restrictions. As US policy toward China has shifted from engagement to confrontation, the Trump administration has placed a growing number of restrictions on China. For example, the US has set a limit to the activities of Chinese media and cultural institutions (such as Confucius Institutes and Chinese Foundations) in the United States to prevent the so-called 'political penetration.' The US government has also been restricting visas for Chinese citizens or limiting activities of Chinese diplomats in the United States to retaliate against China's relevant policies and measures.

The fourth measure is to exert pressure. The US has taken judicial actions, impose sanctions, or directly exerted pressure on the Chinese government in response to the Chinese companies' or individuals' alleged infringement of US intellectual property rights, their engagement in cyber espionage, and other activities in violation of related US policies (such as sanctions on Iran and North Korea).

Under such backgrounds, the current Sino-US relations have faced an unprecedentedly grim situation.

First of all, the structural contradiction between China and the US have been growing prominent. The contradiction comes from a shift in the balance of power (i.e., the US wants to maintain its status as the world's sole superpower and prevent being caught up and overtaken by China). It is a result of the so-called unfair distribution of interests (i.e., the US believes that China has reaped huge benefits from the current international economic system, which is unfair to the US). The two also have deep conflicts in the political and economic systems, as well as ideology and values.

Second, the relationship model between the two countries has transformed. Sino-US relations have shifted from one that features 'co-existence of cooperation and competition' to one that is primarily competition-oriented. During the Obama administration, both cooperation and competition were on the rise. However, the two countries' competition is expanding in scale and depth under the Trump administration, while the range of cooperation is shrinking and its momentum is declining.

The third is an overall setback in bilateral relations. With a sharp escalation in the trade war, the two countries' diplomatic interaction, economic and trade cooperation, and cultural exchanges have all exhibited a downward trend after Trump took office. Only one of the four Sino-US high-level dialogue mechanisms, the Diplomatic and Security Dialogue, was held in 2018. The rest of the three channels, including the Comprehensive Economic Dialogue, the Law Enforcement and Cyber Security Dialogue, and the Social and Cultural Issues Dialogue, were suspended. Many other bilateral consultation mechanisms are also dysfunctional. As Washington has imposed more severe restrictions, Chinese investment in the US has plummeted to its lowest level since 2010. Cultural exchanges have been halted and even moved backward. Some long-term cooperation projects have been terminated, and American universities have been selectively closing their doors to Chinese students and scholars. For a long time, economic and trade relations, as well as cultural exchanges have been regarded as the cornerstones for bilateral relations, because they remain thriving even as political ties have gone through ups and downs from time to time. However, the current policies of the Trump administration are severely eroding the two critical pillars.

During President Xi and Trump's meeting in Argentina in early December, China and the US agreed to halt, at least temporarily, an escalating tit-for-tat trade war. They pledged to reach consensus on settling economic and trade disputes through negotiation within 90 days. However, even if the trade war can be put to an end, the

US will by no means give up its restrictive policies on technology and other related fields. Washington will continue provoking Beijing on the issues of Taiwan, the South China Sea, Xinjiang, and Tibet. The year 2019 remains to be a tough year for China-US relations. During the important transition period of Sino-US relations, frictions, turbulence, and conflicts will become more frequent. Therefore, an effective risk and crisis management mechanism is a pressing challenge for both sides.

5. Russia: Back to Pragmatism

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The year 2018 marks the centenary of the end of the first World War and the 10th anniversary of the 2008 international financial crisis. While people keep reflecting on the havoc and chaos of the past, the real world has not become more orderly or peaceful. Major changes, divisions, restructuring and adjustments are still going on around the world.

In May 2018, Vladimir Putin returned to the Kremlin, kicking off his fourth term as the country's president till 2024. His governing ideas have made 'a return to pragmatism'. In fact, in the early years of Putin's presidency in the early 2000s, pragmatism was once his overriding governing idea. However, with Russia's rapid economic growth and the relative recovery of national strength fueled by the rising international oil price, the guiding principle of the country's internal and foreign affairs have entered into a relatively "radical" stage. Especially around 2008, sentiments such as "the United States has declined", "multi-polarization has become a reality", "Russia can make a difference" once prevailed and dominated Russia's basic stance towards international strategy. The Munich speech of Vladimir Putin in 2007, the Russia-Georgia war in 2008, the Crimea crisis in 2014 all marked the epitomes of Russia's 'aggressive diplomacy'.

However, the ensuing western sanctions and the plunge in international oil prices have seriously hindered Russia's economic development and rapidly deteriorated the international environment. In the face of such harsh reality, Russia has to re-examine the international environment, adjust international strategy and internal and external policies, and gradually return to rational pragmatism.

Domestic Stability More Important than Diplomacy

Under major changes, each family has its own difficulties (as the Chinese saying goes). The importance of domestic affairs and economy is more prominent than that of diplomacy. Although Putin won re-election with 76% of the vote in the presidential election in March 2018, the measures he implemented after his re-election, such as delaying retirement age and raising taxes, have incurred fierce social backlash. Demonstrations have taken place in dozens of Russian cities, and public satisfaction

with Putin has fallen sharply from the highest reading at 82% this year to just 60%. Russian's trust in him also fell from 58.9% at the start of the year to 36.5% in early November. In Russia's regional elections this autumn, the ruling Party-the United Russia-experienced a major setback, giving opportunities for opposition parties to gain influence in certain regions.

Under the turmoil, Putin also realized that internal stability carries more weight than external expansion. Therefore he has diverted more resources and energy in improving domestic governance, keeping economic stability and maintaining people's livelihood, rather than expanding international influence. Addressing the United Russia's Party Congress on Dec 9, Putin said: "The world is undergoing a transformation, a very powerful and dynamically evolving transformation, and if we do not get our bearings, if we do not understand what we need to do and how, we may fall behind for good." He stressed that the United Russia Party must not only make responsible decisions, but "explain these decisions to the people and then take part in elections and convince voters that the earlier decisions were right while the path we have chartered is the only correct one". At present, one of the core tasks of the Russian government's economic work is to maintain the relative stability of inflation, in a bid to avoid social unrest triggered by the shrinking of people's already-meager wages and pensions, which might be eroded by rising inflation.

In 2018, Russia's inflation level was moderate controlled under 3.5%. Newly-created jobs increased 1.6 percent year-on-year, while unemployment rate was kept at the relatively low level at below 4.7 percent. While retirement delay reform has triggered widespread dissatisfaction among the public, Putin's approach to personally intervened in and fine-tuned the reform has again mobilized the traditional political psychology among the Russian public, which can be characterized as "good tsar, bad minister'. This has helped maintain the overall stability of Russia's domestic politics.

Although since last year, Russia has walked out of the recession shadow and moved into growth trajectory. Nevertheless, due to many structural factors, growth remains weak. Not long ago, Putin signed the Russian Federation's three-year budget from 2019 and 2021, setting the annual GDP growth rate at 1.3 percent, 2 percent and 3.1 percent respectively. While this marks Russia's first budget surplus since the Crimea crisis, it is unneglectable that Russia's economic growth rate remained lower than the average growth rate of the world economy. It also means that Putin cannot live up to his promise made during his presidential election to "make Russia among the world's top five economies by 2024' . What's more important, even against the vigorous

development of the new energy and the burgeoning new industrial revolution, Russia's economy is still mainly bolstered by oil and gas, arms and food exports, and such economic structure cannot be changed in the short term.

Under such circumstances, the Russian government has to face up to the reality and try every means to pursue the biggest interests for the country. It is noticeable that Russia has been using every possible opportunity to maintain and raise oil prices, even by stoking geopolitical tensions. Although Russia and Saudi Arabia are at loggerheads over Syria, the two countries can still cooperate on oil output curbs and price maintenance under the framework of "OPEC +". However, the cooperation between Russia and Iran in Syria, as well as Russia's support of Iran on the "Iran nuclear issue" are not only motivated by political ideas and international morality. The moves also come out of the consideration of pushing up oil prices through the US-Iran confrontation or even the US' ban on Iran's export of crude oil. At the same time, Russia has been aggressively selling its arms amid rising international tensions and regional conflicts, raking in \$45 billion in foreign arms sales in 2018. Russia is also stepping up efforts to promote nuclear power plants and food around the world.

Military strength still occupies the largest proportion in the composition of Russia's comprehensive national strength. Although the country's military expenditure is not comparable to that of the US and it is no longer capable of conducting an all-round arms race with Washington, Moscow is still striving to strengthen its military construction, by maintaining critical containment of the US and achieving an 'asymmetrical balance'. Despite its current economic difficulties, Russia has still enhanced its military construction, maintained a relatively high proportion of the military expenditure, and promoted the development and deployment of a series of new weapons, such as Salmat intercontinental ballistic missile, Sukhoi Su-57 fifth-generation fighter jet, and hypersonic missile, among others.

Striving to Survive "Diplomatic Winter"

As his "aggressive diplomacy" faced obstruction, Putin has clearly realized the huge national strength gap between Russia and US and that Russia is unable to compete with the US on a full scale. As a result, Russia has gradually returned to a rational and pragmatic approach when dealing with the US, seeking detente while preparing for the worst. No matter how the US imposed more sanctions on Russia, Moscow has never given up its desire to improve relations with Washington. To some extent, it is not exaggerating to say that ameliorating ties with the US and appeasing sanctions

and containment from Western countries are the top priorities of Russia's diplomacy. Russian officials, including foreign ministry spokespersons, always emphasized the stance that "We are willing to improve our relations with the US and the door to improving ties is always open", even if they criticized and refuted sanctions from the US and European countries. President Putin has also repeatedly stressed that "Russia has no intention to be an enemy of the US and wants to restore a relationship featuring mutual respect." At the same time, Russia also understands that its structural problems with the US cannot be solved in short term and has prepared for the worst possible scenarios. Lately, Russia has accelerated its sale of US Treasury bonds while increasing its holdings in gold. Meanwhile, some Russian oil and gas companies have required foreign clients to modify their contracts and settle oil and gas-related transactions in euros instead of US dollars. All these are aimed to prevent Russia from suffering a fatal blow, should the US choose to disconnect Russia from SWIFT(the US-dominated international payments network).

While a quick upturn is not expected any time soon, Putin is still sparing no efforts in fixing relations with the US in order to win over time and space for 'breath' and 'survive the winter'. Therefore, on the Ukraine issue, Russia lowered its profile by strengthening cooperation with the Minsk Group without returning Crimea. It attempted to alleviate Western pressure on Russia through cooperation with Germany and France. In the case of Syria, while taking the lead in driving the Astana and Sochi peace processes, Russia has also set up a framework for the resolution of the Syrian issue with the participation of France and Germany. More importantly, Putin has used every opportunity to seek the resumption of direct talks with US in a bid to prevent a free-fall in bilateral relations. In addition to his meeting with Trump in Helsinki in July 2018, Putin also sought to use multilateral occasions such as the centenary of the end of the First World War and the G20 to communicate with Trump. While such wishes have fallen through, the enthusiasm to fix ties remains. In addition, Russia and the US are also actively preparing for Putin's visit to the US in the spring of 2019.

Russia, of course, is not simply backing down in its relationship with the West. While seeking to ease ties, Russia has also taken 'the carrot and stick' approach, leveraging a series of issues to divide the EU and the US (alliance), the NATO, Europe, the US and Japan (alliance), as well as the entire Western society. These include the Nord Stream 2 natural gas pipeline project, the US withdrawal from the Iran nuclear deal, Russia-Japan negotiations on the disputed islands (which Russia calls the Kuril Islands and Japan calls the Northern Territories), the contradictions between the US and the EU and a number of internal political and social problems inside Western

countries. Russia's slate of measures did drive a wedge between EU and the US on the oil embargo on Iran, divert Germany and the US in the construction of the Nord Stream 2 gas pipeline project, exclude Japan from the de facto Western-led sanctions on Russia, and draw in conservative political forces in Western countries, represented by Le Pen of France and Kurz of Austria, to have empathy for Moscow.

Striving to avoid a sharp deterioration in its relations with the West, Russia is also stepping efforts to 'turn East' and actively enhancing cooperation with countries like China, Japan and India. Regarding Japan, Russia has used the northern territory issue to mobilize Japan, breaking the siege of Western countries while reaping substantial economic gains. As for India, the two countries have strengthened all-rounded cooperation on politics, economy and diplomacy. Russia's sales of the S400 anti-aircraft missile system to India was also settled in rouble to avoid financial risks. On multilateral level, Russia has been more active in participating in a series of multilateral mechanisms in East Asia, including the East Asia Summit and the APEC Summit, and promoting the "Greater Eurasian Partnership" initiative put forward by Putin. Following the ASEAN-Russia summit, bilateral relations have been upgraded from dialogue partners to strategic partners, and Russia's relationship with ASEAN countries like Singapore and Vietnam has been further deepened.

Of course, with regard to its diplomacy with the East, Russia gains the most from China: On the political front, the two countries interacted frequently so that Russia managed in avoiding the excessive "loneliness" in its relationship with major powers; Economically, bilateral trade volume restored quickly, with trade readings jumped 28.2 percent year-on-year to hit \$87.25 billion from January to October 2018. In the energy sector, Russia has been China's largest oil supplier for two consecutive years. From January to September 2018, China imported 50.56 million tons of crude oil from Russia, up 12.4 percent year-on-year. Trade volume leapt 53 percent from same time a year ago to \$26.5 billion, which accounted for 63 percent of the total import. China and Russia have stepped up the construction of the "Eastern Route" of the natural gas pipeline and quickened the pace on the negotiations of the "Western Route". The first to the third phase of the Yamal LNG project involving Chinese enterprises have been put into operation. The first shipment of the Yamal LNG has arrived in China this year and the two sides are still discussing the Arctic LNG 2 project. As the global energy sector shifts to a 'buyer's market', Russia has obtained a huge and stable sales market. In terms of investment, China's investment to Russia has accumulated to \$28.12 billion, whereas investment flow from January to October 2018 reached \$280 million. Chinese investment has become an important source of

capital for Russia against the backdrop of Western sanctions .

Looking ahead into 2019, Russia will continue its pragmatic internal and external policies. In domestic affairs, on the basis of achieving a surplus budget, Moscow should strive to avoid any serious impact of social reform policies on people's lives so as to ensure social and political stability. In terms of diplomacy, while strengthening the "post-Soviet" diplomacy and preventing the "avalanche effect" that may be caused by the deterioration of Russia-Ukraine relations, Russia should make great efforts to consolidate its geopolitical achievements in the Middle East and seek to improve Moscow-Washington ties through Putin's proposed visit to the US.

6. The European Malaise: Old Rules Falling Apart, New Ones on the Way

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Looking back at 2018, the European Union has faced challenges at home and abroad. The continent has seen old rules falling apart while new ones not yet well established. While the EU has been putting its efforts to the ground, effects remain lackluster and limited.

Challenges at Home and Abroad

First, the economic recovery has been sluggish and downside risks have intensified. Despite a sustained rebound this year, the EU's economy is expected to grow just 1.8 percent this year, following a marked slowdown from last year. Unemployment rate, though falling continuously, remains rather high. Inflation rate climbed to 1.8 percent, which was in line with the European Central Bank's expectation, prompting the authorities to formally cease the quantitative easing policies at the end of the year. Exports have also shown signs of fatigue as external conditions deteriorate. Economic performance of Germany which was previously seen as a standout performer, has slowed down sharply this year. No longer being able to sustain last year's momentum, France is also expected to secure just below 2 percent of economic growth rate.

Second, expanding level of inequality, shrinking middle class and the ever-surging social discontent are rampantly fuelling populism. The European debt crisis has magnified the negative impacts of economic globalization and aggravated the polarization between the rich and the poor. Meanwhile, the scale of the middle class has shrunk. Compared with 2010, the proportion of the middle class in the European population has decreased from 58.4 percent to 55.2 percent in 2018. The sense of loss among the general public, including the middle class, has intensified, with anti-wealth, anti-elite and other populist sentiments on the sharp rise. A Europe-wide poll showed that an average of 61 percent of respondents distrusted their respective governments. The "yellow vest" movement, which started in France and spread to the Netherlands, Belgium, Austria, Germany and other countries, has put forward a variety of concrete and abstract demands, from cancelling the increase of fuel tax to changing the ways the governments make decisions at large. The chaotic situations can be regarded as the general explosion of dissatisfaction among the lower and middle classes of the European society.

Third, the political landscape in Europe features the decline of traditional mainstream parties, the rise of extreme parties, the “right-leaning” of political spectrum and the fragmentation of politics.

There have been worrying new changes in European politics. In Germany, the far-right party, known as the Alternative for Germany (AfD), has been taking advantage of the refugee crisis to marginalize the traditional big players like CDU/CSU (unofficially known as the Union parties) and the Social Democratic Party (SPD). AfD has not only successfully secured seats in the parliament but also become the largest opposition party, which has resulted in six months of stalemate in forming a functioning cabinet. The refugee problem has caused frequent disputes between the government and their opposition parties. The traditional big parties lost successively in their state elections. Criticized for being a supporter of the refugee policy, Merkel resigned as the chairman of the party, dejectedly ending her 18-year tenure as party chief, which also "ushered in a new era". In Hungary, the government led by Viktor Orban won a third consecutive term in a row thanks to his anti-immigrant and pension-boosting policies. In Italy, the far-left Five Star Movement, an anti-immigrant supporter, and the far-right European-skeptic party, the Northern League, formed the first populist government in the EU that is comprised of all small parties. In Sweden, the far-right, anti-EU Sweden Democratic Party almost duplicated the success story of Germany's AfD to become the nation's third largest party, leaving the traditional guru-the Swedish Social Democratic Party-in a difficult situation in forming an effective government.

In addition, the EU faces constant challenges in terms of internal governance, which features the lack of leadership and a notable decline in internal cohesion. The refugee issue has essentially become a “litmus test” of EU's capacity for internal governance and its relations with other member states. The plan to distribute and relocate refugees fell through as it was frequently thwarted by middle, eastern and southern European countries. France, Germany and the United Kingdom have all been overwhelmed by their own problems and are gradually losing their guiding and the ‘axis’ role in the organization. Germany is faced with a generational change of leadership and always adheres to the principle of acting based on one's ability. France's capabilities are somewhat incompatible with its willingness, and the country's own reform has encountered unprecedented resistance. Calls for the reigniting the France-Germany axis in the EU seemed more significant than its actual progress, while the UK is mired in the Brexit dilemma. What makes the EU suffer the most is that countries like

Hungary and Poland have deviated from EU's mainstream liberalist values through measures like amending the constitution and controlling the media. This has prodded the European Parliament to implement Article 7 of the Treaty of Lisbon to deter and impose sanctions on relevant member states.

Finally, Trump's "America First" policy has eroded and rewritten the basis for the US-EU alliance, which has, in turn, forced Europe to stand up for itself.

Over the past year, Europe has been pummeled by Trump's "America First" policy: politically, the US accused the EU of acting as Germany's puppet, touted the UK for leaving the Union, lambasted France's initiative to build a European army, and supported populist parties and politicians in Europe. Economically, Washington imposed tariffs on steel and aluminum to threaten to launch a trade war on Europe-manufactured automobiles. On the defense front, US threatened to withdraw its commitment to ensure Europe's security, forced EU countries to pay 'protection fees' for NATO's protection, and severely criticized EU's proposal of building an independent European army. With regards to international governance, the US has taken the unilateral approach, pulling back from the Iran nuclear deal that was deemed by the EU as a 'major diplomatic achievement' and exiting from the Paris Agreement on climate change. In terms of value propositions, the US even questioned the most-cherished mainstream values in Europe, such as the spirit of freedom, multilateralism and democracy, making German Chancellor Merkel and others sigh, "the era when Europe is totally dependent on others has become something of the past". The general impression on Washington's policies has largely gone through the journey as what German Minister for Foreign Affairs Heiko Maas has described: "from regarding the US' behaviors as occasional 'democratic accidents' on the other side of the Atlantic, to admitting the harsh reality". He also called on the EU to unite more closely to tackle with the 'America First' policy.

Old Rules Falling Apart, New Rules Not Yet Established

First, European reform has encountered huge obstacles, and the new generation of country leaders needs to gain more experience.

When facing the difficulties, the EU and leaders of its member states have tried hard to keep the reform momentum. But little substantial progress has been made as the reform itself has encountered strong obstacles and slipped into a 'reform-protest-compromise' vicious cycle. The most typical case is the massive

'yellow vest' protest in France to oppose the country's reform. Popular candidate Emmanuel Macron was elected French president last year without the support from traditional big parties, who has not exhibited a clear political standpoint that leans towards the left or right. Such a figure is undoubtedly a representative of the new era of European leaders. He and his colleagues forged ahead and proposed a series of measures to deepen reform at home in order to overcome longstanding problems, revitalize the French economy, strengthen the France-Germany axis (in the EU) and promote European integration. These include the abolition of taxes on the rich, carrying out labor law reforms that are aimed at liberalizing labor markets and giving companies more flexibility and autonomy, as well as cutting down on taxes for companies. They also include austerity measures to meet EU's deficit ceiling, such as cutting housing subsidies, freezing pay rise in the civil service sector and levying social insurance expenses on retirees.

On the one hand, the French economy begins to pick up: last year, the economy surged close to 2 percent for the first time in six years, and the public deficit was kept below 3 percent for the first time in a decade.

On the other hand, the series of measures including the price hike in fuel taxes has touched the core interests of, and added burden on notably the country's lower to middle class. These have given rise to the month-long "yellow vest" protests, which even turned into riots. Haste makes waste. The reform plan was forced to make two concessions: the tax levy was put on a pause and the minimum tax threshold was raised. The country entered into a state of emergency and next year's budget deficit level was consequently pushed higher. Macron's approval rating dropped to historical low point. His reputation was severely damaged and so was his reform plan. Macron's case, together with previous examples of German Chancellor Gerhard Schroder, Italian Prime Minister Mario Monti and Matteo Renzi, who were forced out of office due to their reform plans, have demonstrated the curse of 'whoever carries out reform has to step down' and reflected the compounding difficulties of reforms in the internet era. It also reflected that the new generation of European politicians and leaders still lack careful and thorough researches before the introduction of the policy design. Their governance ideas are excessively elitist and thus separated from the middle and lower classes. Their governing skills are still immature and need to be further developed and sharpened.

Second, the Brexit process has experienced twists and turns, and the risks of a "hard-landing Brexit" scenario have increased unprecedentedly.

The Brexit negotiation between the UK and the EU has been a bumpy one. After repeated bargaining on, and appeasement of, a series of challenges from both inside and outside the party, British Prime Minister Theresa May and the EU finally put forward the "draft withdrawal agreement" in November, but it immediately aroused oppositions from various parties at home. These criticisms not only came from the opposition Labor Party, but also from different branches within the conservative party, whose stances on whether the UK should remain in the EU varied. These are obvious signs that the British society has been deeply divided. Ms. May herself also faced a serious trust crisis. Though she finally survived the no-confidence vote, it was apparent that her political status was no longer as stable. At present, the British people who advocate staying in the EU are calling for a second referendum on the issue. It is still difficult to predict whether the British parliament will pass the draft agreement and subsequently lead to a substantial hard-landing of the Brexit.

Forging Ahead among Difficulties

Faced with such a series of internal and external concerns, the EU and its member states are still making unremitting efforts to forge ahead on the road of integration.

First, on the EU level: Politically, the bloc adheres to integration and strongly responds to various challenges from populist parties and governments in areas such as refugees and budgets. Economically, the euro zone rescue mechanism was strengthened and the European Stability Mechanism (ESM) was given green light to provide loan support for the single clearing mechanism of the banking sector. It proposed plans to facilitate the use and settlement of the euro in strategic areas such as energy and commodities, thus boosting the role of the euro and weakening that of the US dollar. On the defense front, following the signing of the agreement on "Permanent Structured Cooperation" in the military field last year, the nine EU countries inked the "European Intervention Initiative" in June this year, pledging to form a joint European intervention military force. In terms of global governance, the EU has made clear its opposition to trade protectionism, adhered to multilateralism and free trade, and has put forward a WTO reform plan under the rules-based and multilateral framework. At the same time, the EU has actively promoted negotiations on free trade agreements and has made significant progress. It struck a deal with Japan on the landmark EU-Japan Economic Partnership Agreement. It also unveiled a Euro-Asian connectivity strategy which is dubbed the European version of the Belt and Road Initiative. It also pointed out that it needed to work with China to achieve

this goal. The EU has also withstood pressure from the US and insisted on abiding by the Iran nuclear deal.

Second, on the level of member states: The French government under Macron's presidency has rolled out a string of ambitious plans to push forward EU reform and promote integration. Moves include the establishment of the common budget mechanism, the creation of the role of EU's finance minister, the European monetary fund, and the strengthening of a common defense system and the France-Germany axis. These efforts have received cautious echoes from German chancellor Merkel and a number of deals (albeit being scaled-down versions) were reached.

Third, the confidence in EU integration bounced back thanks to a slew of factors, including the slow yet continued recovery of the economy, provocations from old-day ally-the United States, mounting competition pressure from China and other emerging economies and the turbulent situation of the UK due to its Brexit decision as a negative example. These have also prevented populist parties from instigating the 'EU disintegration' sentiment and led to resurging confidence among EU residents. A barometer tracking EU confidence showed that confidence level in the EU has risen by one percentage point since the autumn of 2017 to 42 percent. The level of optimism on EU's prospects, meanwhile, has reached 58 percent, the highest reading since the spring of 2015. At present, European people and all kinds of forces are looking forward to, and competing for, the next year's elections across EU's institutions, hoping to seek changes in confusion.

7. China-Japan relations: Turnaround and Progress with Twists

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In 2018, China-Japan relations went into the second major adjustment period after the Cold War.

The end of the Cold War coincided with the collapse of Japan's economic bubble and the disintegration of the 1955 System. Japan then stepped into a "lost decade" or even two decades, while China's growth entered a fast lane. One side was on a downward trend, while the other side expanded rapidly. The huge gap and growth prospects posed a historic challenge to the relatively stable post-war China-Japan relations. It was a pity that Japanese elite, represented by the former Prime Minister Junichiro Koizumi, chose the basic strategy to ally with the United States to counterbalance China. It was clearly manifested by his six visits to the Yasukuni Shrine during the five-year term. This was a phenomenon that had not existed in the history of post-war China-Japan relations, marking that the relations entered the first major adjustment period after the Cold War. In the meantime, China's GDP surpassed Japan in 2010 and the gap quickly widened. With the shift in overall national strength, in the period not reigned by the conservative Liberal Democratic Party, the conflicts over Sino-Japanese territorial and maritime rights and interests, represented by "Japan's purchase of disputed isles," intensified, national sentiment plummeted, and relations between the two nations fell to the lowest since the war ended. After Prime Minister Shinzo Abe took office again in 2012, he further tried to counterbalance China through "Diplomacy of Panoramic Views" and lifting the ban on collective self-defense. In particular, the so-called "values diplomacy" under his conservative political philosophy has intensified the tensions between China and Japan in the political and security fields, while, with regard to ideology and values, it further expanded the gap between the two nations.

However, things have inherent reasons, and will develop in the opposite direction when they become extreme. Since last year, Prime Minister Abe has clearly begun to adjust China-Japanese relations in various ways. China, which always pursues good-neighborly relationship with Japan, has responded positively to it. With joint efforts of both sides, in May 2018, Chinese Premier Li Keqiang leveraged the opportunity to attend the China-Japan-ROK summit to make his first official visit to Japan in eight years as the Chinese premier. The visit resulted in a series of achievements, such as boosting ties between the two governments and various private

entities, expanding economic and trade relations, and launching the China-Japan maritime and air liaison mechanism. Premier Li also visited Hokkaido and hoped to further promote cooperation between the two countries at local levels. On this basis, in October 2018, Prime Minister Abe officially visited China. The two countries formally confirmed that China-Japan relations have returned to normal track. Prime Minister Abe stressed that Japan-China relations have moved from competition to coordination. It marked that Sino-Japan relations ushered in a second major adjustment period after the Cold War.

Evaluation of the Results of Prime Minister Abe's Visit to China

First of all, through this visit, the two sides have reached a lot of consensus on enhancing political mutual trust. They were mainly manifested in the following aspects. Firstly, both sides reconfirmed the four political documents as the political basis of China-Japan relations, especially the legally binding China-Japan Treaty of Peace and Friendship. Secondly, both sides reaffirmed and emphasized the political consensus that they “are each other’s cooperative partner, and not threats to each other.” This consensus had important values in both practical and conceptual levels for the China-Japan relations. That is to say, “not threats to each other” is actually a conceptual issue first. On the one hand, although the philosophy that “a great power will surely seek hegemony” does not apply to China that upholds the philosophy of peaceful development, many people in Japan still buy in the “China threat theory.” On the other hand, China is still full of doubts about Japan’s various initiatives to boost its military alliance with the US in recent years. Therefore, it is self-evident that the political consensus on “not threats to each other” is a prerequisite for enhancing political mutual trust. Being “each other’s cooperative partner,” in a narrow sense, mainly refers to cooperation in the economic and trade field and avoid vicious competition. In a broad sense, it should refer to regarding each other as a partner in all areas where they can cooperate. This political consensus is undoubtedly the starting point and platform for enhancing political mutual trust between the two nations. Thirdly, Prime Minister Abe’s official visit to China, with the emphasis on “from competition to co-existence, Japan and China bilateral relations have entered a new phase,” officially expressed his willingness to shift the government strategy of counterbalancing China to coordinating with China. If this is the case, it will provide a basic premise for rebuilding political mutual trust between China and Japan. Fourthly, the two sides reached an important consensus on how to build political mutual trust in sensitive areas with corresponding measures. For example, both sides agreed to launch a hotline as soon as possible under the China-Japan maritime and air liaison

mechanism, a mutual notification mechanism aimed at avoiding occasional conflicts between the Japanese Self-Defense Force and Chinese military forces. The two sides also signed China-Japan Maritime Search and Rescue Agreement (SAR).

Second, China and Japan have achieved important consensus and major achievements in key philosophies and new platforms in terms of economic and trade cooperation. In Prime Minister Abe's meetings with President Xi Jinping and Premier Li Keqiang, the two sides agreed that under the current international scenario, as the world's second- and third-largest economies, China and Japan have the responsibility and obligation to adhere to the principle of free trade and oppose unilateralism. Meanwhile, both sides confirmed that beyond further strengthening traditional economic and trade cooperation, the "third-party market cooperation" is also a new platform and experimental field. The first China-Japan Forum on Third-party Market Cooperation, which was held during Prime Minister Abe's visit, lured 500-plus representatives from Japanese business circles and 1,000-plus Chinese representatives, and 52 "third-party market cooperation" agreements worth over US\$18 billion were signed. Both sides also signed over 10 intergovernmental cooperation agreements. In order to cater to the fourth industrial revolution, the two sides confirmed and emphasized the "innovation dialogue mechanism" to further promote cooperation in the high-tech field, making it a vital platform for upgrading cooperation between the two nations in the future. The two sides also signed an upgraded currency swap agreement valued at 200 billion yuan (about US\$30 billion), 10 times that of the 2002 version. It is the largest of its kind signed by Japan with foreign countries so far.

Third, apart from government-level interaction, civil society exchanges were also boosted to improve the feelings of the people. Amity between people holds the key to the sound relations between states. Only with a solid foundation of public opinions can China-Japan relations develop in a healthy and stable manner. Especially in the information age, people in the two nations are highly engaged in the bilateral relations. In his talks with Prime Minister Abe, President Xi emphasized that "it is necessary to carry out extensive humanities exchanges, enhance mutual understanding, and encourage people from all walks of life, especially the younger generation, to actively participate in the construction of Sino-Japanese friendship." In his speech delivered at the first China-Japan Forum on Third-party Market Cooperation, Prime Minister Abe particularly emphasized the long history of cultural exchanges between the two nations with an aim to illustrate the existence of a profound cultural gene between China and Japan. The two governments jointly decided to make the year 2019 "China-Japan Youth Exchange Promotion Year," and Prime Minister Abe also made a

special visit to Peking University to interact with students. This visit will surely become a booster for promoting and deepening exchanges between the two countries.

Reasons and Prospects for Major Adjustments in China-Japan Relations

First, there is a huge gap between the inefficiency of counterbalancing and the price paid. Since the Koizumi era, especially in the first five years under the Abe administration, it has proved that Japan's basic strategy of leveraging the US to counterbalance China was ineffective and in vain. China's political stability, economic prosperity, and international prestige have risen, and GDP is already 2.5 times that of Japan.

Second, what the Trump administration did has deepened and intensified the inherent contradictions in the deformed relations between Japan and the US. In terms of bilateral trade agreement, the US has suppressed Japan based on its own preferences, which has hurt Japan's real interests. What makes it even worse is that Japan is a resource-poor island country with trade playing a key role in supporting its survival. The Trump administration's philosophy and measures on trade protectionism have fundamentally damaged Japan's strategic interests and even brought a sense of survival crisis, which is unacceptable to Japan. Meanwhile, with regard to the US-Japan military alliance, the US continuously raised the prices for Japan, which becomes doubtful about the reliability of the US. In response to the major changes in the US, Japan is altering its previous policy that relied too much on the US while adjusting the relations with China in a timely manner. It just shows the two sides of a coin.

Third, for any Japanese politician, long-term, constant tensions with close neighbor China is something unbearable. In early post-war days, Shigeru Yoshida was an exception, while Eisaku Sato, Abe's granduncle, was hostile to the New China when he was in power. However, in 1972, China-Japan relations were normalized. Sato, who had long hindered this normalization process, ended his political career in a miserable situation, making it a failure in his life. The aforementioned Junichiro Koizumi's six visits to the Yasukuni Shrine had a huge impact on China-Japan relations. Even almost all the former prime ministers in Japan have jointly accused him for this irresponsible behavior. As of last year, Abe had been in power for over five years. His de facto failure in the strategy for China has put him under increasing pressure at home. His timely adjustment has just proved a typical proposition of geopolitics in East Asia.

Under the above-mentioned scenario, the adjustment was still at a low level, which means “returning to normal track” from the bottom. The old structural conflicts, including historical issues between China and Japan, have not been truly resolved. The more straightforward issues and challenges lie in the new structural contradictions in maritime issues, especially maritime access. Therefore, we’ve seen that, in recent years, Japan has deliberately lifted the ban on collective self-defense, promoted the revision of the peace constitution, and was keen on the “2+2” model. Meanwhile, it has increased its military spending, relaxed the Three Principles on Arms Exports, purchased new weapons, and unveiled an “aircraft carrier in disguise.” The aim to get it prepared on the legislation and military aspects for offshore and maritime military objectives under the premise of not relying on the US. Due to the natural needs of its own development, China has expanded its maritime forces over recent years. The systemic effects of geopolitics have led to a “security dilemma” between the two nations. It is a difficult and intractable factor that has to be addressed for smooth development of China-Japan relations in the future.

Therefore, in order to make China-Japan relations stable and far-reaching, a top-level positioning is needed in the context of the new era. Prime Minister Abe’s official visit to China in 2018, to some extent, creates the condition for President Xi Jinping’s official visit to Japan at the G20 Osaka summit in 2019. If it can be realized, the two sides can discuss relevant concepts and directions of China-Japan relations in the new era. When time is ripe, both sides can further standardize, institutionalize and even legislate them to deepen the political mutual trust between the two nations. Second, the two sides must boost military exchanges, maximize the understanding of each other’s strategic intentions, reduce misjudgments, and ease security dilemmas.

The year 2018 was an important year in the history of post-war China-Japan relations. From the conceptual perspective, the most important thing was the first official visit of Japanese Prime Minister to China in seven years. To a certain extent, this visit marked transformation in Japanese top leaders’ cognition of China and was a landmark beginning for Japan to rationally respond to China’s peaceful development. As former Japanese Prime Minister Yasuo Fukuda said, the improvement of China-Japan relations is not a matter of expediency.

On the other hand, although the China-Japan relations have turned around, they may have to experience difficult twists and turns in order to reach a stable and far-reaching path. In this regard, China needs to have a clear understanding and a higher degree of

political wisdom.

8. India: From ‘Pulling Chestnuts out of the Fire’ to ‘Balancing for Survival’

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In 2018, India’s economic, political and diplomatic landscapes remained generally good, but uncertainties escalated. Although economic growth was fast, new uncertainties emerged. The political scenario was basically stable, but due to the BharatiyaJanataParty (BJP)’s loss in the five-state assembly election in the end of 2018, uncertainty around the general election in 2019 has been rising. India continued to boost its ties with major powers, but amid rising uncertainties from the “America First” policy, India’s room to seek benefits has been greatly squeezed. Under this circumstance, India’s foreign policy has been tactically adjusted, and it has rediscovered the value of balanced diplomacy.

India’s Internal Political and Economic Uncertainties Escalate

In 2018, India’s economy generally performed well. Thanks to growth in private consumption and investment, the Indian economy grew by more than 7% in 2018, the best performer among major economies, with its economic aggregate ranked the sixth (nominal exchange rate) and third (purchasing power parity) respectively in the world. However, India also faced some economic uncertainties, including oil price volatility, trade protectionism and declining fiscal revenue, which will affect India’s economic growth in the future. The basic scenario that India’s economy “has growth but no development” has not fundamentally changed, while the situation of “economic growth without full employment” still exists. The Modi government was trapped in internal politics and religion issues, making it hard to take further steps on lots of economic reform issues. The international community had a less positive view on the Indian economy.

India’s social conflicts were on the rise. Over the past few years, India’s economic reform measures, including demonetisation and goods and services tax (GST) reform, have been deemed as necessary and beneficial in the long run, but, in the short term, they hurt the interests of farmers and smaller merchants who were highly dependent on cash and informal economic activities. In addition, Hindu nationalism has been on the rise, with escalating religious contradictions and conflicts. Many people found that

the local governments led by the BJP seemed to care only about religious interests and were not really interested in promoting people's livelihood and development.

India's political uncertainty has been rising. Over more than four years since Prime Minister Modi came to power, domestic reform measures have resulted in both gains and losses. In the last general election, Modi's key supporters were intellectual elites and urban residents, who now oppose Modi's policies over religious issues. The BJP was under pressure in local state elections. In the five-state election that ended in early December, the BJP lost in three states, two of which were where the party had been re-elected three times. The loss in the strongholds led to an increasing uncertainty around India's general election in 2019. On the one hand, it would worsen internal contradictions within the BJP, with rising dissatisfaction with Prime Minister Modi. On the other hand, the opposition party would be more confident and unite in a more forceful manner against the BJP. It's still very likely that the BJP will win the next general election, but it is no longer "invincible."

India's Relations with Major Powers Face Pressure for Adjustment

The India-US defense relationship continued to strengthen. In December 2017, the US published the National Security Strategy Report, which depicted India as the "Major Defense Partner" of the US. On August 3, 2018, the US upgraded India to the Strategic Trade Authorization (STA-1) category of trading partners. India has thus become one of the only three countries (other two are Japan and South Korea) in Asia to obtain this status. On September 6, 2018, India and the US held the "2+2" dialogue between their foreign and defense ministers. The two sides discussed cooperation under the Indo-Pacific Strategy and exchanged views on military procurement, technology transfer, trade, and immigration. The two countries also signed the "Communication Compatibility and Security Agreement" (COMCASA). At present, the US and India are also negotiating the signing of the "Basic Exchange and Cooperation Agreement" (BEC). All of these have greatly enhanced the defense relationship between India and the US.

The India-US strategic partnership was under pressure. While India-US relations continued to strengthen, they also faced some new challenges and pressure. Under the Obama administration, based on its long-term strategic needs, the US treated India as a strategic partner of equal status, while taking India's feelings and interests into consideration on many issues. However, since Donald Trump took office, under the "America First" policy, the US shifted its positioning of India from a strategic partner

to a strategic player. The US didn't consider India's interests on many issues, and only required India's obedience and cooperation. Especially on the Iranian nuclear issue and related oil export sanctions, the US ignored India's core interests, which hurt the Indian Rupee's exchange rate and India's economic growth rate.

India faced pressure in designing its policy towards the US. India originally took a vague stance towards the US Indo-Pacific Strategy, but was actively engaged with an aim to use the signal that India would eventually move completely onto the US strategic track in exchange for technology, economic and strategic support from the US. But India ultimately found that although it had closer ties with the US in military and intelligence aspects, the US was not concerned about India's core interests, like its economic growth. The US was unwilling to transfer civilian technologies to India, and even hindered India's cooperation with Israel and other countries.

The strategic differences between India and the US have been highlighted. As for the scope and objectives under the Indo-Pacific Strategy, India and the US had similarities, which were to balance strategic pressure from China. Both they also had differences. The US hoped to leverage India's anti-China sentiment to consolidate its own hegemony. To this purpose, the US has mapped the west end of the Indo-Pacific region at the west coast of India. India, on the other hand, hoped to take advantage of the US support to seek a dominant or even hegemonic position in South Asia and the Indian Ocean. Therefore, India has defined the Indo-Pacific to include the east coast of Africa, with an aim to leverage the power of the US to strengthen India's influence in the Middle East and Africa. Recently, the US declared that it would resume its alliance with Pakistan, which in turn made India feel hurt and betrayed.

India's relationships with China and Russia faced new challenges. China's tough stance towards India on the illegal intrusion of the Donglang area has profoundly changed India's perception of China. India has seen the risks of deteriorating Sino-Indian relations, and redefined its policy between China and the US by setting a bottom line that it mustn't challenge China's core interests. It's because that China's strategic counterattack was certain, but strategic support from the US was uncertain. Russia has also issued a strategic warning to India via developing its relationship with Pakistan.

Therefore, although, in the long run, it's inevitable that India will move closer to the US. But, in the short term, if India rushes to stand on the same line with the US, it won't bring any expected benefits, while also increasing strategic risks. India's

diplomacy is under tremendous pressure for strategic adjustments.

From ‘Pulling Chestnuts Out of the Fire’ to ‘Balancing for Survival’

In increasingly tense relationships between major powers, India originally attempted to take the role as a strategic balancer in order to “pull chestnuts out of the fire.” But in 2018, India became obviously disappointed and gradually developed towards “balancing for survival.”

Previously, India had wished to take advantage of the tensions between major powers. On the one hand, India wanted to leverage itself to balance China’s strategic value in a bid to seek greater real interests from the US. On the other hand, India hoped to make use of China and Russia’s worry that India might fully side with the US to force these two countries to make greater concessions to India. In order to demonstrate its strategic importance, India ran the risk of armed conflicts with China by illegally intruding into China’s Donglang area in 2017. It was aimed at protecting India’s strategically weak area, while showing to the US that India had the power and determination to confront China. On the military side, India has indeed partially achieved its goals. Whether it was the US Indo-Pacific Strategy or Japan’s improved military ties with India, it showed India’s increasing strategic importance. But from an economic and diplomatic perspective, India has not fully achieved its goals. The US didn’t care about India’s economic growth needs, nor did it care about India’s core interests: Although the US was willing to share some military technologies with India, it is unwilling to share key civilian technologies to aid India’s economic development. The US emphasized the America First policy, with its work-visa policy harming the interests of Indian expatriates in the US. The US ignored the importance of Iranian oil on India’s economy, and tackled the issue even at the expense of India’s economic growth and financial stability. The US ignored India’s normal security interests, especially its traditional military ties with Russia, by requiring India to part with Russia. The US was only willing to leverage India to contain China, but it didn’t pay attention to the strategic risks that India may face.

In addition, the unconventional diplomatic style of US President Donald Trump has also made India feel very uncomfortable, resulting in a decline in India’s strategic trust in the US with eased enthusiasm in developing diplomatic ties with the US. Under such a scenario, India was not willing to continue to deepen its strategic relationship with the US. Dealing with the Trump administration and waiting for the next US President would become a more sensible diplomatic option for India.

“Balancing for survival” becomes a new strategy for India. Under the strategic pressure of rising US uncertainty, as well as China and Russia, India has started to make strategic adjustments since the end of 2017 and shifted to a traditional balanced multilateral strategy.

Firstly, India has publicly expressed its strategic differences with the US. In June 2018, Prime Minister Modi stated at the Shangri-La Dialogue in Singapore that India’s vision about the Indo-Pacific region was positive, it didn’t target any country, and it would be inclusively in contact with regional countries. Modi pointed out that Indo-Pacific was not a strategic concept, but a regional concept, which should “include all countries in the region in the geographical sense,” as well as other countries that have interests in the region. This was in sharp contrast to the US attempt to leverage the Indo-Pacific Strategy to separate the region into the confrontational maritime group and land group.

Secondly, India has been striving to restore and ease its relationships with Russia and China. On the one hand, India was trying to ease its relations with China. In April 2018, Modi made a special trip to Wuhan to hold the first-ever informal summit with Chinese President Xi Jinping in the history of Sino-Indian relations. The leaders of the two countries vowed to stabilize Sino-Indian relations that were aggravated by the Donglang intrusion incident. India thus reduced the strategic pressure from China. On the other hand, India was striving to restore and consolidate its traditional ties with Russia. Under the strategic pressure of the US, India once moved away from Russia. But now, in order to balance US pressure and boost its bargain power, India took actions to restore its traditional relationship with Russia, especially the military relations. To this end, India didn’t hesitate to run the risks of US sanctions by purchasing S400 anti-aircraft missiles from Russia.

Thirdly, India has stepped up efforts to develop relationships with Western countries beyond the US. In recent years, India has strengthened its cooperative relationship with Japan to offset the strategic uncertainty from the US. In 2018, India and Japan reached a military base sharing agreement, under which Japan would allow the Indian Navy access to a Japanese base in Djibouti, while India would permit the Japan Maritime Self Defense Force to use India’s military facilities on the Andaman and Nicobar Islands. The military cooperation between India and Japan is not only aimed to balance China’s strategic influence, but also to reduce military dependence on the US.

In the international scenario featuring chaos and great changes, India has adjusted its foreign relations strategy by rediscovering the importance of balanced diplomacy among major powers. However, this does not change India's economic and strategic dependence on the US, nor will it prevent India from moving closer towards the US. India's basic strategy of leveraging the US to contain China and seeking balance among major powers will not change.

9. The Korean Peninsula: New Situations and New opportunities

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The year 2018 marked a turning point for the Korean Peninsula, with all related parties including North Korea, South Korea, the United States and China pulling in concerted efforts to push forward changes on the peninsula.

The Core Driving Force of the Turnaround in the Korean Peninsula

First, the Democratic People's Republic of Korea (DPRK) is the most critical driving force for the recent turnaround on the Korean peninsula and the most significant "engine" for the transformation of the situation. After the completion of its nuclear force construction, Pyongyang has addressed some of its security concerns and therefore has the guts to negotiate with Washington. In addition, to ensure internal economic development and stability as well as avoid devastating consequences aroused by military actions, the DPRK was determined to shift from the duo track of "developing both nuclear weapons and economic development" to a new course focusing on "comprehensive economic development and the complete denuclearization of the Korean Peninsula".

Second, the guiding role of the Republic of Korea (ROK) acts as another driving force. South Korean President Moon Jae-in adheres to the policy of reconciliation with the DPRK, opposes war and refutes the core positions held by the previous conservative administrations to overthrow the DPRK regime. Such empathy has won Seoul the opportunity to cooperate with Pyongyang. The Moon Jae-in-led government seeks to change the passive situation and play a leading role. Not allowing an inter-Korean war to happen, the Moon administration established a high-level communication channel between the two countries with the aid of intelligence agencies and tried to arouse the nationalistic sentiments of the DPRK. Fully aware of the strategic confrontation between China and the US, as well as the US and Russia, South Korea played a guiding and active role in coordinating relations between DPRK and the US, China, Japan and Russia, by maximizing common interests and avoiding potential conflicts. With "cooperation" and "peace" being the most powerful bargaining chips to persuade major powers, ROK has to a certain extent altered the altered pattern of the peninsula where major powers tend to dominate smaller countries.

Third, the strategic shift of the US has played a guiding role. The US has long been

the 'ceiling' of the Korean Peninsula issue. Trump was in dire need of leveraging any progress made on the peninsula to gain political capital, which could help offset impacts and divert focus away from incidents like 'Russia's interference in the US 2016 presidential election' and sex scandals, as well as pave the way for the midterm election. Out of these considerations, Trump has subversively changed policies towards the North Korea through an 'atypical' approach, by appointing hardliners like Mike Pompeo and John Bolton to lead substantial negotiations with the DPRK. These efforts have finally led to the ground-breaking summit between DPRK and US' top leaders, which successfully helped the US get deeply involved in and transform the situation of the Korean peninsula.

Fourth, China's role as a "stabilizer" is an important driving force. China's influence, interests and role on the Korean peninsula cannot be ignored. While endorsing and participating in sanctions against the DPRK for its behavior of challenging and ignoring international rules, China has also put forward actionable solutions, known as the "dual suspension" and the "dual track " plans, to address DPRK's normal and reasonable security concerns and ensure people's livelihood. When mistrust surfaced in the process of deepened interaction, China encouraged all parties to keep the momentum of reconciliation through efforts like inviting Kim Jong-un to visit China and help deliver messages in many international occasions. China's role as a source of power and stabilizer has fostered more implementable and clearer results during the DPRK-ROK Summit that are worth anticipating. Beijing has played a unique role in guiding all parties closer to the substantial resolution of the Korean peninsula.

Frequent Interactions among All Related Parties

As the situation on the Korean peninsula continued to evolve, interactions among all parties have also taken on a new look, which are shaping up to be the accelerator for the further warming of the peninsula. Four core players, namely China, the US, North Korea and South Korea, have respectively made a series of policy adjustments, via frequent interactions like shuttle diplomacy and leadership communication. These contributed to the shift on the peninsula from the crisis of war to benign interaction.

First, China-DKRRK relations have walked out of the nadir and moved towards a virtuous circle. The easing of the DPRK's stance on denuclearization has removed the biggest obstacle since 2014 in bilateral ties. After his informal visit to China from March 25 to 28, 2018, Kim Jong-un paid another two visits to China and met with President Xi Jinping. The pair reached a number of consensus and broke the ice in the

diplomatic relations that were embroiled in a stalemate. Subsequently, Chinese Foreign Minister Wang Yi paid a visit to Pyongyang in early May of 2018 at the invitation of DPRK Foreign Minister Ri Yong-ho. This, together with the visit of a Party and government delegation led by DPRK's vice-chairman of the State Affairs Commission to China, has quickened the interaction pace between the two countries.

Second, inter-Korean relations have undergone a sharp reversal, from one featuring cold confrontation to warm interaction. The government of Moon Jae-in, who took office in May 2017, has to a certain extent inherited the policy legacies of predecessors like the Kim Dae-jung and Roh Moo-hyun administrations towards the DPRK. This serves as the political foundation for the turnaround of inter-Korean relations and helped resumed the long-stalled secret contacts between the two nations. In his 2018 New Year message, Kim Jong-un, chairman of the State Affairs Commission of the DPRK, announced the completion of the building of the country's nuclear power. In an unconventional manner, he also dispatched nominal head of state, Kim Yong-nam, as well as Kim Jong-un's younger sister Kim Yeo-jong as special envoys for a sudden visit to the ROK during the Pyeongchang Winter Olympics.

The two Koreas have since kicked off positive interactions, reaching the basic consensus on denuclearization and agreeing to hold inter-Korean summit talks. Three such talks finally materialized. On the practical level, DPRK and ROK have successfully achieved the withdrawal of military forces from the DMZ, conducted joint excavation of Korean war relics and examination work on railways, as well as carried out fruitful cultural and sports exchanges. Both sides have constantly deepened political understanding towards each other.

Third, the DPRK-US relations first experienced an ebb and then made a rebound, moving from confrontation to contact. In 2017, North Korea forcibly broke the threshold of nuclear missile, forming a deterrence against the US. Responding with 'gunfire' and 'anger', Washington urged other countries to take sides and deployed troops for effective preemptive strikes in a bid to deter Pyongyang. The US also pushed forward multiple resolutions regarding North Korea at the UN level to impose 'the toughest sanctions'. A number of nations, including South Korea, the US, Japan and many European countries have also imposed separate diplomatic, economic and military sanctions against the DPRK.

Following the restoration of inter-Korean interactions and shuttle diplomacy, ROK played a mediation role between DPRK and the US. President Trump made the

decision to hold the US-DPRK summit despite widespread opposition. Interactions among the three parties have reversed the risk of war on the Korean peninsula. The quasi-official trilateral communications among ROK, DPRK and the US have shifted to intergovernmental contacts, forming a top-down model featuring interactions among “head of state, head of highest organ of state power, and head of the intelligence department”. Such model allows for state leaders, highest-level decision-makers and practitioners of the three countries to reach multiple consensus through a fast-track communication channel.

Fourth, in order to stabilize the hard-won appeasement on the Korean peninsula, the government of Moon Jae-in has made adjustments in national defense, diplomacy and issues concerning the DPRK. In terms of defense policy, the US-ROK alliance is the top priority of the Moon administration, which also remains to be the policy ceiling that South Korea cannot afford to break through. Through the "2+2" talks between the defense minister and the foreign minister, Moon Jae-in's government met Trump's request to renegotiate issues such as the transfer of wartime operational command and the cost-sharing of US forces in South Korea. It also accommodated and pleased Trump by agreeing to make concessions on issues like the Indo-Pacific strategy, the deployment of THAAD in ROK, and the bilateral FTA negotiations. In terms of attitude towards the DPRK, the ROK army revised its operational policy and discarded the tone of regarding the DPRK as the "main enemy". In response to the declaration of Panmunjom and the Pyongyang Declaration, the two armies pulled out militants, permanently blew up multiple guard posts, initiated cooperation on the evacuation of Korean war relics, and hosted multiple rounds of military meetings to restore military mutual trust. The genuine "end to the war" has been realized in some areas, which revolutionarily eased the military confrontation within the Korean peninsula.

The Unique Role of ROK

In a bid to stabilize the situation of the Korean peninsula, the Moon Jae-in government has played a unique role in fostering innovative communication methods and promoting international cooperation.

First, the Moon administration has actively grasped opportunities. In terms of the stability of the situation on the Korean peninsula, the Moon Jae-in government has seized the window of opportunity of the Pyeongchang Winter Olympics to effectively connect China and the US, the two most influential powers to the Korean peninsula

through top-down shuttle diplomacy, and established a diplomatic network featuring summit diplomacy. On the basis of stabilizing the relations between China and the US, bilateral top-leader meetings were held between China and DPRK, DPRK and ROK, and DPRK and the US, which greatly eased the tension on the peninsula. Meanwhile, in order to avoid concerns from China and the US over the potential changes on the peninsula, South Korea has established a high-level communications channel with both countries, and emphasized the continuity and consistency of the US-ROK alliance without elaborating too much on the status of the US Forces Korea. It constantly catered to US's positions on the "End of War Declaration" and the "Peace Treaty" in a bid to stabilize ROK-US relations.

Second, the Moon government pursued pragmatic results. The administration believes that the key to peace on the Korean peninsula lies in the denuclearization process of the DPRK, and complete denuclearization of the DPRK is not beyond reach if the international community pulls in concerted efforts. However, the denuclearization of the DPRK is not simply an inter-Korean matter. China, the US, Japan, Russia and the entire international community are all parties concerned. "Nuclear weapons are the means to ensure the survival of the regime of North Korea", and the denuclearization of DPRK inevitably carries corresponding price. It is only the international community that stands in a good position to provide security guarantee to the DPRK, and it is only through the strengthened ROK-US alliance and the deepened cooperation with related and neighboring countries like the US, Japan, China and Russia, can such execution and persuasion be ensured.

Third, the Moon administration adopts different approaches towards different major powers. To stabilize the hard-won situation on the Korean peninsula, the Moon administration attaches great importance to major country diplomacy with the likes of China, the US, which, meanwhile, also places ROK in an awkward and helpless situation. South Korea cannot fundamentally change its relationship with the US and can only demonstrate diplomatic skills at the mercy of the US. Therefore, ROK dares not cross the policy 'redline' of the US on fundamental issues concerning the peace of the Korean peninsula, including joint military exercises. The only path it can take is to try to persuade Trump and has to resort to, tolerate and comply by Washington's decisions. As for China, the Moon administration has adopted a strategy of seeking communications, help and 'understanding' to avoid the complex Sino-US relationship to affect the situation of the Korean peninsula. It has therefore acted in a quite capricious manner on determining the participants involved in the "End of War Declaration" and "Peace Treaty".

Fourth, the DPRK and the ROK are attempting to jointly dominate the situation on the peninsula. Mr. Moon has brought out the best he can in North-South relations. The ROK believes that the two parties directly related to the peninsula should consolidate mutual trust. Since taking office, Moon Jae-in and his administration have held talks with the DPRK on the resumption of the Kaesong Industrial Complex, the Pyeongchang Winter Olympic Games, and sports-related dialogue, etc., all of which are conducive to the accumulation of trust. As a result, three summit meetings were held and the Sept 19- military agreement was reached, which forcibly promoted the "end of war" on certain parts of the Korean peninsula. The Korean government has also created a new communications model featuring "top leader + intelligence agencies", jumpstarting a trilateral top-tier official communications channel comprised of ROK's Cheong Wa Dae's (Blue House) security department + National Intelligence Service, DPRK's Kim Yeo-jong + The Secretariat + The Unification department, as well as US' Mike Pompeo + CIA Korea Mission Team. Shuttle diplomacy has helped build a bridge between DPRK and the US.

For the first time, instead of being subject to big countries, the two Koreas have attempted to cooperate or coordinate with each other on the Korean peninsula issue amid competitions of major powers. But constrained by ROK's relationship with the US, such cooperation has its limitations. The inter-Korea communication is unlikely to touch upon military issues where ROK and US has deep collaboration. Trust-building is primarily achieved through political, economic and cultural cooperation, such as making tangible breakthroughs on culture, sports and the reunion of separated families. In the realm of high politics, ROK-DPRK relations on military and diplomacy are largely constrained by the ROK-US alliance and sanctions imposed by the UN security council.

New Uncertainties of the Korean Peninsula

The operational work to address the nuclear issue on the Korean peninsula has entered a substantial stage. But at the same time the situation on the peninsula also faces huge uncertainty. However, it is the accumulation of these uncertainties that has promoted the turn-around and progress of the Korean peninsula issue.

First, the prospects and continuity of denuclearization. For the time being, the DPRK is willing to exchange its nuclear disarmament process for development opportunities, and the peninsula faces the "Kim Jong-un opportunities". The most important factor

determining the direction of the Korean peninsula is how to turn Kim's idea of "nuclear disarmament in exchange for development and development for security" into reality. Although competition between China and the US and other major powers will affect the direction of the Korean peninsula, Beijing and Washington are largely in the same position on the denuclearization of the Korean peninsula, which ensures its stable momentum.

Second, the changing personal traits of leaders in the US, DPRK and ROK have all resulted in a severe deviation between domestic politics and diplomacy. In fact, the countries' leaderships respectively face far more domestic opposition than support, but they insisted on moving forward their diplomatic endeavors. The presidents of both US and ROK even ignored opposition from their congresses and other government departments, insisted on the idea of meeting with DPRK leaders and spared no efforts to make it happen. The three countries' presidents all happened to have atypical leadership profiles. For both the US and ROK, to ensure the Party to remain in the ruling seat or the reelection of its leaders also raised high expectations for the North Korea nuclear issue to be solved. While DPRK is discontent with Trump, it has to acknowledge the fact that Trump is more willing to make deals with DPRK than anyone else.

Third, the new normal of logic on the Korean peninsula has emerged. Traditional ideas and solutions are not suitable for handling the current situation, with traditional perspectives like geopolitics and major power politics becoming partially invalid. The six-party talks have been abandoned, whereas unconventional means, such as multiple rounds of summit meetings, direct engagement between the DPRK and the US, flexible dialogue mechanisms and the use of "extreme" means are playing more eminent roles. The traditional way of maintaining working-level contact and making strategic judgement from higher-end was overturned, while the 'top-down' approach has helped clear many obstacles on working level thanks to the direct participation of the highest-decision makers. Instead of dealing with the nuclear, missile and human rights issue in a concerted fashion, Trump tended to deal with one issue at a time.

Judging from the entire 2018, there are still many difficulties in the denuclearization of the Korean peninsula. First, over-reliance on the "top-down" approach. While such an approach has indeed played an essential role in solving fundamental problems, it has encountered difficulties and bottlenecks in addressing details. Second, the parties have focused too much on the differences in the concept of denuclearization but ignored the common ground. Relevant concepts centered too much on the DPRK's

efforts on denuclearization, while obligations of the US and the needs of DPRK were not fully taken into account. Third, too much attention is paid to efforts made by the US and DPRK, relatively ignoring the roles of other concerned parties like ROK and China. Neglecting the importance of flexibility and substantial progress, this has led to a deadlock where Pyongyang gauged Washington's changing attitude as a prerequisite to embark on denuclearization, whereas Washington evaluated Pyongyang's denuclearization actions as a premise for changing its stance towards Pyongyang.

Of course, from the measures taken by all parties at the end of 2018, it's clear that all concerned players still cherish the hard-won opportunity of denuclearization and the window of opportunity for negotiations, and are willing to loose hold of their bargaining chips. In the foreseeable future, the denuclearization process on the Korean peninsula will step into the "deep water" zone, and there will be perceived difficulties in making progresses in achieving tasks and goals.

10. DPRK: Towards a 'New Concerted' Path

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The transformational changes on the Korean peninsula in 2018 is of course the result of concerted efforts and interactions among the two Koreans, the United States and China. But the most important driving force changing the peninsula's situation still originates from the transformation of North Korea itself, especially due to changes from its top leader Kim Jong-un.

Major Internal Changes

Internal factors are the biggest drivers of the changes in North Korea's foreign policy.

To begin with, Kim Jong-un has maintained his firm authority at home and established a top-down decision-making mechanism. First, Kim Jong-un adjusted and straightened out the positioning and mutual relations between the Party, the government and the military, weakening the country's 'militarized impression' and presented "normal" state behavior. Tensions between the military and other senior statesmen were ameliorated, giving green light to the strategy of "avoiding confrontation and developing the economy" on a full scale. Second, DPRK has "completed" the building of nuclear force and can take the initiative in negotiations with the US. Pyongyang believed that its nuclear deterrence against the US is "sufficient, real and effective", and that its 'nuclear status' has become a status quo. Third, DPRK has shifted the development path from a strategy of "nuclear and economic development" to one featuring 'all-out economic development'. Kim Jong-un has long promised to improve people's livelihood, but the country's repeated nuclear and missile tests have led to severe sanctions and it clearly cannot afford another "march of hardship". As early as the May 30 speech in 2014, Kim has pointed out that "all personnel, including those in charge of economic affairs, should have a deep self-reflection on the country's unaddressed difficulties in economic and cultural development as well as people's livelihoods, which could date back to 'the march of hardship' period." The lack of social and economic vitality will not only exhaust the nuclear deterrent and diplomatic leverage it should have, it will also undermine Kim Jong-un's authority. Therefore North Korea has a rigid demand to improve its internal and external environment.

First, the Democratic People's Republic of Korea (DPRK) is the most critical driving force for the recent turnaround on the Korean peninsula and the most significant "engine" for the transformation of the situation. After the completion of its nuclear force construction, Pyongyang has addressed some of its security concerns and therefore has the guts to negotiate with Washington. In addition, to ensure internal economic development and stability as well as avoid devastating consequences aroused by military actions, the DPRK was determined to shift from the duo track of "developing both nuclear weapons and economic development" to a new course focusing on "comprehensive economic development and the complete denuclearization of the Korean Peninsula".

Second, social development has approached a tipping point where economic upgrade has become the only way forward. The germination and diffusion of market economy inside North Korea have led to the segmentations of social classes. There are more than 3.8 million mobile phones, over 600 free markets and a growing number of self-organized marketplaces, as well as hundreds and thousands of migrant workers in North Korea where frequent trade activities take place. The flourishing market factors and the flow of information have changed the daily lives of North Koreans, created several wealthy classes such as the 'money lenders', and even changed residents' views on domestic and foreign politics. The standpoint of "returning to the march of hardship is unthinkable" has become a social consensus, and there is no turning back. According to the basic principle that the economic base determines the superstructure, changes in the economic hierarchy will inevitably be reflected in the political structure.

Third, the new thinking and the old ideas collide fiercely, and the political development faces the bottleneck. North Korea's social environment has presented many new challenges and realities. The younger generation has exhibited a keen sense of new thinking and logic of action, and many of their new proposals are relatively in line with the requirements of the international community. But due to limitations from objective conditions, the majority of the population can hardly accept such new thinking and new path. Especially to those who have received the Korean-style education in the 1970s, they are still in the inertia of traditional thinking. Even if some of the new thoughts are understood, not much can be done to have them fully implemented due to reality constraints. This is also why chairman Kim Jong-un has constantly scolded his subordinates and representatives of certain enterprises and organizations.

Without making breakthroughs in the politics of the previous generations, and notably changing certain practices, there will be no opportunity of transformational development. But the continuation of North Korea's authoritarian system, the lessons of the social upheaval of the former Soviet Union and certain East European countries, together with the bitter realities of Syria and Libya have made Pyongyang highly wary of and concerned about political changes. It is another important task for the DPRK to inject new impetus to social economic development while maintain the regime's legitimacy, by integrating the political traditions with new ideas and making breakthroughs on certain political practices under the circumstances when reform and opening-up cannot be implemented due to sanctions. DPRK has entered into the 'deep water' zone on the many operational levels, where such risks can also spell the biggest opportunities for the country.

Adjustment to the Outside World

The adjustment of North Korea's external perspective is another important driver for its transformation.

First, the risks of war prompted North Korea to change its mindset about confrontation. North Korea's continuous nuclear and missile tests have prodded the US and South Korea to make serious preparations on a potential warfare, and a string of military drills and preparatory actions have greatly deterred North Korea. Pyongyang's intention was to 'leverage a potential war in exchange for peace' rather than 'launch a real war'. The purpose of having nuclear weapons was to ensure its security instead of "losing the entire world". In the face of high risks from the war, Kim Jong-un realized that what used to be obtained by weapons must now be acquired and maintained by developing economic strength. Therefore the pursuit of peace can only resort to peaceful development.

Second, North Korea fears a collapse in its economy. The United Nations Security Council has adopted a number of resolutions concerning sanctions against the DPRK, and that even included many items regarding people's livelihood. The US, South Korea, Japan, Australia and the European Union also exerted a concerted pressure on North Korea, by announcing a slate of separate sanction measures and expelling DPRK institutions and personnel involved in foreign affairs. Under such sanctions and containment, DPRK's 'friends circle' severely shrank, its social and economic activities were seriously hit, and the country's all functions were paralyzed. North Korea's economy is on the verge of collapse.

Third, North Korea has changed its view on South Korea. In the past, the governing idea of South Korea's conservative government was to overthrow the North Korean regime, which naturally led to the free-fall deterioration of inter-Korean relations. Moon Jae-in, on the other hand, has adhered to the policy of reconciliation with the DPRK, opposed war and showed "empathy" for the DPRK. North Korea believes Moon Jae-in has a "sincere desire" for peace and stability on the Korean peninsula.

Fourth, North Korea has adjusted its perception of China. In the past, North Korea was able deal with the US and South Korea with ease and flexibility, largely due to the support from China and Russia. However, a series of extreme actions has caused North Korea to face the dilemma of losing its "backup force" for the first time. Kim Jong-un has gained greater confidence by announcing his intention to abandon nuclear weapons and reverse relations with China.

Towards a 'New Concerted' Path

Judging from the current situation, North Korea's governance model is indeed different from the past. This is the result of the integration of history and reality of the DPRK. But whether North Korea is heading towards further adjustment and transformation remains to be closely watched.

First, North Korea is not refusing to make any progress. Its failure to open up is the result of (constraints from) external circumstances.

North Korea believes that it has always had an open mind. The reason why it has failed to open up its market is not due to its unwillingness but the interference and blockade from the US and other countries. After years of 'trial of error' and exploration, it has come to the conclusion that confrontation with the international community, especially with China, can yield no good result. Therefore the country has stepped up changing its behavior pattern by attempting to engage the international community through cooperation, reform and opening-up. It has also reaffirmed its future path of survival relies on embracing the world rather than standing still.

Second, progress on the nuclear issue holds key to whether North Korea can move towards reform and opening-up. No matter what path the DPRK has decided to take, its starting point is the resolution of the Korean peninsula nuclear issue. And the key at the present stage is how to negotiate with the US on the nuclear disarmament issue

and win recognition from Washington. However, this gaming process is ongoing and will last for a long time. How to turn the improvement of DPRK-US relations into a sufficient condition, rather than a necessary prerequisite, for the reform and opening up of the DPRK has become one of the thorniest issues facing the DPRK.

After years of confrontation with the US and accurate apprehension of the international situation, North Korea believes it can exert influence on Trump and that Trump is willing to make a deal with it. Pyongyang is also willing to use the resolution of the nuclear issue in exchange for its political and security interests.

Third, the DPRK has accumulated relevant experience and lessons in construction and development. From the perspective of the social development of the DPRK, after nearly six years of struggling exploration and a movement-like campaign to develop the economy, the country has expropriated labor force and people's wealth by launching a series of campaigns like "50 day-battle" "70-day battle" and "100-day battle". As a result, North Korea's economy has taken on some new look. But the majority of the achievements have been invested in the costly construction of 'landmark' or 'monumental' sites, such as the Future Scientists Street, the Ryomyong Street, the Wonsan city, the Samjiyeon County as well as the Masikryong Ski Resort. Since 2016, the ongoing nuclear and missile tests have led to increased international sanctions, which have dealt a severe blow to the social economic development of the DPRK and even posed a serious threat to people's livelihood. Kim Jong-un received widespread domestic support after he proposed a policy of "all-out economic development" in his New year's message delivered on Jan 1, 2018. The policy was later adopted during the third plenum of the seventh Congress of the Workers' Party of Korea in April and has become an overriding national strategy. Presently, the pursuit of 'money' has become a new trend guiding the country's social and economic development.

Fourth, domestic politics remains stable and there is no Plan B for political arrangement. Since taking over the DPRK regime in 2012, the top leadership has carried out major reshuffling and adjustments in key departments sweeping across the Party, the government and the military, and have firmly grasped all core power, especially in armed forces. At the same time, Kim has appointed a growing number of younger generation born in the family of DPRK's founding fathers so that a community of shared interests and future is effectively forged between Kim and the mid-to-high level leadership across the Party, the government and the military. Meanwhile, the north Korean people have put Kim Jong-un on a pedestal and treated him equally with Kim Il-sung, and the economy has showed signs of improvement.

There is no legitimacy crisis for Kim Jong-un.

From the perspective of internal and external environment, the future of North Korea is worth expecting.

First, externally, Beijing-Pyongyang ties are being patched and bilateral relations are re-picking up momentum. Relations with the US are also in the process of constant revision, while relationship with South Korea is completely under the control of the DPRK.

Maintaining the stability of relations with major countries and properly maintain relations with China and the US have provided a relatively stable external environment for the DPRK to handle other relations with relative ease. "Fighting without breaking" will become the defining tone in the DPRK-US relations on the nuclear issue game, so that the DPRK can stabilize its relations with the US. Similarly, based on a thorough understanding of the US, the DPRK regarded President Trump as a rare "window of opportunity" so that it will meet Trump's requirements in a contemplated and measured fashion in exchange for benefits. North Korea is clearly aware that only a Chinese-style development path and political model can help the country achieve its multiple goals of preserving political regime, ensuring security and seeking development. As its longtime enemy, the US has not altered its ultimate goal of eradicating the DPRK regime and the current changes are merely expedient. The "H-shaped belt" economic cooperation plan proposed by South Korea, including many of its practices and purposes, is extremely harmful to the preservation of the North Korean regime.

Second, internally, North Korea has needs, resources, aspirations and the potential. The development level of DPRK's heavy and light industries, the chemical sector as well as the energy and power sector, remains rather low, but it has a huge demand in the reconstruction of the industrial chain. This accords exactly with China's 'de-capacity' strategy and is complementary to the surplus capacities it needs to get rid of. North Korea is also determined to have full control over strategic industries such as mining, fishing and agriculture. At the same time, North Korea has a very rich working population, the vast majority of whom have received high education and are relatively cost effective. A big military force represent a particularly massive source of labor. The North Korean military is changing its mission: while maintaining security, it has also been actively involved in many major projects, demonstrating its huge construction capacity and power. North Korea's fragile financial sector also needs

strong support. It is gradually changing the proportion of foreign currencies in its financial system, such as the US dollar, RMB and the euro, by strengthening the status of its own currency in a bid to get rid of financial control.

North Korea has recognized that, in the face of an urgent need for development opportunities, the cost of reversing or even bucking the current trend can be too high to bear. Not only will it exhaust the country's political and diplomatic advantages, it will risk losing all kinds of environments that favor the imminent needs for its economic development. While fulfilling its commitment to complete denuclearization of the Korean peninsula, the DPRK must obtain the necessary conditions for its development to integrate into the international community and align itself with international ideas. As a result, North Korea has boldly reversed previous strategies like the "*Songun Policy*" (Or Army-First Policy", "*Building Gangseong Daeguk*", (or Powerful and Prosperous Nation) put forward by Kim Jong-il. By breaking through the policy constraints of "developing economy and nuclear weapons at the same time", the DPRK has transformed to take on a concerted new path that upholds developing economy as the overriding goal and uses denuclearization and 'the implementation of the strategies in the third plenary session of the Seventh WPK Congress' as the new means.

Kim Jong-un, of course, is also in considerable distress. The most pressing task for North Korea is to prove the positive correlation between "denuclearization" and "all-out economic development". The choice of denuclearization is conducive to the full development of economy, and the full development of economy can substitute nuclear weapons as the new method to ensure social security. This finally serves to prove that denuclearization is beneficial to the country's security and economic development. Similarly, the DPRK needs to be embraced by the international community that it is a country, which has normal security and development needs and aspires to be welcomed by the international community. More importantly, Kim Jong-un needs legitimacy of his regime. The current status quo of North Korean society will not allow for the old-fashioned politics to control power. The political legitimacy can only be manifested by the social development and quick economic takeoff that area far cry from that of the older-generation leaders.

Integration into the international community, complete denuclearization, social and economic development and the political legitimacy have formed the complete logic chain of the DPRK under the rule of Kim Jong-un. They also contributed to the unique turning point for the situations on the Korean peninsula. To a certain extent,

whether the DPRK can achieve its goal of abandoning nuclear weapons in exchange for development opportunities relies on the outcome of the game on the Korean peninsula. This is especially dependent on whether neighboring major countries can manage to guide Pyongyang's denuclearization willingness into reality, and turn its firm determination to abandon nuclear weapons into stable and substantial facts and actions.

11.Middle East: Confrontation, Stalemate and Imbalance

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Confrontation, stalemate, and imbalance have formed the typical characteristics of the scenario in the Middle East in 2018. Confrontation was highlighted by serious clashes between the United States (together with its allies Saudi Arabia and Israel) and Iran. The Iranian issue may even surpass the Palestinian-Israeli conflict as the core in the Middle East. Stalemates were manifested in some hot issues such as Syria crisis, the Palestinian-Israeli conflict and Yemen civil war. These issues saw hopes of resolving, but were still in an overall stalemate. Imbalance was due to the negative effects of the Middle East policy by the US, as well as the rivalry among big powers in the region. International relations in the Middle East went more diversified and complicated, while the regional scenario continued to be unbalanced.

Intensified Confrontation between the US, Its Allies and Iran

According to Trump administration's National Security Strategy in 2017, counter-terrorism, containing Iran, and energy security were the main strategic interests of the US in the Middle East. Since the "Islamic State" was eliminated in 2017, there was no imminent threat to energy security. Containing Iran then became the priority of US Middle East policy in 2018. In general, denying and withdrawing from the nuclear agreement with Iran, restarting sanctions, and instigating regional allies against Iran were the main part of Trump administration's Iran policy.

On May 8, 2018, the US announced its withdrawal from *Joint Comprehensive Plan of Action* (JCPOA), while resuming sanctions against Iran. Meanwhile, US Secretary of State Mike Pompeo proposed 12 tough demands to put "extreme pressure" on Iran, such as stopping all enrichment, providing the IAEA with unqualified access to all sites throughout the entire country, ending proliferation of ballistic missiles and halting further launching or development of missile systems, ending support to Middle East "terrorist" groups, and ending interventions in Iraq, Yemen and Syria. Since then, the US has launched large-scale sanctions against Iran twice in August and November in 2018. The basic goal of US sanctions against Iran was to force Iran to succumb to the US "extreme pressure," re-sign a US-led nuclear agreement, and reshape the balance of power in the Middle East by strengthening its relations with Saudi Arabia and Israel.

The core of Trump's Middle East policy is to consolidate relations with its allies, which became gradually alienated under the Obama administration, by containing Iran, while continuing to go ahead with strategic contraction and input reduction. The focus is to strengthen its alliance with Saudi Arabia and Israel, making them to take on more tasks and costs in containing Iran and anti-terrorism efforts, and thus enhancing the dominant role of the US in Middle East affairs. First of all, in order to strengthen the alliance with Israel, the US took policies clearly biased towards Israel on the Israeli-Palestinian issue, and attempted to push the so-called "Deal of Century" to resolve the Palestinian-Israeli issue. Secondly, the US attempted to set up a Saudi-led anti-Iranian alliance, or the "Arab version of NATO," and offered strong support for Saudi's internal and external policies, especially in the "Khashoggi incident," to maintain the US-Saudi alliance.

The US policy of containing Iran faced the following severe challenges and difficulties. Firstly, the US attempt, through sanctions, to force Iran to succumb to the US or to change Iran's regime is unlikely to succeed, and it is also hard to change Iran's policy on regional hot issues. Secondly, although the US policy for Iran was supported by Saudi Arabia, Israel and other Middle East allies, Saudi's own political development, especially whether it can become a "floodwall" to ensure the stability of the international energy market, remained uncertain. Finally, the uncertainties caused by comprehensive sanctions against Iran may cast an impact on the US financial hegemony, which is a deep concern for the US. If there occurs a trading system independent of the US dollar in the international energy market, which the EU is discussing about, it will undoubtedly mean the loosening of the US financial hegemony.

In short, containing Iran constituted the main part of the Trump administration's Middle East policy in 2018. Trump's Middle East policy was essentially to leverage a small input to maximize profits, to replace direct intervention with "offshore balancing," and to replace utilitarianism and pragmatism with multilateralism with unilateralism. Therefore, the US role in the Middle East was more disruptive than positive. The US policy of containing Iran was the root cause behind the escalating tensions in the Middle East, especially in the Gulf.

Stalemates over Hot Issues Continue and the Political Settlement Proves Difficult

Among the hot issues of the Middle East in 2018, the ups and downs of the Palestinian-Israeli stalemate were the most striking. On May 14, the US chose Israel's

national day, also Day of the Catastrophe in Palestine, to hold a high-profile opening ceremony of the US Embassy in Israel in Jerusalem, which triggered the most bloody violent clash between Palestine and Israel since 2014, resulting in 58 Palestinians getting killed and more than 2,800 injured.

Trump also attempted to push ahead with the Palestinian-Israeli peace plan, the so-called “Deal of Century” in the Middle East. In June 2018, Trump met with King Abdullah of Jordan and hoped that the “Deal of Century” would be supported by the allies. According to media reports, the “Deal of Century” may favor Israel in such aspects as the West Bank border, the Gaza Strip and the Egyptian border, as well as the sovereignty of the Golan Heights. It also aims to select the site of the “capital” for the future Palestinian state and promote economic integration of Palestine and Israel. The deal not only seriously violates the territorial sovereignty of Palestine and Syria, but also encroaches upon Egypt’s sovereignty over the Sinai Peninsula. However, as the US placed a majority of its focus on containing Iran, together with the complexity and sensitivity of the Palestinian-Israeli issue, the “Deal of Century” is still in the making. In late 2018, the Palestinian-Israeli conflict escalated again. There was a serious conflict between Israel and Hamas in Palestine. However, due to a variety of factors, Israel did not launch a massive attack against Hamas, thus avoiding the escalation of the conflict.

The US has also pressured Arab countries such as Saudi Arabia and Jordan to make concessions on the Palestinian-Israeli issue. It has made Arab countries like Saudi Arabia face pressure from Arab people and media, while also increasing the risks of a renewed escalation of the Israeli-Palestinian conflict. It also provides an excuse for Iran to launch anti-Israel and anti-US political campaigns by leveraging the Israeli-Palestinian issue.

The Syrian issue was also deadlocked. In 2018, the Bashar Assad regime continued to expand and consolidate its controlled areas with the support of Russia, and squeezed the opposition to Idlib. But the Assad regime didn’t launch an attack due to pressure from all sides. Meanwhile, the US, Turkey, and Israel have all launched military strikes against Syrian targets. Turkey even launched a three-month military operation against the Afrin region. Therefore, Syria is now in a complicated state under which Russia-backed Assad regime controls a majority part of the territory, while US-backed Kurds and Turkey each controls a small part of the territory. In terms of political reconciliation, the various mechanisms led by the West and Russia have developed in parallel. Although they have played a certain role in stopping violence and easing

conflicts, it is still hard to reach an agreement on post-war arrangements, and it also fully reflects the complex game among big powers in and out of the region in addressing the Syrian crisis.

The Yemen conflict was also in a stalemate. Since May 2018, the Houthi forces, Saudi-led coalition forces and Yemeni government forces have been engaged in a fierce clash around the western port city of Hodeida, causing a massive humanitarian disaster. As Saudi Arabia fell into the crisis after the “Khashoggi incident,” the US withdrew its intelligence and logistics support for Saudi, thus halting Saudi’s air strikes against Yemen. Under such a scenario, the two parties engaged in the Yemen conflict agreed in early December in 2018 to hold peace talks in Sweden under the coordination of the United Nations, but its prospects are still not optimistic.

Regional Pattern Remains Unbalanced with Increasing Regional Disorder

As for the external factors that affect the pattern in the Middle East, although the Trump administration has stepped up its input in Middle East affairs, the core of its policy was still a strategic contraction, and it also lacked of a systematic Middle East strategy. As the US reduced inputs and became reluctant to directly intervene in the Middle East, this has led to a relative decline in its ability to dominate in Middle East affairs. Although Russia accelerated its attempt to return to the Middle East, beyond the purpose of safeguarding its own real interests, it still doesn’t have the dominant power in the Middle East region or the ability to build the regional order. Europe’s influence on the Middle East continued to wane. India and Japan have been increasing their strategic inputs in the Middle East, but their influence was still limited.

In short, as the US and Russia had weaker capacity and willingness to dominate in the Middle East, and other foreign powers had limited capability, the scenario, under which the Middle East had long been dominated by foreign powers, has been weakened. This is a key reason behind the fact that Saudi Arabia, Iran, Turkey, Israel and other regional countries strive to expand their regional influence for the purpose of their own security. In the ever-changing Middle East landscape, except for the fact that confrontation between Saudi Arabia and Iran continues to intensify, the following aspects in the reshaping of regional pattern in 2018 are worth noting.

First, conflicts and frictions between Saudi Arabia and Turkey have been worsened. Over recent years, Turkey and Saudi Arabia have clashed over several hot issues including the Egyptian Muslim Brotherhood and Qatar crisis. It actually reflected a

series of conflicts as the two sides revved up competing for dominance in the Middle East, the Islamic world (especially the Sunni world), and the development model. Since October 2018, diplomatic disputes between the two sides over the murder of Khashoggi have been escalating, which not only made their conflicts more apparent, but also had a great impact on the US-Saudi and US-Turkey relations. In the Khashoggi incident, Saudi Arabia's biggest appeal was to "stop loss," which means preventing the incident from posing a threat to Saudi's global image, especially the status of the Crown Prince Muhammad Bin Salman. So the bottom line is that Turkey's findings don't involve Muhammad Bin Salman, and thus the status of Crown Prince would not be seriously shaken. Turkey's appeal lies in its real interests in Qatar and Syria, especially on the Kurdish issue, but its core concern is that it can leverage Saudi Arabia to reduce the US political, economic and diplomatic pressure on Turkey, while improving its deteriorating internal and external environment. The US has announced that the incident would not affect the US-Saudi alliance, but so far Turkey still takes on Saudi Arabia over the incident. How the incident is resolved will be one of the highlights in the Middle East in 2019.

Second, the division of the Arab world, especially the Gulf Cooperation Council (GCC), has intensified. Saudi Arabia and Qatar are still in a stalemate of broken diplomatic relations. In late 2018, Qatar announced its withdrawal from the OPEC and its head of state was absent from the GCC summit, indicating that conflicts between the two sides have yet to be resolved. Within the GCC, Saudi Arabia, the United Arab Emirates and Bahrain form the key forces against Qatar. Oman and Kuwait are relatively neutral, while Qatar is isolated, which leads to a "3+2+1" fragmented structure.

Finally, the US promoted the construction of the Israel-Pragmatic Sunni Axis against Iran, bringing Israel closer to some Arabic countries. In 2018, Israel's relations with Saudi Arabia, Jordan, Oman, and Kuwait have continued to heat up. Its root causes still lie in the US policy for Iran and the Palestinian-Israeli issue. That is to promote reconciliation between Israel and Arab countries, seek support from Arab countries for the US policy on the Palestinian-Israeli issue, and, at the same time, build the Israel-Pragmatic Sunni Axis fighting against Iran. This scenario has helped ease the long-standing Arab-Israeli conflict. But clashes between Arab's Sunni-led countries and Iran have further intensified, which may make the Gulf region a new vortex in the Middle East after the "Fertile Crescent."

12. Southeast Asia: New Diplomatic Adjustment under the Sino-U.S. Competition

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In 2018, the scenario in Southeast Asia (SEA) was generally stable, but the power competition among China, the United States (the U.S.), Japan, India and other major countries in the region became increasingly fierce, making it the biggest challenge that will likely affect the external environment of SEA countries. Among them, the Sino-U.S. Competition in SEA was particularly intense, as the two great powers were trying to expand their influence in the region. In 2018, the Sino-U.S. Competition in SEA showed a trend of “China advancing while the U.S. retreating.” However, the current Sino-U.S. Competition in SEA is not a zero-sum game, and it is still in a “competitive coexistence” stage.

China regards SEA as a key area for its neighboring diplomacy and actively promotes the Belt and Road Initiative (BRI). The Trump administration’s “Indo-Pacific Strategy” has gradually become clear, and SEA is regarded by the U.S. as a key link in the Indo-Pacific region. The Abe government has actively strengthened Japan’s “special relationship” with ASEAN and SEA countries. In October 2018, Japan and several southeast Asian countries, located along the Mekong River, signed the “Tokyo Strategy 2018 for Mekong-Japan Cooperation” to strengthen cooperation in infrastructure, education and climate change. After Modi took office, he launched India’s “Act East” policy for SEA, and India’s presence and influence in SEA will gradually increase in the future. Among all these, the Sino-U.S. Competition has the greatest impact on the external environment of SEA countries.

Under the background of the intensified strategic competition between China and the U.S., the two countries both attempted to expand their influence in SEA. The U.S. National Security Strategy report unveiled in December 2017 divided ASEAN countries into two categories: allies and partners. the Philippines and Thailand remain important allies and markets for the U.S. Vietnam, Indonesia, Malaysia, and Singapore are growing security and economic partners of the U.S.¹ In July 2018, when remarking on “America’s Indo-Pacific Economic Vision”, the U.S. Secretary of

¹ The White House, *National Security Strategy of the United States of America*, December 2017, p. 46, <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>.

State Mike Pompeo emphasized that ASEAN, which is literally at the center of the Indo-Pacific, plays a central role in the Indo-Pacific vision that America is presenting. Under a new U.S. initiative announced by Pompeo, the U.S. will invest US\$113 million in digital economy, energy and infrastructure areas to enhance its role in the Indo-Pacific region.² On the occasion of the 15th anniversary of the establishment of China-ASEAN strategic partnership, in May 2018, China's Premier Li Keqiang stated that China has all along regarded the ASEAN as a priority in its neighboring diplomacy and unswervingly developed friendly cooperation with the ASEAN. Li Keqiang stressed that China is willing to be a partner of the ASEAN in five aspects, namely for common development, peace, openness and win-win progress, entrepreneurship and innovation, as well as in promoting inclusiveness and mutual learning.³ In November 2018, China and the ASEAN agreed on the China-ASEAN Strategic Partnership Vision 2030.

In 2018, the competition between China and the U.S. in SEA showed a trend of "China advancing while the U.S. retreating." China's growing relationship with Cambodia, dramatically improved relationship with the Philippines, and fast-expanding relationship with Myanmar all reflected China's rising influence over the U.S. in SEA. Before and after Cambodia's general election in July 2018, the U.S. and Europe cast pressure on Hun Sen's government. China continuously boosted its investment and assistance to Cambodia, supported Cambodia's own development path in line with its national conditions, and helped Cambodia in maintaining stability, fostering development and improving people's livelihood. Sino-Philippine relations have improved significantly since Rodrigo Duterte became President of the Philippines in June 2016. In November 2018, during the visit of Chinese President Xi Jinping to the Philippines, China and the Philippines established a comprehensive strategic partnership and the two nations signed 29 cooperation documents. Among them, the Memorandum of Understanding on Cooperation on the Belt and Road Initiative and the Memorandum of Understanding on Cooperation on Oil and Gas Development were particularly worthy of attention. Myanmar has been challenged and criticized by the U.S. and other Western countries on the Rakhine issue, but China believed that "unilateral accusations or pressures would not help solve the problem." In November 2017, Chinese Foreign Minister Wang Yi proposed a three-stage solution to help settle the issue in Myanmar's Rakhine state.⁴ In September 2018,

² Michael R. Pompeo, "Remarks on 'America's Indo-Pacific Economic Vision'," the U.S. State Department, July 30, 2018, <https://www.state.gov/secretary/remarks/2018/07/284722.htm>.

³ "Keynote Address by Premier Li Keqiang at ASEAN Secretariat Ministry of Foreign Affairs," ASEAN Secretariat, Jakarta, 7 May 2018, ENGLISH.GOV.CN, http://english.gov.cn/premier/speeches/2018/05/09/content_281476140338650.htm.

⁴ "China Proposes Three-phase Solution to Rakhine Issue in Myanmar: FM," Xinhua, November

China and Myanmar signed a memorandum of understanding for establishing the China-Myanmar Economic Corridor. In December 2018, Myanmar announced the establishment of a steering committee, which is chaired by Myanmar's State Counselor Aung San Suu Kyi, for implementation of tasks relating to the BRI.

The current scenario under which "China advancing while the U.S. retreating" still faces uncertainties in the future. This is evidenced by the changes in the Mahathir government's policy towards China after Malaysia's general election in May 2018. The influence of the U.S. on Cambodia, the Philippines, and Myanmar is still very strong. There are still powerful pro-American forces in these SEA countries. For China and the U.S., it is imperative to take measures to prevent the increasingly fierce competition from turning into a zero-sum game.

There are three major reasons behind the influence shift between China and the U.S. in SEA.

Firstly, Trump's "America first" policy and withdrawal from the TPP in 2017 has left some SEA countries in utter disappointment. Without a strong economic linkage with SEA, the political and military influence of the U.S. in the region would not last long.

Secondly, trade and investment between China and SEA have been rising. The China-proposed BRI is being promoted in SEA. In 2017, China's investment in the ASEAN countries was US\$14.119 billion. By the end of 2017, China's outstanding investment in ASEAN countries had reached US\$89.014 billion.⁵ The growth of China's economic power in SEA will inevitably lead to the expansion of its diplomatic influence.

Thirdly, the gap between the "human rights diplomacy" of the U.S. and the actual needs of SEA countries was too wide. The Philippines, Myanmar, Thailand and other countries that used to favor the U.S. values have turned to China because of the U.S. pressure on their domestic human rights issues. China has taken into consideration the real difficulties in the internal governance of SEA countries and has not unilaterally pressured SEA countries on human rights or governance issues.

ASEAN countries believe it "would be better if they could become part of the

19, 2017, http://www.xinhuanet.com/english/2017-11/20/c_136764392.htm.

⁵ Chinese Ministry of Commerce, National Bureau of Statistics, State Administration of Foreign Exchange, eds., *Statistical Bulletin of China's Outward Foreign Direct Investment Year: 2017*, Beijing: China Statistics Press, 2018, p. 31.

regional balance-of-power configuration rather than begging for security from great powers”.⁶ They do not want the Sino-U.S. Competition to force the countries in the region to choose which power they side with. Amid the increasingly fierce Sino-U.S. Competition in 2018, the new diplomatic adjustments of SEA countries had the following characteristics.

Firstly, SEA countries have proposed the ASEAN version of the Indo-Pacific Vision in a bid to maintain ASEAN’s “central status.” As an archipelagic country across the Pacific Ocean and the Indian Ocean, Indonesia is a major promoter of the ASEAN version of the Indo-Pacific Vision. In January 2018, Indonesian Foreign Minister Retno Marsudi proposed the regional architecture of Indo-Pacific, emphasizing the cooperation of free, open, inclusive, comprehensive, and beneficial for the long-term interest of all countries in the region.⁷ Indonesia’s move suggests that it is uncomfortable with existing Indo-Pacific visions proposed by regional powers and offers an alternative ASEAN-centric vision instead.⁸ At the East Asia Summit (EAS) Foreign Ministers’ Meeting in August 2018, Indonesia for the first time fully explained its views over Indo-Pacific and principles for Indo-Pacific cooperation. The principles are to keep maintaining ASEAN’s central role and making the Indo-Pacific region as an open, transparent, inclusive and respectful to international law and cooperative area by using the EAS mechanism as the main platform.⁹ The Indonesia-initiated ASEAN Indo-Pacific Vision is aimed to seek new momentum for ASEAN centrality by strengthening existing ASEAN-led mechanisms.”¹⁰

Secondly, SEA countries adopted bandwagoning policy with great powers based on different concerned issues with an aim to maximize benefits. SEA countries had different bandwagoning policies with the U.S. and China based on the concerned

⁶ Kai He, *Institutional Balancing in the Asia-Pacific: Economic Interdependence and China’s Rise*, London: Routledge, 2009, p. 115.

⁷ Retno L. P. Marsudi, “2018 Annual Press Statement of the Minister for Foreign Affairs of the Republic of Indonesia,” Jakarta, 9 January 2018, <https://www.kemlu.go.id/id/pidato/menlu/Pages/PPTM2018%20MENLU%20RI%20ENG.pdf>.

⁸ Evan A. Laksmana, “Buck-passing from Behind: Indonesia’s Foreign Policy and the Indo-Pacific,” November 27, 2018, <https://www.brookings.edu/blog/order-from-chaos/2018/11/27/buck-passing-from-behind-indonesi-as-foreign-policy-and-the-indo-pacific/>.

⁹ Indonesian Ministry of Foreign Affairs, “Introducing the Indo-Pacific Concept, Indonesia Set the Tone at the East Asia Summit,” 6 August 2018, <https://www.kemlu.go.id/en/berita/Pages/Introducing-the-Indo-Pacific-Concept,-Indonesia-Set-the-Tone-at-the-East-Asia-Summit.aspx>

¹⁰ Evan A. Laksmana, “Buck-passing from Behind: Indonesia’s Foreign Policy and the Indo-Pacific,” November 27, 2018, <https://www.brookings.edu/blog/order-from-chaos/2018/11/27/buck-passing-from-behind-indonesi-as-foreign-policy-and-the-indo-pacific/>.

issues, such as politics, economy and security. For example, Vietnam cooperate with and China in the fields of economy, trade, investment, and infrastructure construction. But at the same time, cooperation between Vietnam and the U.S. in the security field was heating up. Fu Congcong, a member of the quantitative forecasting group for Sino-foreign relations at Tsinghua University's Institute of International Relations, believes that the current bandwagoning policy of SEA countries was different from that in the Cold War period. During the Cold War, the regimes of SEA countries relied on the U.S. or the Soviet Union for survival, so that they had to choose which great power they wanted to fully side with, which means, in the political, economic, and security fields, SEA countries must be consistent with the great power that protected them. But nowadays, SEA countries are largely independent, so the main pillar of their political foundation is no longer an external force. The relationships with great powers no longer affect the survival of their regimes. Therefore, in the competition of great powers, SEA countries now can choose to bandwagon with any of great powers based on the concerned topics. Such a policy will help SEA countries expand their national issues.¹¹

Thirdly, SEA countries speeded up adjusting their foreign policies towards China and the U.S today. SEA countries pursued “balance of power” with great powers, but they actually moved closer to or farther away from China and the U.S. in real operations. Cambodia, the Philippines, Myanmar and Thailand maintained a certain distance from the U.S. or even moved a bit farther away from the U.S. to enhance their relationships with China. Indonesia, Brunei and Laos had no contradictions and conflicts with either China or the US, so they maintained friendly relations with both China and the U.S. Vietnam and Singapore are long-term advocates to leverage the U.S. to balance the influence of China, and these two countries boosted bilateral relations with both China and the U.S. nowadays. After the general election in May 2018, the new Malaysian government changed the former government's strategy in seeking closer relationships with China by distancing itself from China, while actively interacting with the U.S. and Japan.

¹¹ Fu Congcong, “Southeast Asian countries' Foreign Policies toward China and the United States are Tending to differentiation” (Dongnanya Guojia dui Zhongmei de Waijiao Zhengce quyue Fenhua), *Quarterly Journal of International Politics* (Guoji Zhengzhi Kexue), Vol.3, No. 3 (September 2018), pp. 142-145.

13.Indo-Pacific Strategy: How far Can It Go?

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Since the Free and Open Indo-Pacific Strategy was officially unveiled at the end of 2017, the Trump administration has adopted a raft of new actions in 2018 to actively promote its execution. It has not only symbolically renamed the US Pacific Command to US Indo-Pacific Command, but also proposed the Indo-Pacific economic strategy for the first time as part of the implementation of the Indo-Pacific Strategy. The US even revived the Quadrilateral Security Dialogue (Quad) between the US, Japan, Australia and India originally established 10 years ago, in a bid to launch strategic competition with China in the Indo-Pacific region. However, despite the impetuosity, the resources the Trump administration can and will leverage in implementing the Indo-Pacific Strategy seem to be very limited. Japan, India, and Australia are far from being on the same boat with the Trump administration. It is still to be seen how far the Indo-Pacific Strategy can go.

No Good Intention

In December 2017, the Trump administration's first National Security Strategy report defined China as a strategic competitor of the US, while officially proposing the Free and Open Indo-Pacific Strategy in the report's regional strategy section, showing its strategy for Asia has taken shape. According to the interpretation by officials from the US Department of State and Vice President Mike Pence on several occasions, this strategic concept generally includes three aspects.

Firstly, it regards China as the main strategic challenge of the US in the Indo-Pacific region, and renders strategic competition between the US and China as a rivalry between "freedom" and "oppression." The Trump administration believes that China is leveraging its growing political, economic, and even military power to build its own "sphere of influence" in the Indo-Pacific region, thus challenging and even attempting to replace the US hegemony in the region. The strategic competition between China and the US in Indo-Pacific is not only geo-economic or geo-strategic competition, but also competition between two different growth models and different concepts for regional order. The US must firmly uphold its own ideas and models to defend the "freedom and openness" in the Indo-Pacific region.

Secondly, economy and security are the main concerns. The Trump administration

believes that the Belt and Road Initiative, which China is actively promoting, is an important part of China's bid to create regional hegemony and to set up a China-dominated regional economic order. If this blueprint is successfully realized, the entire Eurasian hinterland and even the coastal areas in Indo-Pacific will be under a China-led economic growth model, which poses a serious challenge to the free economic growth model dominated by the US and the West. To this end, the Trump administration has proposed the US version of regional economic initiative - Indo-Pacific Economic Vision – while boosting economic coordination and cooperation with Japan, India and Australia to jointly foster economic, energy and infrastructure development in Indo-Pacific as it competes with China on the same stage.

In terms of security, the Trump administration believes that China is stepping up efforts to modernize its navy and protect its maritime rights and interests, especially with the “assertive” and “militarization” measures taken in the South China Sea disputes and the construction of islands and reefs, which poses a serious challenge to the US maritime hegemony in the Western Pacific. To this end, the Trump administration not only significantly increased defense and military spending, but also strengthened military and security relations with Indo-Pacific allies like Japan and Australia, enhanced security partnership with India, and actively coordinated the security cooperation mechanism between the US, Japan, India and Australia in a bid to jointly deal with the challenges from China.

Thirdly, the bilateral military alliance and coordination between the US, Japan, India and Australia are the main tools to implement the Indo-Pacific Strategy. As a savvy businessman and a firmer believer in “America First” Trump is making use of the resources of US allies and partners to complement its own economic and military strength in pressing ahead with the Indo-Pacific Strategy. The Trump administration places high hopes on Japan and India, which are located at the two sides of Indo-Pacific, as well as the revived Quad between the US, Japan, Australia and India.

Gap in Input

A strategy must ensure that appropriate means are used to realize the goals, while the available resources are the key. All in all, one can't make bricks without straw. The effectiveness and future of the Indo-Pacific Strategy largely depends on how much resources the Trump administration has and is willing to invest.

It seems that the Trump administration has not invested many resources in the region. On July 31, the US Secretary of State Mike Pompeo unveiled the high-profile Indo-Pacific Economic Vision at the Indo-Pacific Business Forum. Despite the hype, the Trump administration has actually invested only US\$113 million. It's apparently impossible to leverage this amount of input to promote digital economy, energy and infrastructure development in the vast area from the Western Pacific to the Western Indian Ocean and to make up for the infrastructure investment gap of more than US\$20 trillion in the Indo-Pacific region. If you study it carefully, even the US\$60 billion US development finance funding only "looked beautiful." According to a bill signed by President Trump, any funded project must vow to promote US economic interests and foreign policy objectives. Projects initiated or participated by US private companies will be prioritized. Projects worth more than US\$10 million must submit feasibility reports to the relevant committee of the US Congress, and funding for a single project must not exceed US\$3 billion. The funded projects must fully meet the strict US requirements in terms of labor rights, environmental and social impact assessment, women's economic status, and promotion of private enterprises. If the projects post a loss, the partners should shoulder at least 20% of the loss. Considering the actual situations in many countries in the Indo-Pacific region, few projects can meet the requirements.

Compared with the stingy economic package, the Trump administration seemed to be much more generous in security spending. In the National Defense Authorization Act for Fiscal Year 2019, the Trump administration significantly increased its military spending to total US\$716 billion. At the same time, the Trump administration also continued to strengthen its support for maritime capacity building for Indo-Pacific countries. In the national defense authorization act for FY 2019, the Southeast Asia Maritime Security Initiative was extended for five years and renamed Indo-Pacific Maritime Security Initiative, which includes Bangladesh and Sri Lanka for aid and training, while also adding in India to help enhance its maritime capacity. The Trump administration has also revived up promoting the "Freedom of Navigation" in the South China Sea. Since May 2017, the US has carried out 12 "Freedom of Navigation" operations in the South China Sea region, together with 8 flyovers or aircraft carrier movements.

Strange Bed Fellows?

Before and after the Trump administration unveiled its high-profile Indo-Pacific Strategy, Japan, India and Australia also expressed their "Indo-Pacific Dream" to

varying degrees. As early as 2016, the Abe government of Japan proposed the “Free and Open Indo-Pacific Strategy”, whose title was later borrowed by the Trump administration. The Modi government of India proposed to upgrade the “Look East” policy to “Act East” policy. The Australian government also proposed its own perspective of Indo-Pacific order in its official foreign policy document.

The Indo-Pacific strategic blueprints proposed by the three countries had similarities with the Trump administration’s Indo-Pacific Strategy, as they basically put economy and security in a prominent position. Economically, the three countries attach great importance to infrastructure construction in the Indo-Pacific region. Both Japan and India unveiled their own regional infrastructure construction initiatives, while improving mutual coordination and cooperation in the field of infrastructure construction in Indo-Pacific. In terms of security, they all emphasize the importance of maintaining maritime security and order in Indo-Pacific, while showing their concerns about freedom of navigation and peaceful resolution of maritime disputes in the South China Sea region.

Although Japan, India and Australia share similar interests with the US in promoting infrastructure construction and maintaining maritime security in the Indo-Pacific region, they are not in line with the US on how they view China and deal with China. Amid the changes in Indo-Pacific and global order, the three countries are also preparing for the rainy day and don’t want to be the pawns of the US. As one of the important pillars of Trump’s Indo-Pacific Strategy, Japan has made some breakthroughs in its relationship with China in 2018. The leaders of the two countries have not only visited each other’s country, but more importantly, during Abe’s visit to China, they announced that the two nations will carry out third-party market cooperation and stressed that Sino-Japanese relations have entered a new era from “competition” to “coordination.”

With a strong “great power complex” and long tradition of “non-aligned” diplomacy, India is naturally reluctant to become a henchman of the US. While developing relations with the US, India also actively boosted its ties with China, Japan and Russia, thus maintaining a delicate balance between regional powers. Modi had a successful meeting with the Chinese leader in Wuhan in April 2018, and the leaders of the two nations agreed that “China and India are neighbors, friends and partners. China and India must continuously enhance mutual trust, carry forward the five principles of peaceful coexistence they jointly advocate, and step onto a road of friendly cooperation between two great countries to meet the requirements of the era.” What

made the Trump administration feel particularly embarrassed was that the Modi government signed a US\$5.2 billion military purchase deal with Russia during Putin's visit to India in 2018 despite the Trump administration's warning, including the S400 anti-aircraft missile system, which is regarded by the US as a thorn in the eye. It presented a tough question to the Trump administration and cast a shadow over the future development of US-Indian relations.

A noteworthy trend was that the US, Japan, India and Australia were likely to strengthen coordination and cooperation in infrastructure construction in the Indo-Pacific region, which made the headlines in Western media at the beginning of 2018. In fact, there was no follow-up. Instead, the US, Japan and Australia announced a trilateral partnership for infrastructure investment in the Indo-Pacific region on July 30, 2018. During the informal meeting of APEC leaders in November, the three countries formally signed a memorandum of understanding to strengthen cooperation in infrastructure investment in Indo-Pacific. Considering that India was once active and ambitious in its perspective for energy and infrastructure in Indo-Pacific, India's absence from the Indo-Pacific infrastructure partnership is intriguing.

Another highlighted issue is the security cooperation mechanism between the US, Japan, India and Australia, which the Trump administration had high hopes on (US media once played it up as a "Quad alliance"). Although the four countries held the second meeting on security consultation during the ASEAN summit in November 2018, the level of the meeting was not upgraded as expected. It was still at the working level, and no joint statement was issued after the meeting. The four countries issued their own meeting statements respectively. Obviously, under the backdrop of intensified Sino-US competition, India and Japan were reluctant to move closer toward the US to avoid "irritate" China too much.

How Far Can It Go?

How far the Trump administration's Indo-Pacific strategy can go is unpredictable. It will depend on the interaction and development of the following issues.

The first issue is the evolution of Sino-US relations. Sino-US relations now face many challenges and are at a crossroads, but they are not irreparable. If China and the US have strong strategic will to avoid a decline in their relationship, avoid confrontation and malicious competition, and take measures to demonstrate their strategic goodwill and sincerity, it's still possible for the two nations to stabilize and revive their

relations. The successful meeting between the leaders of China and the US in Argentina and a “truce” in trade war they agreed on was an important step toward easing relations.

The second issue is how much resource the US is willing to invest. Trump’s Indo-Pacific Strategy covers both the Indian Ocean and the Pacific Ocean, highlights the economic and security dimensions, and initiates an open strategic competition against China. These all require huge economic and military inputs from the US. But for now, the Trump administration is unwilling to invest more resources, especially economic resources. In the future, the Democratic-dominated Congress, which controls the budget, will impose more restrictions on the Trump administration in terms of resource input, which will inevitably further affect the implementation of its Indo-Pacific Strategy.

The third issue is coordination between the “America First” policy and the interests of its allies. Trump’s Indo-Pacific Strategy clearly needs support and cooperation from its Indo-Pacific allies and security partners like India, Japan and Australia. However, if the US highlights “America First” in everything, and continuously takes on India and Japan on economic and trade issues, it will be a big challenge for the Trump administration to reconcile this internal conflict and appease its allies.

Fourthly, India and Japan are uncertain factors. India and Japan are the East and West anchors in Trump’s Indo-Pacific Strategy, and the Trump administration has placed high hopes on the two nations. However, India and Japan are not entirely in the same page with the Trump administration concerning their attitudes towards China. Since the beginning of 2018, India and Japan have been quietly improving their ties with China, betting on two sides or multiple sides, and are unwilling to become the pawns of the Trump administration’s Indo-Pacific Strategy. If China-Japan and China-India relations are further developed in the future, the Trump administration’s “anchors of Indo-Pacific” will inevitably drift farther away.