A RISING CHINA

THE FRAME
The U.S.-China relationship is likely to define the coming century, for good or for ill. It is critically important to chart the right course now. China is a rising power with strong ambitions that is best viewed as a competitor, not an enemy. We have real friction when it comes to China’s rogue business practices, human rights abuses, and expanding military capabilities—and we should speak out on these issues. Yet, we have many key interests in common and it will be impossible to resolve important global challenges without a functional, working relationship with China.

A COMPETITOR, NOT AN INEVITABLE ENEMY
- America and China depend on each other. We need China to buy our debt and goods; they need our market to sell their products.
- China embraces capitalism, but doesn’t share human rights values.
- China is focused on stability. Economic growth is essential for China’s domestic political stability.
- China’s drive for growth is leading to unfair trade practices and intellectual property theft.

WHAT SHOULD WE DO?
- We should not recreate the Cold War with China.
- We should stand up for human rights and democracy and encourage fair trade practices.
- Engage in military to military relations to cool possible conflicts.
- Reduce China’s hold on neighbors.
HOW CHINA LOOKS AT THE WORLD

China’s stated strategy is one of a “peaceful rise.” They claim to be focused on engaging other countries diplomatically and economically to secure markets and ensure stability conducive to Chinese economic growth.

China’s foreign policy priorities—buying resources and selling exports—are intended to maintain internal stability. China’s government believes it needs to sustain economic growth at around 8 percent per year to maintain domestic stability. Like South Korea and Taiwan, China has tried to grow through exports. To this end, the Chinese government subsidizes the investments of Chinese companies, undervalues its currency at artificial levels to make exports cheaper, and keeps wages low to combat inflation. China is not doing this to harm the U.S. However, these policies have side-effects that hurt U.S. trade.

China’s need for commodities drives a values-free foreign policy that props up dangerous regimes. China’s need to grow requires abundant commodities such as steel and oil. China has constructed or invested in energy projects in over 50 countries. To secure these resources, China’s overseas trade decisions are unconstrained by concerns about corruption, good governance, human rights, or environmental standards. It often invests in regimes we consider “rogue”.

China also wants international norms based on sovereignty, not rights. China wants a free hand in its own internal conflicts, such as Tibet and its Muslim Western provinces. It is therefore loath to participate in sanctions against Iran, Sudan, and other belligerent or genocidal countries. While the full extent of China’s foreign aid is unclear, China has generously supported certain African regimes to buy loyalty. This aid is provided without attention to governance standards, undermining American aid policies. Chinese aid is not entirely values-free; it is generally contingent on non-recognition of Taiwan’s government.

CHINA’S PRIORITIES

- Economic growth to ensure internal political stability.
- Expanding their military as their global interests expand.
- Returning Taiwan to mainland control remains China’s top “core national interest.”
- China’s foreign policy serves its need for resources, not a set of values.
ECONOMIC INTERDEPENDENCE

Our intertwined economic relationship with China has both clear benefits and undeniable costs, but we can’t simply pull back. A strong economy is crucial to keeping America strong and safe in the 21st century. Therefore, a key national security priority must be to ensure that our economic relationship with China makes America stronger, not weaker. This is an achievable goal. There are clear benefits as well as costs associated with our relationship, and we must take full advantage of those benefits even as we work to minimize the costs.

China’s business practices and intellectual property piracy harm U.S. companies. While intended to maintain internal stability, China’s economic policies hurt U.S. businesses. China has many State-Owned-Enterprises (80 percent of the businesses on the Chinese stockmarket are state-owned) that receive preferential government funding. They can take short-term losses in the pursuit of long-term gains because they do not have to publicly report profits to shareholders. This has the effect of walling off a large portion of the Chinese economy from foreign investors and placing U.S. businesses at a competitive disadvantage because U.S. firms have to find funding on the open market.

China’s non-enforcement of intellectual property rights has cost U.S. firms billions of dollars in lost sales. In violation of international trade agreements, China imposes a policy of forced technology transfers on foreign companies doing business in China. It also requires foreign businesses to enter into joint agreements with Chinese companies as the price for gaining access to the Chinese market.
**America needs China to continue purchasing U.S. bonds to finance our debt.** The economic relationship between the U.S. and China is two-sided. On the one hand, the U.S. wants China to stop manipulating its currency and stealing intellectual property because these actions greatly disadvantage U.S. businesses. On the other hand, we need each other.

The U.S. needs China to continue buying U.S. Treasury bonds to finance our debt. China needs a safe place to invest its money and large markets for its exports. The U.S. is the largest market for Chinese goods. This synergistic set of needs means that China has become the largest foreign owner of U.S. debt (although it should be noted that only about one-third of U.S. debt is owned by foreign entities and Japan is close behind China).

This mutually beneficial relationship may help prevent possible trade wars. China could hurt the U.S., but harming our economy would reduce their exports, and thus hit them financially. Based on the same logic, some believe that China would not risk dumping U.S. Treasuries. This is less clear: China could have a hedging strategy in its investments that would give them less to fear from selling U.S. Treasuries. It is also worth remembering that America used to assume that OPEC had a self-interest in maintaining steady oil markets, until their oil embargo of the 1970s showed that they were willing to shock the market. However, a stable global financial system is in the interest of China’s economic growth.
AN EXPANDING MILITARY

China is building a much stronger military, but rising economic powers often do. China’s intentions are not necessarily hostile.

Military experts weigh possible threats in terms of two factors: the other side’s capabilities and the other side’s intentions. This is especially important to keep in mind with China. China’s military is growing, and in some cases China is investing in military capabilities specifically chosen to counter key American strengths. While the Chinese military remains far behind our own, they are slowly but steadily closing the gap.

And yet, even as China’s capabilities grow, China’s intentions are not necessarily offensive to the United States. It is normal for growing economic powers to build stronger militaries to defend their growing interests. Unlike past rising powers, Chinese leaders recognize that China’s future prosperity is intertwined with America’s, and that military conflict would spell economic disaster for both countries.

China’s military is increasingly capable, but still far behind our own. China now has the world’s second-largest defense budget, spending just over $100 billion in 2010. While we should not be complacent, the U.S. remains far ahead in terms of training, technology and resources, with $687 billion in expenditures in 2010. China is investing in early-stage global power-projection capabilities, and recently commissioned its first relatively crude aircraft carrier. It has also been developing a stealth fighter, anti-ship ballistic missiles, and anti-satellite systems.

China is making heavy investments in offensive cyber capabilities as well. U.S. government computer systems in Congress and the Pentagon, along with the U.S. electrical grid, have been the targets of intrusions that originated in China. China also refuses to concede to the Western consensus that international humanitarian and armed conflict laws apply to cyberspace.
Taiwan is the most likely immediate cause of conflict. China strongly believes Taiwan is part of China. Chinese officials say they will pay any price to prevent an independent Taiwan and their military improvements are largely focused on ensuring that end. China has over 1,000 ballistic missiles and 400,000 military personnel opposite Taiwan as well as nearly 500 combat aircraft that can reach Taiwan without having to refuel.

Since the Nixon era, U.S. policy has been to deter China from using force to regain Taiwan, while also discouraging Taiwan from asserting full independence. This policy of “strategic ambiguity” has been successful at avoiding conflict and Taiwan has formed ever-increasing economic ties to mainland China. The U.S. periodically sells arms to Taiwan, a policy that many believe to be required by law under the Taiwan Relations Act and which inevitably provokes Chinese anger when sales are made.

Taiwan, for its part, is a fractious, growing democracy that sees itself as a largely independent entity following fifty years of separate governance. Relations between China and Taiwan have recently improved through cultural ties and expanding economic agreements. Many leaders on both sides believe that eventual peaceful integration is the best path forward. The U.S. must continue to walk a fine line, keeping China from forcibly retaking Taiwan while keeping Taiwan from exacerbating the situation in the expectation that America will come to its aid.

China is asserting authority—and worrying its neighbors—in the South China Sea. China makes broad claims to sovereignty over islands that are also claimed by neighboring countries. Such claims extend to surrounding sea-areas as well. The South China Sea is an important commercial shipping channel and is believed to contain valuable reserves of oil and minerals, resources China needs in large quantities to meet the needs of its population. To control these resources, China has become more assertive in harassing foreign vessels in the South China Sea, worrying its neighbors and increasing the potential for a regional conflict.
The Obama administration’s position is that disputes in the South China Sea must be resolved using existing legal frameworks, including the Law of the Sea and International Customary Law—not coercion or force. A key point of disagreement between the U.S. and China hinges on whether these disputes should be settled through open regional talks or through one-on-one negotiations between China and its much weaker neighbors. It is clear that the U.S. has an important interest in the South China Sea and that China should not be allowed to bully smaller regional players in closed-door sessions. The success of invoking international law to manage this dispute is one reason the U.S. should ratify the Law of the Sea.

**THE POLICY LANDSCAPE & RECOMMENDATIONS**

*Some, believing China is the next Soviet Union, want to recreate the Cold War.* Emboldening hardline elements in China, they speak of China as an ideological enemy intent on destroying American influence. However, this kind of talk is dangerous, and could become a tragic self-fulfilling prophecy.

*Don’t mistake military build-up for “inevitable” conflict.* China’s military build-up does not negate our economic interdependence and need for cooperation. Rising economic powers have always invested in stronger militaries, and China is no different. There are real military tensions with China, but we also share significant economic ties that create incentives for cooperation and international stability. This is not a zero-sum relationship; they need us and we need them.

*Continue building ties with China’s neighbors so they are less beholden to China’s influence.* Currently, most East and Southeast Asian economies are heavily dependent on China. This gives China great influence and a strong position from which to force its will on its neighbors. To counter this, the Obama administration announced the Trans-Pacific Partnership: a regional free-trade bloc that does not include China.
To begin offsetting China’s attempts to militarily control the South China Sea, the Obama administration recently announced a permanent military presence in Australia, while the U.S. explores the potential for expanding relations with traditional Chinese allies such as Burma (Myanmar).

**Reduce the impact that China’s intellectual property theft and currency manipulation has on American business.** To maintain a healthy relationship through the 21st century, economic interactions need to be fair, meaning China must respect the intellectual property rights of U.S. businesses and stop manipulating their currency. Nothing less can serve as the foundation for a strong, sustainable relationship between the world’s two largest economies. Honest, persistent diplomacy that addresses these issues head-on must be applied, and we must help U.S. businesses facing unfair Chinese competition.

**Encourage China to stick to its plan and build a stronger domestic market.** To hold down the costs of exports, China previously engaged in currency manipulation in order to fuel growth. Now, China is attempting to shift its model and build a strong domestic market for its products, drawing on its growing upper class. To foster a market of consumers, it must allow wages to continue to rise. This new emphasis on domestic consumption is good for China, good for America, and should be strongly supported.

**Stand up for human rights and democracy.** We should not compromise our values to appease China. The Arab Spring has threatened China’s authoritarian rulers, and they have engaged in one of the harshest crackdowns in decades. They censor media, strictly limit internet freedoms, have an extensive police and surveillance network, and engage in massive detentions of those deemed to be spreading “harmful information.” We should raise these issues with the Chinese in diplomatic and high-level meetings. Any resulting resentment is unlikely to harm our relationship over the long-term, while our efforts to change China’s behavior can bring real, much-needed help to Chinese political prisoners and the many Chinese activists now fighting for reforms.

A trade war, just as we’re climbing out of the ditch, would be disastrous for America’s economy.
Oppose any conflict with Taiwan. The clearer we are with both parties, the less chance that we will be pulled into a fight. We have made commitments to Taiwan and we need to be clear with China that we must honor those commitments; doing so will lessen the chances of war. At the same time we need to be equally clear with Taiwan that it is not in America’s or Taiwan’s interests to instigate an armed conflict with China, and that should Taiwan taunt China, we will not be obligated to come to their aid. Fortunately, Taiwanese President Ma Ying-jeou’s recent reelection should help ensure a stable situation over the next four years.

Maintain military-to-military relations. Strengthening military contacts with the Chinese is critical to building trust, gaining knowledge, and managing friction within our relationship. These exchanges increase the understanding of each other’s military institutions, build cooperative capacity, and reduce the risks of miscommunication and miscalculation. In essence, they lessen the chances of an accidental war and ensure that America and China stay competitors rather than enemies.

KEY PEOPLE

China’s foreign policy decision making has become more regularized in recent years but it is still not always clear exactly how China’s decisions are made and who makes them. In the fall of 2012, China will undergo a major leadership transition. However, its new leaders are unlikely to significantly alter China’s current course.

Hu Jintao (hoo jin-TOU) is the President of the People’s Republic of China, the General Secretary of the Chinese Communist Party (CPP), and the Chairman of the Central Military Commission. His term will expire in 2012. During his tenure he supported a “peaceful rise” strategy and oversaw economic and administrative reforms, but was not active in pushing political reforms.
Xi Jinping (shee JIN-ping) is currently China’s Vice President and is the anticipated successor to Hu Jintao. He is known for his hardline and outspoken style but is also considered to be a pragmatist. In 2008, Xi raised his profile by managing the Olympic Games in Beijing. He has a reputation for fighting corruption, is considered to be tech savvy, and is expected to expand China’s current military modernization efforts.

Wen Jiabao (wun jah-bou) As Premier of the People’s Republic of China’s State Council, Wen serves as China’s head of government and the leader of the cabinet. He is considered the “people’s premier” because of the populist image he has developed through his focus on social issues and economic inequality.

Ma Ying-jeou (ma ing-jeeo) is the President of Taiwan (Republic of China). Reelected to a second term in January 2012, he is a member of the KMT Party, which leans toward engagement with mainland China. While in office, he has supported policies to improve ties between Taiwan and China and he has stated that he will not pursue Taiwan’s independence or reunification with China. His reelection against a nationalist challenger should stabilize cross-strait relations for the next four years, easing a major source of friction in our relationship.
GOING DEEP: BACKGROUND & CONTEXT

China deeply fears instability. For much of the first half of the 20th century, China was engulfed by war. The end of the Qing dynasty in the early 1900s led to anarchy and eventually civil war. China was invaded by Japan during WWII, which inflicted war crimes, rape, and mass killing on the civilian population. Only when Mao’s Communists won the civil war, and the Nationalists fled to Taiwan, did the country see peace once again. This recent experience of the chaos and hardship of decades of war has left a deep mark on the nation and its government, which fears instability over all other threats.

The Chinese Communist Party (CCP) is still in power and almost all of its decisions are based on national stability and party survival. The primary objective of the CCP is to remain in power and all of its decisions are meant to serve that goal. With the end of the Cold War and the collapse of Communism as a dominant political ideology, the party has had to rely on promises of economic growth, internal stability, and national unity as the foundation for its governing legitimacy.

To fulfill these promises, the CCP must leverage China’s foreign policy tools to meet a number of objectives. First, it has to spur a sustained economic development program that raises Chinese living standards and damps social disaffection. Second, China must acquire the resources necessary to satisfy its already voracious and growing energy demands. And third, the party needs to show that it is returning China to a position of global power.
China has two faces, both true: a global economic powerhouse and a nation that is still developing. On the one hand, China is one of five permanent members of the United Nations Security Council and has the world’s second largest economy. Its influence continues to grow; it now exports more goods than any other country in the world and it is expanding its involvement in international peacekeeping efforts, counter-piracy operations, and disaster relief.

On the other hand, China remains a developing country. While it has cities of great wealth, its rural and migrant populations are still very poor. And China is still eligible, based on economic indicators, for World Bank aid. When China is asked to shoulder more global responsibility, it tends to maintain that it is still a developing country and must invest at home. However, it also wishes to be treated with the respect of a great power.

The United States maintains a “One China” policy: we recognize the CCP as the official government of China but still sell arms to Taiwan to ensure its security. Since Nixon famously reopened government relations with China in 1972, we have honored the position that there is one China and that Taiwan is not a separate country. China considers Taiwan to be a “renegade province” and directs much of its strategic focus toward the island.

The United States maintains a security guarantee that we will come to Taiwan’s aid if China seeks to forcibly retake the island and we continue to sell arms to Taiwan. China is angered by our arms sales and the announcement of new sales often causes diplomatic reprisals from the Chinese. In 2010, for example, China halted U.S.-Chinese military-to-military relations due to an arms sale. The key tenet of the United States’ “One China” policy is that China and Taiwan must come to an agreement on Taiwan’s status peacefully and mutually.