

The
NATIONAL STRATEGY FORUM REVIEW

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***The U.S.-China Relationship:
Building Constructive Competition***

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Publisher's Note

The National Strategy Forum has been studying China from a strategic perspective for the past decade. The purpose of this ongoing project is to strengthen U.S. national security by understanding China's strategic objectives and coupling these objectives, when possible, to U.S. strategic objectives. The China of 2001 is very different than it is today. The same is true of the U.S. However, change has occurred for different reasons and with varying trajectories and velocities in both countries. The trend line for the U.S. is downward, while it appears markedly upward for China.

What has changed during the past decade? China has become a creditor state, while the U.S. has become a debtor state. The U.S. has been bogged down in two wars without victory, while China has used its resources to strengthen its ties with Latin America, Africa, the Western Pacific, and the Middle East by providing major gifts to gain access to critical natural resources. The U.S. is conducting a war on terrorism, while China has conducted a more targeted counter-terrorism campaign. Finally, the U.S. has alienated much of the Islamic world, while China has increased its trade and enhanced its reputation in many Islamic states.

China's rapid economic rise in the past decade is attributable to its incremental and adaptive strategy, while the U.S. has focused on tactics. The U.S. has major economic, budgetary, and unemployment problems that are not being resolved by presidential policies or Congressional action. The 2012 presidential election campaign has begun early with a new wave of China-bashing that blames China for some U.S. problems. This is causing damage to the U.S.-China relationship that will have long enduring consequences for whatever political party that wins the presidency or achieves a majority of seats in Congress.

There are legitimate U.S. concerns about China's policies, including currency manipulation, sanctioned computer hacking, military modernization, and foreign policy. Some U.S. commentators regard China as an enemy. The better course is to regard China as a skilled adversary that has multiplied its once meager resources brilliantly, while the U.S. has squandered its massive resources and tainted its long-standing international goodwill.

China views the U.S. policy towards China as rooted in unfeasible containment. China is aware of and is sensitive to U.S. economic concerns, and is revising slowly its currency valuation, but not rapidly enough to ameliorate U.S. economic problems. China could accelerate its currency revaluation process as a token of goodwill. However, China-bashing will continue to grow because demonizing China is a simplistic election campaign ploy.

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There is a major dichotomy between the U.S. and China regarding how they develop and implement their respective national security-related policies. U.S. policy, in large part, is made behind closed doors by the president and a few cronies. This inner sanctum group, both Republicans and Democrats when in office, lack preexisting national security experience. They are usually very intelligent and highly skilled in electioneering and enhancing the power of their respective political parties. They appoint qualified national security experts who do not have access to their inner sanctum, and their perspectives are trumped by domestic political considerations over long-term international strategy.

The China policymaking process is considerably different from the U.S. In large part, China's international relations and national security policy evolves and is derived from a series of judgments made by highly skilled professionals who are associated with Chinese academic think tanks and governmental bodies. Thus, there tends to be a Chinese "farm club" process wherein talented people are vetted by their peers and moved upwards depending on their skill and sound judgment. The Chinese inner sanctum that makes policy is much larger than the U.S. counterpart. The major difference is that the Chinese process is consultative. The policy that emerges may be wrong, but it is relatively free of both domestic and political partisan pressures that enthralls and stultifies the U.S. policymaking process.

The U.S. and China policy process differs in another essential dimension—the distinction between strategy and tactics. The U.S. focuses on tactics, rather than strategy—how to extinguish today's fire. Only infrequently is U.S. policy based on well-informed, long-range strategic considerations and their consequences. The ruling Chinese Communist Party objective is to retain power by achieving economic prosperity for its people. At present, the urban population is stable and quiet. Yet, the expectations of the rural poor are not being met.

For example, I was invited to interview the Guinean (West Africa) president's staff and the newly appointed cabinet ministers and agency chiefs. The objective was to draft a master strategic plan. While in Guinea, I was urged by Chinese government acquaintances to meet with the Chinese ambassador to Guinea. I also met with the representatives of the U.S. Embassy and USAID. These people are professional and knowledgeable. The essential difference is that the U.S. has no strategic plan in place and there was a very limited amount of money available for assistance to Guinea. The Chinese counterpart is vastly different—a lot of available money and a strategic objective and implementation plan. China has recently constructed a 50,000 seat modern soccer stadium and an 80-bed hospital, free of charge, in Conakry, Guinea's capital city. The Chinese strategic objective in Guinea is to gain access to their natural resources, including uranium, iron ore, and bauxite. In Conakry, China is providing the first street lights and minibuses to alleviate traffic problems. In conversations with Guinea government officials and the general public, they believe that U.S. assistance is for the military, rather than for Guinea's people.

In addition to economic competition, China regards Western Pacific states as part of their "near abroad." For many years, the U.S. has regarded itself as paramount in the region. The lesser states of the region are apprehensive about China's regional hegemony. The use of U.S. military forces to protect these states is unfeasible, and for the U.S. to bluff in this regard is an obvious sham. The U.S. must recognize the reality of China's ascendancy in the region and adapt

accordingly. The way forward is based on constructive competition. The U.S. can adapt China's strategy in Africa and use it in the Western Pacific region—compete for friendship and affiliation.

Although the U.S. has legitimate concerns with some components of China policy, China-bashing is retrograde and harms U.S. national security interests. China is no longer a U.S. enemy. Rather, it is a highly skilled competitor that should be treated with both respect and condemnation when appropriate. The National Strategy Forum principle is complementary strategy, wherein the U.S. should understand the strategic objectives of other states and integrate these objectives whenever it is appropriate to do so. The second principle is constructive competition. Competition is always present; however, it can be managed by mutually agreed rules and enforcement mechanisms.

The National Strategy Forum has been given the unique opportunity of access to China's leading national strategy thinkers and institutions, notwithstanding our critical analysis of what we perceive to be China's shortcomings, and our support for improved Taiwan-centric relations with China. We are grateful for this opportunity because it will result in enhanced U.S. national security based on mutual respect and informed candor.

A superficial review of U.S. deficiencies and miscalculations may appear to be self-imposed America-bashing. However, this is not the intention of this edition of the *National Strategy Forum Review*. Rather, U.S. strength is based upon our collective ability to pause on occasion, think about our errors, and make the necessary corrections.

The U.S.-China Relationship: Building Constructive Competition

By The National Strategy Forum Review Editorial Board

Rapporteur: Eric S. Morse, Managing Editor

Introduction

At the outset of the 21st century, the U.S.-China relationship may well be the most important international relationship. However, friction is occurring as a result of China's rise and the loss of U.S. supremacy abroad. China is becoming more assertive in its role in the Asia-Pacific and has not always agreed with U.S. foreign policy goals. There seems to be a growing trend of mistrust and misunderstanding, with harbingers on both sides of the Pacific proclaiming a Sino-U.S. rivalry to be inevitable. On the contrary, many opportunities exist for making the 21st century a prosperous one for the U.S. and China.

The National Strategy Forum (NSF) is often asked about the strategic objectives of China. What does China seek? Why are they pursuing this and that? How can the U.S. get along with China? These questions befuddle even the most elite scholars in the field, many of whom explain that the

complexities of the relationship are regularly in flux. Yet the importance of improving this relationship cannot be overemphasized. Our two countries are joined economically and share a number of similar economic and national security concerns; we will sink or swim together.

The purpose of the report below is to discuss China's strategic objectives and to relate them to U.S. security strategy. We hope to establish a baseline for understanding China's preferences and to provide a reference point for improving the relationship in the future.

A key component of this analysis is *complementary strategy*.¹ This means listening to other states, identifying their strategic objectives, and relating these objectives to U.S. national security strategy. We define China as a competitor, as opposed to either an adversary or strategic partner. China is a country that does not share an ideological affinity with the U.S.; in addition, it is engaging, to various degrees, in economic and cultural competition with the U.S. While our two countries are likely to compete with one another, such competition does not inevitably lead to antagonism. Many opportunities exist to find common ground and improve our security and prosperity.

The NSF began this project with the goal of learning from our Chinese counterparts in Beijing and Shanghai about China's preferences, goals, objectives, and aspirations. To this end, the *National Strategy Forum Review* Editorial Board conducted a series of detailed telephone interviews with Chinese VIPs representing a wide range of expertise, including international relations, national security, public diplomacy, journalism, energy, the environment, and business. These interviews were conducted on a non-attribution basis to assure candor. There was a wide range of opinion among those with whom we spoke. There was no consensus on all issues, but zones of agreement among the participants emerged.

The NSF would like to thank the China Institute of International Studies (CIIS) and the Chinese Consulate in Chicago for their partnership in establishing interviews with experts in Beijing and Shanghai. Their invaluable assistance and friendship has made this project possible, and we look forward to continuing our dialogue with them in the future.

The findings have allowed us to better understand China's perception of U.S. actions, and to incorporate China's national strategic objectives in a more coherent way into U.S. national strategy. The U.S. must understand China's most important strategic objectives and problems, whether or not we wish to or are able to accommodate them. The following report identifies the major issues and problems expressed in our interviews, and suggests policy options that could be used to improve the relationship among our two countries. We hope that this report proves useful for our readers as they attempt to make sense of this important and complex relationship.

China's Challenges and Strategic Objectives

Any discussion of China's (PRC) strategic objectives must acknowledge the role played by the Chinese Communist Party (CCP). The CCP, as the ruling party in a one-party system, seeks to

¹ See article in the *National Strategy Forum Review* titled, "Complementary Strategy." To access the article: <http://nationalstrategy.com/Portals/0/documents/Winter%202009%20NSFR/Chapter%209.pdf>.

maintain its stable control of the country. To do so, it must continue to produce that which brings prosperity, security, and prestige to its domestic politics and its international relations. In the course of our interviews, we learned about China's domestic and international strategic objectives from the CCP's perspective. We acknowledge that there are limitations to these findings. The viewpoints of the CCP, a party with 80+ million members, cannot fully embrace all of the viewpoints and preferences of a 1.4 billion population. However, it is an instructive lens through which to view China, and it is currently the best one available for analyzing strategic objectives. These findings are discussed below.

China's Economy

Growth

China's domestic strategic objectives prioritize economic prosperity and an export-led economic model. Economic growth is largely responsible for the CCP's long-running success. Growth levels of 10%+ for many years has transformed China into the second largest global economy, with expectations of surpassing the U.S. economy (in GDP) in the near term. However, the economic crisis in the U.S. and Europe has also created many economic concerns for China. These include a lower growth rating around 9%,² accusations of currency manipulation, a trade imbalance with the U.S., concerns over growing U.S. government debt and fiscal and monetary mismanagement, a downgrade in the U.S. credit rating, and the European economic crisis. In addition, China's energy security strategy, which has become reliant upon oil imports, faces secure acquisition challenges from abroad. Developing more efficient use technologies for industry and consumers is a vital hedge against this threat.

Maintaining high economic growth rates will be difficult for China in the future. Recent developments, including a possible housing bubble, lower forecasts for future growth, and the Euro crisis, bring the feasibility of this objective into question. In order to maintain internal stability, Chinese leaders will be vigilant in managing these developments. Minor upsets in the economic order are capable of producing massive economic shocks to the Chinese system.

European Debt Crisis

Europe is China's largest export market. However, the European debt crisis and the U.S. recession have decreased foreign demand for Chinese exports, cutting into China's economic growth forecasts. Recently, economists have adjusted China's GDP growth forecast to roughly 8.5% for 2012 and are doubtful of a return above 10% for years to come. Lower forecasts suggest a weakening in the operational mechanics of China's economic model, a system that relies heavily on export growth, commodity inflows, and high employment.

While export demand decreases, Chinese demand for imports and commodities has remained stable. The Chinese economic model is based on providing increased economic growth and employment for its massive population. To provide jobs, China has implemented an urban migration policy in an effort to focus job growth creation in centrally located areas. Money that

² <http://www.tradingeconomics.com/china/gdp-growth-annual>

flowed into Chinese banks from exports allowed the government to reinvest profits into domestic development and urbanization.

The problem is that the European crisis and the U.S. recession is reducing demand for Chinese goods. The money flow is slowing, putting into question the prospects for continuing domestic economic stability. Inflation is high, real estate bubbles in urban areas are spreading, and inequality is growing.

Consequently, China is intent on supporting the Europeans in their time of economic crisis. For now, the Chinese government has enough surplus savings to pump money into its domestic economy, but if the Euro zone collapses, the consequences are severe for China's developing economy. Those interviewed suggested that China was seriously considering investments in European bonds in an effort to help bolster European banks and capital requirements. This is an important trend to watch. The crisis has brought into focus the precarious nature of China's reliance upon European and U.S. export demand for future growth. As a result, not only are the Chinese intent on supporting any bailout plan, but they are also faced with the prospect of speeding up reforms³ to their domestic economy.

Currency Valuation

The issue of the value of China's currency, the Renminbi (or Yuan), is problematic from both domestic and international perspectives. On the home front, China's lower valuation of the Yuan allows its manufacturing sector to boost exports. China's government wants export growth to achieve employment growth and rising standards of living. The downside is that its citizens have lower purchasing power for imports, and consequently domestic consumption remains low. This export-driven economic model, which is good for a developing economy, is a hindrance to a country that desires to move up the production value chain by building the service sector and develop a consumer-driven society through improved currency valuation and social welfare policy.

Low currency valuations were also cited as contributing to China's "dirty kitchen," a metaphor suggesting that low costs and lack of regulations are contributing to massive environmental and health care consequences that will eventually be a major problem. Manufacturers are not incentivized to care about negative externalities because the current objective is to have the lowest bottom line.

On the international level, the U.S. is China's primary critic. Accusations have been levied that China is a "currency manipulator" responsible for the trade discrepancy between the U.S. and China. China's trade surplus for the first ten months of 2011 was \$124 billion, with exports rising around 24% year on year. The lower Yuan valuation makes Chinese exports to the U.S. cheaper for U.S. consumers, but makes U.S. exports to China more expensive for Chinese consumers. This is true, but there are important qualifications to note. First, China has already allowed the Yuan to rise in value by approximately 30% since 2005, yet the current account trade

³ In this case, reforms mean transitioning China's economy from one with lower domestic consumption and high production to higher domestic consumption. The NSF understanding is that this is a CCP policy objective.

discrepancy between both nations remains largely unaffected. Second, U.S. consumers have grown accustomed to lower priced goods made in China, a partial explanation for the success of big box stores like Walmart and Target. U.S. consumers now expect Nordstrom's quality at Walmart's prices, an impractical consumer expectation of the price of goods and services. Third, the trade imbalance represents only a small part of the overall trade issue. A large portion of the imbalance is explained by U.S. multinational companies which export the final stages of production to Chinese manufacturers. The majority of the value of these goods is produced in the U.S. (including intellectual capital), but since the final assembly is completed in China, the GDP value is attributable to China instead of the U.S. Consequently, there is a hidden value chain unaccounted for in the U.S.-China trade figures.

U.S. politicians, notably President Obama and the Republican Presidential aspirants, have criticized China aggressively on the currency issue. However, discussion with U.S. and Chinese economists suggests that this is a somewhat unfair accusation that may, in part, be a political scapegoat for U.S. domestic economic and political problems. Chinese scholars acknowledge this likelihood and understand the political motivations for the rhetoric. However, they argue that standards of living have risen to exorbitant levels in the U.S. compared to other countries like China where costs are much lower, and that revaluation still will not make U.S. labor rates competitive with developing countries. They argue that until the U.S. is ready to adjust its expectations of costs and lower expected standards of living, jobs will be outsourced to low-cost countries like China.

The currency valuation is a difficult issue, both for Chinese domestic politics and for the U.S.-China relationship. It is unclear what the resolution will be, or should be. Notably, both American and Chinese scholars argue that labeling China as an official currency manipulator and applying higher tariffs to imported goods would establish a trade war, resulting in a net loss for both sides. An alternative offered by those interviewed was for the U.S. to expect an ongoing slow rise in the Yuan's value, rather than an abrupt, sudden revaluation. They argued that this course is best for China's domestic objectives and is fair to a country that is developing economically.

Energy

China became the world's largest energy consumer in 2009. Its energy security strategy relies heavily on foreign imports of oil, most of which is from the Middle East, and is reliant upon strategic shipping lanes in the Strait of Hormuz, Strait of Malacca, and routes in the South China Sea. Like the U.S., China is vulnerable to disruption both at the source and in transit. This vulnerability has led some in China to question the need for such high volumes of foreign oil resources.

In addition, China is resource rich in coal and natural gas. Unfortunately, coal and natural gas power plants are dirty energy sources. While China has implemented new technology to gain better efficiency-to-pollution rates from clean coal technology, environmental pollution has forced China to pursue alternative and green energy technology.

One criticism of China's energy security strategy is that it overemphasizes energy acquisition. In the course of the interviews, it was noted that China's energy intensity, the amount of energy used to produce one unit of GNP, was significantly lower than other developed countries.⁴ For example, in 2008, China's energy intensity was 7 times lower than Japan's energy intensity, and 5 times lower than the U.S.⁵ Since then, China has implemented energy conservation and efficiency protocols that have improved its energy intensity rating. This suggests that China has less of a scarce energy resource problem and more of an energy efficiency problem. Improving energy efficiency in relatively small ways could produce great gains in economies of scale and decrease vulnerability to energy shocks from abroad.

As the U.S. and China compete for scarce natural resources, it is helpful to identify issues like energy efficiency as potential areas of cooperation that offer big dividends to both nations while helping alleviate international tensions. Greater Chinese efficiency means that scarce resources are more easily spread around the world.

Innovation and Entrepreneurship

China has been called the "workshop of the world." Its ability to adapt manufacturing capabilities to produce a vast quantity of global goods is remarkable. The criticism, however, is that China lacks the legal incentives and assurances to develop indigenous entrepreneurs that will fuel economic growth and promote technological advancement. Intellectual property law, for example, is a sore spot for Chinese entrepreneurs attempting to create startups, and it is also a frustration and impediment to foreign direct investment in Chinese companies and multinational corporations.

China has two major incentives to address these issues. First, it has an incentive to create an environment that encourages domestic entrepreneurship. Major new growth industries in China, like biotechnology and green energy, support the CCP goal of providing high levels of economic growth and new jobs, but if new industries are not protected from intellectual property theft or unfair legal treatment, the incentives to innovate decrease and China's long-term economic growth prospects are put in jeopardy.⁶ Second, China has an incentive to provide an environment that is attractive to foreign direct investment and multinational corporations. Intellectual property and rule of law complaints have caused some multinational companies to leave China and bring business back home; these firms judged the losses from legal damages to be an impairment on their ability to do business in China. Moreover, there is widespread perception among multinationals operating in China that local and state-owned firms receive preferential treatment, creating an unlevel playing field for competition. Critics of these problems have called for a reform of China's legal and regulatory system to better address these

⁴ A higher BTU/GNP figure, such as 40,000 BTU's used to produce 1 unit of GNP, is a low energy intensity rating. A lower BTU/GNP figure, such as 5,000 BTU's used to produce 1 unit of GNP, is a high energy intensity rating. China has a low energy intensity rating because it requires more energy to produce goods and services.

⁵ <http://www.forbes.com/2008/07/03/energy-efficiency-japan-biz-energy-cx-jz-0707efficiency-countries.html>

⁶ "An Entrepreneur's Rival in China: The State," by David Barboza. *The New York Times*. December 7, 2011. <http://www.nytimes.com/2011/12/08/business/an-entrepreneurs-rival-in-china-the-state.html?hp>

disputes and provide legal certainty of outcomes. Addressing these problems is in everyone's best interest.

Domestic Issues

Politics and Democracy

Internal political stability remains the primary strategic objective of the CCP. China has pursued a unique path of political development by blending a hybrid form of capitalism and socialism. As China has gained power and prestige, its people have gained increased access to information, more religious freedoms, and more freedom of expression. Nevertheless, public demonstrations and civil unrest have become more frequent in recent years. For example, recent self-immolation events in Tibet and one in Tiananmen Square suggest that China's public is growing more assertive of their political preferences, even those counter to CCP doctrine. These are trends that China's rulers cannot ignore; they must either crack down on protests forcefully or address the demands of the people. The latter option is preferable and more often pursued, but *in extremis* one can expect Chinese leaders to do whatever they think they must to maintain their system.

The interviews stressed the strategic objective of increasing "party power," meaning that the CCP is actively trying to bolster its public image. To do so, the CCP must continue to meet public expectations, including economic growth, reasonable responsiveness to public demands, and seeking increased international prestige. Although our interviewees did not say this directly, gaining prestige seems to be especially true in East Asia, where China hopes to restore its historical role as "The Middle Kingdom."⁷

Creating an image of public responsiveness and good governance may imply several things. First, it relies on hints of Chinese democracy. Over time, the public has made progress in lobbying the CCP for change and/or redress of grievances. For example, the CCP has been responsive to NGOs, lobbyists, public interest lawyers, and judicial activism in regards to environmental degradation, natural disasters, man-made disasters, poverty, and social welfare. In addition, there is evidence that the central government has allowed minor forms of political democracy to operate in rural areas far removed from Beijing's immediate oversight.⁸

Second, China's media and journalistic professionalism has grown dramatically in the past twenty years. Media professionals, journalists, and public diplomacy scholars note that the Chinese media now plays a similar role to its counterparts in the U.S.: the media has agenda-setting power as it communicates the process of CCP policymaking to the Chinese public. Public opinion in China, as in the U.S., shapes domestic and foreign policy. While public opinion in China does not directly affect an electoral process, the CCP acknowledges that it now operates in a media saturated environment where citizens have access to information; this information openness constrains and shapes the operating parameters of the CCP. Western observers criticize the Chinese Information Office for being too repressive of journalists and free

⁷Cynthia Watson. The New China: Embodying the "Middle Kingdom." *National Strategy Forum Review*: Fall 2011, Volume 20, Issue 4.

⁸Susanne Ogden. *Inklings of Democracy in China*. Harvard University Asia Center: 2002.

access to information. However, the interviews revealed that, although the Information Office does have some ability to control news stories, public officials are recognizing the futility in trying to control the media in China's new and more open society. The impact that a more open Chinese society will have on domestic Chinese politics is unclear, but it is certain that the CCP is now much more responsive to public demands than it was previously. As one interviewee put it, the Chinese government tries to influence the media, but cannot completely control it.

Third, Chinese religious freedom has advanced significantly since Mao's revolution in 1966. For example, recent NSF meetings with the Chinese Christian Council, the officially sanctioned representatives of the Chinese Christian churches, revealed that government oversight of religion (negatively viewed in the U.S. and the West) is seen as a great leap forward in religious expression in China. Historically, the Christian Church in China (including Protestant and Catholic churches) was persecuted by the government and severely sanctioned. Today, the Christian Council is officially recognized and protected by the government, something viewed favorably by China's practicing Christians and clergy, albeit with continuing skepticism from the West. It is true that religious freedom is not complete. Falun Gong, for example, and the Dalai Lama are enormously contentious issues domestically and internationally. Nevertheless, it is important for Western observers to recognize that China has made progress in advancing religious freedom, and should be encouraged to continue to do so in the future.

Taken together, these domestic political developments suggest a gradual movement of China's political system towards greater consideration of public preferences in the substance of government. This is not to say that China is or will become a liberal democracy, but it does suggest that U.S. encouragement of China to be more "democratic" may be bearing fruit.

Urban/Rural Divide, Poverty, and Social Welfare

The CCP's urban development strategy includes the goals of creating higher standards of living, bringing people out of poverty, and providing greater social welfare programs. As a result of China's rapidly expanding economy, there has been a demographic shift from rural to urban areas. More than 70% of the Chinese people live on only 30% of the habitable land, contributing to the growth of mega-cities along China's prosperous coast line. In addition, the Chinese population has grown to 1.4 billion this past year, placing increased stress on these densely populated urban areas. As jobs have become more and more available in urban settings, Chinese citizens are leaving traditional agricultural work in the rural areas to pursue a better standard of living and education in urban areas.

The downsides to this trend are severalfold. First, water and consumer resource scarcity is a problem. Chinese urban areas have experienced drought over the years, and water must be pumped in from outlying areas, often causing environmental degradation in the process. The Three Gorges Dam project on the Yangtze River – an idea that predates the Communist regime – is an example where the quest for water, energy, and resources negatively affected the natural environment, and caused a number of consequences to the local ecology and surrounding rural civilian population.

Second, in addition to environmental degradation, increased urbanization is creating unmanageable waste, water, and air pollution. There are simply too many cars, too many factories, and too much waste to manage effectively. Long-lasting environmental and health consequences are likely.

Finally, the rural to urban migration has not solved China's poverty problem. While urban jobs have improved the standards of living for many Chinese, the income inequality gap is growing larger. To address this gap, the CCP is implementing a new 5-year-plan that aims to increase the level of social welfare and access to healthcare available to China's lower classes.

The ability of the CCP to manage these issues will affect their public image as effective and benevolent leaders. This will be a difficult balancing act, particularly as China will be under pressure to maintain its high economic growth.

Environment

China is now the world's number one polluter of CO₂ emissions, yet it is also becoming one of the world's most innovative green societies. In fact, China is on track to cut its energy intensity by 20% in 2011 from 2005 highs.⁹ This irony of high pollution and a green-focused society comes as a result of China's absolute necessity to achieve very high growth rates and to manage the happiness and demands of its people for a healthier quality of life. The urban migration priority, for example, has created enormous consequences to the urban residential environment. High demand for power, water, resources, and commodities means that Chinese companies and consumers have cut corners to deliver growth in a timely fashion. As standards of living have risen, so too have Chinese public interest groups, civil rights lawyers and lobbyists, and individual voices calling for increased environmental awareness.

China is already the world's largest user of "clean coal" technology.¹⁰ It has heavily invested in solar panel technology as a future growth industry and pollution alleviator. As more and more Chinese citizens take to the urban areas and experience higher standards of living, many of them will demand vehicles that are more efficient and less polluting, potentially leading to a boom in hybrid, electric, and natural gas powered vehicles.

However, negative byproducts of China's rapid rise have spilled over into neighboring countries. Border states such as Vietnam, Thailand, and Myanmar have experienced environmental contaminants from China's polluted rivers. Smog and air pollution also know no borders; some environmental scientists have even tracked air pollution from China to the west coast of the United States. Pollution from China, or any country for that matter, is a global problem. China has been a signatory of several international environmental treaties, including the Kyoto Protocol. Its commitment to these treaties demonstrates an awareness of the problem and a willingness to tackle it at home and abroad.

⁹ <http://www.reuters.com/article/2011/06/01/us-climate-china-energy-idUSTRE7502WE20110601>

¹⁰ "Green Coal?" by Eric S. Morse. <http://nationalstrategy.wordpress.com/2010/12/03/green-coal-the-environmental-strategic-tradeoff/>

At the same time, China has been reluctant to accept proportionate responsibility for curbing its carbon emissions, citing its status as a developing nation. China argues that it would be unfair to require a developing nation to accept similar environmental restrictions as a great power like the U.S., a position that has caused some friction in relations with the U.S. It remains a sensitive issue for U.S.-China relations.

International Relations

China's Rise Towards Great Power Status

There has been no shortage of ink spilled about China's rise, with many observers declaring that China already is a great state power on a par with the U.S., Russia, and other members of the UN Security Council. This evolution of power is natural. China's economy has grown exponentially over the past few decades and looks poised to continue its growth in the future. Coincidentally, China's military, the People's Liberation Army (PLA), has received an increased security budget year after year and has been rapidly modernizing and expanding its capabilities.

To China's neighbors, these developments have been unsettling, causing reactions that aim to counter China's emerging capabilities. For example, India has bolstered its naval strategy to counter China's encroachment in the Indian Ocean region,¹¹ and Southeast Asia has called for U.S. assistance in the South China Sea disputes.

Although these developments have been expected by the U.S. for some time, China's rise still produces uncertainty and strategic ambiguity. The U.S. has been vocal about labeling China as a great state power, a title that comes with responsibilities and expectations about international behavior. For example, the U.S. has asked China to take greater responsibility for environmental pollution, human rights, international security, and economic regulations. In response, China has been guarded in accepting this mantle, instead favoring to label itself as a developing power with comparable responsibilities. Since it is not a great state power, China argues, it is unfair to burden developing countries with excessive obligations. This disconnect creates mismatched expectations and has contributed to frustrations in the bilateral relationship.

Future Foreign Policy Direction

Like American foreign policy, Chinese foreign policy has been characterized by exceptionalism. Henry Kissinger writes that, unlike American exceptionalism (which is missional), Chinese exceptionalism is dominated by a cultural element.¹² This means that China believes in its own cultural uniqueness and superiority. In other words, its institutions and ways of life "are not relevant outside of China." However, China relates "all other states as various levels of tributaries based on their approximation to Chinese cultural and political forms." For example, Kissinger notes that in the aftermath of Tiananmen Square in 1989, "They [the Chinese] could not understand why the United States took umbrage at an event that had injured no American

¹¹ "Geopolitics in the South China Sea: Tiny Ripples or Shifting Tides?" by Eric S. Morse. <http://nationalstrategy.wordpress.com/2010/08/30/geopolitics-in-the-south-china-sea-and-indian-ocean-region/>

¹² Henry Kissinger. *On China*. Penguin Press: 2011.

material interests and for which China claimed no validity outside of its own territory.”¹³ China’s brand of foreign policy is uniquely its own, but as China has developed and engaged with the world, it has honed its international orientation to achieve both its own interests and to adhere more closely to international norms and standards. Although the United States welcomes much of China’s foreign policy direction, ambiguity remains about what China really wants and how it plans to go about getting it.

China’s foreign policy objectives, according to Liu Huaqiu, director of the State Council Foreign Affairs Office, “is to firmly safeguard the nation’s independence, security and sovereignty, and adopt a positive attitude toward safeguarding world peace, in a bid to create a long-term peaceful international environment for China’s socialist modernization drive.”¹⁴

General Secretary Jiang Zemin outlined ten principles on foreign affairs at the 15th National Congress of the Communist Party of China in 1997. These points, which remain the basic guiding principles of China’s foreign policy, include the following:¹⁵

- Safeguarding independence
- Opposing hegemonism and safeguarding world peace
- Developing good-neighborly relations
- Strengthening unity and cooperation among third world nations
- Establishing and developing friendly cooperative ties with all nations on the basis of the Five Principles of Peaceful Coexistence¹⁶
- Maintaining a positive attitude toward international cooperation
- Making energetic efforts to promote the establishment of a new international order
- Opposing arms races and promoting the disarmament process
- Practicing comprehensive opening of China to the outside world
- Actively enhancing the friendly people-to-people contacts throughout the world

Several issues are notable from China’s foreign policy guidelines. First, stemming from its commitment to “safeguard independence,” China’s foreign policy and national strategy emphasize a uniquely Chinese viewpoint on the world. Just as China highlights its domestic politics as distinctly apart from historical precedent, so too does it promote a Chinese way of defining international relations. Publicly, this approach stresses peaceful and harmonious relations. The Chinese maintain that they are not a revisionist power with extraterritorial ambitions. They say they seek a peaceful world order and hope that the Chinese style of foreign relations will produce mutually reassuring and harmonious relations. This is a policy line to be encouraged and promoted.

¹³ Kissinger, 2011.

¹⁴ <http://www.china-embassy.org/eng/zmgx/zgwjzc/t35078.htm> ; see also <http://www.china-embassy.org/eng/zmgx/zgwjzc/>

¹⁵ <http://www.china-embassy.org/eng/zmgx/zgwjzc/t35078.htm>

¹⁶ The Five Principles of Peaceful Coexistence are: mutual respect for each other's territorial integrity and sovereignty; mutual non-aggression; mutual non-interference in each other's internal affairs; equality and mutual benefit; and peaceful co-existence. These concepts help order China’s approach to foreign policy and international relations.

In reality, not everyone is feeling reassured. While recent actions, notably the passage of the Economic Cooperative Framework Agreement (ECFA) and a history of relative peace across the straits, are praiseworthy, Taiwan is still threatened by missiles aimed at the island from the mainland. In addition, the Chinese may have overreacted to a Japanese fishing boat incident in late 2010 that sparked a severe bilateral dispute over territorial rights; the South China Sea has produced distrust and fear among Southeast Asian nations; South Korea was frustrated when China did not denounce North Korean shelling of the peninsula and the sinking of a South Korean naval vessel in 2010; and finally, U.S. Secretary of Defense Robert Gates, on a trip to Beijing, was met unexpectedly with the public unveiling of the new Chinese stealth plane, the J-20. Perceptions matter in international relations, not simply rhetoric. The challenge for the Chinese is to reassure and create harmony through dedicated, repetitive actions, and the presence of restraint instead of overreaction.

Second, China's principle of promoting disarmament is laudable. However, the current nuclear crisis in Iran is common cause for action. The U.S. desires China to join it and the international community in isolating Iran. While China does have significant energy security concerns over a loss of Iranian friendship, not acting in concert with the West to contain Iran could be a blot on China's record. It sets a dangerous precedent of conveniently looking the other way when its national interests and international interests are in conflict. If China is a world power, it must act responsibly in line with its status and ambitions.

China's policy of maintaining world peace by not participating in an arms race is also laudable, but the perception of this goal from abroad is problematic. From the U.S. perspective (and also the perspective of India and other regional actors), China has increased its military budget for decades. Recently, China unveiled the J-20 stealth plane, announced its commitment to develop more aircraft carriers, and developed a "carrier-killer" missile system that analysts claim is aimed at U.S. naval capabilities. In addition, China has invested in a cyber warfare command center, and is alleged to be a participant in hacking attempts against U.S. public and private assets. China may claim that it is not engaged in an arms race, but its actions and rhetoric are out of balance and are likely to be perceived differently by international actors.

Third, China has crafted a number of bilateral relationships, agreements, and partnerships in recent years. It has also deepened its involvement in multilateral organizations, and has even become the founding member of organizations, including the Shanghai Cooperation Organization. These soft power activities (which some have termed the "charm offensive") appear to be aimed at increasing China's international prestige and power, and to do so in a way that competes with American supremacy. For example, China is actively engaged in foreign aid, humanitarian relief, and economic development in a number of countries, with recent new engagements in Africa being notable. In many cases, China has engaged in foreign relations in a much freer manner and with fewer restrictions than the United States. At a time when much of America's foreign presence entails boots on the ground, China is building hospitals, schools, sports complexes, and industrial parks. The dichotomy is striking and presents American observers with much to ponder.

Fourth, China's commitment to its "opening policy" implies it is seeking to align itself with international norms, and to help establish a fair and equitable international and economic order.

China's participation in the UN and the WTO, as well as in a number of other international organizations, is a sign of its commitment to this cause. China is increasingly adhering to the norms of the global community, for which it should be praised and encouraged to do so.

During the NSF interviews, participants discussed the future policy changes under the upcoming CCP leadership change in 2012. The expectation of Chinese analysts is that any new CCP leader is likely to carry on the policies of the previous administration. Of course, all leaders seek to leave their legacy on the office. However, because of the CCP's unique structural and institutional composition, it is unlikely that significant departures from previous policy will take place.

The U.S. should expect slow, conservative change towards its foreign policy objectives, not rapid alterations. Any grievances that the U.S. may have will require patience, encouragement, and a long-term time frame to rectify. If the U.S. wants to make headway in influencing China to change course, it may need to be prepared to offer something in return to sweeten the deal. Demands without counter-offers may ring hollow to a China that is growing in power but does not fully accept its responsibility as a great power state.

*PLA Military Development and Modernization*¹⁷

China has increased the PLA's defense budget by nearly 10% every year for the past twenty years.¹⁸ Its military, estimated at 4.5 million people, is developing modern capabilities that are able to project China's power beyond East Asia. For example, China's navy, the PLAN, is a blue water navy with the ability to project naval power worldwide. Such military modernization is not out of the ordinary and is in line with China's economic growth. For example, the U.S. and other Western Powers similarly expanded their military's capabilities as their economic interests grew.

Nevertheless, the U.S. remains concerned about China's military modernization. China has recently developed several major new military assets. First, the J-20 stealth plane was unveiled during Secretary of Defense Robert Gates' visit in 2011. The plane was rumored to be capable of competing with the latest advanced fighter planes from the U.S. and Russia. Second, China has produced its first aircraft carrier, a retrofitted Soviet warship. The PLAN has aspirations of one day developing a made-in-China carrier program. Third, China has developed a carrier-killer ballistic missile. Analysts believe that this is aimed at denying U.S. naval assets access to Chinese territorial waters. Finally, China recently brought online a cyber command center meant to counter the U.S. Cyber Command Center.¹⁹

¹⁷ For a detailed analysis of China's military modernization programs see: "The Impact of the Modernizing People's Liberation Army (PLA) on East Asian Nations." By Dr. Bernard D. Cole. *National Strategy Forum Review. Fall 2011, Volume 20, Issue 4*. Also see: Bernard D. Cole. *The Great Wall at Sea*. Naval Institute Press: 2010.

¹⁸ See <http://www.sipri.org> and <http://www.globalsecurity.org/military/world/china/budget.htm>. U.S. security analysts also suspect that China's military budget is larger than is publicly reported. Currently, China's military budget is listed as about 1.4% of GDP, which compares to about 4.5% of GDP for the U.S. military.

¹⁹ http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=36658&tx_ttnews%5BbackPid%5D=414&no_cache=1

China's military rise has been rapid and technologically advanced. International observers, chiefly the U.S. and India, have watched this growth with a wary eye. These Chinese capabilities underscore the necessity to maintain military-to-military communication even in times of bilateral dispute. The lessons of history require a patient, steady approach that emphasizes mutual respect, transparency, and cooperation.

Nuclear Non-Proliferation

The UN International Atomic Energy Agency published findings on November 8th documenting Iran's progress towards developing a nuclear weapon. While long suspected of doing so, this was the first official announcement from the IAEA, lending credence to an argument for providing increased economic sanctions on Iran and isolating them from the world community. China has been a key part of multilateral non-proliferation efforts in the past, notably in 2006 when China joined the UN Security Council resolution calling for Iran to stop enriching uranium. Since then, Iran's nuclear program has continued, but China's participation has not been whole-hearted. While China is a critical part of any attempt to isolate and sanction Iran's nuclear program, the U.S. and China have diverging vies on nuclear non-proliferation strategy.

China's Iran strategy has connections to its energy security policy. China's rapid economic development has created an insatiable desire for fossil fuels to power new industry and manufacturing, as well as a rising urban middle class that is driving more and more automobiles. In 2009, Iran was China's second largest provider of oil—15% of China's total annual imports—and has enjoyed a closer relationship with Tehran over the years. Consequently, China has a strategic interest in complicating or thwarting international cooperation on the Iranian sanctions while its energy security is at risk. For example, the Chinese delivery of critical nuclear equipment to Iran that is necessary to run centrifuges, are thwarting a successful multinational approach to Iran's weapons program. Instead of sanctions, China prefers diplomacy. Bringing China fully on board with comprehensive economic and energy sanctions will be vital to a successful nuclear non-proliferation policy.

The U.S. strategic interest appears to prioritize trade ties and relations with Beijing over pressuring China to adopt anti-Iran policies. Furthermore, the lack of focus in defining U.S. strategic interest in the Middle East, and clarifying whether U.S. policy is to prevent an Iranian nuclear weapon or contain Iran when it eventually produces a nuclear weapon, is further muddying the policy debate.²⁰ This ambivalence is noted by Chinese strategists, and the U.S. seems unable to provide clarity. China is enabling Iran's nuclear progress by not fully implementing and enforcing trade and sanctions controls. At the same time, the U.S. has not been serious about pressuring China to comply.²¹ For example, the U.S. could sanction the China National Offshore Oil Corporation (CNOOC) and PetroChina. However, U.S. priorities for maintaining positive relations with China may overshadow the necessary political will to pressure the Chinese to do what is necessary to isolate Iran.

²⁰ <http://www.forbes.com/sites/ilanberman/2011/11/01/why-engaging-iran-is-still-a-bad-idea/>

²¹ <http://www.ilanberman.com/10676/to-stop-iran-lean-on-china> and http://www.nytimes.com/2011/11/09/opinion/irans-nuclear-program-and-china.html?_r=1

Without China, U.S. non-proliferation policy is unlikely to succeed. Washington may have to get creative with what it is willing to offer Beijing to gain support for its anti-Iran objectives. Otherwise, the U.S. will need to develop a full-fledged Iran containment policy if it builds a nuclear weapon.

Regional Security

China's regional security interests are dominated by concerns over Taiwan, India, North Korea, and Southeast Asia (mainly that South China Sea). These topics are discussed below.

Taiwan²²

Taiwan's status and its relationship with the U.S. is arguably the sharpest foreign policy dispute between the U.S. and China. For China, Taiwan is important for five main reasons. First, China claims Taiwan as part of its historical legacy dating back to the Qing Empire; an independent Taiwan is antithetical to its version of history. Second, the historical legacy of Taiwan separate from China is viewed as Qing dynasty weakness. To bring about the former glory of the Middle Kingdom, and to conclude the civil war that did not end with the Communist victory on the mainland in 1949, China must reunify Taiwan with the mainland. Third, the island chain of Taiwan is an important potential threat to China's naval strategy. With an independent Taiwan offshore so closely aligned with the U.S., China feels constrained in its blue water naval strategy.²³ Fourth, Taiwan is a domestic political yardstick for measuring the success of the CCP. Without victory over the Taiwan issue, the CCP may lose face domestically. Finally, Taiwan is a precedent-setter for China's other territorial disputes in Tibet and inner Mongolia.

U.S. interests in Taiwan are four-fold. First, the U.S.-Taiwan economies are linked, and if there is a disruption in the relationship (such as by war), this could be negative for U.S. economic interests. Second, Taiwan represents a U.S. commitment to the expansion of democracy worldwide. If Taiwan fails, the U.S. foreign policy mission loses credibility. Third, U.S. commitment to Taiwan is an important yard-stick for measuring U.S. commitment to its other allies abroad. If the U.S. appears weak in the face of PRC challenge, other alliances such as with Japan, Israel, Eastern Europe, and NATO may be negatively affected. Finally, Taiwan is important to U.S. soft power diplomacy towards China, which seeks to influence the peaceful rise of China and encourage democratic values and tendencies in China's domestic politics.

The U.S. and China clearly hold antithetical viewpoints on the Taiwan issue. Recently, U.S. arms sales to Taiwan have been viewed extremely negatively by the CCP and the domestic Chinese public. Maintaining peaceful, albeit tense, diplomatic relations within this tripartite issue will require a very soft hand, lest Taiwan provide a flashpoint for deteriorating U.S.-China relations in the future.

²² For a more detailed analysis of this issue, see Shelley Rigger's *Why Taiwan Matters: Small Island, Global Powerhouse* (Rowman and Littlefield: 2011). An *NSFR* book review is available [here](#).

²³ A blue water naval strategy is one that achieves the ability to project naval power across the world's oceans. The U.S. navy, for example, is a blue water capable navy.

India

While China's public rhetoric primarily defines India as a regional partner in economics and trade, inklings of a security threat do permeate both countries security strategies. For instance, the “India Threat” security scenario is respected in China to a degree, but is not overemphasized. India is a nuclear power, as well as a major power in ground, air, and naval military capabilities. While India is not a peer-to-peer military threat, it is capable of denying China access to the Indian Ocean region and hindering China’s easy access to strategic shipping lands in Southeast Asia, such as the Strait of Malacca. In response, China has developed the “String of Pearls” strategy, whereby China is building strategic naval access to ports throughout South and Southeast Asia.²⁴ For example, China is partnering with Pakistan on the Gwadar naval port, and has developed port access rights with a number of other countries in the Indian Ocean region. China publicly states that it has no extraterritorial ambitions and that it will not use force to solve foreign policy disputes. Nevertheless, a reading of India’s military strategy clearly indicates its perception of China as a threat, and much of its military strategy has been aimed at countering Chinese military ascension. Both China and India hold a healthy respect for each other’s military capabilities and have planned for the worst case scenarios accordingly.

The Korean Peninsula

China’s proximity to the Korean peninsula poses a security risk if relations between North Korea and South Korea continue to sour. If North Korea collapses unexpectedly or war breaks out, the consequences along the Chinese border would be severe, including a massive influx of displaced persons from North Korea. Avoiding this situation will require China to work closely with Russia, South Korea, and the United States.

South China Sea

The territorial disputes in the South China Sea, where a third of the world’s global trade takes place, are strategically important to China’s “String of Pearls” strategy and to its economic and energy security strategy. Lately, the Chinese have pushed diplomacy to solve the disputes. However, Southeast Asian countries with competing claims to the islands (Vietnam, the Philippines, and Malaysia in particular), feel bullied by what they perceive to be Chinese hegemony and have asked the U.S. to step in to help facilitate negotiations. The U.S., historically, has been hesitant to comply with these requests, given that China has explicitly made clear to the Obama Administration that the U.S. should not meddle in these affairs. However, that trend appears to be changing as President Obama and Secretary of State Hilary Clinton have proclaimed new U.S. intervention in Southeast Asian politics at the Asia-Pacific Economic Cooperation (APEC) meeting in 2011.

For the moment, China has taken the lead in the territorial disputes, going on record to assert that these negotiations will be conducted peacefully and with mutual respect. China’s diplomats have requested that regional actors develop a code of conduct to properly settle South China Sea

²⁴ “Geopolitics in the South China Sea: Tiny Ripples or Shifting Tides?” <http://nationalstrategy.wordpress.com/2010/08/30/geopolitics-in-the-south-china-sea-and-indian-ocean-region/>

disputes, a development that is supported by the other Southeast Asian countries. China reiterated that outside intervention would complicate efforts to establish a code of conduct and to settle the disputes peacefully. The Chinese would prefer bilateral negotiations with each country in the dispute; the U.S., on the other hand, has joined the fray by claiming that it, too, has a stake in the negotiations, and has requested that multilateral negotiations take place. China is favored in bilateral negotiations; it loses negotiating power in multilateral discussions.

Clearly, the Chinese suffered a setback to their South China Sea diplomacy at the recent East Asian Summit and APEC meetings. Here, the U.S. coalesced a large group of Southeast Asian nations to push back against China's bilateral diplomacy strategy—Burma and Cambodia excluded. China views this U.S. action as further meddling in their affairs. It is unclear how far back this will set China's strategic orientation towards the South China Sea disputes, but it is worth watching to see if China alters its strategy towards this issue, and—potentially—towards the U.S.

China's Impressions of the U.S.

Direct Impressions

China's Views on U.S. Strategic Objectives

To the Chinese, U.S. strategic objectives encompass the usual issues, such as economic growth and prosperity, national security, and international prestige and influence. However, the interviews suggest that China also views U.S. strategic objectives through the lens of American exceptionalism, which means that the United States seeks to spread its values throughout the world.²⁵ In addition, China believes that the U.S. is employing a policy of containment to block China's rise to power. These perceptions of ulterior American motivations have caused friction and suspicion of U.S. foreign policies directed at China. For example, China does not appreciate international intervention in issues that are perceived to be internal, such as domestic politics, human rights issues, and territorial interests.

The recent decrease of U.S. power and prestige abroad has not gone unnoticed by China. The Chinese understand that the U.S. is over-stretched militarily and over-leveraged financially. These American weaknesses color China's conclusions about the direction and capabilities of U.S. foreign policy. While those interviewed acknowledge that the U.S. will seek to maintain its power, influence, and economic prowess, China sees a new era ahead where the U.S. is not the global hegemon that it once was.

Appropriate Role of U.S. in the Asia-Pacific

In mid-November, following the East Asian Summit in Bali, Indonesia, President Obama made the following statements regarding the U.S. role in the Asia-Pacific and why the region is so vital to U.S. strategic objectives.

²⁵ This clashes with Chinese exceptionalism, which claims that China's values have no relevance outside of China.

With my visit to the region I am making it clear that the United States is stepping up its commitment to the entire Asia-Pacific region. But the second message I'm trying to send is that we are here to stay. This is a region of huge strategic importance to us. Even as we make a whole host of important fiscal decisions back home, this is right up there at the top of my priority list. And we're going to make sure that we are able to fulfill our leadership role in the Asia-Pacific region.²⁶

After a decade in which we fought two wars that cost us dearly, in blood and treasure, the United States is turning our attention to the vast potential of the Asia-Pacific. With most of the world's nuclear powers and half of humanity, Asia will largely define whether the century ahead will be marked by conflict and cooperation, needless suffering, or human progress.²⁷

With these statements, the President reiterated that the U.S. is a Pacific power, and that the U.S. has major strategic interests in the region. To amplify the point, President Obama announced two policy thrusts; first, plans to station U.S. Marines at a base in Australia beginning in 2012; and second, that Secretary of State Hilary Clinton would visit Burma in an attempt to sway the military junta to continue its courses towards democratization. The objective in Australia is to increase the ability of U.S. to contribute to the security relationship with Australia and to influence the stability and security of the Asia-Pacific. Eventually, up to 2,500 Marines will be based in Australia. The objective in Burma is to decrease Chinese influence on this country and deepen U.S. involvement in the region.

When asked if defense cuts in the U.S., scheduled to begin in 2012, will significantly affect the U.S. ability to project power and influence security in the Asia-Pacific, the President replied that budget deficits "will not—I repeat, will not—come at the expense of the Asia-Pacific."²⁸ Many analysts conclude that recent U.S. investments in Asia-Pacific security are aimed at containing a rising China. In fact, this seems to have been President Obama's primary focus and message during the East Asia Summit and the trip to Australia. China's power assertions in the South China Sea disputes, its growing military and economic clout, its strategic outreach to Southeast and East Asian countries, and its growing power regionally and globally are all seen as reasons that the U.S. is trying to manage China's rise in positive directions. The major U.S. complaint, however, is that China "...must play by the rules of the road. So where China is playing by those rules, recognizing its new role, I think this is a win-win situation. When they are not, we will send a clear message...that they need to be on track in terms of accepting the rules and responsibilities that come with being a world power."²⁹

²⁶ "Eyeing China, U.S. Expands Military Ties to Australia." By Jackie Calmes. *The New York Times*: November 16, 2011.

²⁷ "Obama says U.S. to reassert role as Pacific power." By Peter Nicholas and Christi Parsons. *Los Angeles Times*: November 16, 2011.

²⁸ Nicholas and Parsons, 2011.

²⁹ Nicholas and Parsons, 2011. Statements made by President Obama.

Regional Asia-Pacific countries, including those in Southeast Asia, have been encouraged by the renewed U.S. commitment to the region. These countries hope that the U.S. really is there to stay, and that this is not a passing whim.³⁰ It is possible that, as a result of U.S. strategic policy in the region, that China's regional strategy will suffer a significant setback and be forced to reevaluate its approach. China's strategic policy of "befriending afar and attacking near"³¹—*yuonjiao jingong*—has dominated their foreign policy approach to the U.S. and Southeast Asia. This has meant that China focuses on improving the U.S.-China relationship from afar while aggressively pursuing its regional interests close by. The South China Sea dispute, the U.S. announcement of troops in Australia, and Secretary of State Clinton's visit to Burma all suggest that China's "befriend afar and attacking near" approach is flawed, and that it must instead focus on both a "charm offensive" abroad *and* near.

China is clearly irritated by the deepening U.S. involvement in the Asia-Pacific, which complicates its ability to become the regional hegemon. Liu Weimin, a Chinese Foreign Ministry spokesman, said as much when he summed up the Chinese position in response to President Obama's statements: "It may not be appropriate to intensify and expand military alliances and may not be in the interest of countries within the region."³²

U.S. basing of troops in Australia adds to U.S. military presence in the Asia-Pacific already based in South Korea and Japan. When coupled with U.S. military sales to Taiwan, the Chinese view this as a containment strategy meant to box in China's rise. For instance, the first island chain surrounding China is replete with countries that have strong ties to the U.S. The interviewees supported this assertion, but with a few caveats. On the one hand, the interviewees suggested that China welcomes U.S. participation in the western Pacific, but they argued that this should not cause instability and that involvement should be facilitated through cooperation with China, not in a unilateral way. On the other hand, the interviewees noted that politicians prepare for worst-case scenarios, such as national security threats and economic crisis, and that it is reasonable that the U.S. would be wary of China's military and economic development. While the U.S. is generally viewed favorably in China, there was consensus among the interviewees that the U.S. is creating a sense of disrespect. Working to develop mutual trust in this regard should be a high priority.

Views on the American Strategic Policymaking Process

Chinese scholars and security analysts are confounded at times by the complicated U.S. national security and strategic policy process. They perceive a lack of continuity in policies from presidential administration to administration, and view the process as malleable depending on who is in office and what political party dominates the Congress. In this sense, they view U.S. strategy as coming in four-year increments. They assume a lack of long-term strategic objectives and long-term commitments to achieving these goals. While this belief is exaggerated, the historical record has sufficient anecdotal evidence to reinforce these suspicions.

³⁰ "Showing up is Good, but is it Good Enough?" By Eduardo Lachica. *National Strategy Forum Review*: Spring 2010, Volume 19, Issue 2.

³¹ "Is it China's Turn to Pivot?" By Minxin Pei. *The Diplomat*: November 28, 2011.

³² "A Marine Base for Australia Irritates China." By Jackie Calmes. *The New York Times*: November 17, 2011.

The Chinese also believe that American public opinion is very influential in affecting domestic, foreign, and strategic policy. This suggests a perception of American shortsightedness to national security policy and comprehensive strategy; in other words, the U.S. is like a reed flapping in the wind of politics and public opinion. These perceptions produce three consequences. First, the Chinese conclude that their political system is more robust and constant. In their view, the CCP-dominated political system brings greater stability to domestic, foreign, and strategic policymaking because the system is not as affected by public opinion and an electoral cycle. Second, Chinese strategists believe that they cannot plan on the constancy of U.S. strategic objectives in the future. What the U.S. says is true today may not be true with a future presidential administration. Third, Chinese strategists play a very long game with U.S. counterparts under the belief that American strategy will change in the future. This suggests a perceived weakness in the American strategy process, and that the Chinese can outlast American strategic dithering.

The U.S. should focus on clarifying and communicating its strategic policymaking process in order to minimize miscommunication, miscalculation, and unrealistic perceptions of U.S. actions.³³

Views on the U.S. Credit Rating Downgrade

The Chinese are concerned and frustrated about the U.S. debt downgrade. As the largest holder of U.S. treasury bonds, valued at over \$1.4 trillion dollars held by the Chinese government, poor fiscal and monetary policy management in the U.S. is negative for Chinese investment in U.S. debt. China wants to see the U.S. cut spending and entitlements; it views the U.S. economy as over-leveraged, saddled with debt, and unable to enact policies that will safeguard their investment in the American economy. While the credit downgrade was not unexpected from the Chinese perspective, they expect that this will be a wake up call to U.S. policymakers that Chinese lenders are concerned about their investments.

It is worth noting that China's ambition to make the Yuan a world reserve currency failed to materialize. The U.S. dollar remains the world's reserve currency and the least risky source for investment grade bonds. For now, the Chinese have few places other than the U.S. where they can invest their savings. Nevertheless, the credit downgrade has put economic watchers on alert that the U.S. economy is growing riskier and that future investments are not guaranteed.

In addition, U.S. calls for a revaluation of China's currency are, in China's view, hypocritical. China thinks that the U.S. is calling for Yuan revaluation because the valuation is a scapegoat for poor fiscal management in the U.S. American policymakers are viewed as stirring up a rally-around-the-flag effect by criticizing China instead of themselves during the upcoming Presidential election cycle. This criticism has an element of truth to it; not all of America's problems are attributable to China.

³³ For example, the U.S. policy of peaceful engagement with China clashes with its aggressive stance on the South China Sea disputes, U.S. troops in Australia, and military sales to Taiwan. These may be valid U.S. strategic priorities, but they are confusing to a Chinese audience.

Questions Asked

At the end of each interview, the Editorial Board of the *National Strategy Forum Review* presented the interviewees with the chance to pose their own questions. These questions offer unique insights into the mindset of our Chinese counterparts and provide a nuanced interpretation of the kinds of issues and ideas that present challenges to bilateral communication. It is important to remember that these questions come from highly educated and well-connected Chinese scholars and public officials. If the interviewees have these questions, it is certain that other government leaders and the broader Chinese public are grappling with similar issues. Identifying and answering these types of questions during diplomatic interaction may be a valuable stepping stone to improve the U.S.-China relationship. These questions are presented below:

- What is the U.S. strategic objective regarding China and India?
- Will the U.S. respond favorably to a rising China?
- Do you think that China has developed long-term, concrete strategic objectives that are a threat to the U.S.?
- Can the U.S. accept and work with a communist society like China? Or is the ideological gap too great to develop productive bilateral relations?
- Will the U.S. continue to try to force democratization on China?
- Is it possible for the U.S. to view China as an equal?
- From a U.S. perspective, how does the U.S. define China's ambitions for the future?
- What are the primary U.S. interests in the South China Sea? Why is the U.S. involved in this issue?
- Will U.S.-China affairs affect the ongoing presidential elections?
- Does the U.S. media influence foreign policy decision-making?
- Is following international news important to U.S. audiences?
- Does the U.S. want to replace the UN with a more democratic governing body?
- Is the U.S.-China currency valuation issue overly hyped due to Obama's reelection bid?
- What plans does the U.S. have to control and/or decrease the national debt?

A few major themes emerged. First, similar to scholars in the U.S., Chinese scholars are struggling to understand the complex and unclear strategic objectives of the U.S. in the Asia-Pacific. This may partly be due to the convoluted American strategic policymaking process. It may also be due to the lack of understanding among U.S. scholars about the administration's policies. Second, the Chinese are concerned about how a rising China will affect the tone of the U.S.-China relationship. To China, it is unclear if the U.S. will remain an active partner or if it will continue to pursue a policy of containment. The CCP is uncertain if the U.S. can accept a communist partner. Third, the Chinese are rightly concerned about the U.S. fiscal and monetary problems. Finally, they are interested in understanding the American public's perception of U.S.-China relations.

These questions by no means fully embrace a comprehensive list of what intrigues Chinese thinkers. Nevertheless, they present a snapshot of the challenges ahead for improving U.S.-China communication on issues of national importance and long-term strategy.

Areas for Mutual Policy Coordination

Areas of Common Interest

China and the United States have many interests in common. The discussions with our Chinese counterparts suggested that they are eager to cooperate with the United States on a variety of issues, but only if China is treated with the respect due an equal partner. In broaching these issues, the U.S. should adapt to a slow tempo of discussion and decision-making. Issues of agreement include:

- Economics and trade: establishing the rules of the game, leading to constructive competition
- Government to government confidence building: match rhetoric with action
- Private sector dialogue and cooperation on business issues; lobby the governments for change
- Military transparency, open communication, security cooperation, and joint training exercises
- Stability of the Korean Peninsula
- Education about U.S. and Chinese strategic objectives for the public and policymakers
- Nuclear non-proliferation
- Environmental security and climate change
- Energy security and efficiency
- Joint journalism and media training
- Freedom of navigation in the South China Sea
- Anti-piracy in the Indian Ocean region
- Cyber security cooperation
- Enhanced legal and regulatory infrastructure to facilitate business investments, stimulate innovation, adjudicate disputes, and reassure multinational corporations

From Containment to Channeling

China perceives that the U.S., fearful of a rising great power in East Asia, has employed a strategy of containment that surrounds China with U.S. and allied military forces, interferes with China's economic development, and shackles China with unreasonable expectations and responsibilities that are only appropriate for a great power state. If the U.S.-China relationship is to be improved, the U.S. must clarify its intentions toward China in a more palatable way.

An alternative framework for U.S. strategy and relations towards China is *channeling*. As many scholars and analysts have realized, China's rise as a great power is inevitable. China's economy and military are growing at high rates. Rather than orienting a U.S. response towards containing China, a better course of action would be to channel China's rise in a productive, peaceful, and mutually beneficial direction.

The principles of channeling involve the following:

- Encouraging China to adopt the economic, political, and international responsibilities befitting a great power nation.
- Emphasizing and expecting China to adhere to international norms of behavior. This includes human rights, economic standards, military transparency, and rule of law. China is a unique

country. Its institutions and culture are different from those of other nations, but this does not mean that they cannot adopt certain standards and norms of behavior.

- Drawing China into more cooperative and transparent military-to-military activities.
- Infusing the diplomatic dialogue with a tone of respect, while expecting China's adherence to the norms of international behavior. The U.S. should be reciprocal in adhering to established principles of behavior and set an example in the relationship.

Building Constructive Competition and Agreeing on the Rules of the Game

The U.S. and China have very different orientations to the international order. Both countries are ideologically different, with cultures, histories, and political institutions that differ greatly in their substance. It is likely that the differences will produce competition, but competition does not need to create enemies or disrupt the stability of the international system. The relationship between the United States and China should not always be a zero-sum game. Both parties can benefit from improved relations. Achieving this requires a high level of cooperation, respect for each other's exceptionalism, and the development of "rules of the game." The objective should be to move in a direction that develops constructive competition between the United States and China.

Constructive competition is based on the principles of self-interest, agreed upon rules, adherence to those rules, and sanctions of correction when violation occurs. Developing the rules of the game will require several steps.

First, the U.S. and China must work to establish greater trust. Building trust could take a number of forms. For example, the U.S. and China could develop stronger trade agreements or engage in joint military operations and training. Repetitive, consistent interaction on important issues lays the foundation for trust. Each side needs to know that it can rely upon the other to behave in a predictable manner.

Second, the U.S. and China should agree on the rules of the interactions, and establish concrete objectives to achieve in the areas of economics, security, and international affairs. For example, regarding economic issues, this may mean agreeing on how both parties will trade with each other, at what valuations, and the process for moving the trade imbalance to a more equitable position. For security issues, interactions could take the form of joint anti-piracy operations in the Indian Ocean region, cooperation on non-proliferation efforts against Iran, and transparency initiatives.

Third, the rules of the game should be extended beyond the public sector to the private sector. U.S. and Chinese business leaders have large stakes in the substance of the bilateral relationship. Not everything can or should be worked out at the highest levels of government. The private sector must continue to be involved in pushing reforms, offering policy solutions, creating working groups to solve issues, and lobbying their governments for change. The most innovative ideas often emerge from the private sector; it needs a seat at the table as well.

Fourth, the rules of the game should encompass carrots as well as sticks. Incentives should be provided for good behavior. For example, the Chinese would like to invest more in the U.S.

economy, but the U.S. government has been hesitant to allow some forms of foreign direct investment for sensitive national security reasons. The U.S. could, for example, hold out the option of direct investment in the U.S. in exchange for responsible behavior on another important issue. If the U.S. or China failed to meet its obligations, there should be meaningful, codified punishments for deviating from the expectations.

Finally, implementation of the rules of the game requires codifying the tenets of the relationship and chronicling the process as it evolves. There must be a written record of agreement at the public and private level to track the benchmarks and progress as they occur. No ambiguity should exist in the documentation of the principles governing behavior. If an issue is sensitive or amorphous in its current stage, codifying the acceptable behavior should be postponed until such a time that both parties clearly agree to uphold the standard.

The rules of the game facilitate ordered, constructive competition between the U.S. and China. For that reason, it is vitally important to reach some understandings about them.

Defining and Clarifying U.S. Grand Strategy

The strategic orientation of the U.S. is sometimes obscured by the political background noise and the complexities of international relations. It is true that there are a number of policy debates, ambiguities, and seeming hypocrisies in American strategy, but the underlying principles of U.S. grand strategy today are easy to grasp, albeit difficult to implement.³⁴ In response to Chinese inquiry during the interviews, a simplified summary of the U.S. grand strategy is offered below. The goals of U.S. grand strategy are to:

1. Develop the world's strongest military as a deterrent to would-be aggressors.
2. Provide other great powers and rising powers with a stake in the international order, and require of them as a condition to their place at the table responsible behavior and participation in making the world a safer and more prosperous place. Examples include: the UN, WTO, IMF, etc. This is the opposite of containment: it is channeling the rise and development of others, a particularly useful orientation at a time when the U.S. appears over-stretched militarily and over-leveraged financially.
3. Promote the spread of free market capitalism and free trade. The world is better off with globalization than isolation and trade protection.
4. Limit the spread of nuclear weapons, especially to rogue states or individual actors. Example: Iran and North Korea. Do whatever is necessary to prevent this from happening, and partner with others to make this goal a more realistic objective.
5. Elevate the understanding of the threat from terrorist networks operating around the world. This priority is linked to number four; terrorist networks with nuclear weapons is one of the most dangerous national security threats.
6. Prioritize information and cyber security as a new global regime. The world has grown interconnected electronically in the process of globalization. Everyone is linked. Cyber threats to one nation can spread beyond borders. Overreactions and miscalculations

³⁴ Peter Feaver. "8 Myths about American Grand Strategy," *Foreign Policy*: November 23, 2011. Available at http://shadow.foreignpolicy.com/posts/2011/11/23/8_myths_about_american_grand_strategy.

could easily lead to global conflict. A new international cyber security regime is needed to organize security standards, define normative behavior and reciprocity, and implement punishments to offenders.

One of the criticisms heard during the interviews was the impression that U.S. strategy is temporary and frequently changed by the turnover in Presidential administrations and Congressional elections. However, a look at the historical record suggests relative continuity in strategic priorities. The threats have changed, and so have the approaches, but there has been consistency in the strategic orientation to the big picture problems. Debate about the finer details has occurred with frequency, but overall, U.S. grand strategy does adhere to relatively stable principles.

A major departure from previous U.S. grand strategies occurred at the end of the Cold War, a period defined by our containment policy. With the collapse of the Soviet Union, the U.S. strategic orientation shifted as U.S. supremacy materialized. The last two decades have brought many new challenges, principally the 9/11 attacks, the war on terror, the invasions of Iraq and Afghanistan, the economic recessions from 2008-2011, nuclear weapons programs in North Korea and Iran, the Arab Spring, cyber attacks and cyber warfare, and the rise of China in East Asia. Consequently, U.S. grand strategy has been compelled to adapt to these new realities. American global supremacy remains, but many see a decline in relative U.S. power in the future and the rise of a multipolar world order. These changes have not affected the core tenets of American grand strategy, which must be carefully communicated to China with the hope that partnership on the most important elements can be achieved. China is a new world power with which to compete, but this competition need not be adversarial.

Improving Public Diplomacy and Media/Journalistic Professionalism

Substantial misunderstanding exists between American and Chinese publics, and extends, in part or in whole, to policymakers at the highest levels of government and academia. The gap must be narrowed. Public opinion is a driver of public policy and foreign policy. It is often forgotten that politicians on both sides of the Pacific have domestic constituencies to which they are beholden. Messages, at times derogatory or inflammatory to external listeners, are crafted that placate the demands of these publics. While improving relations is contingent upon limiting inflammatory messages, it is unrealistic to expect these trends to end immediately. Increasing international understanding of one another's problems, strategic objectives, and aspirations has a palliative effect on international relations. Understanding the goals, hopes, and dreams of American counterparts in China (and *vice versa*) influences one's opinion of the other and changes the calculus of acceptable policy options. This is one of the objectives of public diplomacy.

The media, an important institution for translating the processes of government to the public and serving as an institutional check on inappropriate actions of government, is an important component of public diplomacy. Like in the U.S., China's media has increased its public access to information as well as the freedom to publish news stories, ideas, and opinions. Such freedom is important for responsible government because public opinion produces pressure and constraint on the direction of CCP policymaking. However, as the interviews pointed out, much progress is

yet to be made in China's media and journalistic professionalism. The U.S. media has wisdom and experience to offer in this regard.

Higher education institutions in the U.S. offer the opportunity for Chinese journalism students to improve their journalistic skills and deepen their understanding of their roles and responsibilities to the Chinese media and society. These foreign exchange opportunities should be encouraged and expanded. In addition, U.S.-China classroom exchanges could be facilitated and amplified through electronic telecommunications and video-conferencing. Courses taught in the U.S. could be broadcast to Chinese classrooms. The exchange of ideas would serve to educate both Chinese and American journalists and students in best practices and would improve the ability of journalists to understand each other's unique cultures, challenges, and national strategic objectives. The U.S. should make funding available for these types of projects.

Cyber Security

In recent years, both the U.S. and China have established cyber warfare command centers.³⁵ These nascent centers began as a result of repeated cyber intrusions and allegations about those responsible for elevating the threat level of cyber security. From the U.S. perspective, China is an alleged cyber intruder. From China's perspective, the U.S. has created a cyber arms race by establishing the first cyber warfare center, forcing China to respond in kind. These debates, while popular domestically, interfere with long-term cooperation.

The U.S. and China have compatible national security interests in this area. Neither country wants to be labeled as a cyber criminal; neither wants government and private sector assets probed by cyber attackers; and both want to create an international regime that establishes the rules of the game, identifies appropriate cyber activities, and coordinates international response in the event of an attack. Minimizing the blame game and deepening the quality of high level discussions among policymakers on both sides is needed to create a cyber regime that maintains cyber security and averts a wide-scale cyber war.

Developing agreed upon rules of the game is paramount for constructive cyber security engagement.³⁶ The U.S. and China need to work through these difficult details in a respectful and open-minded manner. It is likely that both the U.S. and China will need to cede some ground and increase transparency. Both parties must be willing to contribute to a new cyber security regime. It will not be easy, and time is of the essence. The longer that meaningful dialogue is postponed, the more likely there will be a cyber intrusion of epic proportion that could tip the U.S. and China into full-fledged electronic warfare.

³⁵<http://www.defense.gov/releases/release.aspx?releaseid=13551> ; and http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=36658&tx_ttnews%5BbackPid%5D=414&no_cache=1

³⁶ For a detailed analysis on the challenges creating a cyber security regime, see <http://www.au.af.mil/au/ssq/2010/fall/goodman.pdf> For an article critique and strategic implications, see "Research Report: Will Goodman's Cyber Deterrence: Tougher in Theory than in Practice?", <http://nationalstrategy.com/Portals/0/documents/NSFR%20Blog/Research%20Report%20%28Goodman%29-Cyber%20Deterrence.pdf>

Security Cooperation

Maintaining international security and stability is paramount for both the U.S. and China to achieve their economic objectives. It is also vital for building trust and decreasing the potential for a military miscommunication. One potential area for improving trust is encouragement of China to become more proactive in joining regional and international security partnerships. In practice, these activities could include high-level engagement and dialogue between Chinese military officers and U.S. and regional military officers. In addition, increasing the transparency of China's military development and modernization would produce greater trust with other militaries. Finally, joining hands with the U.S. and regional militaries to improve maritime security in the Indian Ocean Region and South China Sea, and in offering humanitarian aid to countries in need, would strengthen ties and increase trust and respect with others.

Concluding Thoughts

The U.S. presidential elections in 2012 and the upcoming Chinese leadership transition offer a significant opportunity to improve the world's most important international relationship. The potential for new leadership, new direction, and new tone is on the horizon. Achieving a bilateral improvement will require adhering to substance over rhetoric. For example, politics matter in China, just like it does in the U.S. As these leadership transitions occur, the U.S. and China must remember that international relations operates on two levels: the international and the domestic.³⁷ Politicians have an imperative to sell any foreign relations pact to their domestic audiences. This often implies tough, inflexible, and sometimes bombastic rhetoric to appease domestic popular opinion.

In the run-up to the CCP leadership transition in 2012, Chinese leaders will likely make anti-American statements to the effect that the U.S. is unreliable, that its policies are unilateral, that the U.S. is moralistic and forces its beliefs on others, and that the U.S. is containing China's rise. Once Xi Jinping, the next expected President of China, steps into power, he will need a year to consolidate power before it is feasible to undertake meaningful strategic dialogue with the potential for meaningful change.³⁸

Although nationalistic rhetoric is part of the leadership transition process, it should not define the long-term tone of the relationship. The fundamentals of the relationship rest on mutual interests. If the U.S. and China have the right kind of leadership and the right kinds of strategic orientations, rapprochement could begin afresh with vigor over the next few years. With time and patience, it is possible to achieve a more fruitful diplomatic undertaking and to avoid a damaging rivalry.

³⁷ Putnam, Robert. "Diplomacy and Politics: The Logic of Two-Level Games." *International Organization*. Volume 42, Number 3. Summer 1988, pp. 427-460.

³⁸ Ideas attributable to Jon Huntsman, former U.S. Ambassador to China. "China Has Politics, Too." Interview with Jon Huntsman by Alan Murray. *The Wall Street Journal*. November 21, 2011. The Journal Report: CEO Council: R14.

There are limits to what one can expect from an improved U.S.-China relations. While there are areas of significant overlap in strategic objectives, there are still zero-sum (or that appear to be zero-sum) issues where compromise will be difficult. Nevertheless, finding areas of commonality where change can be made in the short-term may make the more difficult, long-term issues more approachable.

Creating space over the next year or two for dialogue will be vital to improving the world's most important bilateral relationship. This report argues that the U.S. should focus on defining its strategy towards China less in terms of containment and more in terms of channeling. Respect and patience go a long way towards achieving the kind of change desired in China. In addition, the U.S. and China should work to establish rules governing their interactions, and codes for implementing reciprocity when one side fails to meet expectations. The U.S. and the international community expect China's contribution to global affairs to be congruent with their rise in power. For China, this may require taking responsibility for things once defined as only the domain of great state powers, a mantle that it will need to adopt if it expects equal treatment.

The harbingers of an inevitable rivalry in U.S.-China relations assume that bilateral exceptionalism precludes the possibility for rapprochement. The National Strategy Forum believes these prophecies to be overblown. Many opportunities remain for building friendly, constructive competition, if only the new generation of leaders is willing to invest the time and effort into making it a reality.

The Impact of the Modernizing People's Liberation Army (PLA) on East Asian Nations

By Dr. Bernard D. Cole

The defense budget of the People's Republic of China (PRC) for the year 1993 was announced by Beijing as representing an increase of approximately 18 percent over that for 1992, the major recipient being personnel salary increases and to fight inflation.¹ This was the first in double-digit increases that have occurred since that year; the defense budget for 2011 is estimated by the U.S. Office of the Secretary of Defense (OSD) as 12.7 percent higher than that for 2010, with an average annual increase of 12.1 percent "for the past twenty years."² That these numbers are approximate due to the different computation methods used by China and the United States does not mitigate the fact of the continuous, dramatic increases in defense spending by the former.

¹ Author's conversation with senior PLA officers in Beijing, January 1994. PLA officer salaries reportedly doubled with this budget increase; a similar increase occurred for U.S. military officers in 1974, with the end of the draft and institution of the "all-volunteer" military.

² *Annual Report to Congress: Military and Security Developments Involving the PRC* (Washington, DC: OSD, 2011): 41.

This stream of defense budget increases has allowed a dramatic modernization of the PLA and increase in its capabilities, especially for the PLA Air Force (PLAAF) and PLA Navy (PLAN). This phenomenon arguably is not surprising for a nation experiencing China's record-setting economic expansion and reemergence as a world power, but has changed—and continues to change—the strategic environment in East Asia. This paper will examine China's military modernization and its apparent effects on the strategic self-consciousness of neighboring countries, especially Russia, Japan, Korea, Taiwan, the nations of Southeast Asia, and India.

China's 21st Century Military

Modernization of China's military, the People's Liberation Army (PLA), has in effect been ongoing since the victory of the Chinese Communist Party (CCP) over the Republic of China's (ROC) forces in 1949. For personnel, the huge army of that time, almost completely limited to ground forces, almost immediately began decreasing in numbers, from more than five million to its present 2.3 million personnel.³

Russia

No nation has had more impact on the PLA, or suffered from that military, than Russia. For equipment, the PLA in 1949 was primarily an infantry force, albeit equipped with some artillery and armor units. Air Force and naval forces were practically non-existent; improving relations with the Soviet Union, 1948-1959, resulted in significant improvement in China's military, especially for the PLA Air Force (PLAAF) and navy (PLAN). These nascent services relied almost entirely on Soviet equipment and advisors, the latter serving as instructors but also supervising establishment of the various service schools that China established to educate and train its "new" military personnel.

Soviet assistance mostly ended in 1960 when Moscow broke with Beijing; the two countries were in a minor war by 1969. Today, a friendly relationship has been reestablished, albeit one based more on economics and trade than on military exchanges and assistance. Significant equipment has been sold to Beijing by Moscow in the past decade, however, despite apparent misgivings by some senior Russian military commanders.⁴ These equipment sales, although mostly in hiatus since the end of 2007, appear to have benefited China's navy and air force more than they have the army.

The PLAAF has acquired Soviet/Russian designed and produced Su-27 and Su-30 fighter and attack aircraft, the only Fourth Generation tactical aircraft in China's inventory. The PLAAF's transport, air-to-air refueling, and Airborne Early Warning and Control (AEW&C) aircraft almost all utilize the Il-76/78 airframe. At a lesser level, China's curious inability to design and build a successful gas turbine engine—either for airborne or seaborne use—has led to continued

³ These are "soft" numbers: the number of troops in the PLA in 1949 probably was imprecise even to its commanders; today, the PLA includes some number of its civilian employees—who wear uniform—but not the People's Armed Police (PAP), militia, or the Coast Guard and associated organizations.

⁴ See, for instance, Oleg Odnokolenko: "Watch Out, Market Closing....," *Moscow Itogi* (04 February 2003), in: OSC-CEP20030204000434 (accessed 28 September 2011).

purchases of foreign engines, from Great Britain, the United States (although not since 1989), Ukraine, and Russia. Indeed, it is Chinese reverse engineering of Russian engines, counter to their agreement, that has contributed to Russian military resentment of Beijing's activities.

The PLAN since the mid-1990s has acquired four *Sovremenny*-class guided-missile destroyers and twelve *Kilo*-class conventionally powered submarines from Russia.⁵ The former's most valuable transfer of military technology is its SSN-22 "Sunburn" anti-ship cruise missile and supporting system, designed by the Soviet Union as a counter to U.S. aircraft carrier and escorting cruisers armed with the Aegis anti-air warfare (AAW) missile system. The *Kilo*-class submarines provided China with much of the military technology to modernize its indigenously produced submarine fleet, the most recent units of which are the thirteen *Song*- and eight *Yuan*-class boats that form Beijing's primary naval weapon against possible U.S. intervention in a scenario involving the use of Chinese military force to counter a Taiwan declaration of independence or similar move by Taipei.

More difficult to identify and impossible to quantify are additional areas of assistance provided to Chinese military modernization by engineers and designers left without employment by the radically reduced Russian military and defense industries. The newest Chinese aircraft and naval platforms are so like earlier Soviet/Russian models as to leave little doubt that Russian personnel have been involved in their design. The Chinese J-20 aircraft, and the *Jin*- and *Shang*-class nuclear powered submarines are prime examples. The J-20 looks like the Russian T-50 stealth aircraft, while the *Jin* and *Shang* closely resemble Soviet Delta-IV and Victor-III submarines.

Another very significant transfer to China of Soviet/Russian technology is AAW systems, including the S300 and S400 missile systems. These provide China with the ability to monitor effectively the airspace over both the Taiwan Strait and the island itself.

The effect in Moscow of China's modernizing military is difficult to discern precisely. Anecdotal information and open source reporting indicates that different views prevail. Economic and business interests no doubt favor the closer rapport with Beijing, disregarding the military aspect of the relationship, while Russian military commanders apparently view with concern both China's increasing military capability and the resulting bilateral imbalance, particularly in the Siberian theater. Another concern that may well underlay Russian civilian leaders' view of China's increasingly powerful military is the dramatic lack of population and societal strength in Russia's Far East, especially as compared to China's population and burgeoning economy just south of the Amur River.

Japan

Japan's relationship with China is much more straightforward than Russia's, affected primarily by a long history of mutual enmity, ameliorated by a recent, mutually beneficial economic relationship. Within this framework, Tokyo is seriously concerned about Beijing's military modernization. First is concern about disputes in the East China Sea. The first of these is about the sovereignty of the seven islands—really little more than rocks—that Japan calls the Senkaku

⁵ Equipment and systems names are those assigned by NATO.

and China calls the Diaoyu Islands. The sovereignty question is complicated by Washington's statements that, while the United States does not take a position on the sovereignty of these islands, they do fall under the Mutual Defense Treaty with Japan.

The second dispute concerns energy deposits in the seabed. Both Beijing and Tokyo claim much of these reserves, particularly those in the Chun Xiao field. Both nations claim this area as part of their exclusive economic zones (EEZs), both are employing naval and air forces to enforce their claims. China has repeatedly deployed its most modern submarines and surface warships in transits through the disputed areas.

Hence, Japan's national command authority, its civilian and military leaders, are directly concerned about the increasingly capable military forces that Beijing is employing in the East China Sea and in other maritime areas surrounding Japan. The advent of China's first aircraft carrier and near-term deployment of its first stealth fighter will increase Japan's concerns.

Another area of Japanese concern is China's extensive cruise and ballistic missile inventory, which is expanding in size and improving in capability. Tokyo's defense treaty with Washington, and concern about the fate of Taiwan, which many Japanese analysts consider their nation's vital strategic interest, lead to worry about Beijing's threats to use military force against Taiwan if various "red lines" are crossed. Chinese military authors have hinted that in the event of such a clash, in which U.S. intervention is expected, that missiles and other weapons systems might be employed against U.S. military bases in East Asia, including those in Japan.

Republic of Korea (ROK)

South Korea also has sovereignty disputes with China, but of a much less serious nature than Japan. Seoul and Beijing disagree about the limits of their Continental Shelves and also about fishery catches, but neither of these apparently is considered to be a national interest serious enough to make attractive use of military force. A more disruptive factor in South Korea's relationship with China, in fact, is the latter's refusal to condemn recent incidents of blatant North Korean aggression.

The ROK is also in the process of a long-term modernization of its military, especially its navy, but this is likely in response primarily to threats from the north, secondarily because of a generally hostile attitude toward Japan, based on both history and the dispute with Japan over Tok Do/Takeshima, and only thirdly—and a long way third—because of Chinese military modernization. Furthermore, any ROK security concerns are couched in the comforting environment of its mutual security treaty with the United States.

Taiwan

Taiwan is not a widely recognized nation, of course—only twenty-three countries recognize Taipei rather than Beijing as the capital of "China"—but obviously no other political entity is more concerned about Chinese military modernization. There is no military "balance" across the strait between Taiwan and China; the PLA has been capable of dominating that narrow stretch of water, and the airspace above it, since approximately 2005.

Taiwan military modernization has been dramatically understated during the period of PLA modernization; since 2000, Taipei has simply placed domestic economic and social priorities above those related to defense modernization. Improvements in the Taiwan military have certainly occurred, particularly with respect to equipment acquisitions from the United States, but no real effort has been made by either political party to modernize that military to the point of establishing a “fortress Taiwan.”

Meanwhile, Beijing has engaged in a process of military modernization clearly aimed, as the number one priority (apart from homeland defense), at deterring Taipei from declaring *de jure* independence or crossing various other “red lines.” The most important element of PLA modernization to deter Taipei is the construction of more than thirty submarines during the past decade; the growth of the PLAN’s submarine force clearly is aimed at deterring not Taiwan, *per se*, but intended to deter, slow, or even defeat U.S. intervention in support of Taipei in the event that Beijing chooses to use military force against the island.

The second most important element of China’s military modernization from Taiwan’s perspective is the ability of the PLANAF, because of its acquisition of fourth generation tactical aircraft, especially the Su-27 and Su-30, and state-of-the-art AAW missile systems, to gain and maintain control of the air over both the strait and island of Taiwan.

The third most important element of mainland military modernization serves more of a deterrent than a potentially destructive role. Beijing’s thousand or more short and medium range ballistic missiles stationed within range of Taiwan send a powerful message to the island’s people. One developing weapon in China’s missile arsenal is intended to strike not Taiwan, but U.S. aircraft carriers which might be steaming to the island’s assistance: the anti-ship ballistic missile, based on the CSS-5, poses a serious threat to those carriers.

In sum, Taiwan is directly and existentially threatened by China’s military modernization. Only massive, prolonged U.S. intervention would prevent Beijing from delivering widespread devastation on Taiwan.

India

Indian defense analysts are very concerned about Chinese military modernization. While New Delhi’s list of national security threats begins with and is overwhelmingly weighted toward Pakistan, it views Beijing as a threat of consequence. The only active sovereignty dispute between the two nations is a relatively small part of their border, over which a brief war was fought in 1962. Periodic negotiations have failed to resolve this dispute.

A more recent Indian concern has emerged as a direct result of China’s military modernization, particularly in the PLAN and Second Artillery. India’s concern is based both on China’s close economic and military relationship with Pakistan and on India’s concern for its ability to control the Indian Ocean in the face of dramatically increased Chinese economic and political influence and presence in the region, supported by the modernizing PLAN.

Underlying these concerns is the general economic development programs of the two Asian giants, with China apparently outstripping India, at least in the first half of the twenty-first century. This, in turn, involves a competitive search for energy resources, which ties directly to the ongoing modernization of both the PLAN and the Indian Navy, with a nascent contest for control of the SLOCs that carry vital energy supplies across the Indian Ocean from Middle Eastern and Southwest Asian fields.

The Indian Navy's modernization during the past decade has been significant, headlined by new aircraft carriers, nuclear powered submarines, and ballistic missiles, but neither as dramatic nor focused as has China's. The latter's military modernization strikes at the heart of India's concerns over Chinese military assistance to Pakistan, improved missile capability against India, and especially the nascent challenge posed to Indian domination of the ocean bearing its name.

Southeast Asia

This sub-region lies in China's backyard, but its member states are varied in every respect—economy, population, political system, military strength, and perhaps most importantly their relationship with their giant neighbor to the north. Beijing's military modernization hence has not affected all Southeast Asian nations in the same way, but it is recognized by all.

Some are alarmed by an increased military capability they view as directly threatening national security concerns. Heading this list is Vietnam, which fought a war in 1979 with its erstwhile ally but historic enemy, and which today confronts China over conflicting sovereignty claims in the South China Sea. The increase in China's surface and subsurface fleet are of particular concern; in response, Hanoi is engaging modernization of its own military, but in a very targeted way. First is investment in its submarine force, with the purchase of Kilo-class submarines from Russia. Submarines offer the most efficient way to minimize investment in naval forces while obtaining the maximum effect.

Second is Hanoi's acquisition of fourth generation tactical aircraft, again from Russia. This also reflects concern about Beijing's improving military's ability to dominate the South China Sea, where the two nations confront each other over sovereignty claims.

Joining Vietnam in Southeast Asia as "most concerned" about China's military modernization is the Republic of the Philippines. The Philippines also confronts China over conflicting sovereignty claim in the South China Sea, but unlike Hanoi, Manila has not been able to conduct a meaningful military modernization campaign. Hence, its concerns about PLA modernization are limited almost entirely to protests and diplomatic efforts aimed at pretending China's military capabilities are not improving.

The same is not true of other nations of this region, however, as Singapore, Indonesia, Malaysia, and Thailand are moving to improve their military capabilities in the face of China's modernization and increasingly forward actions in support of its sovereignty claims in the South China Sea. All four of these nations are in effect following Vietnam's lead, acquiring submarines and new combat aircraft. They are also modernizing their small surface fleets through acquisition of anti-ship cruise missiles.

None of the Southeast Asian nations are attempting to match China's military modernization, or even reaching to defeat the PLA. Rather, the focus on acquiring small numbers of submarines, modern aircraft, and cruise missiles seem to reflect a policy of deterrence, of deploying enough capable naval and air force to make Chinese employment of military force too costly to be an attractive policy option.

These nations are, to varying degrees, alarmed enough about potential application of the military-to-military force by Beijing, that they are devoting national resources to establish what they hope will be national militaries strong enough to deter China from such a course of action.

Conclusion

The modernization of China's military should not surprise observers. Any nation in history reaping the benefits of such dramatic economic progress has invested in an improved military. Spain in the sixteenth; Great Britain in the eighteenth; France in the nineteenth; the United States, Germany, and Japan in the twentieth century have all devoted considerable national treasure to modernizing their militaries, with navies perhaps being the principle beneficiary in each case.

China's modernization of the PLA has been so dramatic, however, that it has changed the balance of military power in Asia. Little more than twenty years of explosive economic growth, annual double-digit increases to the Chinese defense budget, and last year's clumsily arrogant actions by Beijing in the East and South China Seas have all contributed to fear and counter-modernization by the nations of East Asia.

These events—China's military modernization and its effects on Asian security—directly affect the United States. U.S. security interests in Asia are embodied in mutual defense treaties with Japan, South Korea, the Philippines, and Australia; the equivalent treaty structure exists with Thailand. Additionally, the Taiwan Relations Act places a special burden on the United States concerning the defense of that island, while special defense relationships exist with New Zealand and Singapore. China's increasingly capable military is perceived as an uncertain factor at best, and a definite threat at worst by all these nations. Hence, Washington's efforts concurrently to engage fully with China and to encourage Beijing to become a responsible member of the international community must be balanced by continued reinforcing of long-standing and vital U.S. relations with the other nations of the region.

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The New China: Embodying the “Middle Kingdom”

By Dr. Cynthia A. Watson

Much discussion over the past decade has focused on China’s evolving role in the international system as evidence for a new China. One hundred years ago this October, the Manchu Qing dynasty ceased to govern China at the conclusion of a century of decreasing political cohesion and increased discontent in the face of frustration that, among other things, China was falling woefully behind the rest of the world. The 1842 Treaty of Nanking, resulting in the surrender of Hong Kong to Great Britain and the forced opening of several ‘treaty ports’ to foreigners’ trade and intervention, was only the first major indicator of the failure of ‘the Middle Kingdom’ in its traditional position as a center, dominant state in the international community with all of the attendant rights, privileges, and cultural pride.

This paper discusses the moves that the “new China” of the post-Maoist period has taken to return to its position as “Middle Kingdom.” The goal is not entirely concluded because Taiwan remains outside of Beijing’s control which will continue keeping the government in Beijing from believing it has accomplished its mission. The discussion will project possible Chinese behavior in the future to return to its position in the international system while exploring what the true objectives of such goals serve in the Chinese system today.

China’s Turbulent Century

October 10, 2011 marked the hundredth anniversary since the Qing Dynasty collapsed as the governing power in China. The dynasty was in decline from at least the 1840s, when British, U.S., and French traders had support from their home governments to engage in actions which would force Beijing to open ‘treaty ports’ to non-Chinese trade, and resulted in an expansion of the opium trade from the outside into China and the flow of silver from China in exchange. While the Qing clung to power and *formally* retained power, the foreigners pressured the regime to alter its decisions to ignore activities perpetrated by the foreigners as they expanded their activities inside of China, including bringing in outsiders to engage in religious conversation attempts (to ‘Christianize’ the Middle Kingdom) and to engage in increasingly important trade relations in the hopes of getting a foothold in a lucrative Chinese market for all sorts of western products.¹

As the ‘round eyes’, a pejorative commonly used for the non-Chinese who became increasingly common especially along the coast, proliferated, providing a direct threat to the sovereign rights of the Qing emperors and their courts and minions across China, public movements in China encouraged the government to reassert China’s position as the Middle Kingdom. The term “Zhongguo” had long been recognized as it described China’s position as the ‘middle’ state around which the rest of the world has developed, providing a unifying theme for China as the nation had a recognizable ethnicity, the Han, in a territory (roughly the geographic entity

¹ There are many fascinating books on this time period. An easily accessible one is Jonathan D. Spence, *The Search for Modern China* 2nd edition, (New York: Norton, 1999).

coinciding with the current entity known as China in Asia), with a written language (Mandarin). The history, passed down through the hundreds of years since China had been “unified” under the Qin dynasty (331-206 BCE), is a source of great national pride and frequently referenced in Chinese discussions. While the term and concept date well back in Chinese history, it had also been a concept that the Chinese understood in the nineteenth century as they saw the challenge of non-Chinese actors come into the nation, threatening their understanding of self-governance as well as of their way of life as the kingdom to which others paid obeisance rather than the dependent, vulnerable state which China was becoming as the nineteenth century progressed. When the Qing, a Manchu (non-Han) dynasty long hated as exploiting the true nature of China, fell, the citizens of China swiftly embraced the ouster without having an obvious replacement.

Dr. Sun Yat-sen, a China-born but U.S.-educated doctor, offered a somewhat vague vision of a democratic system without foreigners in any way coercing Chinese leadership. A man who launched the Nationalist Party, concentrated in southern China with strength in the city of Canton, Sun proved unable to spread the revolution and his vision throughout China as the country dissolved into war-lord-run regions that challenged any central government before his death in the mid-1920s. Sun’s vision, however, of a China fully sovereign and able to defend its traditional position as a major player in its portion of the world (which the Chinese saw as THE world) did take root, as his death exacerbated a struggle between visions for the new China that would be Communist-inspired versus the Nationalist Party which Sun had founded.

Between 1926 and 1949, China descended into war, much of it Chinese on Chinese. The Japanese invasion in 1931 led to a generation of conflict that was some of the most inhuman in a period of international brutality that was astonishing in breadth and depth. When World War II ended with Japan’s defeat, the Chinese civil war resumed in earnest, leading to a nation further broken and uncertain of its future.

The Early Years of the Party Control

Mao Zedong famously declared in October 1949 that "China had risen off of her knees" in reference to the foreigners’ control over the country. Preaching a form of Chinese cultural and political superiority over the rest of the world and Soviet Marxism, Mao preferred leaving the new People’s Republic of China poor and suffering from retarded economic/technical/political conditions compared with the rest of Asia which was receiving reconstruction assistance poured in from the United States. Instead of getting that type of relationship with the United States, Mao maintained his revolution with Chinese characteristics² by tying it a series of wildly shifting national policies which were irrational (the Great Leap Forward, 1957-1960) or aimed at disrupting the development of any potential challengers within the Party (the Great Proletarian Cultural Revolution, 1966-1976).

Mao’s overall effect was to undermine alternate centers of power within the Party while, more importantly, leaving China deeply behind the massive technical advances which characterized the post-World War II period around the world. Instead of the post-Revolutionary period being one of peace, which was desired by the war-weary Chinese populous, Mao’s policies managed to

² Philip Short. *Mao: A Life*. New York: Henry Holt, 2000.

paralyze any serious Chinese economic growth³ or modernization while mocking Mao's alleged return of China to its traditional position of the Middle Kingdom as a pivotal state in the world system.

The True New China

Mao's death in September 1976 and the attendant rise of Deng Xiaoping finally led to a true emergence of the New China that many thought would appear after the foreigners were ousted by the end of the civil war in 1949. Deng's embrace of the "Four Modernisations"⁴, coinciding with foreign investment, initially from Taiwan and Hong Kong that could bring changes to the Pearl River delta which allowed the explosion of small factories which would employ young Chinese to produce consumer products for export that would fuel China's modernization. While Deng delivered his priority challenge, China then went through three and a half decades of massive economic growth to provide revenue to the government in Beijing to expand its economic prowess and provide a dramatically improved standard of living for hundreds of millions of Chinese citizens.

Along with that increased standard of living, the Communist Party could claim credit for China gradually returning to its position as a global international player. States around the world, roughly beginning with the early 1970s, had withdrawn their diplomatic acceptance of Taipei as the capital of China in favor of Beijing; even Taiwan's major ally, Washington, did so in 1979. China's position as a permanent member of the Security Council reminded the world of China's role as one of the five most important nations in the world, one to whom states might turn for support and/or leadership.

As China's economic prowess grew, the sense that the old, failed China of the past was receding into bad memories under the leadership of the Chinese Communist Party. For a generation of young people under the age of 35, who have no memory of the humiliation under the Treaty of Nanjing, the Taiping Rebellion (with its nominal responsibility borne by the foreigners who introduced Christianity to the Middle Kingdom), the banditry of the 1920s, the Long March of the 1930s, the horrors of the Japanese invasion, the starvation of the 1950s, and the unpredictability of the Cultural Revolution, this New China was a place of great pride and, apparently, virtually unbroken opportunities for growth.⁵

The Party sought to return all of what it defined as Zhongguo to the control or the domain of the 'New China.' The missing part of this equation was Taiwan, the island that has operated as a *de*

³ Frank Dittoker, *Mao's Great Famine: The History of China's Most Devastating Catastrophe, 1958-1962* (London: Walker and Company, 2010)

⁴ Originally accredited to Mao's long-term revolutionary compatriot, Zhou EnLai, long the foreign 'face' of the People's Republic before his death in early 1976, Deng supported and encouraged the modernization of agriculture, industry, science and technology, and national defense, in that priority. A new biography of Deng Xiaoping highlights the evolution of support for this modernization. See Ezra Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge: Harvard University/Belknap Press, 2011).

⁵ Countless stories in various sources discuss enhanced young people's pride in China today that was not evident a generation ago.

facto independent entity since 1949. Taiwan, first under the Nationalists and the father-son Chiang family then the subsequent electoral victors, has increasingly been an entity that appeared to undermine the Party's claims of a New China: Beijing was not strong enough to achieve the goal of getting all of what Beijing states unequivocally is China's historic territory and population. As long as Taiwan seeks to retain its sovereignty, the New China is not fully in place and the Party must continue fighting for that objective.

New China-New Middle Kingdom-Old Party?

China's Communist Party seeks to reunify Taiwan to conclude a painful chapter in the Middle Kingdom's history, but it also views this and other foreign policy goals as methods to keep the party in control. The Party leadership understands that it took power through the violence of the civil war and fears that violence could again undermine the Chinese government as it did in 1911.

At the same time, the Party recognizes that the New China must take steps that prove it is the Middle Kingdom as much as simply stating it. The Party is thus willing to use foreign policy activities to achieve both its goal of staying in power along with helping provide an enhanced standard of living for Chinese, ensuring petroleum supplies, and other means that will help them meet these goals. The overall objective is to retain power through proving it is a New China which has been able to reach the peak that was the Middle Kingdom in the distant past.

The Party needs to have ample evidence that its actions have led directly to the changes that have been positive for China. These include trumpeting the sustained economic growth that has led to millions of jobs and raising the standards of living for all of China but most dramatically for the three to four hundred people raised out of poverty into a considerably better life in the last thirty years. Additionally, the Party needs to be able to cite its ability to force foreigners to stop "humiliating" China by curtailing activities that China believes adversely affects its interests. At the same time, the Party raises China's prestige by assuming positions in international organizations, such as U.N. peacekeeping efforts, where China is a decisive player. This is a continuing process, however, that requires the Party to keep pushing—and succeeding.

Conclusion

The primary objective of the Chinese Communist Party is to retain its control over governing. The Party believes its governance has returned China to its rightful position as the Middle Kingdom and that it is able to increase the country's position of respect globally. There is a sole exception to this picture: Taiwan, still outside of the fold, was a reminder that the New China had not entirely reached the position of being the Middle Kingdom that had no outsiders deter or coerce its decision-making.

The Party also believes it still has the responsibility of reuniting Taiwan with the mainland as a national obligation. This partially justifies the Party staying in power but also addresses the

concept of the New China being synonymous with the Middle Kingdom.⁶ The Party will keep working towards this goal, and the Chinese people are likely to have high tolerance for this goal.

But foreign policy goals intertwine with other Party aspirations and imperatives. The question will be how long the Party can sustain all of this as it becomes more demanding about domestic priorities instead of accepting that the Middle Kingdom trumps everything else.

For the United States, this means the interactions with China will be increasingly complicated, complex, and challenging. There is no easy “finish line” to this evolving relationship which will make either the United States or China comfortable with the other’s stance in East Asia or the international community. The key for the United States will be balancing actual Chinese behavior with anticipated or feared aspirations. This will prove a delicate balance for U.S. strategists and their counterparts in Beijing but the risk of failures are significant and the costs of miscalculations high for billions around the world.

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America the Vulnerable

By Joel Brenner

Reviewed by Mark Frazzetto

Perhaps someone living a hermit’s life in the Himalayas or Antarctica could claim not to be impacted or even care about digital technology’s continuing transformation of the way of life in the 21st century. However, for those not living a hermit’s life, Joel Brenner’s new book, *America the Vulnerable* (New York: Penguin Press, 2011), is simply essential reading. In *America the Vulnerable*, Mr. Brenner describes how cyberspace, while providing great benefit, also contains a continuum of risk that spans the personal to the transnational. How the United States meets this challenge will go a long way towards determining the nation’s fundamental security and prosperity.

America the Vulnerable begins by describing how electronic data has become “ambient.” Nearly everything one does can be captured electronically. Individuals are watched by government and private security cameras, personal electronic devices signal our locations via global positioning satellites (GPS), and every time they click on a website, the activity is likely captured. Point of sale systems transmit what one buys at stores; this data is then aggregated, behavior patterns are

⁶ *Financial Times*, October 11, 2011.

identified, and the resulting information is used per the needs of whoever has the data, be it business or government. Ambient electronic data reduces marketing expenses, provides evidence for criminal investigations, allows public health officials to track disease, and generally makes life more convenient. While incredibly useful, technology has always been a two-edged sword. The cost of this convenience is a corresponding loss of privacy. For example, driver licenses, social security numbers, phone numbers, and almost every other personally identifying piece of datum are stored somewhere in cyberspace. This results in what Mr. Brenner calls “soft surveillance,” and as Mr. Brenner points out, few of us are willing to give up the conveniences provided by ambient electronic data. Society demands this convenience, indeed finds it irresistible. Thus, everyone seems quite willing to be softly monitored.

Ambient electronic data is a virtual treasure trove, allowing merchants to tailor advertising to personal needs of individual customers and to stock merchandise according to what sells in specific geographic areas. Ambient electronic data allows banks and other financial institutions to consummate transactions with customers without having to pay human employees. Unfortunately, valuable things tend to attract the attention of criminals. According to Mr. Brenner, cyber criminals have hacked into the networks of big box retail chains, banks, and dot coms. Cyber criminals put up 57,000 bogus websites onto which viruses and other malware are loaded in the hopes of infecting victims. Cyber criminals can be small time hoodlums or large scale, sophisticated international syndicates. Mr. Brenner also points out that, thanks largely to the anonymity that is built into the Internet, individuals usually have no idea who the cyber criminals truly are.

Mr. Brenner explains that the most vulnerable part of any network is the user. As one example, users download software designed to share large data files over the Internet. Unless configured properly, this file sharing software can open the gates of a computer network. Most computer users have no idea this can happen. Thus, Mr. Brenner points out, security does not work if it is left in the hands of the user. Further, a system is not secure unless the security is built into the system – i.e., a secure system would deny users the ability to download and install non-standard software in business and government networks.

In another section of the book, Mr. Brenner discusses national threats from cyber insecurity. He focuses on the activities of hackers who reside in China, although he makes clear there are many other players (such as hackers in Russia) as well. Mr. Brenner describes how Operation Aurora was launched from within China. Operation Aurora was a massive cyber attack launched against the intellectual property of thousands of companies in the West. Intellectual property is a primary target of Chinese economic espionage, much of which is conducted through cyber espionage. Hackers who engage in economic espionage, although ostensibly for private sector objectives, may (at times) be sponsored by government. The target of foreign economic espionage is often high technology that has applications in the private as well as the defense sectors. Thus, not only are defense and intelligence secrets pilfered but targets are also losing technology that represents that most important form of national wealth—innovation. The United States’ economic security is threatened. As the downfall of the Soviet Union demonstrated, without economic strength, a large military, no matter how formidable, will not prevent the implosion of national power.

Mr. Brenner points out that China has been the world's dominant economic power for eighteen of the last twenty centuries, and seeks to reestablish its place in the international order – the “Middle Kingdom” whereby China is the regional power in East Asia. Direct military confrontation is unlikely given the strength of the U.S. military, but China and the U.S. are competing for power in other domains. As Mr. Brenner points out, cyberspace presents new opportunities for China to engage in this competition without resorting to overt military power. China can “prepare the battlefield” with the United States in a future conflict by planting malware in its various forms in key infrastructure and defense systems. Mastering cyber warfare techniques provides China with a competitive advantage over a powerful, albeit technologically dependent, U.S. military.

While *America the Vulnerable* discusses many different vulnerabilities in the American public and private sector networks, perhaps the most worrisome exposure lies within the nation's operational infrastructure systems. Operational systems are computerized control systems, as opposed to informational or transactional systems. Operational systems are used in areas such as industrial process control, robotic assembly, and most importantly, in infrastructure applications. Mr. Benner relates how a group of researchers, in a government sanctioned experiment, caused an electricity generator to not only go offline but destroy itself. The researchers did this with computer, keyboard, and mouse. This experiment was done to show the vulnerability of the nation's electrical grid. For example, electricity utilities are connecting more and more of their operational systems to the Internet in order to increase efficiency. Unfortunately, these operational systems were intended to be isolated from contact with the world wide Internet. The result is that electrical power control systems have become highly exposed; in some cases, they can be accessed by a simple Bluetooth device. This situation is compounded by the fact that the type of power generator destroyed in the research experiment, and used throughout the electrical grid, is a type of heavy equipment that American businesses no longer make; they are only made in India and China.

America the Vulnerable is impressive in its scope. Mr. Brenner touches upon Wikileaks, how soft surveillance affects both intelligence agencies and private citizens, how technological convergence is leading to commercial information technology capabilities closer to those of military and intelligence information capabilities, and how citizens live in a post secrecy *and* a post privacy world. Through it all runs a common thread: information technology is changing the world at a breathtaking pace. Therefore, it is paramount to change how one thinks about protecting and managing information to better safeguard national security.

To this end, Mr. Brenner concludes with some thoughtful recommendations on how to improve cybersecurity in both the public and private sectors. Specifically, there are a set of recommendations for the United States government ranging from establishing regulatory standards on limiting electrical power systems' connectivity to the Internet to researching the possibility of redesigning the architecture of the Internet itself. Perhaps Mr. Brenner's most interesting recommendation is the creation of a civilian authority *above* the departmental (cabinet) level. Such authority would not be a coordinating “czar” but would rather be able to direct integration of the federal government's cybersecurity programs and policies. Mr. Brenner's recommendations for private enterprise focus on control, training and operations.

They are the sort of nuts and bolts, common sense solutions that causes one to say, “Hey, why didn’t I think of that?”

Mr. Brenner’s book simultaneously provides a comprehensive review of and prescription for the American cyber strategy in the 21st century, and he does so in a clear, insightful way and with a refreshing sense of humor. *America the Vulnerable* is an important work. Those who are interested the strategies that underpin cyber security will find this book a valuable read.

Mark Frazzetto won the American Bar Association Law and National Security Writing Competition Award in 2010 for his paper titled [Protecting Against Economic Espionage: Trade Secrets, Standards, and Criminal Liability](#).