“Previewing China’s National People’s Congress Session”

RECORDING DATE
Thursday, May 21, 2020

CSIS EXPERTS
Jude Blanchette,
Freeman Chair in China Studies,
CSIS

Bonnie S. Glaser,
Senior Adviser for Asia; Director, China Power Project,
CSIS

Scott Kennedy,
Senior Adviser and Trustee Chair in Chinese Business and Economics,
CSIS

MODERATOR
Caleb Diamond,
Media Relations Manager and Editorial Associate, External Relations,
CSIS

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CALEB DIAMOND: Well, good afternoon, everyone. I’m Caleb Diamond. I’m on the External Relations team here at CSIS. Thanks so much for joining us this afternoon. All of the participants are in a listen-only mode, and I ask that you please remain that way until the question-and-answer session.

As you all know, U.S.-China tensions have been all over the news, and so we’re very fortunate today to be joined by three of the sharpest China hands in the country. They’ll each give brief opening remarks, followed by question and answer. To ask a question, please shoot me a chat privately or fill out the form that was emailed to all of you. I’ll also send that out in the chat so you can access it easily.

Without further ado, I’d like to introduce our speakers. Starting off will be Scott Kennedy. He’s senior advisor and trustee chair in the China business – trustee chair for Chinese business and economics. He’ll be followed by Jude Blanchette, Freeman Chair in China studies. Last but not least we’ll have Bonnie Glaser, senior advisor for Asia and director of the China Project here at CSIS. And with that, I’ll turn it over to Scott.

SCOTT KENNEDY: Thanks so much, Caleb. I don’t know if you got the slides there that you could put up and share, and then just go to the second slide. And I’ll only need these just for a second. And hopefully everybody, thumbs up, you can hear me, it’s coming through OK? Terrific. OK. So do you have those?

MR. DIAMOND: Yes. I’m pulling them up right now.

MR. KENNEDY: OK, great. We just want to go to the second slide, for everybody’s benefit. Just since I’m going first, to say that from the – in China, people understand the events that are starting today and occurring for the next week as the two sessions, the two meetings. And the first meeting already started this morning China time. The Chinese People’s Political Consultative Conference, which is an advisory body of about 3,000 people from different walks of life in China, which – it’s what the Communist Party uses to suggest that it’s a relatively democratic country where they gather opinions from different spheres of life. I don’t think it actually works that way. But anyway, that’s the first meeting that started.

What we’re really going to focus on today, and what’s more important, is the National People’s Congress session, which starts tomorrow, Friday morning, in Beijing, and will run for a week. And that’s China’s legislators. Now, Jude will get into more details about how the NPC runs and the session, but nevertheless that’s the one we’re focusing on. This is China’s official legislature. So that was all I wanted to do with those slides. We have one more that shows you the pictures of the meetings from this morning, so you can see what it looks like. And, you know, typical CCP structures and pageantry, et cetera.
I just want to make three points for the remainder of my time. The first is about China’s economic recovery, and to emphasize that although the government and the party have thrown a lot at this problem because of the – to deal with the pandemic – they’ve expanded credit quite a bit, they’ve opened the fiscal taps to run a lot more investment – China’s recovery I would call steady, but slow. They are going to come nowhere near meeting the targets that they set. And they aren’t going to emphasize them at the NPC most likely.

Unemployment – official unemployment is at 6 percent, which you should double or triple that to know what the real unemployment level is. Four hundred and sixty thousand private companies were closed in the last few months. And travel is off substantially. It was down 71 percent in April. It’s down still even in May. Over the May Day holiday for four days Chinese were – had vacation. Travel was down 60 percent from a year ago. Real estate prices haven’t recovered. And as folks shift to telework in China commercial real estate won’t ever recover where it was before. And international trade is down quite a bit. Auto sales have picked up some, only down 5 percent this May compared to last May, but still not where they need to be. So China’s economy is recovering, but very slowly. There’s going to be no V-shaped recovery.

Second point, that what’s on the agenda economically for the NPC? I think the first thing – I would emphasize three. Of course, you’re going to care more about the fourth, which I’ll just mention and then let others focus on. The first, from a Chinese perspective, is on protection of the economy. And that means, number one, protecting jobs. So China’s going to roll out a whole bunch of additional initiatives to keep people in their jobs, to keep companies afloat. We should see a whole variety of initiatives and spending that the central government rolls out, that local governments roll out.

Well, secondly, they’re going to focus on more investment for growing the economy, short term and long term. You’ll hear a lot about autonomous vehicles, artificial intelligence, other – 5G, a lot of high-tech initiatives. A third thing that you’re going to hear about as a big emphasis is reform. This word is going to be in about every other sentence that is uttered from the stages of the meeting over the next week. China has put forward a new reform proposal about a week ago. It looks really nice on paper. It sounds really good. It still has hidden within it a lot of things to make the Chinese state much more powerful. So it’s really not about liberalization but reform Chinese-style, but you’re going to hear a lot about.

The fourth thing that you’re going to hear a lot about that you all will care about – they won’t mention as much – but it’ll be about Hong Kong. And Jude and Bonnie can talk much more about that.
The third issue, U.S.-China relations – and I just want to talk about the commercial side of this – is that, again, you’re not going to hear a lot from the stage or in interviews about U.S.-China relations. Chinese leaders typically leave the throwing stones and the warfare of language to Chinese journalists and foreign ministry officials, et cetera. So you’re not going to hear – you’re unlikely to hear them criticize Pompeo or Matt Pottinger.

But what you are going to see, especially on the economic side, is an effort by the Chinese to contrast how well they portray they’re doing with how poorly they think the U.S. is doing or how others think the U.S. is doing; so contrasting China’s growth and recovery story with the spreading pandemic in the United States and contrasting China’s giving of aid for – of medicines, PPE, helping the rest of the world, with the U.S. being much more internally focused and criticizing globalization. That all came to fore when Xi Jinping gave a speech to the opening of the World Health Assembly on Monday.

Again, this is a domestic event focused on a domestic audience. And so I think that’s why you’re going to see the type of agenda that they’re going to be putting forth, looking to provide protection and reassure people, promoting growth and promoting reform, and only indirectly criticizing the U.S.

Let me pause there and hand things over to Jude and Bonnie.

JUDE BLANCHETTE: Well, thanks, Scott.

Hello, everyone. Jude Blanchette here.

I’ve actually rewritten some of my remarks I was originally prepared to give today, just because we’ve had a heck of a rocky road over the past 48 hours in U.S.-China relations. And indeed, even over the past 12 hours we’ve had some significant developments. So I thought it would be a better use of time to talk about arguably the most salient development of the NPC thus far, even though it hasn’t started, which is the issue of Hong Kong.

Before I do, I’m just going to make – I just want to hijack two minutes or so to give some topline thoughts on U.S.-China relations, because it’s hard to interpret developments in Hong Kong unless we have, I think, a framework for where things are heading.

You know, my perspective is this is a fundamentally new relationship with the U.S. and China. This is not a continuation of the track we were on in, let’s say, the post-1989 period or even after 2008 global financial crisis. So we’re not heading to the precipice, in my perspective. We’re over the edge. And the question now is, how do we arrest the fall? Because the velocity of change right now and the way that this is – the
tensions are increasing in an exponential rather than linear fashion. It’s – forget about getting through the election. It’s really worrying to me. Where are we going to be in two weeks or so?

And what makes me nervous is it’s the proliferation of flashpoints. So we have a structurally lower level of trust in the relationship multiplied by an increasing number of flashpoints, whether they are long-established ones that are heating up – and I would leave this to my colleague Bonnie Glaser – but the issue of Taiwan remains extraordinarily important. And over the past few days we’ve seen some developments.

But we’re having a proliferation of new flashpoints that are new to the relationship. And this is where my colleague Scott Kennedy’s work on some of the commercial relationship and the way that the U.S. government is treating Chinese tech companies is going to be a new area that we need to watch.

So it’s that mathematical relationship between cratering levels of trust and proliferation of flashpoints that makes this a particularly, I think, worrying period in the bilateral relationship.

And so, to build on that, let me talk about one of the newest flashpoints here, both over the past year or so but now in the past 12 hours, and that’s the issue of Hong Kong. Just to remove – to go from most recent to historical, just in the past 12 hours we’ve had the spokesman for the National People’s Congress come out and say that on the agenda, the legislative agenda for the meeting, is a new national-security law, new national-security legislation. This is likely to be voted on at the end of the NPC on May 28th.

Without getting too technical into the laws here, basically this will be a revision of or an addition to what’s called Annex III of the Basic Law. This is a way for Beijing to push through changes in legislation outside of the legislative body in Hong Kong. Once this is promulgated and put into effect, this would ban treason, sedition, secession. The way that these will be defined is relatively vague, but I have to say we have not seen the wording for this yet. This is, so far, just a(n) announcement from an NPC spokesperson. So we’ll have to be seeing in the coming days what is actually in this – in this new legislation.

This has been a long time coming. There has – since the fourth plenary session of the CCP Central Committee last fall, there’s been a series of announcements both at the fourth plenum and then in state media and in state commentary really hinting at this idea that they were going to make a push on this national security legislation. I didn’t think it would come this soon, but this has certainly been something that they have been pushing for. At the – at the fourth plenum decision last fall they said Beijing will require, quote, “to build and improve the legal and
enforcement systems on protecting national security in Hong Kong.” So they have been signaling that this has been coming for some time.

Now, a couple points I want to make is this is not going to happen overnight. Even if we see this ratified by the NPC next week, it still needs to go before the National People’s Congress Standing Committee, which does not meet till next month. And then, according to one media report that has just come out today – Chinese state media – this is something that they see being implemented over the next several months. So this may well take us into the fall, possibly past the U.S. presidential election.

I should also mention that under Article 18 of the Hong Kong Basic Law, even if you want to add something to Annex III of the Basic Law, it still needs to be – requires promulgation, or at least legislation in Hong Kong, as we’ve seen with some other pushes that Beijing has made like on the recent national anthem law. So a question there is: Does Beijing try to ram this through over the next couple months or does it wait till after the LegCo elections which are coming up in September?

So there’s still a lot of moving parts to this. I would say this is – this is the – this is the beginning of this, rather than the end of it.

But why does this matter beyond simply looking at the future of Hong Kong? Well, the most important reason and the most proximate reason is last year the U.S. Congress passed something called the Hong Kong Human Rights and Democracy Act. As a part of that, there was a stipulation that – or building on a previous stipulation that every year the State Department – the U.S. State Department had to essentially certify that Hong Kong was receiving the requisite amount of autonomy from Beijing to warrant its special treatment under something called the Hong Kong Policy Act of 1992. Short version is we treat Hong Kong separately from a trade and investment status as we do mainland China. All the tariffs, for example, on mainland China that occurred as a result of the trade war don’t apply to Hong Kong right now. If the State Department does not certify that it has that requisite level of autonomy, then we may revoke Hong Kong’s unique status, which has been referred to in this context as kind of the nuclear option.

This is a – this is an important near-term issue because that annual certification from State Department, which was planned for end of March, was then delayed, and then Secretary of State Mike Pompeo came out a few weeks ago and said we’re going to wait till we get to the other side of the NPC and see if Beijing has made any moves. And by golly, this is about as aggressive a move as Beijing could have made, and so I don’t see much room here for the Trump administration to now come out in this report and say, yeah, Hong Kong has received the requisite amount of autonomy so we’re going to certify that.
So final point I’ll make on this is just because State Department doesn’t – or doesn’t certify the requisite amount of autonomy, revoking the 1992 Policy Act or the special status has been something under presidential authority since 1992. So we’ve always had the power to do this. The difference now is the political pressure to do it. And so I think it’s very unlikely that we’re going to certify that level of autonomy, and I think it’s moving to likely that we now start treating Hong Kong as we treat the mainland. And the reaction from Beijing after the Hong Kong Human Rights and Democracy Act was pretty aggressive, saying that this is the U.S. messing with internal politics. The reaction, I think, is going to be pretty furious if we move forward with this. So just one of these many flashpoints to watch moving forward.

And with that, I will shut up and turn it over to my colleague, Bonnie Glaser.

BONNIE S. GLASER: Great. Thank you all for tuning in. I am going to talk about several issues – Chinese defense spending, and Taiwan, and also a little bit about the People’s Armed Police. And try to do this very quickly so that we can have some questions.

First of all, as Scott said, the National People’s Congress does focus primarily on domestic issues. Taiwan and Hong Kong, of course, are both domestic issues for China. But there is really an important backdrop with COVID-19, the international public, I think, opinion that has been very critical of China and its handling of the coronavirus, and particularly in the weeks after the outbreak, even months.

So I think that Beijing is going to try to use the opportunity of these two sessions to promote a positive narrative about China, both within China and also in the international community, highlighting China’s achievements in fighting the coronavirus, and seeking to not only consolidate support for the Communist Party domestically, but also shape international public opinion in a favorable direction.

So with that, I’m going to move to defense spending. And every year the Chinese just before or at the opening of the National People’s Congress announce what the figure is going to be for defense spending in the coming year. So last year there was a 7.5 percent increase. And that was about 1.19 trillion yuan, which translates into $177.5 billion as the annual budget for the PLA. Of course, for years the PLA had double-digit increases. And since 2016 we’ve seen single digit increases.

I’d like to talk about defense spending from some different perspectives. One is a percentage of GDP. So if you look at – what I usually use is the SIPRI data that they use for military spending. They say Chinese defense spending is around 2 percent. The spokesman for the NPC came out today and said that China’s defense spending remains steady at 1.3
percent, and that’s – of GDP – and that’s according to their figures, of course.

So another way to look at it is to look at the percentage of money spent in the overall government budget on defense. And as a percentage of total government expenditure, the amount spent on defense had dropped considerably. I think the height was about 2009. It was just over 8 percent. And since 2014, that annual figure has been on the decline. It’s gone from 6 percent in 2016 down each year to 5.9 percent, 5.6 percent, finally last year 5.4 percent of total government expenditure.

So it’s useful to think about it that way because the Chinese are – the economy is growing and has been. And this year it’s not going to grow as much. But the defense figure has remained – it’s been a diminishing component of that overall government expenditure – the budget. So my own prediction, if I had to make one, is that we are going to see defense spending about the same as last year. It may be slightly less. There’s already some people in the media with military background saying that the PLA has asked for a 9 percent increase. I’d be surprised if they got it.

But we should remember that Xi Jinping set out very important goals at the 19th party Congress. By 2035 China should have a professional military. And by 2049, the 100th anniversary of the founding of the country, it should have a world-class or first-tier military. So I don’t think we’re going to see that PLA budget to down substantially.

Second, I’m going to very briefly talk about Taiwan. In the past NPCs have sometimes served as a platform for major statements on policy toward Taiwan. In 2005, the NPC passed the anti-secession law. So that was a very important year. In 2018 Xi Jinping gave a closing speech in which we warned against actions and what he called tricks to split China, that he said were doomed to failure. And he said, and every inch of the motherland must be preserved. So that was an important speech. And he made – used the occasion to talk about Taiwan.

We didn’t hear much last year. Xi Jinping joined the Fujian province group meeting last year, which he hadn’t done since 2012, but there wasn’t a major statement. I believe that given the timing of this NPC, which comes on the heels of President Tsai Ing-wen’s inauguration speech that took place yesterday, and U.S. participation, virtually of course, at very high levels, including a congratulatory message sent by Secretary of State Pompeo and video messages sent by Assistant Secretary of State for East Asia Dave Stilwell, as well as our Deputy National Security Advisor Matt Pottinger.

I think the Chinese are rattled by the degree of U.S. support. There was nothing Tsai Ing-wen said that was particularly provocative, but she certainly didn’t make any concessions toward China. The cross-strait portion of her speech was quite short and mostly reiterated things that she
had said in the past. So I think that the Chinese will use this NPC as an opportunity to make some important tough statements about Taiwan. And they may come from Xi Jinping himself.

The last thing I’m going to talk about briefly is the People’s Armed Police. So there’s a proposed revision of the law regarding the People’s Armed Police that would increase the power of the PAP and also the role of the coast guard in the maritime law enforcement. So the Chinese coast guard is under the PAP. The PAP itself has 1 ½ million police. It’s a paramilitary force, essentially, mainly responsible for internal security, for antiterrorism, for riot control, and for protecting maritime rights. So it plays a very important role, maritime law enforcement in places like the South China Sea and the East China Sea.

So the PAP had been moved under the Central Military Commission in 2017. And this amendment would move it – would keep it under CMC, but also move it under the direct command of the party’s Central Committee. So it would be under both simultaneously. That’s my understanding. So this appears to be a proposed change in organization and command that I believe would boost the role and the influence, perhaps, of the People’s Armed Police, giving it more national defense duties.

The amendment to the law calls for the PAP to join a national intelligence-sharing network, which means they have not been fully integrated in the past and would be in the future. And it also calls for more funding commensurate with its duties and developments. So look for an increase to the funding going to the People’s Armed Police. And I will stop there. I’m happy to answer any questions, and thanks to my colleagues for all of your insights as well.

MR. DIAMOND: Well, thanks so much to the three of you for your opening remarks. I think now we’ll turn to questions.

(Gives queuing instructions.)

As the three started talking I think we see some questions, so we can turn to those first. Bonnie, I guess this first one is probably best for you, but the question is: What’s the significance of the arms sales to Taiwan announced last night on U.S.-China and U.S.-Taiwan relations?

MS. GLASER: Well, what was announced last night was torpedoes. I forget the exact amount. But to me, it signals that the Trump administration is going to continue to live by its promise to take arms sales request from Taiwan on a case-by-case basis, not hold them up because of concerns that China might have or any potential negative impact on the U.S.-China relationship. To me, it’s not clear, though, how these are going to be used. I assume these will be for their existing submarines, probably the ones that they acquired from the Netherlands. I doubt they’re for the
indigenous submarine because I don’t think we’re going to be seeing those manufactured for many years.

So I’ll have to look into this a little more. I know that that the Chinese – I know that Taiwan acquired torpedoes several years back that they bought from Raytheon. So this may be increasing the inventory of torpedoes that they have. But to my mind, this essentially signals that the Trump administration is abiding by its commitments under the Taiwan Relations Act to sell defensive weapons to Taiwan.

MR. DIAMOND: OK. And we can move to the next question. I think it’s probably best for Jude, but all three of you can pitch in. And the question is: Should the NPC pass national security legislation as you touched on, how should the international community respond and how will it respond?

MR. BLANCHETTE: Well, so, as I was mentioning, the – if this moves through the NPC, this is really the – there’s a lot of questions that still need to be answered. So one thing is the text of the national security legislation will be important.

I should also mention that under Hong Kong’s special status, the 1992 Hong Kong Policy Act, it’s not a binary. We don’t – we don’t flip the switch on or off; that there are various elements that the U.S. can tweak, so it can leave on – it can leave on many of the protections or unique status that Hong Kong has and put in place some others. So this is really a menu of options that the United States would have.

This is hard to get into the question of what should you do because I think there’s a – there’s a normative element here. If you are looking to essentially do the utmost to maintain Hong Kong’s robust – still relatively robust amounts of legal protections and freedoms compared to the mainland, then you might rethink revoking the status of Hong Kong here because that speeds up, more than Beijing is already speeding up, Hong Kong’s erosion of its – of its unique status here. So if that’s your starting point, then I think there are ways that you can be pressuring Beijing or without going this nuclear option.

The second thing is if you just look at the timing of this, it’s clear Beijing understands or is already signaling that it’s got negotiating room here, because it’s essentially stretching this out six months is what a Chinese-language article in the Global Times said today. That means this takes us probably past November, which means this is going to be an issue which will be on the docket of U.S.-China relations over the next six months.

So, in short, I don’t know. It depends on where you come at this and what your ultimate objective is. But if it’s looking to essentially speed up the pace with which Hong Kong gets fully subsumed under China, then you could speed that process along by giving – by the U.S. essentially saying we’re no longer going to treat it any differently. If you’re looking to delay that process, then I – then I should think that we may want to
start working aggressively to signal to Beijing that we’re going to be pushing back significantly on any moves here and we’ve got a six-month window, essentially, to be formulating a strategy to do that.

MR. KENNEDY:

I’d just add to Jude’s very good points that even though this is – may require six months to fully implement should they make these initial revisions at the – at the NPC meeting over this coming week, there will be enormous pressure on the U.S., Great Britain, and others to not give China six months of time before they respond in a pretty stark way.

We’re going to see, certainly, protests increase in Hong Kong, not only in reaction to this but because every anniversary of June 4th there’s more protests even if they need to practice social distancing or something. But I think that means that there’s not going to be the ability to be fully patient and to go through all the signaling back and forth to try and first deter, and if you can’t deter then take graduated steps. My guess it that there will be pressure for this to escalate extremely quickly, which is extremely unfortunate and I think just speaks to the unfortunate mistakes that Beijing and the Hong Kong government made a year ago in how they were dealing with the protests then. And if they had – they could have done a much better job in handling those initial protests and not letting it unravel the way it has.

MR. DIAMOND:

Great. And we can move on to the next question. The next question is: So China invests – is increasingly investing heavily in Africa. But given COVID-19 and the economic impact on China, do you expect China’s behavior to change much when it comes to investments on the continent? And I think we can broaden it out and, you know, what will China’s Belt and Road or other infrastructure investments across the world look like given the economic downturn you’ve touched on, Scott?

MR. KENNEDY:

Sure. In the short term, certainly the overall dollar figure of Chinese outward investment is declining a lot less than the United States and many other places, including in Africa. This is first a reflection of China’s own financial fragility. And over the last two years outward investment, whether it’s been part of the Belt and Road or not, has tapered off.

I think also you’re seeing countries who’ve taken on investment from China or received loans from China face difficulty in paying back some of those because some of these investment projects didn’t make sense to begin with. And so then you – and so I think you’re going to see some constraining of overall outward investment as a result of the downturn that we’re in right now.

But broadly speaking, I think China is trying to, as Bonnie said, paint a new narrative by suggesting that they are the provider of public goods of first resort and last resort, and contrast them with the United States. So I think you’ll see more aid and engagement and Chinese on the offensive.
Now, some of that is going to irk folks. This idea – this wolf diplomacy, wolf-warrior diplomacy, is certainly getting pushback. But my guess is that the Chinese step on the gas at least in terms of narrative, if not dollar value.

MS. GLASER: I would just add briefly that China has taken a hit in Africa because of some of the policies in China against Africans that were really seen as quite racist. And there was a lot of evidence of Africans being discriminated against.

So I think that the Chinese are going to try to do their best to make up some ground with African countries. Africa has always been important to China in votes at the U.N., for example, in the Human Rights Council, every African country except for Eswatini now recognizes the PRC, not Taiwan. They don’t want to – they certainly don’t want to lose any of them. They want these countries to vote in support of China whenever that is necessary. If they need a vote, for example, on supporting their policies in Xinjiang – the last time they looked to countries around the world from support, they got – for support – they got about 54 countries. And some of those countries are in Africa.

So this is a challenge for China. There’s going to be pressure on the Chinese to not only delay some of these payments back to China for loans, but also to forgive some of those loans for some of the poorest African countries. And it’ll be interesting to see how Beijing responds to that pressure going forward.

MR. DIAMOND: The next question is: 2021 marks the hundredth anniversary of the founding of the Communist Party of China. Will we see any sort of shocking moves by China, anything newsworthy? Is that anniversary – will that spark any actions on behalf of China that would be unexpected?

MR. BLANCHETTE: I’ll take a first stab at that. Probably not. Usually anniversaries like the National Day anniversary, or if we look back at previous, usually five-year iterations of the celebration of the founding of the CCP, Beijing likes everything to be nice and tidy domestically.

I would say this is going to be the single biggest political moment for Xi Jinping over the past few years. It will be one year before the next – 20th Party Congress, where he, in all likelihood, will go for a third term as head of the Central Military Commission, the general secretary of the Communist Party, and the president of the People’s Republic of China. So this will be a moment of extraordinary pomp and circumstance, organically so, because at a hundred years old, the Communist Party has a lot on its own terms that it will be celebrating.

I think, given where U.S.-China relations are likely to be, the message will be extraordinarily stark. It will be both celebrating the challenges we’ve overcome in the past and looking at the great challenges we have
moving forward. Xi Jinping will be in campaign mode, so he’ll – there will be a message of and only I, comrades, am the one who can lead us through this next challenging period. But I doubt that this will be a platform for a sort of – something new or surprising.

What we’ve seen, and we just saw it today, is that actually Beijing comes in with surprises when folks are not always paying attention or expecting them to occur.

MR. KENNEDY: I guess I would just add just very briefly, China’s supposed – Beijing’s supposed to host the Winter Olympics in early 2022, and they want everyone to show up and have a good time. So I don’t think it – if it was their preference, that 2021 would be a year of extensive global conflict with the United States and the West. They’d like all of this to calm down. They’re not making it easy for that to happen. And so I still – so I think 2021, a lot of people will be talking about the Olympics and China’s rise, and we’ll – you know, but we can’t – as Jude said, we can’t expect China to just be on its best behavior either. They’re going to – they have their own initiatives to push for.

MR. DIAMOND: Great. So the next question is: What are the immediate implications for Hong Kong, China, and also U.S. interests in Hong Kong if the United States were to terminate Hong Kong’s special status?

MR. BLANCHETTE: So a lot of that would depend on what this looks like. As I was mentioning, there’s a menu of options that the United States has. So this could go from the full – the full revocation, which would mean essentially all – we treat – we treat Hong Kong in every single way exactly as we treat mainland China. So that would include things like export controls on technology. That would include all the tariffs that we have onboard. If that were to be the case, you have a significant number of companies operating out of – U.S. companies operating out of – out of Hong Kong, which there would suddenly – it would be as if they were in Shenzhen or Shanghai.

Hong Kong is one of the few countries in the world we have a trade surplus with – or, sorry, is one of the few political entities in the world – sorry, I just – MSS will show up at my door here in a minute – one of the – one of the few political entities with which we have a – we have a trade surplus with. It’s not much, but obviously that would erode.

I think this is more – fundamentally, this is less about what would the economic effect be on us or even necessarily on U.S. companies, most of whom have heavy footprints and investments in mainland China and use Hong Kong as a gateway. I think this is much more about the political ramifications for U.S.-China relations, and this is why the United States is moving – I think you’ll see the Trump administration move aggressively to react to this, is because this is – this will be seen as a symbolic indication that Beijing is continually moving in a hardline direction. And
vice versa, Beijing is right now very, very sensitive to anything that appears that the U.S. is mucking around in internal politics, so the reaction is likely to be fierce. So I think this is more geopolitical in its implications for U.S.-China relations than it would be necessarily economic for, let’s say, U.S. companies operating there.

MR. DIAMOND: (Gives queuing instructions.)

And we can move on to the next question, which is for Bonnie. It’s: Can you elaborate more on the significance of Tsai Ing-wen’s election victory on sort of U.S.-China and U.S.-Taiwan relations?

MS. GLASER: Well, I think it’s quite clear that the United States has increased its backing for Taiwan and has spoken very favorably about Tsai Ing-wen’s performance and commitment to preserving the status quo, while criticizing mainland China for damaging the status quo. And there have been many firsts in the U.S.-Taiwan relationship in Trump’s first term. We have seen the national security adviser, for example, from Taiwan visiting Washington and that visit being made public.

And some of the things that are being done are not new, but what’s new is that they are being made public frequently. So, for example, the United States has always sailed its Navy ships through the Taiwan Strait periodically, sometimes even at the same pace that we’re doing now, which is approximately monthly – although in April, there were actually two transits by a U.S. Navy ship through the strait, and that was unusual. But there’s been a number of firsts. And the Trump administration is, of course, very committed to trying to increase Taiwan’s participation in the international community, first and foremost at the World Health Assembly, the executive arm of the World Health Organization. And even though it wasn’t brought up at the meeting that just took place, that was because it was online and a very truncated meeting. But my understanding is that this issue will be picked up once again in the fall.

So the inauguration speech itself did not say anything that I think that the United States would find problematic. The fact that Tsai Ing-wen said that the people of Taiwan reject one country two systems is not new. And it is true, the polls have consistently shown for years even before the protests really ramped up in Hong Kong last year, that the people in Taiwan do not support the application of one country two systems to Taiwan.

So I expect that we will see more friction going forward. The Chinese have reacted rhetorically pretty strongly not just to Tsai Ing-wen’s speech and her failure to recognize the one China principle and the 1992 consensus, but also to the statement that were made by these senior U.S. officials. And we’ve already seen military, diplomatic, economic pressure ramped up on Taiwan. So I expect this is going to get worse.
And although I just wrote an article that was published last week in Foreign Policy, I’ll stand by what I wrote – which is with my colleague Matthew Funaiolo, that I don’t think that China is poised to attack Taiwan in the near future. There’s a number of reason we laid out in that article as to why it’s against Chinese interests to do that now. But, yes, the PLA is making preparations, and the military pressure against Taiwan is quite substantial. And therefore, the risks of some kind of untoward accident is growing as well.

MR. DIAMOND: Great. So at this time it doesn’t look like there are any further questions, so I think we can end the call here. I’ll give everybody a little bit more time to submit any questions they have. But we will be sending out a transcript. It’ll be sent to your email. It will also be posted on our website as well. If you’d like to set up a one-on-one interview with any experts here, please shoot us – shoot me an email. We’d be happy to work to set that up. But this story does definitely not end here, and then the three of them will watch this day going forward. And I just want to thank all of you for calling in, and thanks again to our experts for joining us.

MR. KENNEDY: Thanks, Caleb. Thanks, everybody. Bonnie, Jude, take care.

MR. BLANCHETTE: Thank you.


MR. KENNEDY: You too.

(END)