

# China Strategic Environment Report (2035)



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## Overview

As the first comprehensive strategic environmental report, this report's assessment and definition of the world's strategic environment in the present until the year 2035 in the future is that for a considerable period of time, the world's main trend is the formation and construction of an irrational world. The conclusion of such irrational world builds upon several factors which includes protest movements throughout the world, the inefficiency of the government governance and its bureaucracy, the extreme attitudes and standpoints of various social classes, the non-evidence in imaginary enemies of various countries, the increasingly increase of isolationism that is becoming a mainstream thought in the society, as well as extremisms that create ruptures throughout in various countries.

In the current world, the existing ethics, rules and negotiation tradition are facing huge challenges, as the space for negotiation will be replaced by political rivalry, thereby it would be harder for all to reach consensus. Rational political leaders will not be able to utilize their leadership skills in a world like this. Disorder caused by the internet is spreading throughout the globe in an unprecedented speed and efficiency. In such a world, the power of organizing is highly distorted, as disorder and random organizations take advantage of the convenience of the internet. Historical logic, the truth, and facts are becoming insignificant to many, as many have increasingly focused on selecting and making a stand in order to seek for a sense of security that in reality cannot be found. This is a world that tremendously from the world that we used to know, to the extent that it is almost beyond recognition and shocking. Such a world is apparently, an irrational world.

According to the current trend of global development, various stable powers have become the main obstacles for this the emotionalized world.

The progress of the trend shows that certain deviations in the implementation of the Belt and Road Initiative from its targets, the unorganized interpretations of the Initiative, and disordered spatial advancement have provided facts and evidence for certain parties in the world, including the United States and other countries that are wary about the

development prospect of China. The aspects mentioned earlier have served as foundation for these countries to position China as a major strategic competition. These countries generally believe that the Belt and Road Initiative is a proof that China's influence is reaching far and wide, and that it is a move of China to assume world leadership. They are deeply unsure about the prospects of the world with China's participation and are extremely worried.

Perhaps to China, the complications of the world's future strategic environment is that China has been defined as the main long-term strategic competitor by the major countries in the world. Thus, to a certain extent, China has become the main enemy of these main countries, instead of being a long-term developing and collaborating partner.

The main challenge for China is how to handle and manage the next 17 years, in fact to China, this is a huge and difficult strategic decision to make.

The long-term strategic competition of China, is generally defined as an action and reaction, fusion and diffusion. "Long-term strategic competition" can be used to describe and encompass territorial, political, and economic wars in the world as well. The fundamental objective of the long-term strategic competition is to erase China's influence in the world's economy and political stage, and to limit China's development in terms of commodity capacity, market space and technology regeneration. This is done in order to ensure the continuation of the Western powers in the development and influential spaces that have been in existence for centuries, especially the rules and systems as well as the international order led by the United States since World War 2.

The main challenge for China is how to handle and manage the next 17 years. To China, this is a huge and difficult strategic decision to make.

In the course of this "long-term strategic competition," facing various irrational and exaggerated blames and attacks, China will need to grasp the main points, face it calmly, and respond with confidence. What China ought to do is adhering to the path of integration and remain open, in addition to maintaining its image of a moderate power. China should stand on the height of maintaining international progress, thereby

promoting globalization. Through this, it can maintain its open image, and promote the country's own economic progress and room for growth.

It will be a stormy world in the future, and there will be more problems, challenges and major risks, including the risk of financial crisis, geo-politics, and even nuclear disaster. At the same time, one needs to understand that the evolution of world history is a continuous process of human history. All this can be regarded as a new peak state in the great historical cycle. China should strive for the next stage in this historical cycle, which is still in the process of existing and development, in order to achieve a significant advancement and leap-forward in the global status. Therefore, it is very necessary for China now to maintain a kind of strategic self-confidence, stabilize risks, strengthen stability, reform and opening up, adopt a firm growth attitude, take on a firm strategic policy, and maintain its growth space. All these are to meet the challenges and difficulties it faces, so China needs to adjust its pace and rhythm with great policy courage, and strive to achieve its greatness in the new century.

Chan Kung

Chief Researcher

ANBOUND



## Part I Foreword and Significance

As the first comprehensive strategic environmental report in China, this report compares and defines the basic methods of strategic environmental research with China and the United States as the main objects, and uses a large number of analytical tools to expand on the previous research results of ANBOUND for several years. The report analyzes, presents and understands China's strategic environmental issues in a three-stage reporting structure based on trends, challenges, and recommendations.

On the basis of ANBOUND's dynamic tracking research from 2015 to 2018, this report acknowledges that China's strategic environment and the world's environment are undergoing a profound upheaval. This report analyzes and studies the evolution of China's strategic environment by the year 2035, it explores and logically deduces the systematic understanding of the strategic environment, defines and analyzes key strategic factors that play a dynamic role in the strategic environment, thereby the key challenges facing China are analyzed with the strategic interests as the core, and eventually form this report.

### About the report structure

This report defines the problems of key strategic nodes in the current strategic environment, makes trend judgment and problem derivation, and forms directional conclusion.

This report sorts out the major challenges that China faces in the strategic environment, and combines the results of trend analysis to analyze the key challenges that will have a significant impact and long-term impact in the future, so as to create conditions for direction control in the future complex strategic environment.

This report focuses on China's overall strategic environmental issues, discusses the direction of several action plans and potential solutions to key issues.

### Foreword

The fundamental assessment of this report on China's strategic environment is that China will face an unbalanced, irrational world; the consensus of the original international order and rule system is facing complete collapse. Conflicts are becoming increasingly extreme, and right-wing thoughts gradually gaining the upper hand, to the point of becoming a dominant ideological trend. The world as a whole, do appear to be turning to the right-wing.

Such irrationality appears a number of times in history, like during the Medieval period. In general, the term "Medieval" refers to the period from the 5<sup>th</sup> to the 15<sup>th</sup> centuries AD, that is from the collapse of the Western Roman Empire to the era of the Renaissance and the Age of Discovery. The Medieval period was also known as the Dark Ages, a period haunted by famine, plague and war, where many major events took place.

First, there was the collapse and collapse of the Roman Empire that changed the structure of the whole world. The disappearance of this powerful, dominant empire had enormous impact to the world. Another major incident was that the population of Europe had begun to decline, and the Black Death that broke out between 1347 and 1350 took the lives of one-third of Europeans. Third, there were religious conflicts, and the clash between different countries and the resistance of the peasants had reached the peak in the history.

In 1484, the clergyman Heinrich Kramer and Jacob Sprenger's notorious witch-hunt hand book *Malleus Maleficarum* listed a variety of ways to identify witches, and launched massive witch trials in Europe. The medieval witch trials had a very dark side, and the "witches" who were executed were all innocent women. In fact, throughout Europe at the time, about 100,000 to 200,000 people were executed in the course three centuries under the name of witch-hunt, most of them women, including Joan of Arc, and burning on the stake was the most common mean of execution; there were also various horrific instruments of torture, which are still visible in museums today. The world's irrationality had reached its peak, and the medieval period has become veritable Dark Age.

In Dark Age like this, logic and reason were subdued by the irrational society, and more often there were only meek, secondary rationality and logic. Compared with the real world, the irrational society has gradually reached its peak with the internet; the most obvious is Donald Trump being elected and the Brexit. Trump's victory is attributed by some American researchers as the result of the "alt-right movement", that is all rationality and logic are not important. What is important is the opposition that opposes to everything, and venting out dissatisfaction. Brexit is a perfect example of the outcome of such irrationality in the society.

All calculations and data indicate that the social trauma caused by Brexit may be greater, but the British society still voted to leave the European Union. No one cares about the statistics; people acted according to their own whims, even impulsively, from the queen to the nobility from the middle class to the ordinary labors. Irrationality completely defeated reason and logic.

The views of the general public and the middle class and their public opinion on the internet are actually the result of a sharp decline in the marginal benefits and



opportunities of the world. The West has been in a peaceful development environment for a long time after World War II; the whole society is in an ultra-stable state, its structure and order are super stable, yet the negative entropy continues to accumulate and globalization has further aggravated this process. In the past, one could still look forward to the future and seek opportunities for personal development, yet now the opportunities in the future have become very slim and impossible. Therefore, the only thing the public and the middle class can do is to smash the dreams of others and deprive others of their opportunities. This is an inevitable choice; this is a realistic option for them to remind the society to pay attention to their own interests as a social class. This is the origin and key of the rational outbreak.

The world that has lost its hope is a terrible place. The dark, irrational future world cannot be reasoned; this happens to the United States and the United Kingdom, and more countries and societies will follow. What we see cannot be explained by reason and logic; both statistics and classical theories have to be cast aside. People use emotions and desires to express everything, hence this explains well the occurrence of revolutions, strives, conflicts, helplessness, and even arrogance. People are only using destruction to seek attention, to lay the groundwork for future revival, and there is no boundary and bottom line for this. Such a century can only be a dark age, and this is the reality.

Therefore, the irrational world exaggerates confrontations and conflicts, intensifies contradictions and competitions, and will be a terrible subversion to the existing world.

In such a future world, isolationism with the state as the main actor will become the dominant strategic thinking. Comprehensive international cooperation will become increasingly difficult, and global and transnational organizational cooperation relations will be downgraded and increasingly being replaced by regional relationships and regional market space. International organizations representing globalism and cosmopolitanism will be the first to be condemned, not where nations seeking for help. Attacks on them will win applause and political support from many countries around the world.

The strategic competition among countries in the world is becoming increasingly fierce and irreconcilable because of the narrowing of space regions. All countries in the world are competitors; there is no friendship between them and what is left is their own interests. Dominated by various popular emotional concepts, the world as a whole has become narrower with few options left. Conflicts have unfolded, increasingly becoming more intense in all fields.

The reality and the future trends seem to be rather gloomy, but they do not spell the end of human civilization, nor do they indicate we are without any future.

The space for rationality is becoming narrower, and conversely irrationality has become a terrible existence. However, judging from the long-term historical trend of the world, we judge that this is still a repetitive and peak performance of a mega-cycle. The main reason is that the surplus of capital after World War II has promoted a period of rapid historical growth in the world. This rapid growth has taken turns in different regions of the world market. From Europe and the United States to the western Pacific coast and then to the Indian Ocean coast, it has released an amazing amount of capital, created technological progress and production progress, and a large number of surplus products. Yet, at the same time it has also caused the deformation of prices and costs, imbalanced interests, and imbalanced wealth in various countries' markets. This in turn has led to prominent social structural contradictions, sharpened and irreconcilable social contradictions in various countries, and thus many countries have felt strong pressures to break through the existing political frameworks. From the perspective of the historical mega-cycle and the great economic cycle, there will still be room for maneuver of rational forces and a rebound of these rational forces in the future world. Then, there are chances for these forces to achieve relatively more stable performance in the next stage of the mega-cycle, or after the outbreak of violent global conflicts. The dominant countries of these rational forces will likely fulfill the basic conditions and possibilities of assuming global leadership in the future.

In other words, subversive opportunities to change world status still exist in the future.

What China will be in such a global context and how should one analyze the various possibilities of China and the future? This has to do with trends, and it is also a key challenge.

There are two core issues on China. The first issue is the Belt and Road Initiative and the second issue is the ideological obstacle. Both of these problems will cause the future world to begin rejecting China, and close their door to China. The first issue is the reasons and evidence for rejecting China. The second issue is general fear and conceptual obstacles. These two issues complement each other and add up to form the current outbreak of "China Phobia", which has allowed the right-wing world to find strategic opportunities and excuses to reject China.

The background of the Belt and Road Initiative coincides with China's development stage and globalization process. Like the "Marshall Plan"<sup>1</sup> after World War II, the initiative is a natural way for China to transform and develop and give back to the world. After China's reform and opening-up, global and Chinese capitals have accumulated in the Chinese market and formed huge production capacity. This kind of production capacity cannot be fully digested within the Chinese market, else it would become a huge debt and amazing inventory, or it would be forced to go out of production capacity and fall into a crisis or semi-crisis state of economic stagnation. Therefore, it is an inevitable choice to release these capacities and assist the developing countries in the form of Chinese investment, just as the United States assisted Europe in the latter part of World War II. In the United States after World War II, because of the huge investment in war, there were still huge number of post-war demobilized soldiers, and large wartime production capacity needed to be resolved, which was a severe challenge as the market could not digest such capital. Hence, the United States launched the "Marshall Plan", which helped to solve its own crisis in the name of assisting Europe, and as well as opened-up the new, huge European market.

The key to the Belt and Road Initiative (BRI) is that China's strategic pacing and plan are too radical and too "Sinicized" because of its own system issue. In reality, the main component of this initiative is state-owned enterprises. Its main promotional model is to government-led and high-profile publicity of "the rise of China", focusing on what China is good at, i.e. infrastructure construction. All these being said, there is no strategic measures, which naturally caused strong reactions from other countries and regions. This has created conditions for Chinese strategic competitors to establish anti-China political and economic partnerships.

While the influence of social forces within different countries around the world are changing now, yet China is still facing numerous accusations and challenges. The implementation of BRI is considerably emotional, bureaucratic, monotonous, and lacks of long-term detailed strategic planning. This includes the United States positioning China as a strategic competitor and publicly positioning it as an "enemy" or "adversary". Meanwhile, Japan unites a group of Asian countries to complete the Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP<sup>2</sup>) at an unprecedented

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<sup>1</sup> The Marshall Plan, officially known as the "European Recovery Program", was an economic aid and reconstruction program of the United States to Western European countries devastated by the war after the second world war, which had a profound impact on the development of European countries and the world political pattern. In addition to Europe, similar economic aid over the same period was provided in Asia's first island chain and other third world countries after the Korean war, mostly to allies of the United States today, but not known as the Marshall plan. The European Marshall plan was launched in July 1947 and lasted for four full fiscal years. During this period, western European countries, through their participation in the Organization for Economic Co-operation and Development (OECD), received a total of US\$ 13 billion in various forms of financial, technical and equipment assistance from the United States. Adjusted for inflation, that would amount to US\$ 130 billion in 2006.

<sup>2</sup> Led and promoted by Japan, the CPTPP reached an agreement on March 8, 2018, and formally took effect on December 29, 2018. It is a regional free trade system composed of 11 countries, including the

rate. Even Russia's is wary of the rise of China, and European countries, Canada, and Australia have also joined forces with the United States in demanding a crackdown on China's "unfair trade." Behind all these phenomena, there is a strong distrust of China's BRI. As ANBOUND warned a few years ago, with the New Silk Road changing to the Belt and Road Initiative, while more regions in the Pacific Ocean and the Indian Ocean are encompassed and the market space becomes larger, yet from a strategic perspective China has also stepped into the geo-political battlefields that others have won over the past two centuries<sup>3</sup>. As a result, even if a leading Western politician is replaced by another one, the result will be exactly the same. China will still be comprehensively and directly suppressed in various fields of rules, trade, and international cooperation.

In such scenario, it is necessary to strategically restructure and reposition the strategy of China's BRI. At the current stage of development, China has not been able to confront and effectively defend itself from the accusations and aggressive attacks on the BRI from all sides. As a result, BRI will become the basis and fact for others to attack. If China is not able to deal with this problem, let alone the BRI's benefit, what is the strategic purpose of China's massive outbound investment? Now, BRI is indeed in danger of becoming an international charity fund in a sense.

Ideological barriers are another major issue.

China is a socialist country, but this ideology has never really become an obstacle or problem to the development in the past decades. Instead, China has also joined the WTO organization. The crux of the matter is that the ideological issue is an internal issue of a country, or even an internal affair of a country. However, due to China's overseas investment, the rapid expansion of BRI, internationalization, and globalization, as well as the occurrence of various foreign-related events, it has created an unpredictable political risk, which makes countries in the world with different ideologies have a high sense of vigilance and friction. In other words, this is the internationalization of China's internal problems, which is something that is unexpected.

In fact, ideological obstacles are not insurmountable and irreversible. The key is that China must build a moderate and sensible image of the great powers. In addition, China must not be too aggressive and shield itself from the so-called "toughness" that has no strategic goal, no strategic plan, no strategic interests, and no strategic significance. Such a path is worrying for China's future, because it is clear that China can only be strong if it is open.

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United States, Japan, Singapore and other countries besides China.

<sup>3</sup> The warning about "Belt and Road Initiative" was first raised in 2013 by Chan Kung, the chief researcher of ANBOUND, during a speech at Building No. 8 in Xinjiang. It has been repeatedly mentioned since then and is reflected in the briefing and reports of ANBOUND.

From the perspective of the strategic environment, China's BRI and ideological barriers are two core issues, and neither of the two core issues is an insurmountable obstacle, and there are strategic solutions for both issues. In the 17 years between now and 2035, there will be many changes and conflicts between the world and China, and all kinds of major events are likely to happen. The key to whether China can truly usher in a new century and enhance its international status is to solve these strategic problems.

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## Significance

The 17 years from 2018 to 2035 are a critical period for China's social and economic development. In this period of 17 years, China will carry out and complete three "five-year plans", among which the highest priority is to formulate and complete the continuation of the 14<sup>th</sup> five-year plan. In the face of a series of complex changes in the strategic environment that have not been identified, China's future strategic game faces some key issues and major challenges. How these issues are defined, understood and resolved has a bearing on China's future destiny and a crucial choice of path for the future.

This report focuses on the strategic environment of China's development before 2035, especially in the external environment; provides in-depth analysis of the impact and challenges brought by changes in the external environment on China's economic development. It presents the situation that China is facing in the world economic development and the game of great power competition in an in-depth and systematic way, and puts forward targeted and operable trend analysis, key challenges and policy recommendations to promote the stable, healthy and sustainable development of economy and society, thereby to realize China's important strategic goals and directions for the future.

An inevitable objective problem is that, in the face of the economic slowdown since 2012<sup>4</sup>, whether China's future economic growth can be stabilized at an acceptable level will lay a solid and reliable foundation for China's future participation in world competition and form an economic buffer space. These are extremely important objective issues to create conditions for the completion of China's set strategic goals, therefore, these relevant issues are also the focus of China's strategic environment report.

Generally speaking, we expect this report to create and provide a useful reference system and directional value standard for the strategic environment of the stable development of China, the smooth progress of globalization, and the progress of the world in the coming period.

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<sup>4</sup> China's economic growth rate of 9.5% in 2011 has been falling steadily since 2012, and the recent low level is 6.7% economic growth in 2016.



## Part II Definitions and Explanations

"China Strategic Environmental Report (2035)" is China's first systematic open-ended strategic research on the theme of strategic environment. The report itself bears the responsibility for systematically carrying out strategic environmental research and defining major issues, which are highly complex. The following are explanations and basic notes on some important definitions of this report.

### Major Countries

The success or failure of strategic competition often does not come from the front-line "battlefield" fights, but depends on operational strategies, that is, strategic research and strategic choices. In modern society, the more developed the country, the more it attaches importance to long-term research on the development and change of strategic environment. Prudent and systematic strategic environment research, strategic solutions and the evaluation and formulation of strategic principles are the most important support for scientific decision-making.

The latest research on the future of strategic environment of the United States is the 2018 edition of the Defense Strategy Report issued by the United States Department of Defense. This is another authoritative national strategy document issued by the Trump administration after the release of an earlier document by the National Security Strategy on December 18, 2017, which defines the four pillars<sup>5</sup> of national security. It is also the "National Defense Strategy Report" released by the U.S. government for the first time in 10 years, highlighting the U.S. government's sense of crisis in the current security situation and its tendency to return to the Cold War mentality. The "National Defense Strategy Report" of the United States mainly analyzes and evaluates the changes in the strategic environment facing the United States. It believes that the United States is in an increasingly complex international security environment. Its characteristics are that the free and open international order is challenged openly and long-term strategic competition among countries has reappeared.

The report highlights the challenges that China, Russia and other "big power competitions" pose to the United States in the military, economic and technological fields, placing such challenges ahead of terrorism, and China has become the main competitor. Although this report is only an annual national defense strategy report, it actually analyzes the long-term strategic environmental changes facing the United

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<sup>5</sup> The "National Security Report" of the United States proposes to protect four vital national interests: protecting the American people at home, promoting economic prosperity, preserving peace through a strong military and advancing American interests abroad.

States. It describes the United States' long-term competitive strategy, which can be called the long-term program for the future development of the United States.

After the 2008 global financial crisis, the European Union adopted a series of reform plans such as the economic development strategy for the next ten years at the EU summit on June 17, 2010. The core is a ten-year development plan for the European Union known as "EU 2020 Strategy" intended to lead the EU economy out of the debt crisis as well as enhancing competitiveness.

This is another ten-year economic development strategy of the European Union following the launch of the Lisbon Strategy in 2000. The "EU Strategy 2020" analyzes the structural weaknesses of the EU economy exposed during the financial crisis like the low average economic growth rate in the EU region, low employment rate, the average employment rate for the population aged 20 to 64 is only 69% and intense population aging. In the report, the EU systematically assessed the strategic environment existed after 2008 and based on the analysis of the strategic environmental trend, it proposed that the transition must be carried out again in order to eliminate the impact of the financial crisis and European structural weaknesses and cope with increasing global competition.

To this end, the "EU 2020 Strategy" promotes the transition of EU to a smart economy, a sustainable economy and an inclusive economy. At the same time, it promotes high employment rates, high productivity levels and social cohesion. It proposes three major development priorities for the next ten years at the strategic planning level including five major goals and seven flagship action plans. A total of 28 main goals and 120 sub-goals are formulated to develop employment, scientific research, education, social welfare, social stability and other issues.

As the core nation of the EU, Germany will pay more attention to the strategic environment and focus on formulating and developing strategy more relevant to manufacturing and technology. The German government published "High Technology Strategy 2025" (HTS2025) in 2018. This publication serves as a guideline for Germany's future high-tech development. It also serves as a framework for the German government to continue to promote research and innovation. The new round of high-tech strategy clarifies the cross-sectoral tasks, landmark goals and key areas of German research and innovation policy over the next seven years. The theme of "research and innovation for people" will make research and innovation more relevant to the country's prosperity and development goals, namely the combination of sustainable development and continuous improvement of quality of life. The German government hopes to show the people the future direction of development for science, technology and society. It shows new development concepts and clarifies key areas and concerns of future development. It aims to apply research and innovation to meet the challenges and

improving the quality of lives for the people. Germany emphasizes not only technological innovation but also social innovation.

Being an important ally of U.S. in East Asia, Japan has adjusted its geopolitical strategy in recent years. In 2013, Japanese Prime Minister Shinzo Abe called for the establishment of the Japan-U.S.-Australia-India “Democracy Security Diamond” and took over the geography concept of the “Indo-Pacific Region” proposed by the South Pacific countries on ecological issues, incorporating military security and geopolitical rivalry. In 2016, a new geopolitical strategy, the “Free and Open Indian Ocean and Pacific Ocean Strategy,” was proposed and received strong support from the U.S. government. Despite U.S. withdrawal from TPP (Trans-Pacific Partnership), Japan persisted to push forward and initiated the 11-nation agreement without U.S. by the end of 2018. This agreement, known as “Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP)” has been official enacted.

Although the size of CPTPP is smaller than the Japan-Europe Free Trade Agreement, the agreement has inherited the high degree of liberalization of the TPP led by the United States before, which represents the trend of free trade in the future. Japan’s series of actions in geopolitics and multilateral trade cooperation is related to Japan’s judgment on the strategic environment. Japan is trying to strive for a “win-win” situation under the rapidly changing international situation. On one hand, Japan uses globalization to expand its interests, on the other hand it uses the anti-globalization wave to expand its influence. Judging from the results, Japan has achieved its strategic intent ten years since 2008.

India, which is a major emerging market country like China, has not proposed a comprehensive development strategy in the past two years but the Modi government of India has been insisting on implementing the “leading power strategy” since 2014. In February 2015, Modi stated that he wants to lead India into a “leading power”, not just a balancing power. India’s “leading power strategy” is characterized by focusing on the goals for India to become a major power and shape its dominance in South Asia. Its diplomatic strategy has a broad scope, emphasizing the role of “soft power” and focusing on both self-development and the external environment. Modi’s “leading power strategy” concept is deeply influenced by Indian realist international political outlook. From India’s development and foreign strategy to China’s peripheral security situation and the trend of China-India relations. Under the influence of the strategy of great powers, China and India have expanded the space for economic cooperation, broadened the form of public diplomacy, highlighted geopolitical collisions. India also increased the bargaining chips to contain China.

Although Russia has a weak economy, it is still a military power and can be considered as an important member of the global strategic game and has a clear understanding of changes in the strategic environment. On December 31, 2015, Russian President

Vladimir Putin signed a new version of the report titled "Russian National Security Strategy Before 2020" to replace the older version. The new version of the strategic report believes that Russia is facing national security threats under the new situation and for the first time lists the United States as one of the national security threats, saying that the United States and its allies are putting pressures on Russia in terms of politics, economy, military and information.

It is worth noting the obvious changes in the new version of the strategic report. First, it has abandoned the old interpretation of globalization and interdependence, which clearly shows that Russia is ready to defend its national and economic interests abroad. Second, Russia will abandon its foreign policy of being an "energy power" and propose to "consolidate Russia in the context of new national security threats with interconnected characteristics." Third, Russia will abandon its reliance on the United Nations to resolve international disputes and rely on multiple mechanisms and even force to resolve international disputes. In the new version of the strategy, a statement about the "color revolution" also appears, with particular attention being given to the monitoring of communication tools.

It is not difficult to see that the developed countries and important emerging market powers are giving more and more attention to the rapidly changing and self-developed strategic environment. Major countries in the world are striving to adapt to complex international situations as soon as possible and seek development space and strategic benefits for themselves. To understand strategic environment, all countries in the world are moving towards a highly integrated and systematic direction, because many factors such as international politics, economic development, national security, military, diplomacy, science and technology in the world today are closely linked. These interactions constitute the strategic environment for national development. A large-caliber, broad assessment vision based on comprehensive, systematic and complex features has become an important feature of contemporary strategic environmental views.

### **The Two Centenaries and Year 2035**

The "Two Centenaries" was the strategic goal first proposed in 1997's 15<sup>th</sup> National Congress Report of the Communist Party of China, which continued to be listed as a development strategic goal up to the 19<sup>th</sup> National Congress Report in 2017. Political and economic adherence to long-term strategic goals is an important feature of the Chinese government in maintaining the continuity of its ruling goals, and it is also an important factor in ensuring the stability of its ruling position.

On September 12, 1997, the report of the 15<sup>th</sup> National Congress of the Chinese Communist Party put forward for the first time: "When the Party celebrates its

centenary, the national economy will be more developed and the various systems will be further improved. By the middle of the next century when the People's Republic celebrates its centenary, the modernization program will have been accomplished and China will have become a prosperous, strong, democratic and culturally advanced socialist country." On November 8, 2002, in addition to emphasizing the development goals of the centenary of the Party and that of New China, the report of the 16<sup>th</sup> National Congress also proposed: "We need to concentrate on building a moderately prosperous society of a higher standard which benefits over one billion people. This development stage will serve as an inevitable connecting link for attaining the third-step strategic objectives for our modernization drive." Both the 17<sup>th</sup> National Congress report in 2007 and the 18<sup>th</sup> National Congress report in 2012 insisted and emphasized on building "a moderately prosperous society in all respects by the 100<sup>th</sup> year of the founding of Communist Party of China" and "turning China into a strong, prosperous, democratic, culturally advanced and harmonious modernized socialist country by the centenary of China." It is worth noting that the "Two Centenaries" has appeared more than 100 times in General Secretary Xi Jinping's public speeches and articles since the 18<sup>th</sup> National Congress, showing its significance.

On October 18, 2017, Xi Jinping stated in the report of the 19<sup>th</sup> National Congress that the period between now and 2020 will be decisive in fully achieving the building of a moderately prosperous society. A two-stage development plan has been drawn up for the period from 2020 to the middle of this century. In the first stage from 2020 to 2035, to build on the foundation of the moderately prosperous society with a further 15 years of hard work, basically realizing socialist modernization. In the second stage from 2035 to the middle of the 21<sup>st</sup> century, building based on achieved modernization, to work hard for a further 15 years and develop China into a great modern socialist country that is prosperous, strong, democratic, culturally advanced, and harmonious.

We can see from the process above, that for more than two decades since 1997, the "Two Centenaries" development goal has been inherited and continuously strengthened. Xi Jinping further pointed out the relationship between the "Two Centenaries" goal and the "Chinese Dream". "To realize the Chinese Dream, we have established the 'Two Centenaries' goal." This is actually a future blueprint for China's future development.

Judging from the "Two Centenaries" goals, the Chinese economy after the 19<sup>th</sup> National Congress needs to pay special attention to these three key time points: 2020, 2035, and 2050.

The first time point is the year 2020, and the goal is to build a moderately prosperous society. It is estimated that at that time China should be very close to the threshold of "high-income country" as defined by the World Bank, and China's per capita income should be able to reach US\$10,000. In terms of purchasing power parity, China's

development level will be close to one-third of the United States' purchasing power parity by 2020. For China, the development goal of 2020 is not only to increase income levels but also to eradicate poverty.

The second time point: by 2035, the goal is to achieve socialist modernization. Some studies have suggested that China will enter the ranks of high-income countries by then, and will make great progress in terms of people's living standards, per capita development levels, and national wealth. It will enter the Top 30 of large and medium-sized economies. China's per capita GDP will reach 50 % of U.S.'s per capita GDP level and entering the Top 30 of medium and large countries.

The second time point is that, by 2035, the goal is to achieve socialist modernization. Some studies have suggested that China will enter the ranks of high-income countries by then, and will make great progress in terms of people's living standards, per capita development levels, and national wealth. It will enter the Top 30 of large and medium-sized economies, China's per capita GDP will reach 50 % of US's per capita GDP level and entering the Top 30 of medium and large countries. If China can achieve this level, its economy will be relatively stable, and the economic "body" will be strong enough. However, if we look at the development of per capita GDP, it will face a lot of challenges to reach 50% of the U.S. level by 2035. With the per capita GDP of the United States is US\$ 59,496 (2017 level) as the reference frame, and China's per capita GDP in 2017 is US\$ 10,000 (actual: US\$ 9,481.881) with an average annual growth rate of 6%, China's per capita GDP by 2035 will be about US\$ 28,543, which is still lower than U.S.'s per capita GDP of 50% in 2017.

The third time point is the year 2050. This is the centennial of the founding of the People's Republic of China. According to the development goals set now, China's aggregate development level will become one of the Top 20 of large and medium-sized countries, and its per capita GDP will reach 70% of the U.S. More importantly, in addition to the economy, China's cultural status must also have gained a corresponding influence in the world.

These three time points actually represent the three stages of China's development from now to 2050, which are also the three "steps" of China's development. From now to 2035, it is the key period for China to fully build a moderately prosperous society and to basically realize socialist modernization. It is also the first stage to achieve the goal of "Two Centenaries". The strategic environment faced at this stage of development is related to whether China can successfully cross the middle-income trap to enter the ranks of high-income economies, and also whether it can successfully achieve the "Two Centenaries" goals. If China is unable to move from realizing moderately prosperous in all respects towards the mid-term goal of achieving modernization, the goal of realizing the "Chinese Dream" will be out of the question.



More importantly, the first stage from now to 2035 is not only a critical period for China's development, but it is also a period of strategic competition in which Western society consciously "suppresses" and restricts China's development. From the current situations of anti-globalization, the U.S. adjusting its national security strategic goals and launching the U.S.-China trade war, it is obvious that the U.S. has ranked China as its long-term strategic competitor. Furthermore, the best timing to suppress strategic competitors is when they are fledgling. Once China ranks as a high-income country in 2035, and its size and quality of economy have become strong enough whilst aggregate strength has significantly enhanced, China's national strength in the global context will enter into a new situation by then. At that time, the US might no longer be able to suppress China even if it is intended to, and have to switch its strategy into other cooperative models. Therefore, the 17-year period from now to 2035 is the key period for China to withstand internal and external pressures and climb to a higher position.

Generally speaking, the external environment facing China's development before 2035 is highly uncertain, and key factors such as the world economic trends, the evolution of the international order, and the development of relations between major powers will have a significant impact on China's strategic space. China in the future will inevitably face a long-term and complex strategic competition of contact and anti-contact, opening and closing, integration and anti-integration. Therefore, a systematic study of China's strategic environment and changes before 2035 is of great significance for China to achieve its strategic development goals.

### The Definitions

Different countries around the world have different definitions towards the term "strategic environment". For the United States, the definition of strategic environment is mostly set by "key strategic factors". Among of these factors, there are strategic threats, actors, organizational relations, conflicts and competition patterns, nature of conflict, strategic goal, strategic directions, threatening approach, weapons and tools, combination and impact domains, and many more. Basically, the definition of strategic environment proposed by the United States follows the settings of "imaginary enemy". Once an "imaginary enemy" is identified, together with so-called or often exaggerated facts, the definition of strategic environment has then been established. Obviously, the definition set according to the "imaginary enemy" is not reliable and objective, as it consists of strong political subjective tendency with high frequencies of exaggerated speeches. This is the drawback and problem of the strategic environment of the U.S. and its relevant analysis.

For a long period of time, China's strategy analysis and strategic environment are closely related. It is normally determined by China's top political leader, then formulate

and define by using formulative language. This is unchanged for decades, for example one can see terms like “two camps”, “middle ground”, “the Three Worlds” and many more being used in China’s geopolitical strategies. Under such circumstance, although strategic environment itself is based on space and geography, and strategic interests as the core of the international relationship environment, due to limitations of time, it tends to end up as theoretical definition in metaphysical form, and differentiate, defined and continued by the public. Hence, it has rather strong subjectivity.

After the end of the Cold War, the reform and opening-up of China has brought huge changes not just to the world, but also to China’s own strategic environment. However, because of the unfamiliarity and barrier between Chinese policy system with policy agents and the global political environment, especially the formation, orientation and propelling of keeping a low profile after reform and opening-up, at most of the time the concept of strategic environment is replaced by the term of “external environment” - a blur concept dominated by non-space and non-profit. In practice, external environment that is lack of precise definition does not equal to strategic environment. It is always the same no matter from the point of view of strategic value, strategic level, strategic interest, strategic effects, strategic conflicts and many more, where there are huge differences.

In addition, the press, particularly the media always publish the situation in a way that is different from the strategic environment. They often described the situation as strategic environment, which is a common mistake in the public opinion and part of the academia. Such description of the situation is unable to reflect the existing strategic environment, various types of problems that are under development and complicating logical background relationships comprehensively. Strategic environment is an objective existence, where it breeds events and conflicts among the environment. Whether they break out or not, these are objective existences. These are dangerous traps. They are like a large rock hanging by the cliff - an objective existence of huge danger. In contrast, the common situation seen in news are normally those that have happened or broke out - so-called major events concerned by the public. This is like the large rock that have been fallen off from the cliff, and have been seen by everyone. Hence, situation description is a type of post summary, where strategic environment is a system combination of the before and after, also, an objective existence.

The first job for the research of strategic environment is the definition of the term, as it will involve a whole series of research framework that provides key to trend analysis. This will then help to establish a systematic yet relevant range and objective to the strategic policy in the future. This systematic framework objective is very important. It is like a set of traffic signs for the world politics, where it has carried out a structural definition to each level in the macro environment. Once the traffic signs are set, the

future direction will be clearer for planning; The process will be safer by avoiding possible pitfalls, unnecessary risks and aggressive policies.

In general, strategic environment is based on space and geography, and international relationship environment is bounded by strategic interests. Strategic environment includes international and domestic politics, economy, military, diplomacy, science and technology, geography and many more objective environmental factors and conditions, together with the strategic position and strategic relationship that have been formed. It involves each and every sub-system of the strategic environment in the macro environment, such as security environment, economic environment, industry environment, business environment, trade environment, international orders and many more sectors. Most importantly, strategic environment is a dynamic concept, where each strategic factor is interweaving with another and exerting its influences far beyond the industry, profession, region, country and political bodies. It has then brought a huge influences and effect to the entire system of the strategic environment. Thus, it is important to define and investigate strategic environment as a whole instead of an independent or single factor. It also determines the system value and the strategic foresight of the research on strategic environment.

A study on China's strategic environmental report adopted the definition of strategic environment proposed by ANBOUND, which the basic theory comes from the method of twelve aspects. The method of twelve aspects is a framework approach for strategic environment. It is a method based on historical regression, where it showcases the maximum likelihood of strategic conflicts that is related to environmental space and scale on the historical axis. It is not only limited to key strategic factors, but also focusing on the evolution of the decisive strength behind the strategic factors. Therefore, it can provide basic strategic logical thinking, reason and background explanation, and its objective meaning. According to the definition of the method of 12 aspects<sup>6</sup>, ultimately strategic environment is a conflict concept of physical and virtual space. On the foundation of ontology, it can be formed by 12 key space competitions and conflicts elements within the environmental system, listed as below:

1. Geography: The two World Wars happened within the European countries. This is directly related to the geo-spatial relationship of Europe. Another example would be the position of Mediterranean in the human war history.
2. Technology: Technology has caused the increase of production efficiency, as well as the urgent need for world expansion, and the occurrence of large scale conflicts around the world.

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<sup>6</sup> The method of twelve aspects is proposed and defined by ANBOUND's chief researcher Chan Kung.

3. Transportation: There had been wars and battles over maritime and on land routes, for example the decisive Battle of Erzincan that changed the western end of the Silk Road, or the Battle of Talas happened at the ancient Silk Road, which had caused the opening-up of the southern Silk Road and the beginning of the Maritime Age.
4. Market: Competition for market space, for example, the Opium War.
5. Capital: Capital is the cause of a war, as well as an important resource of initiating a war. Financial capital is always an important factor of economy war.
6. Population: The expansion and weakening of population will bring changes to the geographical relationship. As an example, countries at the Arabian Peninsula.
7. Trade: Disputes over trade have continued since ancient times and are often rather intense. This includes resources such as the looting of agricultural products, energy and minerals.
8. Politics: For example, the Cold War, or ideological war between the East and the West.
9. History and traditions: For example, the war between Hungary and Romania.
10. Religion: War between different Islamic sects, and Indo-Pakistani wars.
11. Military: For example, the long-term conflicts in Indochina.
12. Regional relationship: For example, the relationships between China and Japan, Taiwan and China, Singapore and Malaysia, and many more.

### **Definition of Strategic Environment Under the Conditions of “The Method of Twelve Aspects” (Key Conflict Factors)**

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Geographical relationship	Financial capital	History and traditions
Technological breakthrough	Population	Religion
Traffic location	Trade resources	Military superiority
Market space	Political camps	Regional relationships

If there is a fluctuation, contradiction, opposition, conflicts or changes happened among these conflicting factors, it will then cause huge changes to the strategic environment. These are also the most important factors that will cause world strategic conflicts as they belong to the basic dynamic factor. Consequently, finding particular changes that are able to position these strategic conflicts factors in the macro system of the strategic environment, judge and analyze the evolution of trend allows us to explain and predict the current and future basic changes of the strategic environment. The problems and challenges vary, yet analyzing the key strategic points of dominant influence and derivation, defining the trends and the changes of the relevant threats, conflicts and benefit relationship, these would be the main components in assessing China's strategic environment.

### Research Methodology

The research methods of major international topics under the framework of public information theory are mostly information research and analysis to adapt to the evolution and tracking of the dynamic world. The world is an organism, and the basic movements of the world will release a large amount of information. Such information exists in an open and transparent objective manner. As long as we track and study them, and use information analysis to analyze and judge, we can learn any movement and its evolution.

The main methods used in this strategic environment report are the trend deductive method under the dynamic tracking structure of information and the use of comprehensive statistical tools. In the report, the conclusion is mainly derived and explained through induction and deduction.

### Explanation on Data Sources

Due to the time constraint for the completion of the project, the report made extensive use of the previous research results of ANBOUND and have thus obtained the intellectual property authorization of ANBOUND for this purpose.

This report uses a large amount of data in a wide range of areas and the data of a large number of dynamic tracking research and analysis conducted by ANBOUND over the past 2 to 6 years. It is authorized by ANBOUND, and the correctness, propensity and direction of the data. The data comes from public sources and ANBOUND's own large database. It is processed and analyzed through long-term research. The intellectual property rights are jointly owned by the National Development and Reform Commission and ANBOUND.

The report uses a programmatic report as template and is not for the use of data purposes, therefore the data is only briefly presented.

### Research Program Team

Policy Research Office of National Development and Reform Commission

ANBOUND Macro Research Team

Program Moderator: Chan Kung

Main report contributor: Chan Kung

Main research members: He Jun, Feng Yan.

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## Part III Trend Analysis

This report acknowledges that the strategic environment of the world, including China, has undergone tremendous changes. Based on long-term tracking research, we believe that this change in strategic environment involves military environment, security environment, international order, market space, trade relations, industrial economy, international organizations, commerce, society, nation, population, development concepts, world economic cycle, global affairs and other aspects and complex areas.

The evolution of this strategic environment that still seems to be unpredictable is amazing. From 2018 to 2035, over a span of 17 years, the influence and impact of the strategic environment will cause huge uncertainty shaking the world's original rule-based system and all basic development frameworks. We clearly know that the world today is facing huge changes, but it is difficult for us to know and grasp the model and framework of the new world in the future. This is the most dangerous prospect of the future world caused by uncertainty.

The current world is a world of anxiety. All countries in the world have reasons to explore the development pulse of the future world in accordance with their own speculations and predictions, define the future development direction and seek to maximize their own interests. In particular, the world's dominant leading power, the most important one is the United States. The world framework defined by its own interests has a strong influence and it is very likely to preemptively lead the world into an unpredictable danger. The future world may be a world full of extreme imbalance.

The question is, what will happen to the world we know and care about now? In what direction will the future world change? What reasons and factors have caused the world we care about to change? All questions about the future are related to future world trends. This is a key component of the strategic environment and the main point of a strategic environmental analysis.

The accurate and appropriate definition and evaluation of these issues and the nodal analysis of key strategic environments reflect our regular knowledge, understanding and interpretation of the future world. This is the basis for overcoming panic and increasing self-confidence. The basis for formulating and implementing a major national strategic plan and the cornerstone of a country's development environment and security environment.

The world is changing, hence we must know, where is the world going?

## Strategic Opportunities Period in China from Historical Perspective

China's reform and opening-up began 40 years ago. Since the beginning of 1978, the international environment has undergone several major historical changes. There was the Cold War period of U.S.-Soviet rivalry starting from 1978 to the collapse of the Soviet Union in 1990; the collapse of the Soviet Union to "post-Cold War" period of 2001, the "counter-terrorism period" from 2001 until 2018. At the same time, this stage is also a period of great economic development and globalization achieved by China after its admission into the World Trade Organization (WTO).

Starting from 2018, with the adjustment of the U.S. national security strategy, China has entered into a "strategic competition period" initiated by the United States. It should be said that in the forty years before 2018, China as a whole, was in a more favorable development environment. Although China has proposed the concept of "peaceful rise", the international community dominated by western developed countries still regards China as a "harmless existence" that could only pursue economic interests based on its understanding and expectations of China's reform.

In this context, China proposed the "strategic opportunity period" in 2002. The report of the 16<sup>th</sup> National Congress suggests that the first two decades of the 21<sup>st</sup> century are a period of important strategic opportunities that China must seize tightly to achieve more of its objectives. China's identification of the period of strategic opportunity is mainly based on the following judgments: global multi-polarization continues to evolve and peace and development are the themes of the times, the world economy keeps growing, economic globalization is developing in depth, the production factor under global reorganization and flow have accelerated further. The new scientific and technological revolution is still rising, which provides the possibility to realize the advantages of latecomers and strive for the forward leap in the development of productivity. The comprehensive national strength and market economy system formed over many years of reform and opening-up have also provided China with a solid material foundation and good institutional guarantee.

The "strategic opportunity period" was accepted and inherited by successive central decision-makers after it was put forward. The report of the 17<sup>th</sup> National Congress in 2007 stated that "the world is undergoing extensive and profound changes and contemporary China is undergoing extensive and profound changes as well. Both opportunities and challenges are unprecedented, and opportunities outweigh challenges." "The whole party must unswervingly hold high the great banner of socialism with Chinese characteristics, lead the people from a new historical starting point and seize and make good use of the period of important strategic opportunities". The report of the 18<sup>th</sup> National Congress in 2012 continued to use this statement, but did not emphasize that "opportunities outweigh challenges". The points out that, "the

situation at home and abroad is undergoing profound and complex changes. China's development is still in a period of important strategic opportunities, with bright prospects and severe challenges."

The "13<sup>th</sup> Five-Year Plan" report in 2016 has a trend of cautious evolution of its views on the strategic opportunity period. "China's development is still in a period of important strategic opportunities that can make a lot of progress, and it is also facing severe challenges of overlapping conflicts and increasing hidden risks. We must accurately grasp the profound changes in the connotation and conditions of the strategic opportunity period, strengthen the awareness of urgency and responsibility, strengthen the bottom-line thinking, respect the laws and national conditions and actively adapt to grasp and lead the new normal, in order to cross the middle-income trap<sup>7</sup>. The above judgment is based on the Chinese government's understanding of the international situation as shown below: the theme of the era of peace and development has not changed. The world has become multi-polarized, economically globalized, culturally diversified and social information is further developed. At the same time, the Chinese government is also concerned that "the complexity of international relations is unprecedented. The external environment is unstable and uncertain factors have increased significantly. The risks and challenges facing China's development have increased".

The report of the 19<sup>th</sup> National Congress in 2017 adopted the term "important strategic opportunity period", stating that "the situation at home and abroad is undergoing profound and complex changes and China's development is still in an important strategic opportunity period, with bright prospects and severe challenges". At the Central Economic Work Conference, which ended on December 21, 2018, the central government of China still adopted the judgment of "important strategic opportunity period". The conference alleged that "China's development is still within the period of important strategic opportunities", "the world is facing a major change that has not happened in a century and the crisis co-exists with the opportunity. This will bring great opportunities for the great rejuvenation of the Chinese nation". The conference also alleged that China should "be good at turning crisis into opportunity, turning crisis into safety and keeping a close eye on important strategic opportunities and new connotations."

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<sup>7</sup> The "middle-income trap" is a condition in which two results can occur after a country's per capita GDP reaches around US\$ 3,000 : 1. Continuous development and gradually becoming a developed country; 2. Emergence of problems such as disparity between the rich and the poor, environmental degradation and even social unrest that could lead to stagnant economic development. The latter result will lead to "middle-income trap". China's GDP per capita in 2017 was RMB 59660.

It can be seen from the contents of a series of central documents that Chinese policymakers have accepted and affirmed the concept of the "important strategic opportunity period" at the central document level for 16 years, but with some minor changes in the degree of judgment and external environment. However, from a practical point of view, the external environment of China's strategic opportunity period is undergoing major changes. From the accumulation and development of "quantitative change" to the process of "qualitative change", some conditions that have been established in the past have gradually become untenable. China's previous favorable factors in economic globalization, trade and investment, geopolitics, diplomacy, scientific and technological exchanges and cultural exchanges have been weakened or even completely disappeared under the new situation. These changes has raised a real problem: when the external environment changes greatly, China's judgment on the "important strategic opportunity period" in the next few years may have to be changed based on the situation

### **Anti-Globalization Becomes Globally Dominant**

Anti-globalization is a trend, in fact the most important trend in the world today and in the future. The reason is that, by measuring the basic trend of the world, we could able to find that actual globalization and anti-globalization are a periodic and recurring historical process. Only because of people's subjective wishes, and frequent or habitual choices are beneficial or unintentional to ignore this historical process, thus paying a blind price. The division of stages of globalization is more of academic interest, and the standards and criteria for division are rather confusing and crude, which is actually meaningless. As for globalization, the key thing to understand is that it is a cyclical historical process that will not exist forever, nor will it disappear forever.

De-globalization can be also called "anti-globalization". As the name implies, "globalization" refers to the process of integration of various countries and regions in various dimensions such as economy, trade, technology, culture and politics. The most obvious ones are global infrastructure, industrial division of labor, transnational production and transnational trade. "Anti-globalization" and "de-globalization" refer to the process of de-integration and non-integration of the above dimensions, which is a backward and reactionary process of globalization.

The cyclical occurrence of anti-globalization is a phenomenon worthy of study. ANBOUND is the first institution to track and study global capital surplus. Capital surplus promotes the process of globalization and the international integration of world outlook, products, concepts and infrastructure. At the same time, all kinds of negative problems caused by development have promoted the birth of the sustainable development movement. Meanwhile, they have also created the process of anti-

globalization and pushed the globalization towards the opposite direction gradually. It is an inevitable result of sustainable development movement.

Sustainable Development (SD), refers to a forward-looking development mode that not only meets the needs of contemporary people but also does not harm the needs of future generations under an environmental-friendly condition. Sustainable development has eight characteristics:

1. Not only achieving intergenerational justice, but also intra-generational justice, that is, the development of some contemporary people should not harm the interests of others.
2. Conforming economic and social development to the dynamic balance rule of the earth's ecosystem and the principle of sustainable utilization of resources.
3. Changing unreasonable consumption of resources.
4. Solving global poverty problem, improving the quality of life of the poor.
5. Suppressing and improving the deterioration of the earth's environment.
6. Resolving international disputes based on equality, justice and respect for national sovereignty; replacing confrontation with dialogues.
7. Relying on science and technology to further solving the main problems in sustainable development.
8. Building a resource-saving and environmental-friendly society.

It is obvious that sustainable development requires capital, assets and resources to stay in the local area and realize green and environmental-friendly development, instead of leaving the local area and making global allocation in the name of globalization and economic efficiency to obtain greater capital return and asset return, but reducing environmental requirements while creating poverty, resource consumption and even leaving behind various intractable development defects and social disputes in the local area.

As the political language of China expresses, whenever there is oppression, there is resistance. The first anti-globalization movement took place in November 1999. The city government of Seattle, United States, has organized tens of thousands of people to launch a protest to against the WTO's trade liberalization policy promoted since the WTO was established four years ago. This movement has awakened the world and

made it aware of the time when globalization is booming and anti-globalization is starting. After that, in April 2000, demonstration took place in Washington D.C. during the eve of May 1<sup>st</sup>, the Labor Day. 20,000 trade unions, labor organizations and environmentalists took part in demonstrations against the World Bank and the International Monetary Fund (IMF). About 1,350 people were arrested by the police. Since then, similar anti-globalization and organized movements have continued and intensified all over the world until they reached Hong Kong, the free port on the doorstep of China.

During the Fortune Forum in Hong Kong in May 2001, students and non-governmental organizations held a protest against the rich dividing up the world and advocating the sharing of global resources to people. South Korean farmers went to Hong Kong in large numbers to protest against WTO conference held in Hong Kong in 2005. In 2011, Occupy Wall Street Movement had also spread to Hong Kong, with Hong Kong citizens gathering outside the Central Exchange Square threatening to sit in overnight against capitalism and its financial hegemony.

Globalization has created conditions for the sharp rise of mercantilist forces<sup>8</sup>. Global economic growth and wealth accumulation have increased at an alarming rate. The list of billionaires has been continuously updated. Anti-globalization forces have been fully assembled and mobilized. They all started from different levels and agreed that globalization would only bring bad consequences to the local society and the whole world. Although there are many reasons, viewpoints and reasons for anti-globalization, no matter from the left to the right, now almost everyone agrees that the influx of immigrants from many countries in the world, the decline of traditional industries in industrialized countries, the rise of science and technology and hegemony, transnational capital against local small and medium-sized enterprises, etc., all these negative problems are the causes and results of globalization.

There is no doubt that this kind of understanding will lead to the rise of nativism around the world, and the most prominent, representative and impact force of such nativism is United States under the administration of President Donald Trump.

Trump won the election on November 8, 2016, defeating Democratic rival Hillary Clinton. This makes him the oldest, richest and first president in the history of the United States who has not held any military or public office before. He is also the fifth person who won less votes than his opponent but was elected president in the end. Trump's supporters mainly come from those whose interests have been damaged in the

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<sup>8</sup> Mercantilism, popular in Western Europe from the 15<sup>th</sup> century to the middle of the 17<sup>th</sup> century, advocates that the more wealth a country accumulates, the richer it will become. Therefore, it upholds the belief of trade surplus that exports are greater than imports.



process of globalization. He is a businessman-president, and is willing to give rewards to his political supporters. He has a keener sense to solve economic problems and is capable to grasp the shortest path to political solutions.

In fact, as early as during his presidential election campaign, Trump emphasized his internal and external policies of "America First" and "Make America Great Again". Trump's main ideas are that the United States has spent too much of its national power on managing international affairs and completing work for others, while a large group of its own citizens did not live well. In the end, those overseas activities that cost a lot of money did not achieve very good results, and that there are more people who hate the United States than those who appreciate it. Therefore, it is better to stop these meaningless international volunteer activities and put resources into the construction of the United States itself. Trump's "America First" was put into practice immediately after his successful election and achieved remarkable results. After taking office, he immediately gave up the TPP agreement. He called for the North American Free Trade Agreement to be renegotiated and successfully achieved its goal through the submission of Canada and Mexico. He announced his withdrawal from the International Court of Justice, decided not to participate in the global climate negotiations, and advocated the reform of the WTO. Trump believes that the U.S. has an advantageous position only under "one-to-one" bilateral agreements, so that the U.S. can truly benefit. Therefore, he firmly abandoned the multilateral principle, stepped on the brake for globalization, stepped on the accelerator for anti-globalization, and emphasized the uniqueness and priority of the United States.

After China's economic reform, the relationship between China and the United States has been characterized by confrontation and cooperation. The confrontation is mainly in the ideological aspect. However, looking at the next 17 years, the confrontation between China and the United States will not only be ideological, but also major differences in economic globalization. The U.S. has moved towards obvious nativism and abandoned the principles of globalization and multilateral cooperation in several fields, becoming the destroyer of the globalization system. Because of its export-oriented economic structure and the accumulation of production capacity, China cannot change direction as quickly and easily as the U.S., so it can only continue to adhere to the original globalization and multilateral principles and maintain its pillar position in the world.

Anti-globalization is becoming the most important trend in the world in the future. This trend is not only already established clearly and effectively, but also likely to lead to many policy confrontations, setting tides of confrontation, and even creating global financial and economic crises.

## The Rise of Global Nuclear Risks

Global nuclear disaster includes two parts, firstly is the use of nuclear weapons, while the other one is the issue of nuclear security. A general trend in the future world is that the probability of a global nuclear disaster will rise sharply, and the nuclear risks will also increase as well. This indicates that nuclear war could very well happen, and this is not just mere nuclear threats. The probability of nuclear safety accidents caused by various reasons is also very high, which will result in huge impact.

There are various reasons which lead to situations like this, and the threat of nuclear war is what the Russian President Vladimir Putin has repeatedly pointed out: nuclear threat is underestimated, and reducing weapon control could lead to a nuclear disaster. Putin believes that, nuclear threat people see today is indeed not as serious as it was during the Cold War, but the problem is still acute in reality. Regarding the threat of the nuclear war, ANBOUND's follow-up studies are not so optimistic. One reason is that nuclear weapons have been spread in an unprecedented breadth in the world. Another reason is that people have found that the consequences of the use of nuclear are not as severe as imagined due to the development of technology. In fact, in today's world, people can hear the threats of nuclear strategies and clamor for the use of nuclear weapons more often than in the Cold War. Thus, the control of nuclear weapons by world organizations, treaties, and political leaders are facing significant strategic failures.

In addition, the widespread existence of nuclear facilities in the world, the expansion of their scope of influence, and the adjustment of the nuclear industry structure have also brought about huge potential safety hazards. According to the International Energy Agency (IEA), global nuclear power will grow by about 46% by the year 2040, where 93% of the net increase will come from China and India. As of 31st of July, 2018, there were 453 nuclear power reactors in operation worldwide with a total installed capacity of 397 GWe; there were 57 nuclear power reactors under construction in the world. Besides, there is also a trend that while developed countries in Europe are gradually shutting down to ensure domestic nuclear safety, countries with relatively backward economies are building nuclear power facilities at the expense of environmental interests, then supplying them to developed countries to form new nuclear industry chains, turning them into profitable business with profitable trading.

The huge risks of the nuclear disasters have made the world's development facing huge uncertainty and the impact will transcend the borders of various countries. A large amount of investment may become a negative or uncertain profit and loss asset and political relations between nations may become very unstable. Moreover, world treaties and agreement organizations have become increasingly loose and uncontrollable, and even crumbling, without the respect of political leaders around the world. All of these

will lead to a growing loss of the sense of security in the world's development environment.

### **A World Dominated by Interest Groups**

After her resignation, Nikki Haley, the United States Ambassador to the United Nations, accepted an interview with the National Broadcasting Corporation (NBC). She was outspoken in her comments about Trump, stating that while Trump's style of action was unpredictable and elusive, yet she often used Trump's "unpredictability" to accomplish "her own task". For instance, she used such "unpredictability" of the President of the United States (POTUS) as an "irreplaceable" advantage to threaten other countries and help her to accomplish her tasks. What she referred to as her own tasks is obviously not a mission assigned by Trump himself, but missions determined by Haley herself.

The "mission" defined by Haley represents and reflects the characteristics of global interest groups. Interest groups are an important feature of the modern political system and have flourished after World War II. Interest groups, also known as pressure groups or advocacy groups are social groups and organizations that have the same interests to make reasonable demands from the society or government to strive for the interests of the groups and their members in order to influence public policies.

Interest groups are not necessarily tangible organizations, but also include intangible and temporary organizations, or members of groups that have no organization but act on consensus. In the past, Japanese interest groups played the most prominent political role in the form of party factions, and they are known to the world. Besides, the political fraction where Putin belongs to, also known as Saint Petersburg fraction has become familiar to the world. In the past in the United States, only the Democratic and Republican parties took turns in power. But now, the actual interests have been diversified. Furthermore, the parties in the United States Congress are only a platform for negotiation, and there are many interest groups' activities and leadership behind them. As a result, there are so many American politicians calling for not "tearing up the United States". In Europe, because there are pressures regarding the issues of refugees, the activities of various interest groups had also been exposed and flaws and vulnerabilities have appeared in France and even the military system<sup>9</sup>.

The world in the future is not just about the interactions between countries, in addition to the ruling and opposition parties, there are also third-party forces. Such third-party forces will be unprecedentedly active in the world today and in the future. This indicates

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<sup>9</sup> In the context of the "Yellow Vests Movement", the French military general even sent a letter to the French President Emmanuel Macron to express dissatisfaction.

that there will be a huge change in international exchanges and political trends, and more communication between organizations must be sought for. The world's political definition of leadership, an era in which a country's leader establishes, coordinates, and directs the operation of a system, has gradually transformed into a national leader that has become more of a multi-system political coordination core within a country.

There are many reasons for such situation to arise. ANBOUND, which has been tracking and studying the Chinese interest groups since the last century, has published a report stating the prosperity of interest groups in the world's political field is mainly caused by two diversified factors. One is the diversification of crises. Besides, various crises are breaking out and the sense of crises has created tremendous pressures to promote the birth and rise of various interest groups. The other is caused by diversified interests. The forms and groups of interests are increasingly diversified, and the competition for interests is increasingly fierce. This has also promoted the rapid accumulation and formation of interest groups. On the other hand, the U.S. Secretary of Defense, James Norman Mattis, who has recently resigned because of Syria's withdrawal and his disagreement with President Trump, belongs to an organization that supports Trump's military group. The story behind Brexit also includes several interest groups that are active, including at least one mysterious organization called Leave.EU.

In the future world, the partisan politics of countries that are familiar to the world is accelerating their tendency to disintegrate into various group politics that are smaller than the parties but more united and have more consistent interest, also called the party politics. From the perspective of interest group determinism<sup>10</sup>, the emergence of interest groups is an objective phenomenon, not about good or bad but depending on the results. Moreover, the emergence of this trend has its practical significance and inevitability, and its performance will become increasingly obvious. In the future, it will change the political structure of countries around the world. It will also change the world's politics and diplomacy in terms of organizational systems, world views, exchanges and collaboration.

### **The Trend of Tri-polarization of Global Manufacturing**

There are three main types of manufacturing in the world which includes traditional manufacturing, smart manufacturing and fine manufacturing.

The traditional manufacturing industry is mainly labor-intensive which focuses on manufacturing as well as processing, and most of them are standardized mass production. This production method is mainly the consumer goods industry, and also

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<sup>10</sup> Interest group determinism is Chan Kung's point of view. In the future, the trend of world politics will move towards small nucleuses and "big" politics.

includes traditional and a part of the tertiary industry. On the other hand, the common production sectors also include industries that are related to steel, coal, electricity, construction, automobiles, textiles, light industry, and shipbuilding. As a large manufacturing country in the world, China's most common production method in the past was traditional manufacturing. However, due to the aging to China's labor population, labor supply has started to face obstacles, therefore traditional manufacturing needs to be upgraded. The key question in the future is, which direction for upgrading? Besides China, Southeast Asia and South Asia are also involving in traditional manufacturing.

Smart manufacturing is based on the deep integration of next-generation information and communication technology and advanced manufacturing technology. It runs through all aspects of manufacturing activities such as design, production, management, and service. It also has the functions like self-perception, self-learning, self-decision, self-execution, and self-adaption. From the perspective of the Chinese government's manufacturing planning, China hopes that traditional manufacturing can be upgraded to smart manufacturing. However, smart manufacturing has very high requirements on the system environment, which cannot be achieved by many country, nor can it be achieved easily by any industry or product. The semiconductor industry is a typical smart manufacturing production department.

For the fine manufacturing, it includes a high-price production method that introduces industrial design and art on the basis of traditional manufacturing, craftsmanship, fine processing and small-scale manufacturing. It is more typical in Northern Europe, Germany, Italy and Japan. A considerable part of the traditional manufacturing industries in these countries, especially family businesses, have successfully transformed into fine manufacturing, and have a good reputation in the world.

Moreover, from the perspective of the evolution of production factors in developed countries and major manufacturing countries in the future, smart manufacturing will be the most competitive core production sector in the future. The traditional manufacturing industry in the United States has always maintained a decline, and because of population and production costs, this decline is basically irreversible. Even with strong support from the U.S. President Trump and the direct intervention, the U.S. auto industry is still in a severe recession. At the end of the year 2018, General Motors announced that it would lay off approximately 14,000 employees and close 5 North American plants. Furthermore, 3 overseas plants outside North America will also be closed by the end of 2019. In addition, news from Wall Street Journal in the US revealed that Ford Motor Company's restructuring will be "larger than general motors (GM)" and may lay off 25,000 people worldwide. However, the U.S. auto industry is facing difficulties in traditional manufacturing, as in the case in other developed countries in the world too. Volkswagen also plans to reduce its management, cut factory costs, and

phase out 25% of engine and transmission product series in Europe, approximately 6 billion euros of cost savings. Meanwhile, the situation of other auto manufacturing in the world is also similar. FIAT plans to lay off more than 2,400 employees, Opel plans to lay off 3,700 and Rolls-Royce plans to lay off 4,600. The traditional manufacturing industry in developed countries is just as what Akio Toyoda, a Toyota Motor Chief Executive Officer said: “In the next 100 years, a key battle has begun, and it’s not about winning or losing, but life and death”.

In fact, the U.S. manufacturing industry is not in a “typical collapse”. The manufacturing problems in the OECD countries are also very serious, but the problems in the United States are the most prominent. Currently, the American workers who are going to retire soon or workers who are already retired which are over 60 years of age, produce the world’s worst quality of goods that are barely usable. Besides, the American automobile industry is only one of them. However, on the other hand, it should be noted that the U.S. is the world’s most powerful manufacturing industry as long as it does not rely on manual manufacturing such as 3D printing, robot manufacturing, biomedical industry, chemical synthesis industry, semiconductor manufacturing, energy production and so on. Therefore, for the American manufacturing industry, its “disease” is not death and collapse, but a paralyzed malformation. Some of them have caused serious problems, and some of them are in a state of vigorous progress.

Specifically, even though with leading technology, the U.S. has an aging population, as well as the expensive labor force. For this reason, while there is the strong support of U.S. policy under “America First” and “Make America Great Again”, it is impossible for the traditional manufacturing industry in the U.S. to achieve a real recovery in the future and regain its vitality. Trump’s election campaign, as a political vision, has a certain impact and influence, but it is more of a policy tendency that creates deformities than an industrial reality.

The factors of the development in the American social environment determine the trend of the United States’ manufacturing industry for decades to come. What the U.S. manufacturing industry can really achieve in the next 20 years in that on one hand, it will continue to lay off employees on a large, which is the need to restructure and rebuild capital. On the other hand, based on adjustment and transformation, smart manufacturing will replace traditional manufacturing in a comprehensive manner.

In order to avoid social turmoil caused by layoffs during the transformation of traditional manufacturing industries, the official U.S. policy department is bound to do everything possible to increase the relative costs of competitors in the world market, using policy and strategic means such as price wards, trade wars, renewed agreements, withdrawal from multilateral organizations, abuse of sanctions and tariff wars. Fair and



just WTO regulations will be replaced by politically attractive unilateral claims such as “America First”. The U.S. will take the risk of causing structural damage to the international trading environment, and will relatively alleviate the pressures on the transformation of traditional U.S. manufacturing through policy operations that shift pressures generally to its international trading partners.

The transformation of the manufacturing industry is a kind of competition in the world market. China is bound to switch to smart manufacturing in as many areas as possible to avoid the sharp decline of the manufacturing industry. However, due to the characteristics of smart manufacturing which are conducive to monopoly and systematic manufacturing, it is predicted that China’s smart manufacturing will only be successfully implemented in a few product areas with system integration control. Moreover, due to the huge investment needs strong policy support, it is expected that smart manufacturing may exacerbate the further nationalization trend of China’s industrial sector. For China’s industrial policy, it is more advantageous to promote smart and fine manufacturing at the same time. A single, one-sided emphasis on the direction of intelligent manufacturing is not that applicable to China’s current industrial manufacturing system.

In comparison with China, European countries have always been more stable in industrial and agricultural production methods, while tending to smart manufacturing and fine manufacturing. On one hand, “Industry 4.0” with a long-term strategy is proposed by European countries. While on the other hand, European countries have almost maintained complete fine manufacturing systems. Therefore, the production method of European countries in the next few decades is expected to remain stable and competitive. Compared with the U.S., the biggest problem for European countries is that the system of the end product is relatively inferior to that of the U.S., so the competitiveness of the future will be lower than that of the U.S.

The census of the world population in 1851 showed that there were less than 44,000 people doing “administrative work” in the world, but only 20 years later, by 1871, the number of people working in offices in the world had changed to 91,000 which is twice the number from the original. Structural changes in the global industrial sector have been ongoing and are accelerating. It should be reminded that the future manufacturing trends are not stable and uncertain. The predictable and observed changes in production methods are just a rough and primitive change. Besides, the change that is more threatening to the human society will be a wave of manufacturing technology related to the size of the labor force, such as with the Artificial Intelligence (AI)’s involvement in production and manufacturing. As a result, the impact of the problem will greatly exceed the scope of manufacturing and production, affecting every family in the world, including their future.



## Technological Competition as Intelligence Activities

Science and technology exchanges and intellectual property disputes are the most common disturbance and noises in global trade. However, in the future, due to deepening of hostility between the United States and China, and the misjudgment of the international situation by Chinese policy departments, the sci-tech exchanges and intellectual property disputes between the U.S. and China have been rapidly exaggerated to the level of national security and spy battles, even losing their sense and control in some sensitive areas.

In-depth evaluation and follow-up research by ANBOUND show that in the future for China, whether it is normal academic exchanges, sci-tech exchanges, study visits, project cooperation, intellectual property exchanges and transactions, all these could be disturbed and being challenged in various countries around the world due to deepening hostility in the world market, and various obstacles and troubles will appear. As long as there are international exchanges involving the Chinese people, they may be thought to be using spies to steal technological secrets; any project involving Chinese manufacturers and equipment may be considered to be using unethical methods and there is some kind of “back door”. In short, China has been widely stigmatized or condemned in the world of science, technology and intellectual property, which has created excellent conditions for large-scale involvement of non-commercial forces such as politics, public opinion, intelligence and law.

At the end of 2018, Huawei, as a leading company in the global communications industry, witnessed its CFO Meng Wanzhou being arrested during a transit in Canada, which has caused a huge impact to the company. Huawei has hundreds of suppliers around the world. These suppliers design and provide Huawei with all components from small screws to large screens. Huawei is mainly engaged in the back-end integration and assembly of communication products, and American companies dominate Huawei’s main upstream suppliers. Among Huawei’s 92 core suppliers, 33 in the United States ranked first. The U.S. and Canadian authorities certainly were not ignorant about these circumstances of Huawei, but they still took decisive actions against Huawei, indicating there would be tricky changes in the future situation.

In fact, the world intelligence community is now in a critical period of transformation and adaption. For a long time, there have been two major problems in the intelligence community in various countries around the world. The first problem is that economic intelligence and industrial intelligence are not considered to be the core tasks of the intelligence community. The concept of national security is very narrow and conventional. It is like the plot in a spy film, only terrorist acts and high-level information and developments of the country would be the focus of intelligence activities. Other information such as economics, industry, and product technology are

incidental intelligence activities and are usually not given due consideration. The second problem is the problem of the world intelligence community itself. In this mysterious circle, open source information that is never considered publicly available is intelligence, does not pay attention to the acquisition and analysis of public information, not paying attention to the acquisition and analysis of public information, or even reluctant to spend money on information, has led the intelligence practices of countries around the world to lag behind the development of the information society for a long time, and as a result facing strong political pressures.

After Trump became the U.S. President, he launched a turning point defense report, the Defense Strategy Report, which defined China as the main “enemy” of the United States based on political and competitive considerations. China suddenly became the main target for the U.S. However, China is different from many other countries in the world. The degree of internationalization in Chinese history is far lower than that of the European and American countries as well as Russia. In addition to self-defense, China has never had a tradition of conducting wars with the United States and other Western countries in the world. China has only entered the world after reform and opening-up, and its national advantages are more concentrated in the economic and industrial fields. Through economic, industrial, and technological competition, China has gained a dominant position in the world.

Consequently, the unexpected and highly-adjusted “China Challenge” forced the U.S. government to quickly make a major transformation. They must do everything possible to curb China’s strong strategic competition. This includes curbing China’s economic and industrial progress in order to avoid China’s access to technology in various information fields, preventing China from using all kinds of open and previously unlimited information source to control the flow of scientific and technological information to China. For a while, various rough and irrational Western governmental departments and the intelligence community adopted wartime intelligence, diplomacy, commerce and legal operations, while exaggerating science and technology and intellectual property issues. “Unfair trade” has rapidly escalated to now “threats to the national security of the United States” and this has even become the top priority of the U.S. intelligence community.

In the field of science and technology and intellectual property rights, the history of Cold War has repeated itself. Western countries are building a virtual “information Berlin Wall” with unprecedented clear actions, trying to isolate China from the future information society and intelligent world. It is expected that this will continue for a long time to come.

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### Knowledge Environment of SOEs Being Damaged

China’s state-owned enterprises (SOEs) are a special production sector with great influence. For a long time, the technology and progress of SOEs have been closely related to intellectual property rights. Besides they are also closely related to the world’s technology transfer market transactions as well as to world politics. Because the Chinese government supports the SOEs, the attitude of the world towards the Chinese government determines the attitude towards the Chinese SOEs, and it also determines how easy it is for these enterprises to obtain technology and intellectual property. It can be said that there is such a trend in measuring and evaluating the future world situation. If Chinese SOEs now have difficulty in obtaining technology and knowledge, and have to pay a large price, it will inevitably be more difficult in the future. The knowledge environment of Chinese state-owned enterprises in the world will encounter obstacles from laws to censorship, from public opinion to transactions, and finally to intelligence activities.

In fact, intellectual property and technology are the most important means of production in the future world, and are the core resources for enterprises in order to maintain competitiveness. For a long time, the knowledge system of Chinese SOEs is a clear combination, usually composed of state-owned enterprises and state-owned scientific research units, plus government intelligence departments. It is direct and clear that has long been understood and mastered by the outside world, and even widely tracked by public opinion. In the future, there will be great resistance and obstacles to continue to follow this model, which will directly affect the core competitiveness of SOEs.

Besides, China’s SOEs still have systemic defects that have been consistent for decades. They are too dependent on the capital and policy advantages of state-owned enterprises. At first, it was assembled from SKD (semi knock down) semi-bulk parts, CKD (completely knock down) full bulk parts, large bulk parts and small bulk parts, relying on hardware to quickly form products and occupy the market. This period determines the basic attitude of state-owned enterprises and state-owned scientific research units to technology introduction. In the later period, from hardware development to software, state-owned enterprises and state-owned scientific research units had discovered more new things and new technologies, and then try to get it in from overseas, while carrying out a certain degree of localization, and even some policy ratios based on the localization rate are directly exaggerated as “own”, even if the task is completed. Therefore, once the “task” is completed in this way, it means more material rewards

and essential rewards, winning more honors as well as social status such as those academicians, professors and committee members.

Thus, in reality, there is a policy incentive for technology introduction in China. This policy incentive merges with the domestic project environment that is highly friendly to SOEs, and also merges with the foreign knowledge environment to promote the rapid progress of these enterprises. The problem is that as competition in the world market rises, such “routines” and “practices” have aroused great attention from governments from various countries. Technology and intellectual property issues have become major issues of the world, and had become the core problems of world trade negotiations, and an object of suppression by various countries. The introduction of intellectual property rights and technology in the future will increasingly become a key area of the secret battle between intelligence agencies between countries, which will affect the survival and development environment of SOEs and at the same time, limiting their competitiveness.

From the introduction of equipment to the introduction of technology, and final to the introduction of talents, SOEs have “mined” the technical information. Where they will go in the future is an inevitable question and challenge. Due to the significant evolution of the knowledge environment in the future, it may be possible to further strengthen equity and mergers and acquisitions which will be a desirable but a very sensitive direction.

### China's Economy in Eurasia Gradually Slows Down

If the Eurasian continent is compared to the “world island”, then the dividing point in 2012 has changed dramatically. Before 2012, the central region of this “world island” was China, reaching its peak in the economic growth. After 2012, China's economic growth rate has experienced an unusual gap. From the double-digit economic growth rate, it has plummeted to 6% - 7%, and it may even reach below 6% after 2018.

Contrary to the trend of China's economic situation, after 2012, especially in recent years, the economies of neighboring countries outside China on the Eurasian continent began to stabilize or rise. On December 20, 2018, data of German Federal Statistical Office showed that the German economic situation has further improved. As of the end of September 2018, Germany's total national debt was 1,929.8 billion euros, which is a decrease of 45 billion euros from last year, and a year-on-year decrease of 2.3%. On the other hand, in the third quarter of 2018, Germany's per capita income increased by 3.6% year-on-year, which was the highest in seven years. Among them, the per capita monthly salary in the west was 4013 euros and in the east is 3173 euros. According to the German Macroeconomic Policy Institute (IMK), Germany's per capita income would increase by 3.6% in 2019, and the inflation rate would only be 1.8%.

At the end of 2018, the performance of the Russian economy was also quite astonishing. President Vladimir Putin held a press conference and pointed out that in 2018 Russia's GDP increased by 1.8%; the processing industry increased by 3.2%; the actual income of residents increased by 0.5%; the unemployment rate decreased by 0.4 percentage points; the average pension was 14,163 rubles; the average life expectancy of Russian residents increased from 72.7 to 72.9 in 2018. In addition, the Russian President stated that the state's gold reserves had also increased, and a budget surplus had appeared for the first time since 2011. Russia's state welfare fund had risen, and the level of inflation has remained within acceptable limits. Putin believes that the Russian economy is subject to Western sanctions, but the Russian economy has adapted to that. Putin believes that in the future Russia will become the fifth largest economy in the world and the Russian government is also planning to achieve an annual economic growth rate of 3% from 2021.

Around China, Vietnam was once one of the poorest countries in the world. Beginning in the middle of the 20<sup>th</sup> century, Vietnam had experienced year after year of wars, which caused serious impediment to its economic development. It was not until 1986 that Vietnam established the reform and opening-up national development strategy known as "doi moi" to reform its economic system and increase cooperation with the international community; Vietnam's economy then began to improve gradually. Moody's predicts that Vietnam's GDP will grow by an average of 6.4% in 2018 to 2022 due to Vietnam's increased competitiveness, good trade circulation, and increased domestic consumption. This growth rate is twice the average growth rate (3.5%) of economies with credit ratings of BA3 including Vietnam. It is worth noting that Vietnam's economic restructuring is also relatively smooth. Since the year 2016, the share of agricultural employment has fallen below 50% and the service industry has gradually become the backbone of Vietnam's economy, accounting for 40.92% of GDP. Furthermore, the international market generally believes that if Vietnam can maintain its current development status, then Vietnam is likely to become another Asian economy that has attracted the attention worldwide after the "four little tigers" in Asia.

India is also geographically close to China. The Central Statistics Office (CSO) of India issued a report on August 31, stating that India's GDP growth rate reached 8.2% in April to June 2018, far exceeding China which was 6.7%. For the third consecutive quarter, it has become the fastest growing economy in the world. Interestingly, India has not been affected by the tension in global trade relations. In fact, India has surpassed France to become the world's sixth largest economy with a total GDP of US\$ 2.597 trillion in 2017, and it is even more predicted that India will surpass the United Kingdom in 2018.

In comparison, Japan, a developed country, has also shown an unexpected growth trend in the recent years. As of the second quarter of 2018, Japan's real GDP has growth at an annual rate of 1.9%. As of this quarter, the Japanese economy has achieved a record of growth for seven consecutive quarters, with the longest period of growth in more than a decade. The world economic community finds that Japan's sustained growth is puzzling, how does Japan achieve such results in adversity when their population is declining and the country is facing deflation?

It is obvious that the economic growth trends of Asia and Europe are changing, and even South Korea and North Korea are showing positive trends of change. Moreover, the "world island" is become very different from the past. The growth poles in China in the past began to fall, which cause depressions in the center of the "world island", and there are magical economic growth rates. Even advanced economies that have not shown strong growth or a relatively mature economic structure at least show stable and optimistic trends and prospects. Such status quo and trends make China's economic environment show a considerable degree of "non-adaption", which means that China may enter a new stage which is ignored by the world.

Judging from the development cycle and level of development, it is understandable that some adjustments to the growth rate of the Chinese economy will be made in the future. This is the need for transformation and also it is a sign showing that the economic environment is becoming mature. However, the key is the speed and degree of adjustment. At present, China's internal judgment of the ability to withstand the economic downturn is evaluated in accordance with domestic environmental conditions. However, it is still not sufficiently reliable and mature, and may actually even be seriously underestimated. Because China's surrounding environment will form new and comparative competitive pressures, it will cause China, a "world island" nation, to recognize economic growth. Another point is whether the basic structure of China's economic environment can really adapt to such abnormal dislocations that occur in a counter-economic cycle, and whether there will be a dangerous risk of disintegration is also one of a major challenge.

### **Economic status of Hong Kong, Guangdong, South China Being Threatened**

The economy of Hong Kong, Guangdong and South China has an important position in China's economic environment. Since 1978, the economy of South China has always been the most important economic engine for China. Other places including Shanghai, Beijing and Tianjin are latecomers. However, judging from the situation in the future, the important engine of South China's economy may stall.



In 2017, Guangdong's provincial GDP increased from RMB 5.8 trillion in 2012 to RMB 8.99 trillion; accounting for 10.5% of the country, ranking first in China for 29 consecutive years, with an average annual growth rate of 7.9% in five years. If calculated based on the average exchange rate in 2016, it would be equivalent to US\$ 131.5 billion. After surpassing Australia in the 14<sup>th</sup> place in the world in 2016, it continued to overtake Spain which was in the 13<sup>th</sup> place and Russia in the 12<sup>th</sup> place, heading for South Korea which was in the 11<sup>th</sup> place. The ups and downs of Guangdong's economy will further radiate, affecting the entire South China region, including Jiangxi and Guangxi surrounding Guangdong.

In the southern region of China, the correlation between the Hong Kong economy and the Chinese economy is also becoming increasingly apparent. In 2017, the total GDP of Hong Kong was US\$ 341.4 billion, and Macau was US\$ 50.4 billion. The total GDP of the two places was almost close to US\$ 400 billion. Shenzhen's total GDP in 2017 has reached RMB 2.2 trillion, with a nominal increase of 12.87%; total imports and exports totaled RMB 2.8 trillion, ranking first in the country for 25 consecutive years. In 2017, due to factors such as the construction of the Bay Area, Shenzhen added 3193 high-tech enterprises, which totaled to 11,230, second only to Beijing.

The economic development of southern China is centered on Hong Kong. The total economic volume of this region is dominated by Guangdong, Shenzhen, Hong Kong and Macau. It has about RMB 14 trillion, which is equivalent to 17.5% of China's total GDP of RMB 80 trillion in 2017. Historically, the economic development of this region has a close relationship with Hong Kong. Capital, technology and management are mainly derived from Hong Kong. Since then, the main role of the Hong Kong economy in the South China region has become more diversified and more of a role as a "springboard" for capital and financial centers. A large amount of capital from all over the world has invested in South China region with Hong Kong as the center to promote the economic development of South China.

A brief analysis of South China's economy reveals that the main drivers of South China's economic development are real estate, foreign investment, and also advanced technology especially in Shenzhen, where the advanced in technology has played a relatively large role. Data from Shenzhen shows that in the year 2017, Shenzhen had spent RMB 97.7 billion on research and experimental development expenditures throughout the years, second only to Beijing and Shanghai, and ranked third in major cities nationwide. In terms of R&D intensity (R&D investment/ GDP), Shenzhen reached 4.1% second only to Beijing. However, in general, the economic development of South China in the recent years is still based on real estate-based assets, capital operations, and technology industries that are supported by capital. All of these have a close relationship with Hong Kong, which acts as a financial center.



From the perspective of the future world's strategic relationship, Hong Kong is likely to become a key hot spot in the conflict of strategic interests between China and the United States as well as with other Western countries. In the beginning of 2016, the strategic focus of the United States and other Western countries has shifted from supporting China's reform and opening-up to suppressing the influence of China; from the emphasis on the "Chinese factor" in the development of the world economy, the West has changed to the need to minimize the impact of "China risk". The occurrence of this kind of change means that Hong Kong, which is one of the pioneers, hot spots and important sources of power for China's reform and opening-up, will likely face great challenges and shocks.

After returning from a visit to the United States, a member of the Civic Party Hong Kong, Dennis Kwok Wing-Hang stated that if there is another political change in the understanding of "one country, two systems" in Hong Kong, members of the two parties in the United States have reached a consensus that the "U.S.-Hong Kong Policy Act" or "Hong Kong Policy Act" and Hong Kong's independent tariff status will be cancelled. The U.S. Congress passed the "Hong Kong Policy Law" and listed Hong Kong as an independent customs area different from other cities in mainland China. There are prerequisites and it is "one country, two systems." Under the current U.S.-China trade war, Hong Kong is not only unaffected by the increase in tariffs, but also can continue to import high-tech from the United States. The key is that Hong Kong is an independent customs territory.

In addition, the status of Hong Kong as a financial center is also closely related to the "Hong Kong Policy Act" of the United States Congress, because the "Hong Kong Policy Act" allows the free exchange of the U.S. dollar and the Hong Kong dollar, which supports the pegging of the Hong Kong dollar to the U.S. dollar as well as Hong Kong's linked exchange rate system. Therefore, it is easy to see clearly that once the United States cancels the "Hong Kong Policy Act", Hong Kong's status as an international financial center, the entire South China economy and the planning of the Greater Bay Area, which now supports South China's economy, will face great impact and challenges.

We believe that the probability of these situations in the next few decades, because geopolitical reasons are being amplified, even if they are not honored, they will be in a marginal swing. The economic aggregate affected by China is roughly equivalent to the economic aggregate of one South Korea plus one Taiwan.

### **Scale and Impact of China's Private Debt Getting Bigger**

Infrastructure construction plays an important role in the process of China's economic development; it is also well known that the cost of infrastructure construction is always

closely related to the scale of national debt. Since then, China's debt problem has always been a focus of the world. It is worth noting that the focus of the world market on China's debt problems mainly lies in the public sector, though now the focus has shifted to the country's private debt, and China's private debt problem has become a new indicator for China's financial health.

There was an inconspicuous jurisprudence case in Qingdao. Two corporate legal persons signed a blank contract for an acquaintance, yet unexpectedly, the borrower ran away after one year. This kind of risk is quite common in China. The court ruling has caused the guarantors to fall into a huge amount of guaranteed debt, and the number of people and assets involved in such cases has multiplied. In 2015, these two persons signed a blank contract with a guaranteed loan of RMB 100,000 and this turned out to be RMB 4.25 million a year later. Judging from the current public opinion, many of these cases have problems with the quality of trials, and they have to do with complex relationships that protect the banks as well. Taking this case of Qingdao as an example, the first trial was held three times, and the judgment was substantiated. The subpoena was notified in the 6th trial court while in actuality it was the 13th trial court. After the defendant arrived in court, the trial was almost completed, and the evidence was extremely problematic. The signatures and the identity cards were all fake, and it was judged that the bank wins the case and the contract is valid. The result of such a case judgment is obviously not convincing, and ultimately it is the rapid complexification, socialization, public opinion-dominated and even internationalization of the private debt problem.

On July 26, 2018, the Cabinet Office of Japan issued the "World Economic Trends report", analyzing the risks caused by the private debts of major countries to the world economy. From the perspective of the debt-to-GDP ratio, China and Canada have a higher proportion. This report points out that this "should be closely monitored", indicating the high level of alert sign. The Cabinet Office of Japan has calculated the difference between the debt-to-GDP ratio of the private sectors of major countries and the historical long-term trend (such as credit gap). The Bank for International Settlements, which developed this analytical approach, believes that once the debt-to-GDP ratio is more than 9% higher than the historical long-term trend, states that "a warning signal for a possible financial crisis occurring within 3 years". As of July-September 2017, China (16.7%) and Canada (9.6%) had credit gaps of more than 9%. However, due to "measures" to reduce excess debt, the gap between the two countries has declined from their peak in 2016.

The International Monetary Fund (IMF) warns that as of 2016, global debt has swelled to a record of US\$ 164 trillion, and a trend may make it more difficult for countries to cope with the next recession or when financing conditions tighten, and more difficult to repay the debt. The IMF's semi-annual fiscal monitoring report had emphasized that

global public and private sector debt had swelled to 225% of the global GDP in 2016, especially the surge in private sector debt accumulation, and the growth of private debt after the global financial crisis, China had accounts for nearly three-quarters of the world.

From the perspective of financial risk control, the actual private debt is harder to handle compares with that of the public sector. The Western financial institutions and financial regulatory authorities that have been suffered the financial crises have a deep understanding of this and are therefore more sensitive in this matter. In comparison, China's regulatory agencies are somewhat more careless. For example, the National Bureau of Statistics of China believes that for banks, the risk of residents' overall asset repayment ability is relatively small, and residents can independently repay the banks, therefore this would not cause major impact on the overall operation of the economy. Actual private debt does not pressure on banks but rather, the pressure is on society. It is difficult to achieve orderly management, and it is very prone to the multiplier effect of debt and easy to amplify the debt chain. In addition, private debt is not only personal debt but also the debts of private enterprises, so the increase in private debt will make the ability of the whole society to cope with the financial crisis to drop drastically, making the whole society rather vulnerable.

Debt will be an important driving factor for the continued decline or even serious Latin-Americanization of the Chinese economy in the future, especially if it cannot be properly controlled.

### **U.S.-China's Future Inflation Forecast**

Inflation is an important turning point in the future world. Once there is an unacceptable explosive rise in the world's inflation level, that would mean a disastrous major crisis will occur in the future. Besides, the international transnational cooperation system and its trade efforts will disintegrate, the global market space will shrink sharply, and the political stability within countries will inevitably suffer unprecedented destruction. Hence, is it possible that such a terrible prospect really appears?

Ray Dalio, founder of the investment firm Bridgewater Associates, one of the world's largest hedge funds, said that at the end of 2018, the U.S. dollar could soon fall by 30%, which is similar to the Turkish lira. Dalio warned that the U.S. economy is on the verge of a major currency crisis because it could not afford the increase in debt. He believed that the United States may have to experience an inflationary debt crisis, the kind of crisis that emerging market economies such as Argentina and Turkey are currently suffering.

In 2018, triple-digit inflation did indeed sweep the globe. Presently, the annual inflation

rates of Argentina, Iran, Turkey, Sudan, Yemen, and Zimbabwe have reached 111%, 187%, 27%, 127%, 38%, and 170%. What is more frightening is the overall collapse of the Venezuelan currency Bolivar. The triple-digit inflation in many countries mostly has something to do with the U.S. dollar. The countries that have an “opposition relationship” with the United States have a high probability of high inflation. Furthermore, many countries with runaway inflation are facing triple-digit devastating inflation.

As inflationary conditions have a huge impact on the future of both the world’s economy and the China’s economy, and it is an important part of the strategic environment, hence forecasts and judgments must be made. The results of the dynamic reasoning analysis show that in reality, the “three-digit inflation” predicted by Ray Dalio is not likely to occur in the future, neither in China nor in the United States.

According to the theory of capital surplus, a large increase in investment in the era of huge investments can lead to an increase in production capacity, debt, and inventory, but there will not be a large increase in inflation in accordance with traditional economic theory. Due to overcapacity and inventory, fierce price competition has appeared and prices have been suppressed. If inflation is assumed to rise sharply, then capacity, debt, and inventory must fall sharply. Only when debt and interest rates are rising sharply, capacity and inventory will really fall, driving price-sensitive changes. This situation seems to be impossible in China and the United States at present. Besides, President Trump was not exactly enthusiastic in Fed’s interest rate hike and even threatened to change the Fed’s personnel. China is also quite calm about raising interest rates. Therefore, it is more appropriate to define future inflation in the strategic environment as a “dangerous” rather than a “realistic” one.

From the perspective of the relative strength of the U.S. dollar, the higher exchange rate of the U.S. dollar relative to other countries will help the United States to import a large number of products, thereby suppressing the rise in product prices in the world market. Therefore, the strength of the U.S. dollar is also a condition to curb inflation and is a factor for price stabilization in the global market. However, although from the perspective of the long-term trend, the United States will not have a major problem in inflation, but if other factors are considered, such as the investment return prospects of the high-tech industry, the impact of China’s economic slowdown on the world market, rising global production costs, and weak consumer power, these factors will lead to the vulnerability of the U.S. financial market from 2019 to 2020. Moreover, the probability of a financial crisis in the United States had increased significantly, and a financial crisis is likely to occur. Once a financial crisis occurs in the United States, it will have a great impact on China’s economy. It will not only further withdraw funds incidentally; it will also likely reduce China’s exports and affect China’s economic growth and financial stability.

## U.S. Economic Growth Forecast

The U.S. economy is an important “locomotive” for the global economy. As the most important export market for China, the health of the U.S. economy is also related to China’s economic growth space and future development potential. Therefore, forecasting the future economic growth of the United States is one of the important supporting goals of strategic environmental analysis.

The economic growth rate of the United States is very different from the performance of other countries in the world and is very unstable. The GDP growth rates in 1991 and 1992 were -0.07% and 3.56%, respectively. They turned from negative growth to positive growth, and the increase was drastic. The same was true in 2009 and 2010, from -2.78%, which turned into a positive 2.53% after a year. Under normal annual conditions, the economic growth rate in the United States can often vary by 0.5% to 2% after one year. Under the condition that the industrial structure is basically unchanged, such changes are dominated by consumer power. This is a very drastic change and one of the important reasons for the unpredictability of the U.S. economy.

In the late 2018, a series of optimistic signals from the U.S. economy prompted some major economists of Wall Street to raise their expectations for the U.S. economic growth. Goldman Sachs and Morgan Stanley both raised their expectations for the U.S. economic growth in 2018. The new Wall Street forecast believes that the U.S. GDP growth rate in 2018 can reach more than 3%, which is in line with the hope of the Trump administration. In addition to raising GDP growth, Goldman Sachs also predicts that the U.S. unemployment rate will fall to 3% in 2020, which is the lowest unemployment rate since 1953.

Based on the observation of production activities and data analysis, ANBOUND estimated that the U.S. GDP annual growth rate in 2018 could reach about 3.7%, while the U.S. GDP growth rate would decline in 2019, more likely that to be about 3%. The main reason for supporting such a high growth rate of the U.S. economy in 2018 is that general employment has been basically realized, and the U.S. unemployment rate has fallen to an unprecedented low; relatively loose financial policies have released consumer power and boosted economic growth. However, such an optimistic situation is likely to reverse in 2019, and the probability of the financial crisis is relatively high, especially if the Fed continues to raise interest rates multiple times.

The biggest problem is the U.S. economic growth and U.S. economic policy is the contradiction between the globalization of the U.S. dollar and President Trump’s “America First” and “Make America Great Again” policies. These policies require that the United States first consider the domestic economy, followed by the world market and Europe. It does not have a high priority and even Europe itself is a strong competitor

to American products. The globalization of the U.S. dollar is just the opposite, requiring the United States to assume more international obligations and responsibilities, and maintain the United States' strong influence in the world. As a result, the interests of Wall Street Financial Group are inconsistent with President Trump's current policy goals, and there are even fundamental conflicts that are difficult to reconcile, often causing policy swings and affecting U.S. market transactions and economic performance.

Basically, as long as President Trump continues to maintain the current policy, the large fluctuations of the U.S. economy in the future will be inevitable. The same contradiction will also lay the foundation for the future Wall Street financial crisis.

### **U.S will Return to Global Climate Talks**

Since President Trump assumes the presidency, his attitude towards global climate negotiations and policies has been interesting. This is because as we all know, Trump has always insisted that the so-called global climate change is a "hoax". At the end of the fall of 2018, a new report by the U.S. federal agency, "The Fourth National Climate Assessment," issued a sharp warning that climate change would seriously damage the United States' environment, society and the economy. Scientists pointed out in the report that if no decisive measures are taken, climate change will damage more and more infrastructure and homes, and will hinder national economic growth for decades. "The Fourth National Climate Assessment" states that by the middle of this century, climate change will cause hundreds of billions of dollars in annual losses to the United States.

On the other hand, experts also warned that global warming, drought, fire and severe weather will have an increasing impact on U.S. agriculture; fisheries or tourism industry is also particularly vulnerable to climate change; trade will also be dragged down. The report states that extreme weather conditions, changes in air quality, or the spread of new diseases associated with climate change will endanger the health and life of the American people. The report analyzes the impact of climate change on other areas of society. Experts point out that although the American society has intensified its efforts in the fight against climate change in the past five years, it is not enough to avoid serious harm to the economy, environment and human health in the coming decades.

In 2018, the United States suffered a series of catastrophic hurricanes and forest fires. Scientists believe that climate change is the cause and warn that severe natural disasters will increase. The second part of the 1,000-page "Fourth National Climate Assessment" was written by more than 3,000 scientists under the Congress.



A special report in 2017 was called “nonsense” by President Trump. President Trump has long mocked the experts’ warnings. However, Trump issued a different policy signal in an interview with CBS’s famous TV news program “60 minutes” on October 14, 2018. Trump said: ““I think something is happening, something is changing, & it will change back again...I don't know if it's man-made...” Although Trump no longer condemns climate change as a “hoax”, he still denies that climate change is related to human activities and believes that the climate issue will be resolve by itself, and this is the part of him that does not change.

On June 1, 2017, Trump announced at the White House that the United States is withdrawing from the Paris Climate Agreement in response to global climate change. In August 2018, the Trump administration announced that it would freeze regulations on automobile fuel consumption and carbon emissions during the Obama administration. This regulation aims to reduce fuel consumption and thus reducing greenhouse gas emissions.

In September 2018, the Trump administration planned to reverse the Obama-era regulations to curb methane leaks from oil and gas equipment. The U.S. Environmental Protection Agency (EPA) acknowledged that the new regulations will increase greenhouse gas emissions.

The Trump administration has also stopped approving funding for some United Nations climate change projects in the federal government’s fiscal 2018 budget and substantially reduced the EPA’s budget.

However, the series of actions led by Trump do not completely represents the attitude of the U.S. government as this is not the case. NASA insists that “97% or more” scientists agree that climate change over the past century is likely to be caused by human activities. The traditional European allies of the United States also looked anxiously and disdainfully at this change in attitude of the United States.

The actual geopolitical reality that must be seen is that global climate negotiations are a high-cost geopolitical weapon because this is a real-world event. The geopolitics of our world is very special. The “world events” that countries around the world are talking about are often not the real “world events” and no one even cares about them. Only the countries concerned often talk on their own. Like global climate change, this is a real-world event, and everyone in the world cares about it, so whoever leads the issue of global climate negotiations will actually lead the right of global discourse. In the future, it can be predicted that because the issue of global climate change is related to the transfer of world discourse power, the United States will inevitably make changes in the future and regain its dominance on global climate negotiations.



## The “Four Worlds” Based on Industrial Level

For a long time, there is a trend for every country to strive in order to determine its position in the world industrial structure according to its own wishes, which has resulted in some unrealistic development orientations. This all arises from the competitiveness of economic development. However, the actual division of labor, regional cooperation and capital flows of different countries are closely related to the development status of the world's geo-space. The different development states of different countries narrate that the world will have different modes of division of labor, industrial exchanges and industrial sectors.

If we look at the immediate future, Chan Kung's judgment is that the world's geo-regional development status can be divided into "four worlds": The first world is the traditional importing consumers of the OECD. These are the high-tech countries, which include the "old" European countries, as well as developed countries such as Singapore, South Korea and Japan. As these countries started development earlier, and their national wealth level is relatively high. They are basically consumption-led economic models. The second world belongs to the current economic and industrial transitional countries and regions, which are shifting from a productive society to a consumer society. Such countries are actually few and far between; it seems that only China is such a country. This may also be a reason for China's relatively isolated world status. The third world refers to the emerging consumer goods processing and exporting countries along the Pacific Ocean and the Indian Ocean coast. These countries are trying to move away from poverty to a productive society and attempt to become more prosperous. The status quo of these countries is just like what China faced at the beginning of reform and opening-up of its economy two to three decades ago. The fourth world refers to the yet-to-be developed countries, such as certain impoverished countries in Africa and South America.

Each element of "four worlds" have different economic pursuits and political demands. Chan Kung further explained that the division of "four worlds" is related to the development stages and status of the economies. When we look at the future global industrial division in our discussion on regional international cooperation, if we seek partnerships according to the definition of "four worlds", then it would be easier for us to integrate into future global trends. In this regard, the "four worlds" model actually provides a simple but effective analytical framework.

Similarly, according to the economic stage theory of the "four worlds", China's current position and influence in the world market is actually very special. The stage of China's rise and development is between the Four Asian Tigers and the rise of the Pacific and Indian Ocean countries, thus placing China in an isolated developmental stage compared with other countries. Hence, it is difficult for other countries to respond to

China, which makes other countries competitors of China with few of them having sympathy towards China. In the future, China's industrial policy and regional cooperation must fully consider the geo-industry pattern of the "four worlds". It is necessary for China to accurately find its own position and locate its development trajectory in order to have a break through. It is also only through years of efforts that China can gradually promote its geo-development to the first world level.

Whether the industrial world is too advanced or lagging behind by a huge margin would both be harmful to China's social economy and industrial development environment. A deteriorating industrial development environment will lead to deteriorating conditions and create a deteriorated business orientation.

### The Future Geopolitical Landscape in Asia

It appears that Asia will be the region with the greatest change in the world. After centuries, the condition of the "heartland"<sup>11</sup> has been recovering. The impact of this assessment is enormous, and Asia's central role in the world is growing. The main Asian countries and regions like India, China, Japan, the Korean Peninsula and countries in the Pacific Rim will exert larger influence in the "heartland". This is particularly true in Asia itself because of the changes in their ideologies, economics and politics. If there are no unexpected factors such as wars leading to the interruption of this process, the Americas will be in an isolated geopolitical condition compared with the Asian region.

On the Korean peninsula, the Kim Jong-un family and South Korean President Moon Jae-in have forged a subtle partnership of common interest. Moon Jae-in has put all his stakes of his political career behind the unification of the Korean Peninsula at all costs. He has done a lot, and wishes to continue to play a role in the internal politics, though the result might not necessarily be what he wanted, and he might even need to pay a higher price. Although Kim Jong-un has had his hesitations on abandoning nuclear weapons, the abandonment of the nuclear power will cause North Korea to lose its *raison d'être* and strategic bargaining chip. Yet, if the nuclear weapons are not given up, it would be difficult for North Korea to convince the United States and Japan. But overall, Kim Jong-un's has also gone quite far in negotiations. Even in a society like North Korea where there is low transparency, everything he has done is considerably astonishing. If he fails, it would be quite doubtful if the North Korean political system could still be stable.

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<sup>11</sup>. The concept heartland theory comes from the geographical elements in the historical process of an article published by Halford John Mackinder in 1902 by the Royal Geographical Society. In this article, he generalizes geopolitical analysis to a global perspective. According to Mackinder, the earth is made up of two parts. The heartland composed of Europe, Asia and Africa is the world's largest, most populous and richest land combination.

The situation of the unification of the Korean peninsula has a complicated impact on China. While China still has its influence, it has abandoned the possibility of possessing a dominant role. China can work hard to promote the reunification of the Korean Peninsula and move toward a direction that would not be harmful to China. Yet, even this is difficult for China to achieve. The unification of the Korean peninsula means that there is a huge market for reconstruction, which means that it requires huge capital investment. This gives China an opportunity to be passively involved. In addition, the unified Korean Peninsula is certainly a strong strategic competitor for China. Such a prospect should not be ignored by China.

The geo-strategic location of Vietnam and the South Sea has always been very important to China. Together with other countries and regions with vested geostrategic interests, it has limited China's southward move. As Vietnam's economic and political reforms are relatively stable and smooth, it is expected that in addition to the possible crisis in the South Sea, Vietnam's future will be a stabilizing factor for the Western Pacific, instead of being China's biggest challenge. The actual focus should be the overall strategic situation of the South Sea region, and not any single country around the South Sea.

On both sides of the Taiwan Strait, due to the vigorous promotion of the DPP (Democratic Progressive Party), it is expected that in the period up to 2035, Taiwan will move towards "semi-independent" state. Such a strategic situation is very difficult for mainland China; it is estimated that this is also a political goal of the DPP. Since the evolution of the world economy and industry is conducive to the rise and development of the western Pacific Rim economy, it provides a possibility for the DPP's southward strategy to succeed. Therefore, the DPP's success factors on the island will gradually increase, and future political disputes on the island are expected to focus more on political ecology rather than economic issues. This evolution of the situation will help the DPP to consolidate its position in Taiwan, rather than shaking its political status. Therefore, it is more likely that the DPP will continue to rule in Taiwan in the future except for a few periods. The KMT (Kuomintang) will continue to be an opposition party in most of the periods.

The Indian subcontinent will be a region that is one of the most influential one in the world. India is a country with a significant importance in the region, which is closely related to its land size and population. It is the largest country in South Asia, accounting for about three-quarters of the land on the Indian Peninsula. India also has the largest population in the region, about three times the combined population of the remaining six countries. Since India adopts a parliamentary democracy and federalism, its political flexibility and compatibility are relatively high. Pakistan is the second largest country on the Indian subcontinent. Its population is second only to India. It has closer ties with

China. Both India and Pakistan are countries with nuclear weapons. The Indian economy is one of the fastest growing emerging economies in the world. In fact, according to the IMF, it is the third largest economy, based on global purchasing power parity (PPP). In terms of GDP in U.S. dollar, India is the sixth largest economy in the world and has maintained rapid growth. It is predicted that by 2050 India will become the largest economy after China and the United States, and in terms of economic volume, it is comparable to the U.S. economy. All these make India's economic outlook rather optimistic.

Based on the overall economic volumes, India's economic growth has increasingly exceeded that of Pakistan's, and such a trend should grab China's attention. This also means that Pakistan is increasingly feeling the growing competitive pressure. Pakistan is likely to seek a more diversified development path, rather than continuously being highly dependent on China.

China's current presence in Pakistan still following the old-school way, which is infrastructure-based investment and development. This has caused the debt burden of the Pakistanis to exceed their ability to repay, and it does not benefit the general masses. The penetration of Chinese private enterprises into Pakistan is quite fragmented as well, who all have their own problems. On the other hand, the development of Gwadar Port has always been another problem. If China changes its strategy in the future, it can consider changing the mode of one-sided aid to focusing on establishing the common market. On this basis, China can improve its system to build order in the market and form an economic alliance. Such a regional common market can encompass Bangladesh and Afghanistan, and can be penetrated into and promoted in Central Asia. This will thereby transform China's strategic influence into real strategic interests and extend its development to the western part of the Silk Road.

## World Rule System

The establishment of the world rule system focuses on four aspects: the first is the international legal system, the second is international organizations, the third is bilateral and multilateral trade agreements, and the fourth is the news and public opinion platform. These four aspects are the focus and basic platform for the formation and construction of the world rule system. China generally only pays attention to the trade-related rule system, but often ignores the other three aspects of the rule system, which has caused a lot of problems and troubles. In fact, the four aspects of the rule system have interactive effects. For example, the law has a significant impact on trade negotiations, and news and public opinion severely restrict and affect the adoption and implementation of trade agreements. The major changes that may be involved in the future changes in the world's rule system include:

1. The United Nations. Although the United States strongly demands for the reform of the United Nations, in reality the United Nations is the least prone for reformation. There will be two main roles of the United Nations in the future: First, more as a platform for voicing out, rather than an effective and consistent body; second, as a club that coordinates and negotiates with countries around the world, not necessarily for reaching an agreement, but for communicating information and positions.
2. WTO (World Trade Organization). The WTO is the most likely international trade organization to change because of the United States. The main reason is that there are already a number of world-level internal bureaucrats in the WTO, and they do not want to lose this space for a living. Therefore, they are willing to use reforms in exchange for continued existence in the future. Unless China actively participates in the reform of WTO organizations in the future, it is very likely that its interests will be sacrificed.
3. Regional trade agreements and organizations. The establishment of CPTPP has set a model, and more regional free trade agreements and organizations will emerge in the future, but there is a preconceived situation, and latecomers will face huge difficulties and more restrictions.
4. International Court of Justice. As more competition and conflicts are expected in the world in the future, the need for an international appeal mechanism will increase significantly, the scramble for position and role within the International Court of Justice will thus become significant. Although it may not play a substantial role, the International Court of Justice is bound to exert more influence.
5. Global financial system. For global financial institutions like World Bank and the IMF (International Monetary Fund), it is unlikely that major changes will occur, and they may play a more active and important role, especially at the outbreak of a major financial crisis.

In the world rule system, it is worth paying attention to the role of the United States. Although the United States has now withdrawn from some international organizations and agreements, as the most important leader and promoter, the world will leave the United States in the future, and many things are really difficult to handle. Looking around the world today, it is not easy to find a substitute for the United States, because such leaders and promoters often have to surrender great benefits, such as in Japan. In order to promote the rapid success of CPTPP, it has surrendered the interests that it had been reluctant to surrender in the past. Therefore, China and other countries in the world must be prudent and cautious towards the status of the United States in the rules based international system. It is not appropriate to celebrate the withdrawal of the United States, but instead to adopt a position of maneuver and restraint to strive for cooperation opportunities. Besides, it is important for China to voice out in this process when

necessary, in order to utilize its status and influence, and become a builder with clear and positive significance in the world rule system.

### The Risk of Emerging Economies

Emerging economies are in a very poor position in the global environment strategies for two major reasons. The first reason is currency, and the second reason is industry. For emerging economies to achieve wealth and economic growth in the world today and in the future, they must keep their markets open. The opening of the market necessarily involves capital inflows and outflows, which is reflected in the huge test of appreciation and depreciation in currency. In most emerging economies, their internal strength usually cannot effectively cope with huge capital outflows or inflows, which will cause deterioration of the internal economic environment, performance instability and imbalance. Another is the challenge of the industry. The inflow of the industry will naturally increase wealth accumulation, create employment and at the same time increase income. However, the outflow of the industry will cause serious problems. The flow of industry is determined by competitiveness. The flow and distribution of industries are usually cost-sensitive for emerging economies. Therefore, the flow and changes of industries will, to a considerable extent, impact the social environment of emerging economies without exception. Generally speaking, in the future, this will be the greatest risk for emerging economies in the world.

From now to 2035, although the world economy still has a lot of room for growth, the original theory of economic development actually faces great challenges. Various common economic development theories, such as the flying-geese model<sup>12</sup>, are being tested. The new industrial structure and layout of the world are more temporary and flexible, and industrial capital inflows and withdrawals are greatly affected by new technologies and costs, which will be relatively rapid and unexpected. With the rising momentum of isolationism and the turbulent world, emerging economies will face greater challenges in the future, and fluctuations in emerging economies may occur any time.

Generally speaking, there are potential opportunities for Latin America in terms of industrial development opportunities in the future and this has a lot to do with the U.S. policy trends. Although the Southeast Asian countries have a good momentum for development, their internal market space is fragmented. Southeast Asian societies often experience conflicts of ethnicity, class, and cultural traditions. Therefore, it is difficult to control costs, and there is a possibility that costs will rise rapidly, so the potential

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<sup>12</sup> The Japanese industry usually goes through four stages of import → local production → exploitation and export → export growth, which are in a periodic cycle. Based on this, Japanese scholars Mr. Ippei Yamazawa and Mr. Kaname Akamatsu came out with the theory of "flying-geese pattern of development" in the industrial field.

long-term performance is not optimistic. India is expected to continue to maintain a good growth trend. With its large and young population, it will perform well in the future and at the same time has great potential.

For a long time to come, the debt and capital of emerging economy countries is of concern, especially those that are actively engaged in infrastructure construction. Because the infrastructure itself is essentially a materialized debt, as long infrastructure construction is involved, inevitably there will be increase in the scale of debt. However, if without infrastructure construction, development and economic growth will be greatly restricted, so this is a dilemma and it is difficult to balance. In this regard, China is a good example. The scale of China's infrastructure construction is very large, so China's debt scale is also very high and growing rapidly. Besides, China invest its foreign investments in infrastructure projects most of the time. Correspondingly, debt was brought to the recipient countries and the construction countries. If this cannot be properly handled and balanced, then it may lead to major present and long-term problems, troubles and obstacles between China's investment and nation building, which would create a crack in international relations.

Moreover, there are also moral issues in emerging economies. In the process of international division of labor, a potentially significant issue worth noting is the emergence of a "modern society of new slavery"<sup>13</sup>. This is not a sensational theory, but a reality based on some kind of historical cycle. The key economic factors for the formation of a slavery society are the rigid constraints formed between the strata and the huge income differences, and these two points have been clearly shown in the division of labor in the world's industries and in the social strata of some countries. The emergence of a "modern society of new slavery" will cause huge social dissatisfaction and contradictions, causing potential turbulence in society, and also create great problems. Therefore, the strong desire and unswerving pursuit of low cost in the world's industry have serious defects and constraints on the moral level. If this problem is not solved, then the development of the world's industry will always be the object of deportation and condemnation thus will definitely become one of the roots of social unrest.

## Global Cyber Security

The internet society is still a social stage that has not been clearly defined.

It is now clear to all countries in the world that the internet society is not a toxic technological advancement. Many things happened in the United States such as Edward

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<sup>13</sup> This view comes from ANBOUND's chief researcher Chan Kung, and the view is reflected in the relevant research briefs. Compared with traditional slavery, slave trade is a self-transaction relationship in modern times, but it is also something that is rigid.



Snowden<sup>14</sup> and Julian Assange<sup>15</sup> incidents, are mainly due to the numerous problems caused by information transparency. Besides, China also has a lot of problems caused by the stealing of public information on the internet. Russia and many other countries are also facing the same problems. In addition of the national level, there are a number of issues regarding privacy protection and information protection. The internet society, while providing information convenience, has also created many problems and challenges, and some areas are clearly out of control.

This is one aspect of cyber security, and another aspect of cyber security is the issue of control. Countries around the world are very concerned about the issue of control over the internet. On one hand, it has a direct relationship with the competition between countries. Controlling the internet is equivalent to controlling the world. On the other hand, it is related to network activities such as hacking. The incidents of cyber hackers controlling the internet have been occurring one after another globally, which has had a great impact.

Because these issues are intricate and intersect with each other, cyber security issues are extremely complicated. Not only it is difficult for countries in the world to reach a consensus, but even the grasp of evidence and facts has become a problem. In reality, the United States is currently at the highest end of cyber security. They generally have the ability to make a large number of cyber security incidents public, identify and define them, which is equivalent to giving the United States a special advantage. Other countries have not been able to do this, at least without public disclosure or showing that they are capable of doing so.

To truly make progress in improving the cyber security issues, first of all the countries around the world should reach a consensus in the following areas:

1. Moral and legal consensus
2. Consensus on technical means
3. Consensus of fair identification mechanism and process

The modern world is fully open to cyber threats. This dangerous current situation will continue in the future, and even more serious than an unexpected major crisis. Now and in the future, the economies and societies of various countries will still be absolutely dependent on the internet, and cyber security will be relative. In fact, there is absolutely no secure network in this world, including highly alert banking networks. In 2017, a

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<sup>14</sup> In 2013, Edward Snowden provided confidential documents to the media, which led to the "exposure" of several U.S. government secret intelligence surveillance projects including the PRISM project.

<sup>15</sup> The founder of "WikiLeaks", who leaked out more than 90,000 secret documents of the U.S. military stationed in Afghanistan.

bank hacking case involving the SWIFT<sup>16</sup> network occurred in Taiwan Far Eastern International Bank, and the hacker transferred US\$ 60 million. In 2016, the Bangladesh Bank's account at the Federal Reserve Bank of New York was hacked and US\$ 81 million was transferred, which led to lawsuits and the resignation of the governor of the Bangladesh Bank. These are all publicly disclosed parts of cyber security incidents, which are actually tip of the iceberg in cyber security incidents.

The root cause of these problems lies in the basic principle that the internet is an open system. Openness and security are always in opposition and hard to be coordinated. Any country that wants to open-up cannot guarantee absolute cyber security; if it wants to ensure cyber security to the greatest extent, it cannot be open. Therefore, the openness of a country is closely related to the internet. Perhaps on this issue, the choices that countries in the world can make are more of political choice, a choice between openness and security, and a political balance.

A pragmatic way to look at the cyber security issues in the future can actually be regarded as a worldwide competition for cyber security. Absolute security is definitely impossible, but as long as "I'm safer than you", then it would be fine. It is expected that for a long time to come, the United States will continue to be the only cyber leader in the world and it will be difficult to be replaced.

For the future, one of the biggest threats is that China's world competitors use the concept of the "China threat" as an excuse to tighten or threaten to interrupt the internet in a comprehensive way, and the virtual and physical shielding of China's network isolating itself from the world's network system. The effect of this is equivalent to building a "Berlin Wall" that surrounds China. China is completely closed, and as a result, it loses its existence and vitality in most areas. In other words, the future is not a problem that China needs a firewall to block external harmful information. The biggest threat to China in the future lies in the harmful forces of the outside world. The issue would be about building a firewall that blocks the so-called "China threat" and realizing an anti-contact strategy.

## The Changing Position of International Financial Centers

The definition of an international financial center is in fact the definition of world currency competitiveness. This means that whoever has the most competitive currency in the world will be the real financial center. A large financial city with a currency like this is equal to that of Mecca, figuratively speaking. Compared to such a financial city,

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<sup>16</sup> SWIFT, or Society for Worldwide Interbank Financial Telecommunication, has its headquarter in Brussels, Belgium. It also establishes exchange centers in Amsterdam and New York to provide services for international financial services.

other "financial centers" in the world are unable to measure up and truly affect the global financial market.

According to this standard, looking from the viewpoint of international politics and a competitive currency, our diverse world has only one systemically important financial center and that is the United States with its global financial city of New York. There is no country or city in the world that can compare to New York. We have also determined that for a relatively long period in the immediate future, New York will continue to be a systemically important international financial center. From the perspective of financial transactions, there will be a few financial centers in the world, such as London, Paris, Frankfurt and Tokyo. This is decided by the model of global financial activity. From the perspective of the markets, there could be even more financial centers. A location with a significantly huge market model could present massive financial transactions as well, and that might necessitate the existence of an important financial city, such as Shanghai.

Shanghai is an international financial center that is "imposed" within Mainland China. Presently, Shanghai has fundamentally established a national financial market system that includes stocks, bonds, currencies, forex, commodity futures, OTC financial derivatives, gold as well as property rights trading markets, among others. However, if we look from the perspective of an international financial center, Shanghai still has a huge gap to cover if compared to the likes of New York and London. In 2018, the Globalization and World-class City Research Group and Network (GaWC<sup>17</sup>) published a world-class city ranking. The ranking shows that 55 cities in the world have entered the Alpha level, the world's tier-one cities. Amongst Alpha level cities, there are only two cities, namely London and New York, that have attained the Alpha++ level city certification. There are 8 cities in Alpha+, namely Hong Kong, Beijing, Singapore, Shanghai, Sydney, Paris, Dubai and Tokyo. According to the Fed's latest forecast, New York's total GDP in 2018 reached US\$1.03 billion, while per capita GDP exceeded US\$120,000 (approximately RMB 792,000). Tokyo's GDP is forecasted at US\$102.20 billion, while per capita GDP is US\$78,000 (approximately RMB 510,000). In comparison, Shanghai's GDP in 2018 is about US\$493.85 billion (RMB 3.2679.87 billion). And calculating based on permanent residency figures, Shanghai's per capita GDP in 2018 is only US\$ 20,000 (RMB 135,000). That translates to only one-sixth of New York's per capita GDP and about a quarter of Tokyo's. Using Shanghai's economic scale in 2018 as a base of measure, if Shanghai's economy grows at a compound annual

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<sup>17</sup> The Globalization and World Cities Study Group and Network (GaWC) is an academic institution composed of European and American scholars, based at Loughborough University in the United Kingdom. GaWC ranks 707 cities in the world using the office network of advanced producer services companies in major cities around the world as indicators. It ranks the world's cities using the distribution of the six advanced producer service organizations in the world's major cities, mainly including banking, insurance, law, consulting management, advertising and accounting. GaWC divides world cities into four major levels: Alpha, Beta, Gamma, and Sufficiency.

growth rate of 5%, Shanghai will only be able to attain New York's 2018 level by the year 2034.

In addition to that, for an international financial center, Shanghai is not international enough. In 2017, Shanghai's financial market transactions totaled approximately RMB 1,430 trillion. It has 1,537 licensed financial institutions, making it an important converging point for Chinese and foreign financial institutions. However, due to the current closure of China's capital market, the openness of Shanghai is relatively lower than that of other international financial centers. In end of 2017, a total of 5,235 companies were listed on the New York Stock Exchange and Nasdaq, of which 17% were foreign company listings. 24% of listed companies on the London Stock Exchange were foreign companies, accounting for 493 companies. There were no foreign companies listed on the Shanghai exchange. In terms of transaction volume, all transactions involving foreign institutions which includes qualified foreign institutional investors (QFII), RMB qualified foreign institutional investors (RQFII) and Shanghai Stock Connect accounted for less than 2% of all transactions. The proportion of overseas institutional transactions in the United States market is 25%. Shanghai's bond market has even lesser foreign investment, and foreign participation is almost negligible compared to the total. In addition to that, the percentage of foreign institutions operating in Shanghai does not exceed 30%. However, foreign institutions heavily outnumber local institutions in London, Tokyo and New York, among other international financial centers, even going up to as high as 70% of total institutions.

Other than the scale that is shown by the transaction of financial markets shown above, the thing that should be emphasized is that whether Shanghai will be able to make a difference in the development of international financial centers in the future depends on the international competitiveness of the Chinese yuan. The competitiveness and influence of currency is a key component of globalization. Similarly, globalization is a support pillar of currency competitiveness and influence. The substantial influence of the U.S. dollar in the world arises from the great influence that U.S. exerts on the world. Once the U.S. adopts isolationism for the long term and removes itself from the world, its influence will be greatly limited. The influence and global competitiveness of the U.S. Dollar will also be greatly reduced, depreciating the standing of the U.S. dollar.

In the present, domestic politics within the United States does have a certain impact on the competitiveness of the U.S. dollar. Wall Street and the Fed's hope to continue maintaining the influence of the U.S. dollar and utilize it to continually support globalization. President Donald Trump's "U.S. First" and "Make America Great Again" however lean towards isolationism and anti-globalization. Taking a step back from standpoint of globalization, the Trump administration is not willing to assume more world responsibility. As a result, a fissure between Wall Street's interests and the United

States' political interests has appeared. If such cracks deepen and expand in the coming years, the future position of the U.S. dollar will be impaired.

In the future world, if conflicts and competition intensity and the standing of the U.S. Dollar depreciates, America and New York's central position as a financial hub might be affected, even to the extent of degradation. If the world is subject to subversive factors, there is a possibility of returning to the standard of "multiple financial centers". Financial centers that makes up this standard are New York, London, Paris, Frankfurt and Tokyo, to name a few. These financial centers will then replace the status and financial importance of New York in a parallel and balanced way. As for the concept of "currency of the world", a change could happen as well. Around the world, more physical good exchanges will take place utilizing trade and monetary agreements as their base, especially among emerging economies and trade that is related to emerging economies. At the same time, the value of gold will reappear, and the developmental potential of digital currencies is also present.

### Russia's Position in the World

Among all the countries in the world Russia is the one and only that can maintain some kind of substantial and unique relationship with the United States. China only has a nominal special relationship with the U.S., one that is known to be a "strategic partnership". Russia's special position makes the Russian President Vladimir Putin bold in his strategic style. It is no accident that the U.S.-China trade war can make great progress after the U.S. midterm elections. President Donald Trump's Russiagate<sup>18</sup> would have had more serious impacts on the midterm elections, but since then, the focus of public opinion has been successfully transferred to China. Different theories of the "China threat" have become rampant in the U.S. and the Russiagate issue that concerns with the legitimacy of political power has become silent in the midterm elections. This highlights the effective approach of Putin's strategic operations and the tacit strategic understanding between the United States and Russia.

In the future, the political status of Putin is expected to remain stable, which means that Russia's political environment would maintain its stability as well. The only challenge that Russia may encounter is accidents. Because of the existing Russian political system, Putin has absolute power. If any accident happens to Putin, the entire Russian political structure will be at risk of collapse. In the next 17 years, such an accident is the biggest risk for Russia and Putin. In fact, it is directly related to Russia's stability and existence.

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<sup>18</sup> Since Donald Trump was elected as the President of the United States, his campaign team has been accused of involving in "Russiagate." On November 29, 2018, the Southern District of New York charged Michael Cohen, Trump's former lawyer, for the first time, and Cohen pleaded guilty.

It is expected that Russia will, in the future, continue to play the role of "bad boy" with Putin's style in global affairs. This is determined by Russia's current economic strength and political influence. Russia's performance in Ukraine and Syria is particularly prominent. After the outbreak of the incidents, Russia took a decisive and strategic intervention and then sought after a certain strategic dominance. This kind of exertion of Russia's influence in global affairs, under the conditions of controllable costs, makes the world wholly unable to ignore the existence of Russia. At the same time, everyone understands the practice is based entirely on the interests of Russia, and not of the rest of the world. This is the basic style of Putin. This is the "bad boy" style that causes issues, intervenes in things and seeks for its own *raison d'être*.

Russia's main future strategic directions of interest will be in few regions. Ukraine wants to ensure the return and stability of Crimea, so Eastern Ukraine has become a strategic chip, hence this region will not be stable in the future. Putin's strategic purpose is to use Eastern Ukraine to consume the strategic resources of Europe and the United States, and to lock up the strategic achievements of Crimea to ensure it remains within the Russian Federation. In Asia, Russia's strategic goal might be using the limited concessions to allow Japan to give Russia the largest investment and exchange economically benefits for the four-island territory of limited control. Taking into account the needs of the future development of the Russian economy, Putin's strategic move is very pragmatic, but it has a crowding out effect on China's influence in Russia. In Syria and the Middle East, due to the existence of special relations with the United States, Putin's efforts have a greater chance of success. This has made the Syrian Assad government a strategic chess piece for Russia. Russia will not only obtain resources from the Middle East, but can also use Syria to take hold of the entire Middle Eastern region and seek greater geographical interests.

As for future China-Russia relations, it will be manifested in the energy aspect. The potential of military-technical relations has been valued less than before. Yet, energy is a crucial factor for Russia to contain China and prevent China from participating in the development of Central Asian countries for the return of greater benefits. Therefore, China's diversification of energy construction is extremely strategic, which will be a key strategic layout to ensure stability in West China and look to greater geographic interests.

## Part IV Major Challenges

The shift in strategic environment has changed China's objectives in developing its socio-economic. China's 2035 vision is 86 years away from the establishment of the People's Republic of China in 1949, It is also 57 years away from the economic reform and the opening-up of China in 1978, 38 years away from the handover of Hong Kong's sovereignty, and 34 years away from the admission of China to the WTO in 2001. Given such extensive time horizon, the key to China's long-term survivability and development is very much relied on how to weigh China's future, how to identify the key challenges, and how to determine the potential threats, conflicts and competitions.

Today, China's socio-economic achievements are hard-won, and it is clear that China is confronting daunting challenges. Benchmarking China against the world, China's future not just concerns itself, but also has great impact on the world's tranquility and stability, affecting the subsistence, development and basic human rights of the 29% world population.

We need to realize that the global environment that has been developing peacefully, is emerging with new and unstable threats, that we are now in the midst of a profound global chaos, suffering from prolonged abidance by the deteriorating international constitution, which in turn leads to the emergence of new strategic features and elements, forming new and more complex strategic environment and environmental safety. Under such circumstances, the prerequisite for China's future socio-economic development lies within how China adapt to the potential rise of strategic rivalry among countries, to participate, seek, explore and structure a framework for development and growth. This is also the greatest challenge.

### The Choice of “Strategic Coopetition Period”

The period of strategic opportunity is theoretically a representation of circumstances, and from the strategic point of view, it is a “window period” along the timeline of history. In fact, China has taken advantage of the period of strategic opportunity that arose. After the admission of China to WTO in 2001, China's deep commitment in economic globalization has made substantial progress, the country's GDP was ranked world's second largest, risen from the sixth, from a net inward investing country to a net outward investing country, and still trying to further expand the market space through the ambitious BRI, hoping to take part in global governance. In addition to China's own effort, the external global environment is also an important factor in the formation of strategic opportunity. Since China's reform and opening-up, the United States has applied strategic approach tactics on China, hoping to tap on China's economic growth through WTO, whom promotes globalization.



Before the first two decades of the 21<sup>st</sup> century were even over, the international environment has changed a lot. The changes in the actual international political and economic situations show that the unipolar world is weakening, but it is far from reaching a true multi-polar era. The United States still has the ability to dominate world order. The new inequities brought about by economic globalization have been Stimulated a wave of anti-globalization and changed the international political landscape, then the U.S. launched a trade war globally, withdrew from a variety of international cooperation. Multilateralism structure has been destroyed, and we are turning to a bilateral era. WTO only exists in name; the organization is quickly becoming a mere stage of trade discussions. Increased trade frictions have also created investment barriers, associated with the continuous reorganization of the global industrial chain, the restructuring and re-distribution of global production factors, which have changed the world 's economic landscape and the future development environment.

The most important international environmental changes facing China in the future is the adjustment of the U.S. national security strategy to China. In the 2018 edition of the National Defense Strategy Report, the U.S. Department of Defense pointed out unequivocally that “inter-state strategic competition, not terrorism, is now the primary concern in U.S. national security.” For the United States, China is its new long-term strategic competitor. Through economic, military, and geopolitical expansion, it aims to replace the United States to gain global dominance in the future<sup>19</sup>. Robert Daly, a scholar at the Woodrow Wilson International Center for Scholars, believes that confrontational competition between the United States and China is an actuality. Although the division of American society has intensified in the past two years, in the face of China, a high consensus has been formed, which not only surpassed the differences between the White House and Congress, but also crossed the political views of the Republican Party and the Democratic Party, and bridged the contradictions between commercial enterprises and trade unions, as well as the disagreement between the global activists and the populists.

The United States not only adjusted its own strategy with China, but also used its influence to push its Western allies to change their China policy. For example, it promotes the "Five Eyes" countries to refuse adopting Huawei's 5G<sup>20</sup> equipment and technology, the Indo-Pacific Strategy to respond to China's BRI, and to push for the Western countries to reduce their cooperation with China based on national security and intellectual property considerations in the fields of technical cooperation,

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<sup>19</sup> National Defense Strategy Report 2018.

<sup>20</sup> 5G, the fifth-generation mobile communication technology, is regarded internationally as the foundation of the next-generation digital technology and economy.

investment mergers-acquisitions, and trade. This situation has been implicitly formed in 2018, such pattern will be maintained for a long time in the future, forming a basic external environment for China's future development.

The fundamental reason for the United States and its allies' "containment" of China in many ways is a deep concern that the gradual rise of China led by a communist ideological party will bring all-round competition to the United States and the West, and that it would occupy more market space economically through globalization; technologically it would "steal" intellectual property rights and enforce technology transfer to become a strong competitor and a geopolitically challenge the United States in the Western Pacific through its BRI, then replace the United States to gain global dominance. The strategic adjustment formed based on this concern has become the third historical stage since the end of World War II-the Cold War, counter-terrorism, and suppression of strategic competitors<sup>21</sup>. In the third stage, the main target is China, not the economically weak Russia.

After decades of reform and opening-up, China's role as a participant in the globalization process has changed from opening-up, introducing, and accepting in the past to opening-up, going global, and participating in governance. At the same time, the world also has new demands, new vigilance and new checks and balances on China. Based on these changes, it can be judged that the window period of China's "strategic opportunity period" has passed, while a new and differentiated strategic window period is imminent. From now on, China will no longer be in a period of strategic opportunities, but in a "strategic competition period" with Western developed countries headed by the United States. The loose environment on which China's development depends in the past no longer exists. For a long period of time in the future, it may be in a development period in which there is both cooperation and competition, while competition being the mainstay. China's period of strategic opportunities has passed, and a new historical period, the period of strategic competition, will begin and continue for a long period in the future. In the eyes of the world, China has grown up. China will no longer be a "harmless existence."

In fact, the period of strategic co-opetition is also a kind of inheritance and development in response to the situation, emphasizing competition and cooperation, with focus being China still an important force for the peace of the world. If we look at the period of strategic opportunities from the Chinese perspective and market, China will actually continue the period of strategic opportunities to a certain extent in the future, because China's social economy is indeed in the process of transformation. Such transformation

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<sup>21</sup> ANBOUND's research report on market space first pointed out the possibility of this strategic competitive landscape. The current definition of this stage of strategic competition in the world has not yet taken shape. Whether it is a new cold war, a trade war, or a hot war that will eventually come, this needs to be discussed under a historical framework in the future. Here we only related figurative speech.

is necessary, there are obviously a lot of development opportunities, and there is a huge market space. However, strategic environment speaking, that is, taking the external environment as the main consideration, China will obviously face a major strategic co-opetition in the future. This is a modern interpretation of China's ancient concept of "vertical-horizontal integration"<sup>22</sup>. Moreover, this global co-opetition environment is very difficult to realize. It is necessary to prevent both a new cold war and a hot war. To prevent imbalances, there is the need for China to work together with other countries in the world, maintaining a certain degree of transparency, establishing new borders and bottom lines, and building a new international order, all of which means that it must be achieved through tremendous strategic efforts by China and relevant other countries. The ultimate goal is to allow strategic co-opetition to be constrained within a framework of rationality, civility, co-construction, cooperation, and sharing, rather than being completely out of control or even moving towards the destruction of humankind.

### China's Position as Developing Country is being Challenged

China has been a developing country for a long period of time and has considered itself to be so in all international organizations and occasions. China typically holds the view that it is still in the primary stage of socialism, and its international status as a developing country has not changed.

The reason why China insists on its status as a developing country is due to its unique conditions. This would include multiple issues and challenges concerning such conditions and its economic development level, ranging from poverty population size and international cooperation affairs like climate change, and environmental protection, where developing countries and developed countries assume different responsibilities. China as a developing country does not wish to assume the responsibility of developed countries. In terms of global cooperation, China has always adhered to the concept of "common but differentiated responsibilities". In addition, China, as a developing country, has enjoyed financial support for developing countries, for instance loans from World Bank loans and Asian Development Bank, as well as aid support from developed countries like Japan's ODA funds<sup>23</sup>.

However, as China's economic strength continues to increase, developed countries believe that China should not be classified as a developing country based on universal international comparison standards, but rather it should assume more responsibilities and obligations in the capacity of developed countries. As early as 2005, when China and the United States were still in the strategic contact period, then the U.S. Deputy

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<sup>22</sup> "Vertical-horizontal integration" is an ancient Chinese strategic thought, formed during the Warring States period (475–221 BCE). The focus is to expand the maneuvering space and gather forces. It can be used for strategic offensives and for consolidating space interests.

<sup>23</sup> ODA: Official Development Assistance.

Secretary of State Robert Bruce Zoellick proposed that China should be a "responsible stakeholder". This can be seen as a moderate expectation of the United States that China would participate in globalization as a developing country. The United States also hoped that China would be an open country that would eventually lead to adopt democracy and free market system and act in accordance with international rules.

On February 2017, Donald Trump who had just assumed the presidency of the United States, stated that since China joined the WTO in 2001, about 70,000 factories in the United States have closed down. On several occasions, he publicly complained that the WTO rules are unfair to the United States. China has absolute economic strength, but it is being regarded as a developing country by the WTO, and therefore it receives preferential treatment. At the World Bank's 2018 Spring Annual Meeting, the United States stated that China is about to become a developed country and cannot continue to enjoy the World Bank's "concessional loan" policy. Instead, according to the United States, the World Bank should lend the money to developing countries that really need it.

With the continuous surging the anti-globalization wave, China's status as a developing country will be increasingly questioned. Although China's per capita GDP and income levels are not high, and there are still tens of millions of extremely poor populations to be alleviated, developed countries will continue to make demands on China beyond the standards of developing countries. Some countries have cancelled aid loans, like Japan's ODA to China, while the standards for Chinese institutions to obtain World Bank loans are becoming increasingly higher. One can foresee that the international community will require China to take new roles and assume more responsibilities and obligations in tariffs and trade, market opening, international responsibility, and in global climate change. It will be more difficult for China to continue assuming its position as a developing country.

It appears that for the coming decades, the United States and the West have reached a consensus on China, where they also gathered a large number of poorer countries for this purpose. If this momentum continues, the worst-case scenario for China is these rich and poor countries are unified against it. The biggest challenge for China is from within, because China has accustomed to the status of developing countries and does not know how to fully utilize the international market and universal mechanisms as a developed country to achieve its strategic victory. In other words, on the one hand, China must explain well the situation internally, and at the same time it should seize the time to learn how to be a developed country.

### China's severe aging problem

Aging population is the most serious long-term internal challenge that China will face in the future. According to the Chinese National Bureau of Statistics, as of the end of 2017, China's elderly population aged 60 years and above was 241 million, which was an increase of more than 10 million compared to the previous year, accounting for 17.3% of the total population. According to relevant forecasts, China's elderly population will reach its peak from 2022 to 2035, with an average annual increase of 11.52 million people, and an average annual growth rate of 3.41% and the total elderly population will increase from 270 million to 420 million. This size exceeds the current total population of the United States (330 million people) and reaches nearly 60% of the total population of Europe (740 million people). The proportion of China's population aged 60 years and above will reach 25% by 2030 and may reach 35% by 2050.

From today until 2050, China will undoubtedly become the "super aging society" with the largest absolute ageing population in the world. Different aging population of developed countries and region such as Europe and Japan, China's entry into the aging stage is where it will be the country to age before it gets rich. That is to say, in the middle-income stage where the economic level has not reached the developed countries' level and the social welfare is incomplete, the population is aging. In the process of rapid economic growth and rapid urbanization, China is not ready for the advent of an aging society. The huge size of the elderly population and the high aging rate will pose severe challenges to China's economic and social development and stability in the future.

Aging will first weaken the long-term supply of human resources in China. After China's liberalization of the universal two-child policy, the new-born population had peaked in 2016 since 2000. After that, the new-born population had returned to a decline, indicating that the compensation effect of the universal two-child policy will weaken soon<sup>24</sup>. In the future, as the number of childbearing women age (15 – 49 years of age) in China continues to decrease, the number of people participating in childbearing has decreased year by years, and coupled with the effect of urbanization, the decline in the number of births and the decline in the natural population growth rate are inevitable trends. This will cause China's long-term supply of human resources to decrease and weaken China's medium- and long-term growth capabilities.

Aging will also increase China's social security burden. According to the Chinese Academy of Social Sciences, the China's social security fund gap is about RMB 10 trillion. The pressure of social security in a "super aging society" will be borne by the central government, local governments and individuals. China's social security system

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<sup>24</sup> In 2016, the population born in China was 17.86 million, which was 1.91 million more than in 2015; but the population born in 2017 was only 17.23 million, a decrease of 630,000 from 2016. Some researchers predict that judging from the year-on-year decline in the number of births everywhere, the number of births in 2018 is likely to fall below the 15 million level.

itself is not perfect, and according to the World Bank estimates, China's pension gap is about RMB 8 trillion to 10 trillion, and most of the data given by various Chinese institutions are more than RMB 1 trillion. Considering shortcomings of social security capabilities, China's social security arrears may reach a very serious level from now to 2030 or 2050. This means that in the future, China will face the severe challenge of the social security gap.

Furthermore, this is not just a domestic issue in China. It will also hinder China's ability to develop externally because it requires huge resource inputs and national governance concerns. Dealing with aging will become a prominent problem in China's national management. As the problem of aging intensifies, China's economic development and social management will increasingly focus on aging: China's social resources investment, changes in industrial development, national and social management priorities, government and social service supply, allocation of medical resources, composition of household expenditures, the sources of social risks and the maintenance of the BRI will be significantly affected by the unprecedented aging population in Chinese history.

It is worth noting that China's transition to a super-aging society has basically overlapped with its goal of the first stage of development in this century. This means that under the pressure of aging, China will complete the goal of basically achieving socialist modernization. From the observation of the current social system, China underestimates the severity of super-aging in almost all areas. It is obvious that from now until 2035, China's social development environment is at all levels, and the country's competitiveness will face the severe challenges of super-aging in all aspects. China's social stability will face serious problems, and it must seek extraordinary solutions.

### **“Global Amalgamation”: from Utopia to Reality**

The U.S.-initiated trade war is an important manifestation of the anti-globalization wave. With the growth of globalization, the expansion of production and market space, various new issues will continue to emerge, such as global environmental and resource issues, global warming, and the unfair distribution of globalized benefits has caused social dissatisfaction. Various problems brought about by the globalization process have reacted to globalization and caused quite common problems of anti-globalization, or inverse globalization.

Looking at globalization through historical progress, actual globalization and inverse globalization should be a pair of contradictions that exist simultaneously. When there is globalization, there will be inverse globalization, but at the same time it can also be considered that globalization is actually only the beginning. It will continue along the



basic motion logic, and theoretically there will be a “Global Amalgamation” trend and result. Global Amalgamation refers to the integration of world market countries in the political, cultural, moral, legal and economic conditions that are gradually moving towards consensus. Global amalgamation is a continuation of globalization; it is based on basic consensus and not on religion or ideology.

Global amalgamation requires governments to take the following goals as their prospects and direction of realization: (1) weakening of ideology, make ideology transition from belief to law, which in turn makes ideology lose the role and value of space barriers, and allows social development to have visible transparency and institutional rules. (2) sharing of market and capital, technology, realize market expansion under balanced conditions, realize mutual benefits in all directions and counter the problem of self-centric globalization. (3) comprehensive and institutionalized communication and dialogue at the level of spatial organization and its relational hierarchy to achieve the goal of global amalgamation under the consensus. Only the progress and improvement of the organization and system of the world market can effectively ensure the smooth realization of such global amalgamation.

The competition and contention of the world’s market space is, in essence, a kind of inverse globalization, which is the result of the development of conservatism in countries around the world to a certain extent. In order to prevent further out-of-control of inverse globalization, causing the world market to fall into complete chaos, or even triggering violent conflicts and real “hot wars”, effective strategic choices and policy formulations are to further promote globalization in the right direction and then move towards “Global Amalgamation”. If the entire world follows the approach of inverse globalization and slows down or even “abandons” globalization, the world will face extremely dangerous prospects.

From globalization to global amalgamation, looking at “global amalgamation” from a conceptual perspective seems to be just a utopian dream, but actually similar concepts have taken shape in today’s world’s industries, technology and some unobtrusive corners of the world. In the cyber world, global amalgamation has long been a reality. Borderless convergence due to the expansion of the internet is happening and expanding all over the world. In the field of infrastructure, the situation is the same. Long before the BRI, the interconnection of the world’s infrastructure has already become a trend, and it has accelerated the integration of countries around the world at the social foundation level.

If global amalgamation cannot be achieved, inverse globalization will inevitably run rampant around the world market, which means that competition in various strategic spaces will eventually change its nature and move towards a real war. Such an end will shatter all the successes of globalization in the past, as well as disintegrate civilizations



and all development achievements, which caused the world economy to stagnate or even force it to return to the former global poverty. In the past, a large amount of capital investment had caused losses, and countries could only seek self-protection, shrinking into a small number of small regional spaces. The greatly compressed and changed spatial pattern of the world market will make it difficult to curb the fluctuations in the world's financial markets. After that, the shadows of the economic crisis will be the same as in the 1930s. To prevent the world from falling into such a horrible prospect of turbulence, the only way to continue to promote global amalgamation and build on globalization is to solve the various negative problems left by globalization. This is a serious challenge to test the political wisdom of countries around the world.

Complete free markets and trade protectionism are two extremes. The former widens the gap between the rich and the poor, while the latter actually hurts more people. The third path between the two extremes is global amalgamation.

As a latecomer to the process of economic globalization, China is also one of the most important beneficiaries of globalization. In the future, China should actively participate in and promote global amalgamation. The first is to strengthen the legal system, replace the ideological control with the rule of law, increase the institutional transparency of China's social development, thereby persuading the world and weakening hostility. The second is to share market space, intellectual property, technology and resources under the common rules of international recognition. The third is to actively participate in international multilateral organizations in various fields such as economy, culture, climate and environment, to assume due responsibilities, make due contributions, and also actively participate in the revision of existing international rules and the formulation of new rules, and be a selective and prudent world leader.

The world situation that China is facing now actually requires China to assume more responsibilities and obligations in world space, rather than retreating and fighting hard in tight spaces. This is, of course, a transfer of interests, but this transfer of benefits is the stability and sustainability of world space, and the rise of world status. If one chooses to fight hard in an increasingly narrow space, the result can only be a gradual loss of room for maneuver, into self-consumption and irreparable conflicts.

In this regard, the key to the greatest uncertainty in the decades ahead is here. The shadows of the slogan of McCarthyism<sup>25</sup>, "better dead than red", still exists in the world. With regards to integration and reverse integration, contact and anti-contact, why do some interest groups in Western countries do everything possible to kick China out of

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<sup>25</sup> McCarthyism refers to the typical anti-communist and extreme right thought in the United States from 1950 to 1954, named after Senator Joseph McCarthy, where people suspected to support Communism and democratic progressives, or simply those who had different opinions were persecuted.

the world's potential market space? Emphasizing confrontation at all costs reflects that China has involuntarily joined a political war. And the key points for the victory of this war are contact/anti-contact, integration/reverse integration. At such times, it is very necessary for China to hold its ground and emphasize strategic self-confidence.

Now is the time when the political foresight of all countries in the world is needed, and it is also the time to show the world's political leadership. This is a huge, far-reaching and, in a sense, a time that determines the fate of world. Foresight can overcome huge global risks and win future benefits, but it also requires huge political and strategic bets. Participation requires huge political leverage and transfer of interests. In the past, world politics required decision-making; in the future, world politics required surfers. This may be the difference of the era and has nothing to do with political choices.

### Negative Effects of Digital Technology & Policy Resolutions

The future world will undoubtedly be in an era of digital technology, yet currently our world, including governance, livelihood, behavior, psychology, education, ethics, economics, and even law and currency, the entire order, paradigm, and moral concept of our society as a whole still belong to non-digitalized traditional era. Therefore, any thinking and discussion about the future, if it does not involve the various possibilities and prospects of the digitalized customer era will be quite absurd. Therefore, it is necessary to define the digital technology era and locate possible orders and paths.

Taking the influence of digital technology on society as an example, Steve Jobs believed that it can be divided into three generations looking at the impact of digital technology on society. The first generation is about digital tools that changed the businesses; this generation can use tools such as Word and Lotus 1-2-3 to improve work efficiency. The second generation is the internet generation; this generation saw changes in people's lifestyles and connected everyone. The third generation is about digital technology, where every product is digital which includes mobile phones, public opinions, newspapers, production, banking, currency and so on, everything is in the process of digitization.

Concerning the impact of digital technology on the society, there is a process from the material world to psyche world. The profound change is first shown in the material world, and then begins to affect the human psyche and changed the people's lives. Modern medical research has shown that the influence of social media on human life has been very common and profound, but the interventional treatment of various psychology and the qualitative research of the problem are far from keeping up. Many recognize the harm of tobacco and spare no effort to oppose it, yet the harm of the internet is still not clearly recognized, let alone action against it.

The negative evaluation of social media and the growing medical awareness of modern medicine mainly concerns the negative effects of anxiety and emotions. Nowadays, depression is very common, and it affects sleep and nervous system; it is as powerful as tobacco and alcohol and causes addictions that require psychological intervention. Social media can even affect personality and interpersonal relationships. The negative effects of digital cryptocurrency are even worse; its rise and decline have triggered strong concern of the financial world and there are countless discussions about it. In other fields of technology, the use of artificial intelligence has also led to more and more scientific controversy. It is worth noting that unlike the scientific controversy that has produced technological breakthroughs in the past, the controversy caused by modern technology is often not bottom-up, but top-down, often emerging from the question of scientific authority. For instance, Stephen Hawking was strongly doubted the artificial intelligence.

At the end of 2018, He Jiankui, who claimed to be the world's first scientist to genetically modify infant, shocked the world because of the serious consequences and problems caused by the use of gene editing technology. Vice-minister of science and technology Xu Nanping pointed out that such work is "extremely odious." His research has shocked the international scientific community, and many people have expressed strong concerns about the lack of validated data and the risk of exposing healthy embryos to gene editing. Global scientists are worried about the impact of this genetic engineering on humans. Alta Charo, a bioethicist at the University of Wisconsin–Madison, pointed out that if He Jiankui is in the United States, he would be prosecuted for "violation of public law". In the United States, human cell and therapeutic research require approval from the Food and Drug Administration.

Today, the negative effects of digital technology are increasingly apparent. He Jiankui is a Chinese scientist, but he is also the first scientist in China to be directly called a "rogue" by the renowned scientific journal Nature. Theoretically, the fundamental goal of digitalization and the progress of science and technology is to strive for the progress of the society, but every kind of technology though achieving theoretical civilizational progress, will also have a huge, possible negative effect; this requires prudent technology policy control.

The impact of the negative effects of science and technology in modern society is obvious; many technologies encouraged by science and technology policies have produced results that are quite different from those claimed by their inventors. As a result, the authority of science and technology policies has been seriously questioned, causing the government to become distrusted. For example, the inventor of OFO shared bike has become a dishonest person, while digital currency and trading financial technology have caused a lot of investors to become victims. There are numerous

negative effects of social media; online public opinions often hijack the policies and politics.

Hence, there should assessment and prudential control of the impact of digital technology and technological innovation on the society; science and technology policy cannot act as an umbrella to shield their negative effects. Chen Gong believes that the ten-dimensional model consisted of life, politics, finance, law, economy, security, health, public opinion, morality, and education should be created, thereby systematically assessing the impact of the technology. On this basis, a fair, transparent and professional assessment is carried out by expert committees to prevent the technology from hijacking our life, politics, order, and society. To this end, the attitude towards digital technology should be changed, especially in unconditional and unrestricted free and open technology. Control law in the intellectual property system should be implemented to establish effective legislative control, so as to implement the freedom of development, approve the listed science and technology policy system.

Prudent science and technology policies are necessary. The commercial signs of the technology developers often aim to build personal dreams, without fully taking into account the effects on society. Experience has shown that science and technology policies based on temporary strategic or industry-specific needs that are not carefully evaluated and often cost a lot of money, would lead us to something we do not necessarily want to have, and more often than not would cause us to lose some other precious thing; this is an aspect that causes limited progress of our time.

### **Restructuring the BRI Strategy**

The Belt and Road Initiative (BRI) is by far China's most important international strategy and the most far-reaching action plan. Until 2018, the BRI still plays a guiding strategic role in the general field both domestically and internationally. China's national leadership has always emphasized the important role of the BRI in important directions and occasions. It is expected that China has invested heavily in it, and will continue to promote the BRI to be effectively implemented, so it may assume ideal strategic value and strategic role.

The BRI is, in the final analysis, a strategic output of capital and investment, technology, projects, and products. At the same time, it is also an output of China's influence. Therefore, to some extent this is an intrusive strategy, which is directly related to China's competitive position in the world. Even if China makes strategic adjustments and external interpretations, the BRI has caused strong strategic confrontations around the world. The United States adjusted its national strategy and for the first time it positioned China as a strategic opponent that is more serious than the anti-terrorism and

U.S.-Russian confrontation. Europe and some countries are also full of doubts about the BRI, where they practically support the United States' confrontational strategy against it. Such a situation has intensified in 2018, causing the BRI to have unintended or unexpected major ups and downs in many projects in many countries. The opinions voiced by countries around the world regarding the BRI have also changed from "supporting" and "not comment" to more negative evaluation.

In view of the fact that there are still 17 years until 2035, and during this long period, there will be more and more drastic changes in the global situation, and confrontation and competition may become more intense. Therefore, the opportunity to restructure the BRI initiative should be strategically discussed and effective strategic preparations should be made in advance.

The BRI actually encompasses the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road, and is a large-scale transnational economic cooperation development plan initiated and led by the Chinese government in 2013. The Belt and Road covers countries and regions in the history of the Silk Road and the Maritime Silk Road in China, Central Asia, North and West Asia, and the Indian Ocean coast, and the Mediterranean coast.

Among them, the "Silk Road Economic Belt", referred to as "the Belt", was formally proposed by President Xi Jinping in 2013 when he gave a speech at Nazarbayev University in Kazakhstan. It is planned to develop the economic cooperation partnership between China and these countries and regions along the Silk Road on land, strengthen infrastructure construction along the road, digest China's excess capacity and labor, protect China's energy resources (such as Kazakhstan's petroleum) and food supplies, and then drive the development of the western region. "The Belt" has two main directions, starting from China and ending in Europe: One is to reach Europe via Central Asia and Russia; the other is to Xinjiang via Pakistan to the Indian Ocean, Central and West Asia to the Persian Gulf and the Mediterranean countries.

Since then, the Chinese government has added the "21<sup>st</sup> Century Maritime Silk Road", or "the Road" for some reason, to develop economic cooperation between China and Southeast Asia, South Asia, the Middle East, North Africa and European countries along the maritime Silk Road. The "Road" has two main directions: one is from the China seaport across the South China Sea to the Indian Ocean and extends to Europe. The second is to cross the South China Sea from China seaport to the South Pacific. The Maritime Silk Road will mainly include six coastal provinces: Jiangsu, Zhejiang,

Fujian, Guangdong, Hainan and Shandong. The implementation of the BRI has given these provinces the opportunity to be included in large-scale development and construction, and thus has more opportunities to obtain funds and projects.

It is worth noting that the formation of the Belt and Road Initiative has a delicate process from theory to reality, from strategic retreat to the formation of strategic policy documents.

ANBOUND is the earliest think tank involved in the research of this strategic field. In 2008, it organized a large-scale inspection regarding Xinjiang, travelling thousands of miles in the desert, and covering the entire Xinjiang region. At that time, construction of economic solutions to the problems of Xinjiang and western development had already begun. From the west to Xinjiang, and from Xinjiang to Central Asia, ANBOUND has begun to follow closely the five Central Asian countries to conduct dynamic tracking research. Since then, part of the information has been provided by the trade negotiators of the U.S. Department of Commerce to start the study of the UN's New Silk Road Regional Cooperation Program. At this time, regarding the "New Silk Road" and the subsequent "Belt and Road", China basically had no research institutions involved, the views of individual scholars also took a clear and critical attitude, and the role of think tanks was generally degraded by public opinion from all walks of life and even linked to "conspiracy theories".

From 2010 to 2011, ANBOUND successively published reports and research briefs such as "China's Manufacturing Relocation" and "ANBOUND's Ideas and Recommendations for China's Future Economic Policy", all of which clearly pointed out that in response to the pressures and problems of the Chinese economic operation at that time, large-scale capital and product export plans similar to the Marshall Plan should be considered, exchanging of resources, expanding market space, and alleviating several real problems facing the economy in China, such as serious problems like excess capacity. The research and promotion of these issues have formed an important basis for the discussion and research of strategic retreats for the final formation of the BRI.

Judging from the current implementation process of the BRI, due to the large-scale expansion at the planning level, the progress of the strategic plan lacks timing control and effective coordination. It spreads almost all over the world, and rather fast too, even in countries with limited diplomatic coordination capabilities with China and those countries that are politically unstable. Hence, there are unclear strategic interests and

varying goals, which have led to many problems. In the actual operations of the BRI, most of the projects with the largest capital consumption are infrastructure projects, with state-owned enterprises and state-owned capital being the main investment entities. This situation leads to a serious disconnect between the strategic plan and the strategic background, and the national strategic interests are replaced by the dispensable project interests. This is coupled with the fact that China has to pay high capital risks, political risks and geological risks. There was only little help for the originally planned “to reduce capacity”. Because the related projects in the Chinese market itself have lower level of benefitting the public, their role in driving the Chinese economy is not obvious. The participation of private enterprises is not high, but the overall level of debt is rising.

In addition, what needs to be evaluated strategically is that although the BRI is a large-scale strategic plan, the actual operational level of the strategy has evolved and returned to the conventional Chinese “diplomacy project”. Many of them follows the “Tanzania Zambia Railway model”. Everything is operated in accordance with the project, and even national leaders have directly involved and participated in specific projects. Various conditions, problems and deficiencies have led to the limited level of marketization of the BRI at the current stage, and it is difficult to smoothly connect with the market economy of participating countries, which in turn affects the economic growth of participating countries as a health factor. On the contrary, it is seen as a trap, such as the potential increase in debt levels of participating countries.

When evaluating the BRI, the biggest possible problem is the issue of “hollowing”. The success of the Marshall Plan was largely due to the restoration of the market economies of European countries, which in turn restore the economic health of these countries, and the inclusive market has been realized. Therefore, even if there are criticisms, it has finally been understood recognized and supported by the societies of all countries. Compared to the BRI, although a lot of capital, technology and projects have been invested, and a lot of national resources have been poured in, the “big projects” involved cannot quickly benefit people’s livelihood. What is really welcomed by the host country is not only the “visible” success, but also the success that can be “enjoyed” which can increase general employment and income. Although the current large-scale projects have been done, they become a political burden, forming “hollow” problems and challenges. Therefore, at the current stage of the BRI, China has not yet won new strategic space and realized real strategic benefits.

It is worth pointing out that strategic interests at the national level are mainly reflected in stable partnerships and effective benefit sharing. At a critical moment, there are partners who can speak up. Due to development, these partners share economic growth;



such a stable partnership is not as simple as a paper agreement. Usually, it is necessary to build a more complex and diverse system based on multilateral economic and trade relations. This is precisely what is neglected in the BRI Strategy. This requires emphasizing the establishment of a common market, a rule system, a legal order, and a currency union. In fact, the BRI at this stage basically ignores the use of these four strategic tools. This is the key to the “hollowing” problem that may occur now and in the future. It is also the reason why China’s strategic interests are substantially difficult to achieve.

For that matter, in the future to the year 2035, in regard to BRI, China should make a regressive adjustment to the original goals and background. It should benefit more in general, covering a wider range of fields, as well as restructure the strategic layout with the focus on the use and realization of these four strategic tools.

### **Latin Americanization: Biggest Threat to Chinese Economy**

What will happen to the future of the China economy if there are major risks? The most probable answer is “Latin Americanization”.

In fact, China has long been researching and discussing the crisis of Latin Americanization. The basic research consensus formed is that, the so-called “Latin Americanization” refers in the 1990s, because of the opening-up dominated by foreigners in Latin American countries, although the economy had achieved rapid development, these countries lost control of their own economies and resources, which has led to serious economic crises and social turmoil. The effects of this in some fields can still be seen. Therefore, some researchers believe that the Latin American crisis is mainly a crisis caused by foreign investment. To name an example, an article published in a certain magazine names three characteristics of “Latin Americanization”: international monopolistic capital controls the economy of the recipient countries and forms a large amount of profit transfer; dependence on foreign investment has caused a serious debt crisis that has plagued the developing countries for a long time; an open economy dominated by foreign investment is not conducive to the recipient countries to digest and absorb advanced foreign technology, and is not conducive to the technological upgrading of the developing countries’ industries.

The truth is that, the academic research on the Latin American crisis is lacking in China. In essence, the key to the crisis in Latin American countries is not foreign investment, but the economic and industrial crisis structure within it. In the face of the Latin American crisis, foreign investment is actually a victim, but it can still withdraw, and

its departure would then aggravate the crisis. Hence, foreign investment is a part of the phenomenon of the Latin American crisis, not the root cause. If there is no crisis of Latin Americanization, the market can still make money. What is the reason for foreign capital to leave? The key to the Latin American crisis is the endogenous problems of Latin American countries. There is a crisis-driving structure, which is the real source.

In the assessment of the Latin American crisis, one thing that should be considered is the harmful consequence of urbanization. Latin American countries have experienced rounds of rapid urbanization throughout their history. Even now, Latin American countries' urbanization rates are among the highest in the world. For example, Venezuela, which is on the verge of bankruptcy, has urbanization rate as high as 93%, Argentina's urbanization rate is 92%, and it is 86% in Brazil. The level of urbanization in Latin America is much higher than the rate of about 80% in traditional developed countries.

The problem is that the process of urbanization in Latin American countries is harmful and the urbanization rate is high, but the side effects of urbanization have not been solved simultaneously. Therefore, the final result of urbanization is a huge trap for Latin American countries, which is also the source of the "middle-income trap" problem. In essence, Latin American countries have fallen into this crisis chain: urbanization makes debt high and costs high, and the population is concentrated but there is no good job and good income, because in such an economic environment, industrial rooting is not easy and the cost is too high. Moreover, the high cost also reduces the relative income of the people and makes work meaningless. Even more frightening is that private property rights have made the space for re-urbanization relatively shrinking, and there is no room for further urbanization. This is actually a dead end of Latin Americanization, but Latin American left-wing governments are unwilling to target foreign investment and large government projects. Right-wing governments came to power and vigorously attracted foreign capital, but foreign capital as an industrial capital will also face the failure of other industrial capital. The violent policy fluctuations have caused foreign investment to worry about the safety of funds. After the withdrawal of foreign investment, the Latin American crisis and social turmoil would then further exacerbate. The actual Latin American crisis is structural; so long as this crisis structure has not changed, the crisis will only repeat itself.

Compared with the Latin Americanization crisis, the biggest risks of China's economy currently include four major problems: 1. Rapid urbanization and land economic dependence caused by real estate and urban environment and pollution problems; 2. The rising costs and overcapacity of industries, especially manufacturing industries,

especially the manufacturing industry; 3. The debt and financial management issues; 4. Aging population, social stability and security issues. In addition, there are many problems, but most of them are phenomenal problems and challenges, and many problems are related to these four issues. Therefore, these four development environment issues are the most critical. A very likely result is that China's urbanization rate is very high, but the cost in a wide range of society is also rapidly rising; the population is concentrated, but the ageing population becomes serious, then there is also the "three rural issues (i.e., issues in the development of agriculture, rural areas and farmers)". Low- and middle- income jobs such as manufacturing lack attractiveness, housing prices continue to rise, and marginalized groups of society begin to concentrate; capital and currencies have increased, but currency flows have begun to fluctuate sharply, the situation of withdrawal of capital and relocation has deteriorated, and the Chinese currency has begun to depreciate. Other issues include the rapid expansion of the scale of debt, the chronic problem of overcapacity, the disparity between the rich and poor, and the economic growth rate has continued to decline.

These economic operation phenomena are consistent with the situation presented in the development process of Latin American countries. The so-called "middle-income trap" is also the most prominent in Latin American countries. For example, Brazil has been struggling in what the World Bank calls the middle-income rank for decades. Whether China will fall into the trap of urbanization in the future and whether it will repeat the Latin American crisis is still unclear, but there is certainly a long-term risk.

It is worth noting that China's risks also interact with the global markets. The continuous decline of China's economic growth has caused turbulence in the global market, especially the Wall Street financial market. The world is observing where China is heading in the future, and whether it can successfully jump out of potential risks and escape the huge risk of the middle-income trap.

### **Constructing the "Anchor" of Real Estate Market Regulation with Benchmark Interest Rates**

The performance of the real estate market occupies a special position in the Chinese economic system. It has a direct relationship with government finances, scale of debt and risk, consumption growth and economic growth, the treatment of excess capacity, and the wealth-level of residents. In the development of China's economy facing 2035, adjusting the relationship between real estate and the overall economy, balancing the relationship between real estate and other industries, and reducing the possible financial risks brought by real estate are important tasks facing China's economic transformation. Whether the real estate industry can be "cooled down" smoothly and achieve "soft-

landing” under controlled conditions is directly related to the health of China’s economic constitution and also affects social stability. Therefore, changes in the internal market of real estate will also directly affect the Chinese economy and China’s ability to adapt to changes in the strategic environment and withstand external shocks.

At the beginning of 2019, the People’s Bank of China has cut the RRR by 1 percentage point, which will inject an additional RMB 1.5 trillion of liquidity into the banking system. As the central bank relaxes to stabilize the economy, the market has begun to pay attention to China’s macro-control standards and policy transparency issues. This is related to the understanding, trust and support of the Chinese government. To some extent, it must also be related to the effectiveness of policies.

According to general market logic, after the central bank cuts the RRR, it is equivalent to acceleration, but if the money can stay in the businesses, evolve into wealth and growth, and not become a liability, this will require market vitality. Without market expansion and economic growth, the negative effects of this “acceleration” will be apparent, and it may be possible to the halting stage again. Therefore, the expansion of the market and the vitality of the market need to be matched with financial policies (including interest rate cuts and RRR cuts) and policies of the real estate market to create linkages, so as to provide policy transparency, market trust and policy support. Judging from the current export of Chinese policies, the domestic policy support still has rooms for improvement, and the division of departments is still restricting the effectiveness of the policy, while the lack of clear and successful planning and systematic policy guidance may cause the negative effects of macro policies to be magnified or even greater than the positive effects.

Under the downward pressure of the economy, the ideal policy objective of China’s real estate market is to “suppress prices, open-up the market, control the scale”, that is, policies can be loosened but real estate prices are not allowed to float freely. To achieve such goals, the existing policy operation methods are difficult to achieve. From the perspective of strategic evaluation, it is actually a window of reform. You can refer to the financial experience of countries around the world and build a real estate and debt scale regulatory framework based on benchmark interest rates. That is, using interest rate tools as leverage and standards to formulate a transparent policy roadmap to form open guidance for markets, investments, and local governments.

This system of linking real estate control policies with interest rates is of constructive significance for debt growth, asset prices, and market investments and transactions. The

benchmark interest rate has become a clear reference standard. When interest rates change, real estate regulation and control policies also change accordingly. This can not only stimulate economic growth within a certain range, promote the healthy growth of the real estate market, without losing control and causing arbitrary prices to float freely.

It should be noted that any public policy should be as transparent as possible, and this transparency is inseparable from support and trust. Interest rate is a relatively reliable policy tool. Looking at the benchmark interest rate from the perspective of “Big Finance”, it establishes an “anchor” relationship between the growth prospects of the real estate market and the benchmark interest rate, allowing interest rates to have a direct effect not only on finance but also on the asset market, which has a positive significance for further improving interest rate reform.

## Part V Policy Suggestions

From 2018 to 2035, China's strategic environment is undergoing great changes. The international order has seen subversive disruption, and this disruption is still derived from the United States, the main creator of the post-World War II international order. While it can be surprising to some, the United States actually believes that the international order after World War II is constantly weakening as well. Such contradictions have never appeared in the historical situation after World War II, showing the differences and severity of conflicting perceptions. Facing such a complicated future situation, the long-term competition situation of contact or anti-contact, integration or anti-integration, striving to reduce risks and exploring possible and feasible strategic policy paths are the keys to improving the strategic environment.

### China's "Incremental Field" of International Influence

China's participation in globalization is not only reflected in the economic field, but also plays as a mercantilist that relies on comparative advantages to capture the benefits of globalization. In the future, China will positively promote globalization and increase its influence and discourse right in the field of international politics and economics. It will need to find suitable fields to actively participate in global affairs. In the fields of global security, military, economy, politics, culture, etc., the existing international cooperation mechanisms and structures are mainly constructed by developed countries. Therefore, China needs to find some "incremental field" that can participate and show its role.

Global climate change is an "incremental field" that better reflects China's responsibility. At the 24<sup>th</sup> United Nations Climate Change Conference in December 2018, Li Gao, head of the Department of Climate Change under China's Ministry of Ecology and Environment and deputy head of the Chinese delegation, said that in terms of historical responsibility, developed countries have greater responsibility for reducing emissions. China is still a developing country, and its per capita GDP is only 80% of the world average. According to the United Nations Framework Convention on Climate Change (UNFCCC), China enjoys the rights of a developing country, but "some developed countries want to remove China from the developing countries list. However, this cannot be achieved from a legal perspective or a practical perspective. If China is to be held responsible for exceeding the carrying capacity of developing countries, and to achieve absolute emission reduction across the entire economy, it will be impossible", and China "will not fill in what developed countries should do".

Although China needs to respect the status and responsibilities of developing countries from a political and diplomatic perspective, the actual situation is much more complicated. China and the United States have taken the lead in signing the Paris

Agreement on Global Climate Change, and the subsequent withdrawal of the United States weakened the representativeness of the agreement, but also highlighted China's sense of responsibility, especially its international status. As one of the world's largest carbon emitters, although China can be explained by its low per capita carbon emissions, it will still face the pressure to assume more responsibility for reducing emissions. In the future, actively participating regarding the issues of global climate change will be part of China's participation in global governance and global responsibility. It is also a field where China can show a different sense of responsibility than the United States. Besides, China can also combine its own economic transformation to play its role in reducing carbon emissions, promoting green finance, providing green donations, building carbon trading markets, developing green energy, promoting low-carbon investment, and promoting global sustainable development.

Global poverty reduction is also an important field where China can actively participate. In July 2015, the United Nations' Millennium Development Goals Report 2015 showed that the number of people living in extreme poverty fell from 1.9 billion in 1990 to 836 million in 2015. Although the Millennium Development Goals have achieved an overall poverty reduction, the progress in reducing poverty has been uneven across regions. Now, more than 40% of the world's extremely poor people live in sub-Saharan Africa; South Asia is also a region with a relatively high concentration of poor people, with extremely poor people accounting for 34% of the global poverty population. In the 2030 Agenda for Sustainable Development adopted in September 2015, the first of the Sustainable Development Goals is to "reducing all forms of poverty worldwide". Among its seven specific goals, the first goal is "reducing extreme poverty among all people in the world by 2030".

Over the past two decades, the number of people living in poverty worldwide has been cut in half. The region that contributes the most is in the Asia-Pacific region, especially in China. "Tackling poverty the Chinese way" has made China the country with the largest number of poverty reduction in the world, and also the first country in the world to complete the UN Millennium Development Goals. "Tackling poverty the Chinese way" has been called a model of poverty reduction in the world, and its tremendous achievements have been recognized by the international society. The United Nations Secretary General Antonio Guterres once commented that we should not forget that China has made the largest contribution to global poverty reduction in the past decade. Under the strong leadership of the government, overall consideration and consistent pace are the important reasons for the success of China's poverty reduction. "The Chinese leadership is actively building an inclusive growth model and creating opportunities and conditions for reducing poverty," said Helen Clark, a former Administrator of the United Nations Development Program.

In the future, with the rise of protectionism and isolationism, the withdrawal of a few



developed countries such as the United States will have a negative impact on global development careers such as global climate change and reducing poverty. It should be pointed out that the above-mentioned careers in the field of global development may be the field with the most consensus and the most consistent values among the countries in the world, and it is the field that truly reflects the “universal values”. As China’s national strength increases, the Chinese government and social development organizations should intensify their participation in related careers at a higher level, so that China can become a responsible country in the fields of global climate change and global poverty reduction. Not only can China export money and manpower, it can also export “Chinese experience” and “Chinese way”, which is very helpful for China to form and expand its positive international influence.

### Constructing the “1+3” World Pattern

The geopolitics and geo-economics of today’s world are in a rare change since the World War II. As President Xi Jinping said, this is a “big change which has not happened in a century”.

So far, the evolution of the world pattern with global influence has roughly gone through two historical stages. The first stage was the “Cold War” period. From the end of the World War II until the dissolution of the Soviet Union in 1991, the “Cold War” pattern of the bipolar world formed by the U.S. and Soviet powers lasted for 46 years, until the dissolution of the Soviet Union, which is “the largest geopolitical disaster of the 20<sup>th</sup> century”, in the words of Putin. The second phase is the period of counter-terrorism, which has continued since the September 11 Attacks in 2001. Its main theme is a global counter-terrorism operation led by the United States-dominated Western countries and related asymmetric warfare. World disputes at this stage are related to both economic and resources, but also involving religious and cultural factors. Between the two phases mentioned above, the 10 years from the dissolution of the Soviet Union to the “September 11 Attacks” is a period of unprecedented “unipolar world” in the United States, and it is also a period of extreme Islamic fundamentalism is gradually breeding dissatisfaction with American hegemony, and the accumulation of dissatisfaction has evolved into a terrorist attack on the United States. These 10 years can be regarded as a historical chain that has evolved from the Cold War era to the era of counter-terrorism.

ANBOUND scholars believe that the world is facing a third historical stage – the advent of the era of the inverse-globalization. This new stage has a number of characteristics, such as change in the focus of global geopolitics, the priority goal of the U.S. national security strategy shifted from counter-terrorism to the suppression of long-term strategic competitors, and China has taken the lead. The unprecedented wave of anti-globalization and anti-free trade has severely impacted the achievements of

globalization in the past few decades, and the global trade and investment environment has deteriorated significantly. Global and regional international cooperation has regressed, Brexit, the cracks in European countries have widened, the rupture of WTO, and that the American isolationism has intensified, even the international organizations such as the Universal Postal Union (UPU) are facing challenges. Some phenomena that obviously go against the trend of the times, and many are worried if globalization process can continue.

With Donald Trump becoming the U.S. President, this has further promoted changes in the world pattern. The most morphological phenomenon is the alienation of U.S.-Europe relations, especially the growing gap between the U.S. and Germany. After Trump announced his withdrawal from the “Iran nuclear deal” on May 8, 2018, Germany’s response to his actions was intense, and Angela Merkel expressed her “frustration” directly. She straightforwardly stated that Trump’s decision “damaged the trust in the international order”, and if everyone acted only according to their own wishes, that would be bad news for the world. According to the U.S. media, German companies may only be opposing Trump, but Germans are becoming increasingly anti-United States.

In this changing situation, China needs to find its positioning as soon as possible and rebuild its international status. It cannot always follow the trend of the world. It must follow the pulse of the world and find its position under the new changes in the international situation and how to get along with the world. Chan Kung, chief researcher of ANBOUND, proposed a new word paradigm that might emerge in the future – the new world pattern of “1+3” some time ago. This is not only a new framework for understanding the changes in the future world pattern, but also a method and proposition for China to seek a correct development strategy in the future.

The so-called “1+3” refers to the United States, China, Japan and Germany, with four economic powers and world influence. They are divided into two blocs because of different attitudes towards globalization. Among them, “1” formed by the superpower United States, which represents the leader and promoter of the emerging wave of conservatism; “3” refer to China, Japan, and Germany. All three of these countries need economic propositions and industrial structures, and need to continue to adhere to globalization and free trade. Because the United States insists on protectionism and implements the “America First” strategy, it has significant differences in economic interests and development concepts with those of China, Japan, and Germany that still support globalization and free trade. This leads to several countries gradually drifted away from the United States in economic policies and economic propositions, forming a new bloc space.

On the American side, hardline conservatives have actually held similar views. A

Danish politician revealed that when he spoke enthusiastically to U.S. trade negotiators on joining to fight against the unfair competition from China, the U.S. government's trade negotiator responded immediately in agreement. U.S. President Trump also publicly stated at the beginning of the New Year in 2019 that he was not the president elected by the Europeans and that he does not care about Europe. The world is already torn apart, and Europe has misunderstood the toughness of the United States today; ideological differences are also dividing the perception of world space. However, the key issue in the future is that no country in the world can avoid a difficult problem that has emerged because of Trump's election – how to adapt to the upheavals of the world in the future.

To China and Europe, it is necessary to have a confident “1+3” framework. As the United States moves towards isolationism, it is clear that China must follow the United States regardless of its cost, which is not in China's interest and stage of development. In the complicated competition for international economic interests, China is not able to, and should not compete with the United States' anti-globalization alone. Instead, it needs to reach broader cooperation with countries with similar economic values and industrial strength characteristics. In the era of reverse globalization, deeply rooted fundamental interests are driving China to seek the world's major economic power. What matters most is the cooperation between Japan and Germany. China can consider further promoting and encourage cooperation with Japan and Germany in the field of bilateral economic relations, and strive to reach more cooperation and concerted action with them. Under the current world political conditions, such a process is not easy. It is expected that there will be various obstacles, setbacks and iterations. However, the future evolution of the world pattern supports the emergence and formation of such a “1+3” pattern in terms of economic and spatial changes and industrial characteristics.

In a world of international alliance relations, relationship between interest and the reconstruction of values, the essence of “1+3” is to use multilateralism against unilateralism. Under the circumstance where multiple parties compete for interests, no country can afford to pay endless consideration in exchange for the United States' demand for a harmonious relationship. Therefore, appropriate spatial switching must be a goal for all countries to seek and explore. China's future actions and the release of friendly relationship will help China with more speak in the world. This will let China to have greater possibilities to realize itself as “a facilitator of new international relations” and “a collaborator beyond ideological differences”. In the field of international cooperation, the most important operation is to encourage, promote and realize the establishment of common “economic values” in all possible fields. This is the foundation and core of the “1+3” new global trade and market space framework.

### **China Should Adjust Its Immigration Policy**

Aging will bring great development pressures to China. In the near future, China may find that most of the work of so-called economic development and social stability may be about how to deal with “super aging”. Aging is not only an internal problem of China, but it will also shape China’s pattern, situation, and positioning in international competition by affecting China’s economic and social resource allocation and the country’s internal and external policies. China, in the future will have to think about: how will China with a population of 420 million people participate in globalization and maintain the competitiveness of the country?

Aging will bring a series of social and economic challenges, including the dramatic increase in pension spending, severe labor shortages, overwhelming construction of the medical pension system, and the overturn of traditional social moral systems. One of China’s biggest challenges in the future is to prevent social and economic development from getting into trouble due to aging, because China is not fully prepared yet.

In order to solve the population crisis caused by low fertility and aging, China is currently adopting some policy measures, such as universal two-child policy, implementing pro-natalist policies and delaying retirement. However, it may be too late for China’s future “super-aging”. China’s “super-aging” in the future will probably be more serious compared to Japan now. Due to China’s large population size, the absolute number of labor gaps in the future will be very alarming. According to the relevant United Nations forecasts, China’s working-age population will fall from 930 million to 850 million in 2030. Under the premise of delaying the retirement age to 65, China will need to introduce an additional 270 million laborers to maintain the old-age dependency ratio at the level similar to the year 2015, which is about 27% of the total labor force. If the retirement age remains at 60 years old, then 330 million workers will need to be introduced.

In China today, the introduction of a large number of laborers is no longer restricted by Chinese culture, customs, traditional concepts, and policy inertia. This is no longer a matter of planning in advance, but an enormous challenge coming ahead. How will China cope with the largest aging crisis in human history in the future? China inevitably has to break through and solve this problem.

In this regard, Japan’s current immigration policy change in response to the aging problem has provided ready-made examples and references for China. On the issue of immigration, Japan’s has changed from strict control in the past to encouragement. For a long time, there has been a xenophobic tradition in the Japanese society, and there is a strong sense of anxiety about immigration. However, under the strong pressure of “super aging”, the Japanese government, which has always been very conservative, has started to relax immigration policies through powerful means, hoping to introduce a large number of foreign labor to make up Japan’s current labor gap. According to the

Ministry of Health, Labor and Welfare of Japan, as of October 2017, the number of foreign workers in Japan has reached a record of 1.28 million, which has doubled from 680,000 in 2012.

In June 2018, the Japanese government also announced a legal proposal to relax the entry requirements for foreign workers to enter the five major industries, so as to attract 500,000 foreign workers with certain qualifications by 2025. According to the summary of amendments to the “Immigration Control and Refugee Recognition Act” promulgated by the Ministry of Justice of Japan, Japan’s acceptance of foreign workers includes more than ten industries such as nursing, agriculture, and construction. Japan will ease access for senior talents, international students, and foreign workers and open channels for long-term residence.

The aging population for China in the near future will be similar to the aging population of Japan now.

China has many similarities with Japan regarding population and immigration issues. Neither China nor Japan is an immigrant country. On the issue of immigration, the national concept has always been conservative, even excluding foreign immigrants, and has even become part of national culture. Therefore, Japan’s immigration policy changes have explored a new “immigrant” road for China, which can be used as a reference for China.

From the experience of Japan, China needs to follow a similar path to Japan that is, prudent, low-key, planned control and with guidance regarding immigration to solve the huge challenge of labor shortages. It is only because the absolute number of China’s aging population is huge, and China is “getting old before being rich”. It is also bound to face a more serious aging problem than Japan. Therefore, China needs to formulate a series of forward-looking policies to alleviate demographic contradictions on a larger scale and have more powerful measures, so as to prevent China’s socio-economic difficulties in the future.

In terms of immigration, besides Japan, even Russia is taking active measures to gradually open immigration. Russia will open indefinite residence permits to foreign citizens and stateless persons in 2019. China has been wasting decades, and has long been trapped in meaningless policy disputes. If this situation continues, it will lead to a huge risk of natural extinction in the ancient civilization of China. Such a prospect is worthy of early warning by the Chinese policy department and taking decisive measures.

### **Kong's Long-Term Special Status and Strategic Significance**

Dubbed as the Pearl of the Orient and a symbol of freedom and prosperity in the Asian

region; it functions as a special window for China to connect with the outside world and is a special region for China to implement "one country, two systems". From the perspective of its relevance to the world, Hong Kong's "special status" is unparalleled and cannot be surpassed by any "successful public relations" in any Mainland Chinese city. Therefore, maintaining the long-term prosperity of Hong Kong, retaining Hong Kong's free system and its connecting point with the international community, as well as making Hong Kong an example of openness and freedom, all these have long-term and far-reaching strategic significance for China.

In the course of China's opening up, Hong Kong as the special window and channel has contributed greatly to China. As an international financial center and free port, most international capital and trades have entered the Mainland through Hong Kong, and foreign investment and trade in the Mainland have often reached out to the world through Hong Kong.

Since the reunification in 1997, the central government has provided Hong Kong with an institutional guarantee to maintain its special characteristics with "one country, two systems." As China's overall opening up has deepened, the Mainland has raised various questions and discussions about the status and role of Hong Kong. For example, as the Mainland becomes more open to the outside world, does it still need Hong Kong as the window? Does it want to include Hong Kong in the Mainland's economic system? How should Hong Kong be positioned in the development of the Greater Bay Area of Guangdong, Hong Kong, and Macau? These problems have not only caused a lot of controversy in China and Hong Kong but also in the international arena. Recently, with growing trade friction between the United States and China, the United States-China Economic and Security Review Commission (USCC), a subordinate to the U.S. Congress, recently recommended that the U.S. Department of Commerce cancels the special tariff status of Hong Kong and treat Hong Kong as the same customs territory as the Mainland. The report has caused a lot of reactions in Hong Kong as it might affect the future and destiny of Hong Kong. In reality, the "one country, two systems" established in the Chinese Constitution and the Basic Law of the Special Administrative Region (SAR) is the cornerstone of Hong Kong's special status. From the perspective of history and reality as well as future development, Hong Kong's special status should be ensured for a long time. This is not only an expedient measure for Hong Kong's reunification with Mainland China but also a strategic layout for China's long-term development.

Historically, since the founding of People's Republic of China, although Hong Kong has not been reinstated, it was a special window for the Mainland to connect with the world, especially with Western developed countries. People, knowledge, technology, and goods came to the mainland through Hong Kong. This was unique for China and not found in other countries, and it allowed China to receive emerging technologies and



commodities when it faced blockade, making China keeping up with the trend of the times, and paving the way for China's reform and opening. To a certain extent, the presence of Hong Kong had helped China avoid the fate of some former socialist countries in the Soviet Union and Eastern Europe. At the same time, Hong Kong's window role brought prosperity and economic take-off to Hong Kong itself.

The role of Hong Kong as a free port and international financial center has not been weakened by the opening up of the Mainland after the reunification, but rather it has been further consolidated and developed. The entrepot trade and the size of the financial market in Hong Kong have continued to increase; both Hong Kong and the Mainland have benefited from investment and trade to the internationalization of the RMB and the opening of the Mainland capital market. This also shows that under the institutional arrangement of "one country, two systems", the special status of Hong Kong and the institutional differences between the two countries are not obstacles to the economic development of these two places; rather it is an advantage for common development.

From the perspective of future development, although Hong Kong's proportion in the entire Chinese economy is declining, it still plays a pivotal role in the Pearl River Delta, one of the two engines to drive the Chinese economy, and still plays an important role in regional economic development. If Hong Kong is no longer vibrant, it would lose its uniqueness, its freedom and the rule of law, and ultimately leads to decline in Hong Kong's economic strength, and the Pearl of the Orient would lose its luster. The impact can be far more than Hong Kong itself; it will also cause the development of Shenzhen, Guangdong, the Pearl River Delta, and even southern China to be severely affected. This potential huge impact and loss will bring the enormous cost to China's economic development. In addition, if Hong Kong cannot become a long-term success model of "one country, two systems", it will also affect cross-strait relations and even affect the future of Taiwan. Therefore, maintaining Hong Kong's uniqueness, its status as a free port and the characteristics of its rule of law society has become an important prerequisite for maintaining its prosperity.

Although "one country, two systems" provides Hong Kong with institutional guarantees, as the mutual influence of the economy and society between the Mainland and Hong Kong is deepening, the "infiltration" and changes in the Mainland to Hong Kong will continue to occur. One question that cannot be avoided is that, will there be actual "Mainlandization" of Hong Kong? The basic core of "one country, two systems" protects the uniqueness and prosperity of Hong Kong; therefore, maintaining the system of Hong Kong under the political framework of "one country, two systems" has become a big issue concerning the destiny of Hong Kong. Hong Kong's legal system, trade rules, and its linked exchange rate system are the foundations of its free port of trade and capital; these special systems cannot be replicated for the Mainland and are the basis for Hong Kong's prosperity and further development. The advantages of legal,



professional and financial services brought by the uniqueness of these systems in Hong Kong will benefit the economic development of Guangdong, Hong Kong and Macao, and will increasingly become a hub for the development of the BRI.

From a longer-term perspective, the implementation of different systems in the Mainland and Hong Kong has also enabled China's development to maintain institutional diversity. Under "one country, two systems", the Mainland and Hong Kong can learn from each other, complement each other and promote each other, which is more conducive to China's long-term stability and lasting prosperity. This should be the vision of the "one country, two systems". We believe that regardless of Hong Kong or the Mainland, there should not be simplified homogenization due to the increasingly close links between politics, economy, society, and culture. Although Hong Kong's special status may face some short-term fluctuations, in the long run, the difference between the two systems will bring vitality to the island and attracting dynamics from overseas, which is much better than remaining stagnant.

Hong Kong's status as the Pearl of the Orient and a special window is historically formed and recognized by the world's business and capital. It has brought diverse customs and culture to China, allowing tolerance and freedom to take root here. Such a free port and international financial center provide a pivot for China's participation in economic globalization and an important bridge connecting China with the United States, Europe, and Southeast Asian countries. With counter-globalization and U.S.-China trade frictions, maintaining Hong Kong as a unique window is of great significance for China. Hong Kong's position as a unique SAR should be its foundation, with "one country, two systems" as the baseline.

### **Balancing Openness and Self-Reliance**

A series of anti-contact strategies such as the anti-globalization wave, U.S.-China trade disruptions, and U.S. scientific and technological restrictions on China will not only worsen China's future external development environment, but also stimulate corresponding reactions at the Chinese market, society and politics. This may have a significant impact on China's future economic decisions. In the past two years, Chinese society has significantly increased its doubts about reform and opening-up. Nationalist sentiment reinforced by external pressures will also affect domestic decision-making to a certain extent. A prominent question will lie ahead of China: Facing the Western blockade, will China's development adhere to open cooperation in the future, or will it "close its doors" and engage in self-reliance?

While the Chinese central government as a whole adheres to the basic national policy of reform and opening-up, it cannot be ignored that in many specific economic policies, foreign affairs, foreign investment, and science and technology cooperation, the policy

will face even greater challenges in the future. After the ZTE incident, China feels that its technology is being constrained, and the idea of independence and self-reliance was re-emphasized. This is not a mere slogan that stimulates sentiments in China, but has also transformed into concrete policies and government behavior patterns. Historically, China has created the “Two Bombs, One Satellite (i.e. an early nuclear and space project of China)” under the U.S.-Soviet blockade with the entire nation’s power. A similar calling might be emphasized in the new situation and affect China’s future reform and opening-up policies in certain fields.

Emphasizing self-reliance, self-control over scientific and technological research and development, and the influence on the market space are not problematic in terms of ideas or concepts. However, in actual policy formulation and implementation, China must pay attention to balancing opening and self-reliance, maintaining the openness of its own economic system, scientific research system, and market system, and keeping an open mind in its governance, society and the people. If self-reliance goes to extremes and becomes self-isolation, it will form another type of self-blockade beyond the external blockade from the United States. Therefore, while reform and opening-up itself is a national policy, self-reliance cannot be one.

From the perspective of economic globalization and the development of modern science and technology, extreme self-reliance is no longer appropriate. There are two main reasons: firstly, the world now and in the future is and will be in the Age of Systems. Market systems, industrial chain systems, basic network, technology and intellectual property transfer, production collaboration models, and financial systems have all formed highly related and closely linked systems that cannot return to the era of closure and division. In the event of being cut off from the global system, it would spell death to China. Secondly, it will be the external dependence of resources. In the era of large-scale globalization, the resources needed for economic activities will be oil, food, minerals, capital, talents, technology, etc., which cannot be supported and completed by one’s own strength. China, in particular, relies heavily on external resources in the field of energy, minerals and technology. In fact, self-reliance is the right of the poor people. Only in times of poverty self-reliance could be achieved, as survival can be guaranteed by mere “minimum needs”.

In the long-term development of China in the future, the only feasible way is to break the blockade and maintain the reform and opening-up. At the moment of fierce competition in the world between contact or anti-contact, integration or anti-integration, having further vision and more proactively confronting the pressures of various forces will be China’s proper way of development and survival.