

# The NATIONAL STRATEGY FORUM REVIEW

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

*By The National Strategy Forum Review Editorial Board*

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### **Introduction**

At the outset of the 21<sup>st</sup> 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 21<sup>st</sup> 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*.<sup>1</sup> 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

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<sup>1</sup> 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>.

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 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%,<sup>2</sup> 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 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

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

Chinese intent on supporting any bailout plan, but they are also faced with the prospect of speeding up reforms<sup>3</sup> 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 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

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<sup>3</sup> 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.

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.<sup>4</sup> 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.<sup>5</sup> 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.

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<sup>4</sup> 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.

<sup>5</sup> [http://www.forbes.com/2008/07/03/energy-efficiency-japan-biz\\_energy\\_cx\\_jz\\_0707efficiency\\_countries.html](http://www.forbes.com/2008/07/03/energy-efficiency-japan-biz_energy_cx_jz_0707efficiency_countries.html)

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.<sup>6</sup> 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 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

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<sup>6</sup> “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>

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.”<sup>7</sup>

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.<sup>8</sup>

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 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

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<sup>7</sup>Cynthia Watson. The New China: Embodying the “Middle Kingdom.” *National Strategy Forum Review*: Fall 2011, Volume 20, Issue 4.

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

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 CO<sub>2</sub> 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.<sup>9</sup> 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.<sup>10</sup> 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.

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

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

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

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,<sup>11</sup> 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.<sup>12</sup> 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 material interests and for which China claimed no validity outside of its own territory."<sup>13</sup> 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

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<sup>11</sup> "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/>

<sup>12</sup> Henry Kissinger. *On China*. Penguin Press: 2011.

<sup>13</sup> Kissinger, 2011.

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.”<sup>14</sup>

General Secretary Jiang Zemin outlined ten principles on foreign affairs at the 15<sup>th</sup> 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:<sup>15</sup>

- 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 Coexistence<sup>16</sup>
- 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.

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

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

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

<sup>16</sup> 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.

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<sup>17</sup>

China has increased the PLA's defense budget by nearly 10% every year for the past twenty years.<sup>18</sup> 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.<sup>19</sup>

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.

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<sup>17</sup> 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.

<sup>18</sup> 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.

<sup>19</sup> [http://www.jamestown.org/programs/chinabrief/single/?tx\\_ttnews%5Btt\\_news%5D=36658&tx\\_ttnews%5BbackPid%5D=414&no\\_cache=1](http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=36658&tx_ttnews%5BbackPid%5D=414&no_cache=1)

### Nuclear Non-Proliferation

The UN International Atomic Energy Agency published findings on November 8<sup>th</sup> 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.<sup>20</sup> 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.<sup>21</sup> 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.

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.

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

<sup>21</sup> <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](http://www.nytimes.com/2011/11/09/opinion/irans-nuclear-program-and-china.html?_r=1)

## 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.

### Taiwan<sup>22</sup>

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.<sup>23</sup> 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.

### 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,

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<sup>22</sup> 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](#).

<sup>23</sup> 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.

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.<sup>24</sup> 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 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

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<sup>24</sup> “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/>

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.<sup>25</sup> 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.

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

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

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.<sup>26</sup>

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.<sup>27</sup>

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.”<sup>28</sup> 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.”<sup>29</sup>

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

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<sup>26</sup> “Eyeing China, U.S. Expands Military Ties to Australia.” By Jackie Calmes. *The New York Times*: November 16, 2011.

<sup>27</sup> “Obama says U.S. to reassert role as Pacific power.” By Peter Nicholas and Christi Parsons. *Los Angeles Times*: November 16, 2011.

<sup>28</sup> Nicholas and Parsons, 2011.

<sup>29</sup> Nicholas and Parsons, 2011. Statements made by President Obama.

stay, and that this is not a passing whim.<sup>30</sup> 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"<sup>31</sup>—*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."<sup>32</sup>

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.

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

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

<sup>32</sup> "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.<sup>33</sup>

#### *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.

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<sup>33</sup> 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.<sup>34</sup> 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

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<sup>34</sup> 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](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.<sup>35</sup> 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.<sup>36</sup> 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.

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<sup>35</sup><http://www.defense.gov/releases/release.aspx?releaseid=13551> ; and [http://www.jamestown.org/programs/chinabrief/single/?xttnnews%5Btt\\_news%5D=36658&xttnnews%5BbackPid%5D=414&no\\_cache=1](http://www.jamestown.org/programs/chinabrief/single/?xttnnews%5Btt_news%5D=36658&xttnnews%5BbackPid%5D=414&no_cache=1)

<sup>36</sup> 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.<sup>37</sup> 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 the CCP, 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.<sup>38</sup>

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.

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

<sup>38</sup> 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.