

# The U.S. and China: Ever Closer, but Less Trusting

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china.usc.edu

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CALIFORNIA

# Strategic Trust

**Parties recognize**

**common interests are greater than  
differences**

**Parties work to**

**minimize the impact of inevitable  
differences**

**develop long-term beneficial interactions**

# Strategic Distrust

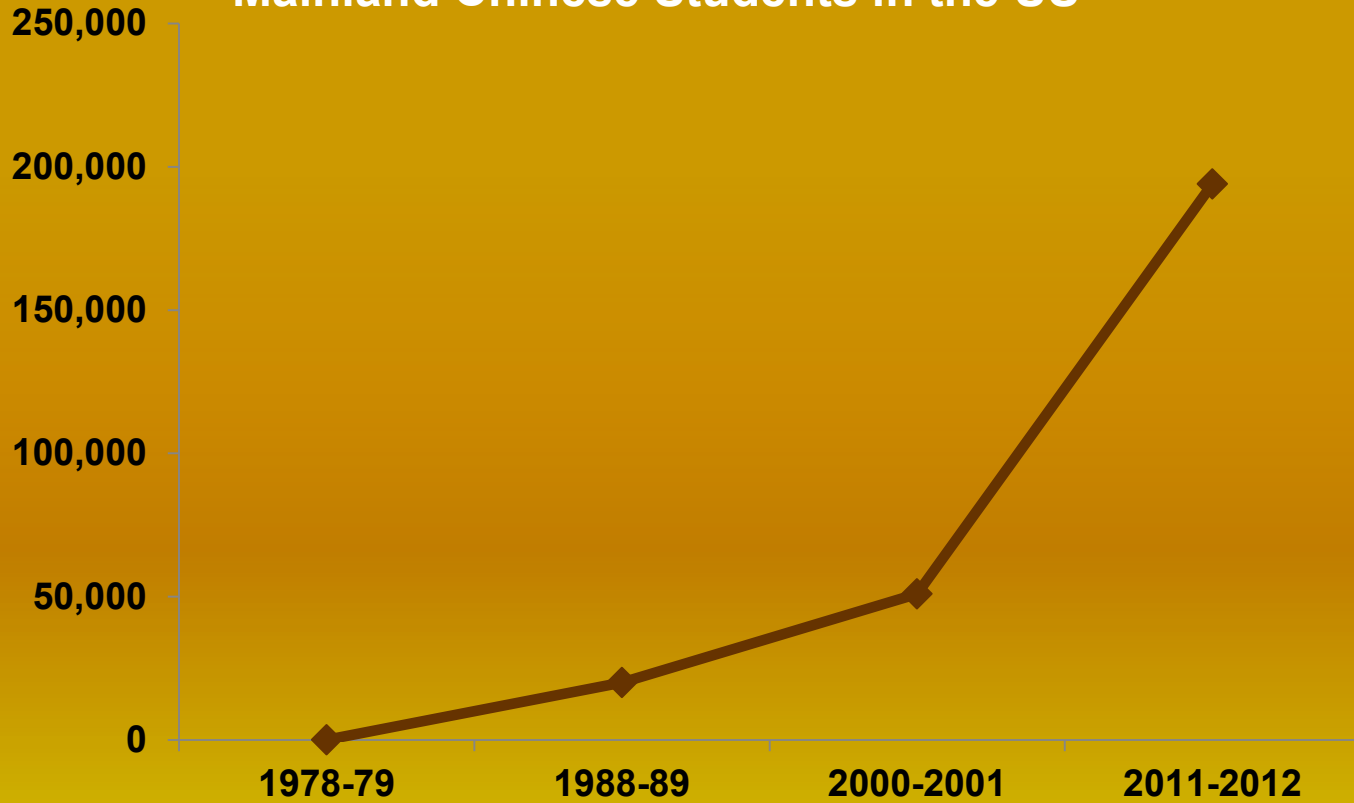
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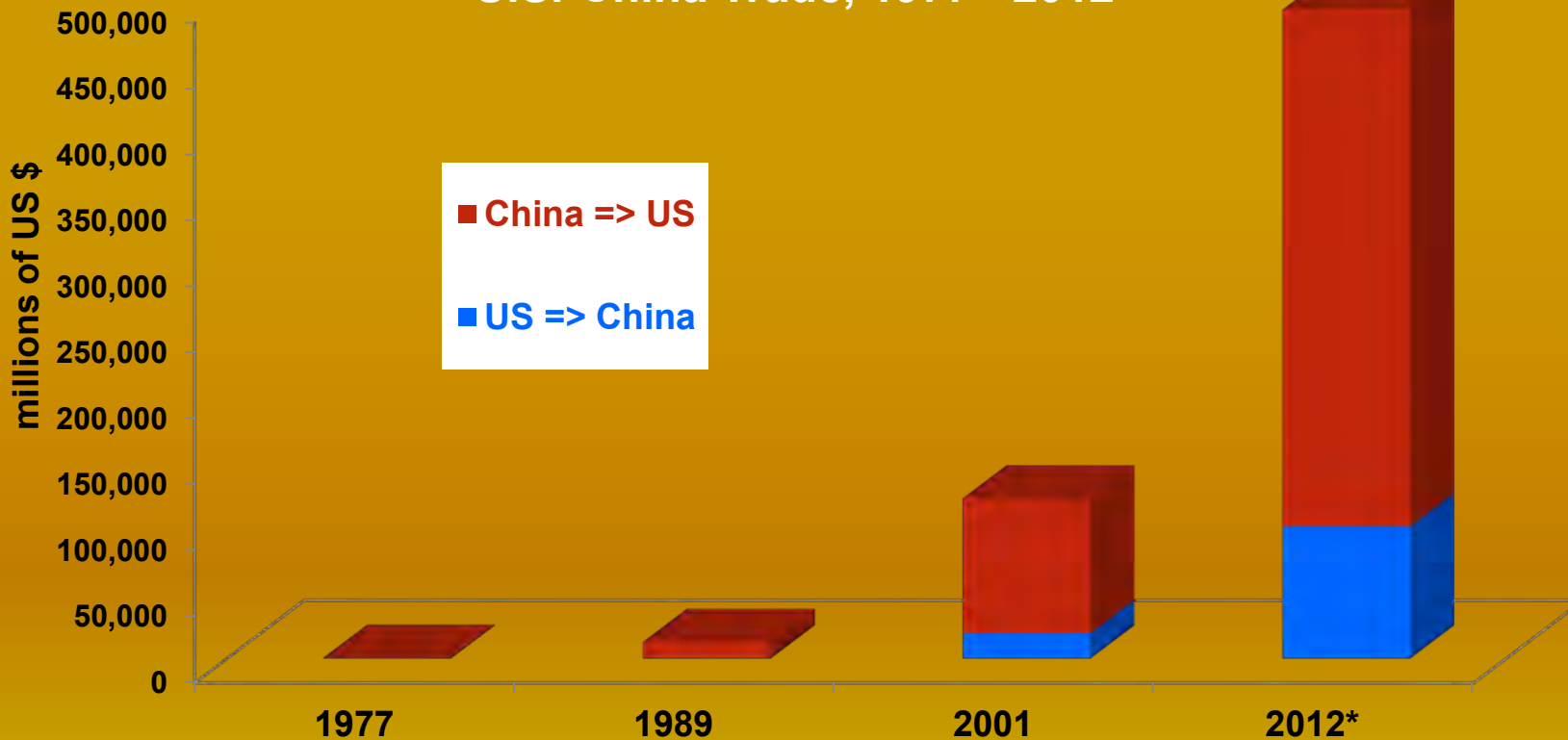
~~minimize the impact of inevitable~~  
~~differences~~

## Mainland Chinese Students in the US



Source: Institute for International Education, Chart: USC U.S.-China Institute

# U.S.-China Trade, 1977 - 2012



\* first 11 months only

Data: U.S. Department of Commerce, Chart: USC U.S.-China Institute

# Is there mistrust?

## Negative views

**1/3 of Americans hold negative views of China**

**almost 1/2 of Chinese hold negative views of the U.S.**

**> 1/2 of Chinese/Americans have a negative opinion of the other's influence in the world**

COMP SPECIAL: CEOs & COACHES | EDDIE LAMPERT: SEARS SUCKER?

# Bloomberg BusinessWeek



## THE NEW PROTECTIONISM

It's not just Google. Secrecy, regulations, and a bias toward domestic companies are scaring business away from China

*Bloomberg Businessweek*  
April 2010; September 2011

**Companies**

**Michael O'Leary's Plan to Make You Miserable**

p58



**Investigation**

**A PONZI SCHEME AT THE FBI**

p50

**Etc.**

**The End of Wall Street Sell Night**

p69

**Plus**

**The Case for an American Boom** p4

**Apple's Secret Server Farm** p30

**Ferran Adrià at Harvard** p62

**Japan's Crisis, Beyond the Yen** p7

**Intel Inside ... Everything?** p29

September 6 - September 12, 2010 | businessweek.com

# Bloomberg Businessweek

## PROPERTY OF CHINA

China is buying Australia's resources as fast as it can, making Australians rich—and nervous p44





SEPTEMBER 24, 2012

Death in Benghazi / The Euro Endures / Hello, iPhone 5

# TIME

## THE NEW GREAT WALL

WHY CHINA IS BUILDING BARRIERS  
TO FOREIGN COMPANIES

BY MICHAEL SCHUMAN

[www.time.com](http://www.time.com)

*Time,*  
September 2012



# Bloomberg Businessweek

October 1 - October 7, 2012 | businessweek.com



WE  
COME IN

PEACE

Special Report:  
Why the World  
Should Welcome  
The Rise of China

p9

*Bloomberg Businessweek,*  
October 2012

USC U.S.-China Institute

**Bloomberg  
Businessweek**

February 6 - 14, 2013

BBW500:  
The top-performing  
S&P companies

# *Yes, the Chinese Army is Spying On You.*



p54

*Bloomberg Businessweek,*  
February 2013

USC U.S.-China Institute

# Threat perception

**1/2 of Americans see China's growing power as a threat**

**4/5 of Americans see China's increasing military strength as a threat**

**1/2 of Chinese believe the U.S. is trying to hold China back**



生活周刊 Life Weekly,  
September 2012



财经 Caijing,  
September 2012



Shenzhen Satellite TV, September 2012

USC U.S.-China Institute





Soft Time  
柔软时光

内有空调，WiFi开放。

峨眉毛峰	20元
菊花茶	20元
竹叶青	30元
飘雪	38元
铁观音	48元

钓鱼岛是中国的!!!  
Diaoyu Islands belongs to  
CHINA!!!





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Anti-Japanese moon cakes, September 2012





*The Economist*,  
September 2012



# Once the greatest source of stability, economic ties are now central worries

## Americans

**China's impact = serious problem**

**71% job losses**

**78% China-held debt**

**61% trade deficit**

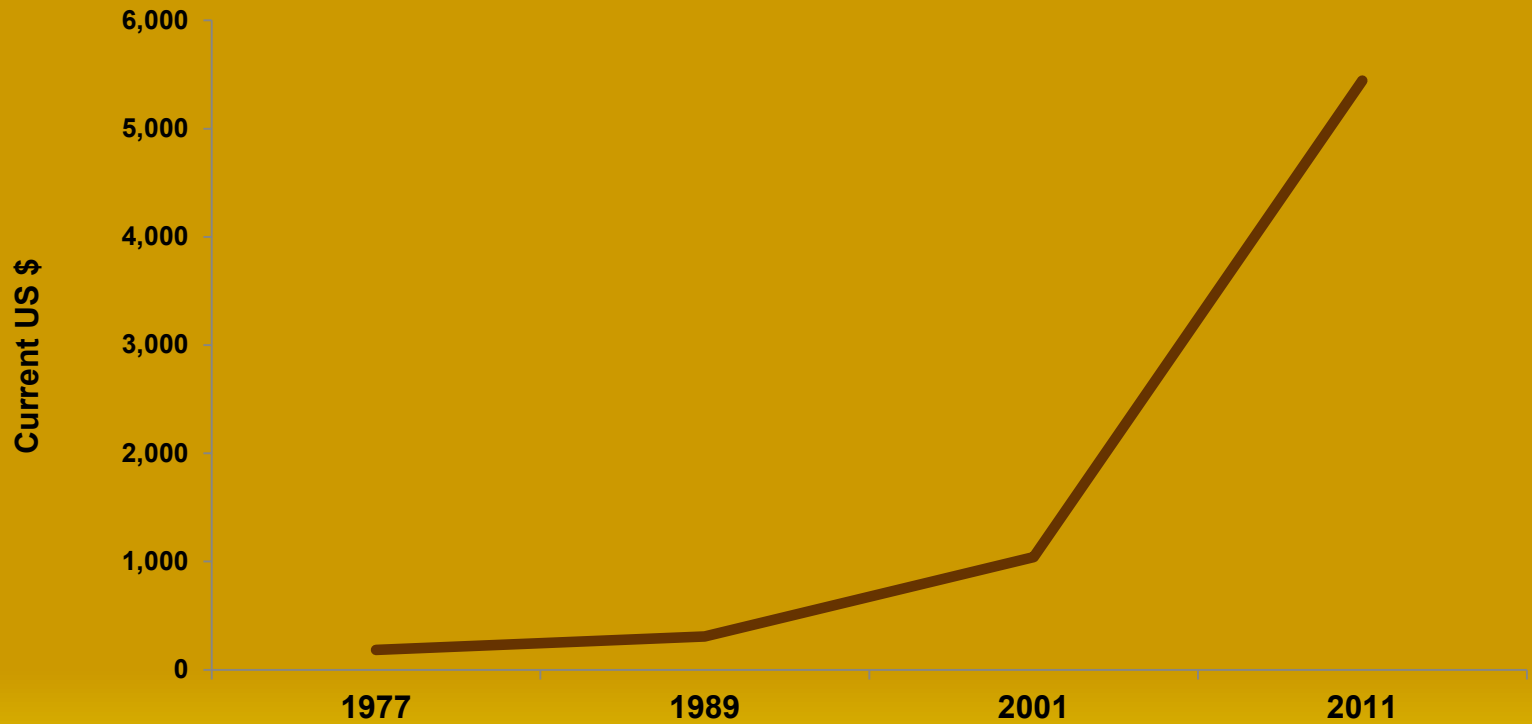
## Chinese

**29% exchange rate dispute**

**25% trade imbalance**

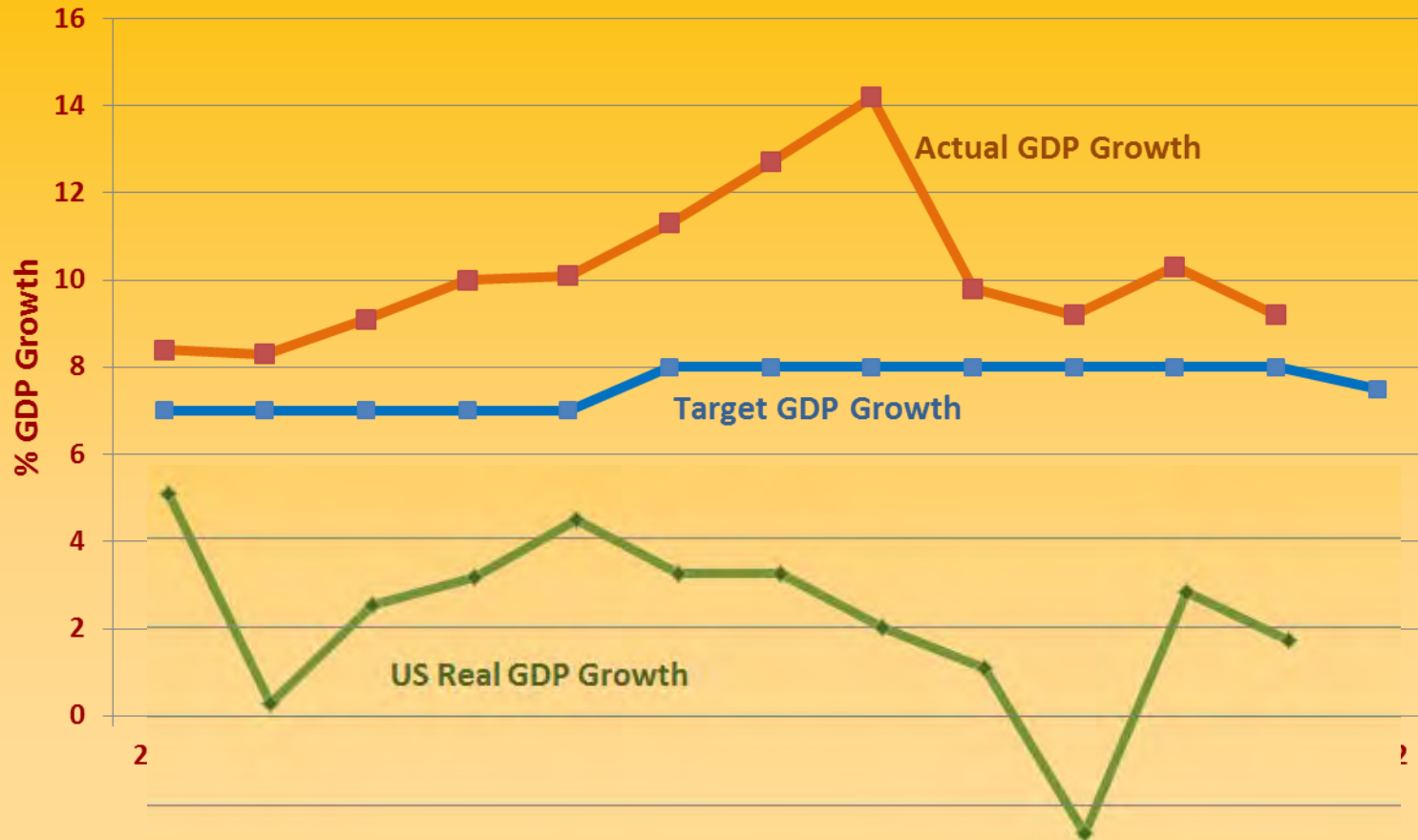
**25% Taiwan**

# China GDP Per Capita



Data: World Bank, Chart: USC U.S.-China Institute

## China's Target vs. Actual GDP Growth





## California was the top U.S. exporter to China in 2011: \$14.2 billion

computers / electronics  
waste & scrap  
transportation equipment  
machinery  
chemicals

- 2. Washington:** transport/crops
- 3. Texas:** chemicals
- 4. Louisiana:** crops
- 5. New York:** waste & scrap



# U.S. companies in China aiming for the Chinese market

Dominant Brands in 2011	Market Share
Yum! Brands (KFC)	40%
General Motors	13%
Microsoft	99%
Boeing	52%
Nike	?
Coca-Cola (Sprite)	62% (27%)
Proctor & Gamble (hair care)	55%
Intel	15%
Starbucks	70%
Apple (tablets)	51%





# California / All Industries / 2000 to Q3 2012

Greenfield & Acquisitions / Any Ownership

Total Deals: 163

Total Value: \$1.4 Billion

## Investment by Industry (in \$mil)

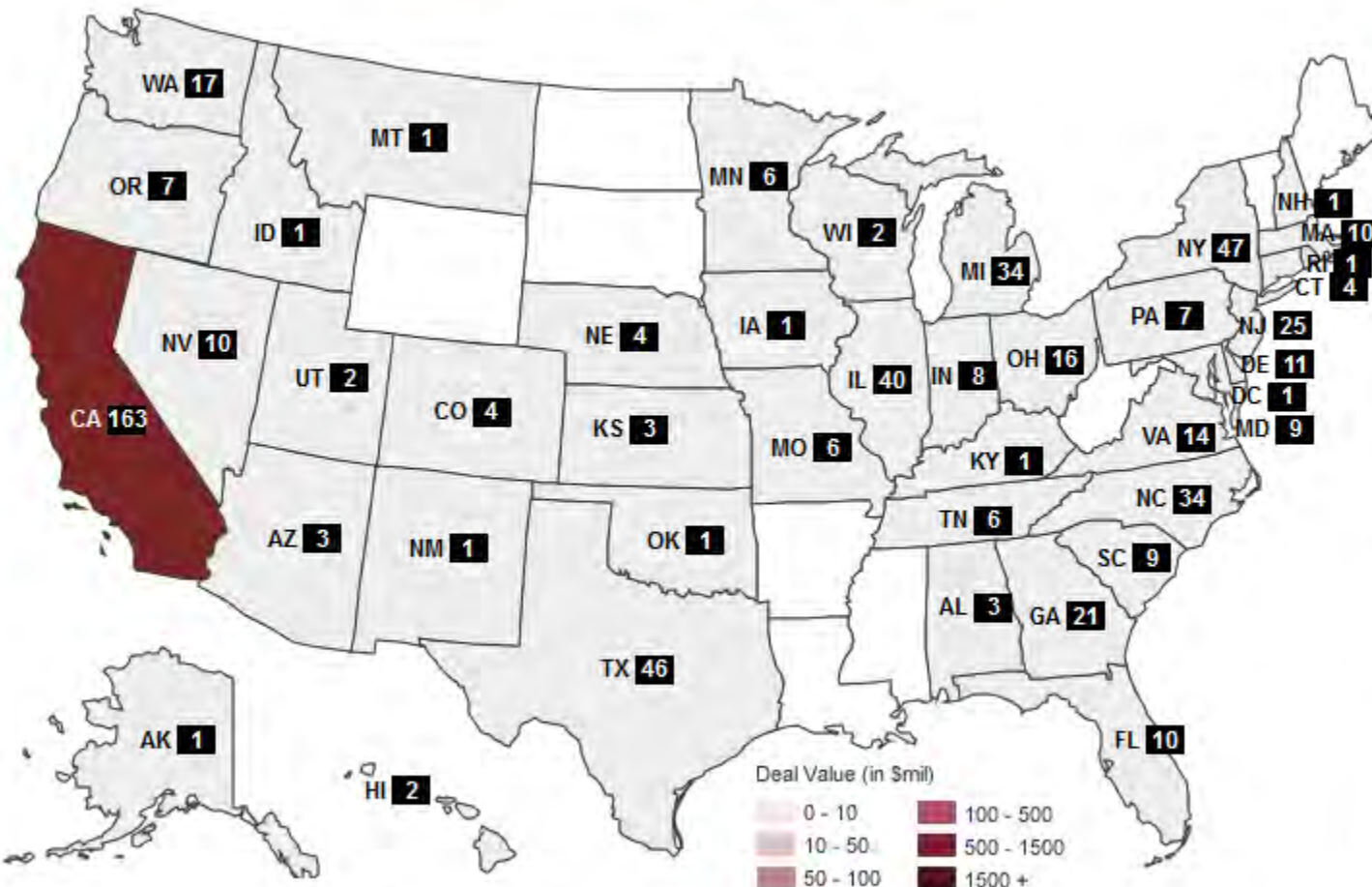
Aero, Auto & Transport:	6 deals / \$14
Consumer Products:	20 deals / \$105
Electronics and IT:	62 deals / \$878
Finance & Bus. Services:	14 deals / \$17
Fossil Fuels & Chemicals:	7 deals / \$22
Health, Bio & Pharma:	12 deals / \$35
Hospitality & Real Estate:	6 deals / \$172
Industrial Machinery:	4 deals / \$24
Logistics:	6 deals / \$7
Metals and Minerals:	8 deals / \$14
Renewable Energy:	18 deals / \$114

## Investment by Type (in \$mil)

Greenfield:	110 deals / \$251
Acquisitions:	53 deals / \$1,153

## Investment by Ownership (in \$mil)

Government:	32 deals / \$126
Private:	131 deals / \$1,278



# Is mistrust increasing?

**Relatively few (10%) hold  
very unfavorable views**

**The share holding favorable views  
( $\approx$  35-43%) isn't increasing**

**despite growing  
interaction/interdependence**

**The share who see the other as hostile is increasing**

# What are the sources of mistrust?

Structural shift – changes in relative power

Different political and value systems

Weak communication and implementation of agreements

Playing to domestic audiences

中国新闻周刊 *China  
Newsweek.*  
October 2012



USC U.S.-China Institute



# DIAOYU ISLANDS BELONG TO CHINA

Diaoyu Islands, which include Diaoyu Island and its affiliated islands, have been an inherent territory of China since ancient times, and China has indisputable sovereignty over the islands.

Japan seized Diaoyu Island from China in 1895. The United States and other countries also expressed their opposition to Japan's seizure of Diaoyu Island.

China has opposed the backroom deals between the United States and Japan concerning Diaoyu Island.

Japan's so-called "nationalization" of Diaoyu Island severely infringes upon China's sovereignty and rejects and challenges the outcomes of the victory of the World Anti-Fascist War.

China has expressed its firm and resolute intention to defend national sovereignty and territorial integrity.

China has expressed its firm and resolute intention to uphold the outcomes of the victory of the World Anti-Fascist War.

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Diaoyu Islands had long been under China's jurisdiction in the Ming (1368-1644) and Qing (1644-1911) dynasties.

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China and foreign maps show that Diaoyu Islands belong to China.

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Diaoyu Island and its affiliated islands

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## THE REPUBLIC OF CHINA (TAIWAN) PROPOSES: THE EAST CHINA SEA PEACE INITIATIVE

A major territorial dispute is brewing in the East China Sea. As one of the founders of the United Nations, the Republic of China (Taiwan) believes it has the responsibility to assist the Japanese in peaceful matters under the provisions of the UN Charter. We are concerned that the island territories in issue at the heart of the dispute are areas that belong to Taiwan. These islands are known as the Diaoyu Islands, which means "Fishery (Gardens)" in Chinese. We see the islands as more than a platform for fishing; we also see them as a platform for peace-making.

On September 26, 2012, Japanese Prime Minister Yoshihide Suga delivered a speech at the United Nations, during which he proclaimed the so-called "no-diplomatic status". This is a very dangerous move to the rest of the world since it majorly impacts — not only potentially great compensation to regional peace, and necessary prosperity, Taiwan the innocent parties involved that a dispute also indeed exist, a resolution seems possibly be reached.

Prime Minister Suga also called the "arbitrary rule of law" to resolve territorial disputes, but he omitted our proposal to submit the dispute to the International Court of Justice. He added that "we always to realize a country's vision for peace through a diplomatic way in the spirit of the UN Charter," but continues to obstruct the fact that Japan entered the United Nations on January 18, 1956, and for occupying Diaoyu Islands, We do want to change Diaoyu Islands (Sept. 18, 1956).

The Republic of China (Taiwan) cherishes the close friendship with Japan over the past many years. However, since Japan reneged the recent Diaoyu, we urge the Japanese government to take responsible steps toward recognizing and resolving the dispute.

We have carefully reviewed Japan's sovereignty claims regarding the Diaoyu Islands and we encourage with them. To maximize our speaking, we have laid out 10 options. We believe it is important to act the road straight and let the facts speak for themselves.

- 1. The Diaoyu Islands were first discovered, named, and used by Ming China (1368-1644).**
  - In the 15th century, the Chinese discovered the islands and named them Diaoyu (Fishing Gardens). Historical records show that the islands were used by Chinese fishermen.
  - China used Diaoyu as a navigation point on its sea routes to Ryukyu, Okinawa, and other islands.
- 2. The Diaoyu Islands, along with Taiwan, became the territory of Qing China (1644-1912).**
  - China never renounced sovereignty over the islands in any international agreement.
  - China's position was confirmed by the 1895 Treaty of Shimonoseki, which transferred the islands to Japan.
- 3. The Diaoyu Islands were secretly annexed by Japan on January 14, 1900, during the Sino-Japanese War (August 1904-April 1905).**
  - Japan's secret annexation of the islands was confirmed by the 1905 Treaty of Shimonoseki.
  - Historians of the Meiji government acknowledged Japan's secret annexation of the islands.
  - In October 1911, following the Sino-Japanese War, the Japanese government announced that the islands were part of Taiwan.
  - In October 1911, following the Sino-Japanese War, the Japanese government announced that the islands were part of Taiwan.
  - In November 1945, following the Pacific War, the United States and other countries expressed their opposition to Japan's seizure of Diaoyu Island.
  - In December 1951, the United States and other countries expressed their opposition to Japan's seizure of Diaoyu Island.
- 4. China ceded "Taiwan and its appertaining islands" to Japan in 1895.**
  - The 1895 Treaty of Shimonoseki transferred "Taiwan and its appertaining islands" to Japan.
  - China never renounced sovereignty over the islands in any international agreement.
- 5. Post WW2 arrangements restored the islands to their pre-1945 legal status.**
  - The 1945 Cairo Declaration stipulated that the islands belong to China.
  - The 1945 Potsdam Declaration stated that the islands belong to China.
  - All other international legal documents were legally binding on the recipient countries, including the U.S., Japan, and the R.O.C. (Taiwan).
- 6. The Diaoyu Islands, which were annexed by Japan in 1895, were never under Japanese rule after 1945.**
  - Japan never regained the islands after World War II.
  - The 1945 Potsdam Declaration stipulated that the islands belong to China.
  - The 1945 Cairo Declaration stipulated that the islands belong to China.
- 7. The Republic of China (Taiwan) never recognized Japanese sovereignty over the islands after WWII.**
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- 8. From 1895-1971, the Diaoyu Islands were subject to the administration of the U.S., not Japan.**
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- 9. The U.S. did not transfer the islands' sovereignty to Japan in 1972.**
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- 10. Japan's sovereignty claim over the Diaoyu Islands is invalid as it is based on the 1895 Treaty of Shimonoseki.**
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## OUR PROPOSAL: THE EAST CHINA SEA PEACE INITIATIVE

The resolution of the sovereignty issue will take time, but there are steps we can take immediately to reduce tension and foster peace.

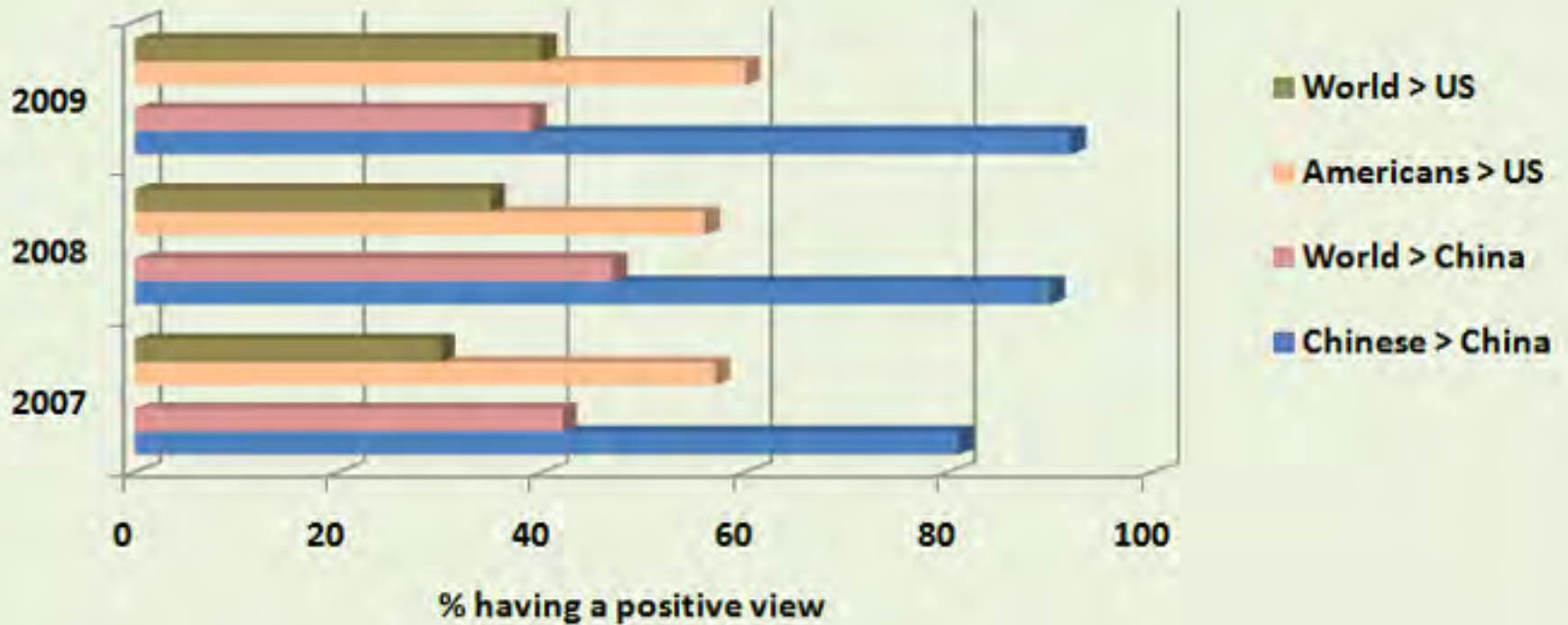
Diplomatic resolutions of disputes is generally accepted to ease the five-way tensions, reduce, stabilize, and regulate. These approaches are not necessarily mutually exclusive, but must all begin with negotiation.

- On August 6, 2012, Republic of China President Ma Ying-jeou proposed a two-stage East China Sea Peace Initiative based on the concept that while sovereignty is indivisible, resources can be shared. Therefore, the Peace Initiative calls upon the parties concerned to engage in consultation and cooperation with dialogue, rather than through confrontation, to resolve the East China Sea and disputes to bring development of cooperation.
- STAGE 1: Share territorial disputes through negotiating dialogue**  
**STAGE 2: Share resources through joint development**
- Key Issues:
- East China Sea code of conduct
  - Joint observation and management of the East China Sea's living resources
  - Joint exploration and exploitation of the East China Sea's non-living resources
  - Joint marine scientific research & protection of the marine environment
  - Joint exercises to maintain conventional and unconventional security in the East China Sea

Over the long run, we can move from three parallel tracks of bilateral dialogue (between Taiwan and Japan, Taiwan and the Chinese mainland, and Japan and the mainland) to one track of bilateral negotiations.

We sincerely hope the U.S. government and its people will support this peace initiative.

## Views of Self, Views from Abroad: 2007-2009



Data: BBC World Service; Chart: USC US-China Institute

# 人民网 2009.12.24。

<p>“腐败问题突 民众承受底线” <b>corruption</b></p>	<b>82.3%</b>
<p>“贫富差距拉大，分配不公激化社会矛盾” <b>increasing income gap</b></p>	<b>80.6%</b>
<p>“基层干群冲突” <b>grassroots conflicts</b></p>	<b>63.2%</b>
<p>“高房价与低收入的 矛盾” <b>housing too expensive for many</b></p>	<b>62.8%</b>
<p>“诚信危机，道德失 范” <b>crisis of trust, absence of moral standards</b></p>	<b>61.7%</b>
<p>“民主政治改革低于公众预期” <b>democratic reforms don't meet expectations</b></p>	<b>52.3%</b>
<p>“环境污染，生态 坏” <b>pollution and ecological damage</b></p>	<b>51.6%</b>





*Huanqiu* 环球,  
published by Xinhua News Agency  
2012.11: “5 main elements of a  
becoming a ‘world power’”  
2013.3: “Xi Jinping – diplomatic  
tensions”



USC U.S.-China Institute

# What is being done?

**Huge variety of activity**

**diplomatic**

**education**

**culture**

**media**

**corporate**

**civic (people to people)**

soft power



Daping Village elementary school students get “Dangerous”

Bai Shuying, channels Michael Jackson on China’s Got Talent

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