

Contending with the Rise of China Build on Three Decades of Progress

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Summary

China's rise may pose the most important foreign policy challenge to the United States in the 21st century. Chinese economic expansion of 10 percent annually offers exciting export and import opportunities—accompanied by profound economic, military, and political risks. The next President should embrace the strategy of engagement initiated by President Nixon and sustained by all his successors to date. Presidential candidates should avoid tendentious condemnations of China and instead signal their intention to develop a personal relationship of trust with their Chinese counterpart soon after taking office. Specifically, the next President should:

- convince Chinese leaders that they can best promote their country's national interests by working in concert with the United States and other great powers to meet challenges to international peace and security, for example, by cooperating to restrain Iranian and North Korean nuclear arms development
- further China's integration into the network of international organizations and regimes and facilitate China's contribution to their future evolution
- encourage Chinese economic reforms that will foster a stronger foundation for equitable two-way trade and investment ties with China
- act to modernize the Asia-Pacific security structure to assure the United States is not excluded
- actively promote Chinese cooperation on energy issues
- lead in building a domestic consensus supporting his or her China policy



At the same time, the new President should understand we can best advance the cause of human rights in China by example and discreet encouragement, not by lecturing or unilateral pressures. The next President should reaffirm U.S. commitments to Taiwan and exploit opportunities that may arise to bring the two sides of the Strait closer together. Finally, Presidential candidates should expect to be tested by unforeseen developments surrounding the 2008 Summer Olympics in Beijing.

Context

China's power is growing rapidly, as its economy expands at about 10 percent annually. Corporations see China's cost-effective manufacturing base and massive new consumer market as keys to survival, while countries rich in natural resources see the Chinese market as a key to their competitiveness. China's leaders and diplomats are translating economic clout into global political leverage. And, their military, the People's Liberation Army, is gradually gaining impressive strength.

Since Pearl Harbor, the United States has prevented any rival power from achieving military superiority in the Pacific. America has enforced its military dominance through alliances, bases, and political relationships, and has asserted economic leadership through free trade and a network of multilateral institutions, including the International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade (now the World Trade Organization). This structure, while fundamentally sound, no longer may suffice. China's rise may pose the most important foreign policy challenge to the United States in the 21st century—if China surmounts massive internal challenges and becomes a superpower. Although the Communist Party does not enjoy high legitimacy, its mix of promoting economic growth, selective repression, appeals to nationalism, and management of rapid social change has been successful enough internally to allow it to remain in power and has led the nation to greater international respect. Each leadership cohort has been more capable than the previous one.

The next Administration will engage China during a critical phase in that country's power trajectory. Economically, we already share an uneasy codependence. Militarily, the projection of Chinese military power eastward will bump up against existing American deployments. Politically, China's authoritarian system remains at odds with American liberal democratic values. American suspicion that China's rise challenges U.S. leadership in East Asia combines with Chinese concern about U.S. intentions to create a climate of uncertainty. If we treat China as an enemy, we will acquire an enemy; but if as a potential partner, we will gain in cooperation and support.

First, Do No Harm

In three election campaigns—in 1980, 1992, and 2000—future U.S. Presidents announced their intention to toughen national policy toward China dramatically. In each instance, the United States then endured months or years of costly fumbling before the President decided to return to the path charted by his predecessors:

- In 1980 Ronald Reagan condemned the Carter Administration for “abandoning” and derecognizing Taiwan and for terminating the U.S.-Republic of China Security Treaty. President Reagan suggested he would restore diplomatic relations with Taiwan and sell it advanced fighter aircraft. After he assumed office, 18 months of tension occurred before he approved the 1982 U.S.-China Communiqué limiting arms sales to Taiwan, and his Administration never did sell Taiwan the promised aircraft. The 1982 Communiqué, judged necessary at the time to stabilize a tense relationship, has been a burden on U.S. policy and credibility ever since.
- In 1992 Bill Clinton denounced the Bush Administration for “coddling” the “butchers of Beijing” and laid the groundwork for promulgating an executive order that would grant Most Favored Nation (MFN) status for China conditioned on improvements in human rights. China did not satisfy those conditions. In the face of demands from the business community and Asia-Pacific leaders, President Clinton nevertheless abandoned his policy of conditional MFN in 1994—after damaging the credibility of U.S. policy and Sino-American trust. This damage would heighten the 1995-96 tensions over the Taiwan Strait.

- In 2000 George W. Bush criticized the Clinton Administration for seeking a “strategic partnership” with China, saying that, instead, he saw China as a “strategic competitor.” In the first several months of his Presidency, Mr. Bush’s national security team signaled a desire to redefine the relationship in more negative terms. Although the President has never repeated his description of China as a “strategic competitor,” and even though 9/11 and North Korea’s nuclear program have driven Washington and Beijing closer, the campaign slogan has left the Chinese with doubts about U.S. trustworthiness.

Despite these three false starts, all seven Presidents since President Nixon’s historic visit to China in 1972 have pursued generally similar, reasonably successful policies toward the People’s Republic. The logic is simple: China has massive capacity to affect the world for better or worse. We therefore have pursued our interests cooperatively with Beijing whenever possible, even though such cooperation has challenged our values.

Draw China into the International System

In driving forward the modernization campaign that Deng Xiaoping began three decades ago, Chinese leaders face staggering problems:

- *per capita* GDP that still stands at only \$1,600
- an aging population and high dependent-to-worker ratio
- inequalities between rich and poor, east and west, and coast and interior
- water shortages in the north that constrain growth
- inadequate health care for all but the wealthy
- the world’s worst air pollution, and
- the relocation of 10 to 13 million people a year from the countryside into the cities

Recognizing that it can’t resolve these problems in a hostile international environment, China has generally pursued foreign policies designed to promote peace and stability. Its stated policy of “peaceful development” has been matched by actions. It has

sought good relations with the United States, understanding it cannot challenge U.S. influence for decades to come (even if it wishes to do so) and accepting that U.S. global leadership need not constrain Chinese development. It has stabilized relations with all its neighbors except Japan and Taiwan, and lately has made some progress with Japan. It has not moved aggressively to develop a blue-water navy or the ability to project power beyond its immediate neighborhood. It would be wrong to base U.S. policy on a worst-case perception of Chinese motives.

Even if China has wisely chosen not to challenge the United States for global or regional leadership, the question of how to cope with China's rise poses a test for American foreign policy. Politically, is there a feasible alternative to a competition for power? Militarily, how do we strike the right balance between reasonable adjustments to China's build-up and reckless over-reaction? Economically, how do we manage the risks of codependence with the Chinese economy while continuing to reap the benefits? And how do we reconcile the gaps in our political values?

With no coherent vision of China in its first term, the Bush Administration adopted a new framework in September 2005. As articulated by then-Deputy Secretary of State Robert Zoellick, the framework calls on China to become a "responsible stakeholder" in international affairs and pledges cooperation toward that end. This policy explicitly and properly rejects the idea that China should be "contained" or that China constitutes an inevitable threat like that posed to the international system by Imperial Germany and Japan early in the 20th century. Zoellick appealed to China to act in concert with the United States and other great powers to address challenges to international peace and security and to strengthen international laws, institutions, organizations, and practices. At the same time, he warned that inevitably countries would "hedge" against the risk that China's rise might turn out to be disruptive.

The current framework is a sound basis for the future. Indeed, the framework would be even more effective if the United States were seen as acting as a "responsible stakeholder" itself, rather than frequently acting unilaterally. (That would impress upon the Chinese that the concept is not designed to limit them and not us.) Even if

the next President avoids the term “responsible stakeholder,” the concept should be an important part of our dialogue with the Chinese. We have been most effective with China when we have grounded our diplomacy in a recognition of its status as a great power and according to international norms, such as those of the World Trade Organization, the Nuclear Nonproliferation Treaty, and the Missile Technology Control Regime. When our unilateral concerns are reinforced by international standards, our voice is considerably strengthened in China.

Presidential candidates, even during their campaigns, should send unambiguous signals to China’s leaders that they highly value a constructive and cooperative relationship with China and would establish working relations with China’s leaders soon after assuming office. The new President should make clear the belief that our two nations can work together and should seek to develop a personal relationship of trust with President Hu Jintao or his successor. The Chinese will react negatively if a new President throws difficult issues on the table before establishing such trust.

Assure That China Contributes to a Safer World

Along with China’s dramatic economic rise has come a corresponding increase in political influence. China is now the hub of an integrated East Asian community of nations. It has resolved border disputes with Russia and the states of Central Asia, has established a free-trade zone with the 10-member Association of Southeast Asian Nations (ASEAN), soon will be India’s largest trading partner, and is already the largest trading partner of Japan, Korea, and Taiwan. It closely coordinates its position on the North Korean nuclear issue with its former adversary, South Korea. And, it plays a strong role in the alphabet soup of regional East Asian organizations.

China’s military growth has not matched its economic and political rise but bears watching and preparation to counter its growing abilities. Military spending has been growing at an official rate of about 12 percent annually for the last decade. Chinese forces are becoming increasingly robust through the development and deployment of intercontinental ballistic missiles (ICBMs), cruise missiles, fighter aircraft, information

warfare, and space technologies with military applications. China's destruction of a satellite using one of its missiles in a January 2007 test signaled its development of the capacity to threaten U.S. communications and surveillance satellites in the event of conflict. Although China has not developed the capacity to take Taiwan by force in the face of U.S. and Taiwanese resistance, it can do considerably more damage today than it could have during the 1996 cross-Strait confrontation.

Against this backdrop, Zoellick was right to acknowledge the need to "hedge" against the risk of disruptive Chinese actions. But, it would be a mistake to make hedging a rhetorical centerpiece of our policy or to allow it to overpower cooperation. There are risks to excessive hedging. Hostile military, diplomatic, or legal actions will elicit reactions in Beijing and serve the interests of those Chinese leaders who seek confrontation with the United States. Hedging could lead China to cease cooperation with Washington on key international security issues where Chinese help could be vital to success, such as North Korea's and Iran's nuclear programs. It could lead to a zero-sum struggle for diplomatic influence in East Asia or even to an arms race.

Instead of focusing narrowly on hedging, the next President should use persuasion. In particular, the President should stress to the Chinese our shared national security interest in preventing North Korea and Iran from becoming nuclear powers. The United States must demonstrate to Beijing that these nuclear programs present a direct threat to U.S. national security, and that Chinese cooperation in keeping Korea and Iran free of nuclear arms is a vital component of our mutual confidence and our bilateral relationship.

Meanwhile, the United States should maintain and continue to modernize its security relationships in the Asia-Pacific region, especially with Japan, South Korea, Australia, and ASEAN. While the Bush Administration has been divided on how to handle the North Korean nuclear issue, the relationship with South Korea has suffered, prompting questions about the durability of our alliance. That needs to be corrected by the new President. The United States should continue to restrain the European Union from resuming arms sales to China until the likelihood of conflict in the Taiwan Strait ceases

to be a concern. We should control the export of sensitive technologies that could strengthen PRC military capabilities and potentially be used against us in a conflict in the Taiwan Strait.

But, we should not accompany such prudent hedging measures with other steps that tilt the balance against broader U.S. interests. We should not, for example, prohibit the export of commercial dual-use technologies to the PRC if such technologies are readily obtainable from other countries or soon can be developed within China itself. To do so would damage our export competitiveness and our relations with China for minimal or no security benefit.

Cooperate on Energy

As China has grown economically, its demand for energy has mushroomed, far outstripping its supply of domestic oil. Consequently, China has adopted a so-called “going-out” strategy to achieve energy security, buying energy properties or signing long-term supply contracts in oil-producing countries, including such problematic states as Iran, Sudan, and Burma. China’s ravenous energy appetite triggers reasonable U.S. concerns over prices, supplies, international stability, and humanitarian imperatives.

Still, we should not overreact to China’s oil consumerism. We have an interest in China’s continued economic development, and energy is a foundation of that growth. There is no need to engage in a zero-sum struggle with China for oil supplies around the world. Indeed, as the world’s number one and number two users of oil, our two nations have a common interest in assuring unconstrained access to oil at reasonable prices. The next President should actively encourage energy cooperation with China and between U.S. and Chinese energy companies. We should make clear to China that, in the absence of military conflict between our two nations, the United States will not pursue a policy aimed at constraining China’s access to international oil markets. We also should encourage China’s admission to the International Energy Agency, which coordinates release of oil stockpiles in times of shortage.

At the same time, the next President should make clear to China that its pursuit of oil abroad does not exempt it from international responsibilities. China's oil investments in states that defy international standards should not be permitted to undermine international norms or basic U.S. objectives. The Chinese also should be held to international investment guidelines that forbid or constrain corruption, predatory financing, and foreign aid tied to purchases from the donor country ("soft aid"). China is relatively new to the international investment arena, but, with close to a trillion dollars in foreign exchange reserves, it will not remain a novice for long. China's entry into the framework of Organisation for Economic Co-operation and Development (OECD) rules is critical.

Actively Manage Cross-Strait Relations

The only issue presenting a discernible risk of conflict between the United States and China in the foreseeable future is Taiwan, so the next President must have a clear handle on tensions across the Taiwan Strait. Because crises in other parts of the world, such as the Middle East, are more visible and immediate, U.S. policymakers sometimes pay insufficient heed to this issue and allow tensions to escalate.

The best policy is to send clear messages to both sides, admonishing China that the use of force will not be tolerated and signaling Taiwan that movement toward *de jure* independence is equally unacceptable. The United States also should more actively promote official and unofficial exchanges across the Strait. The 2008 Taiwan election raises the prospect that its next president will be able to reduce the hostility that has run high for six years under pro-independence President Chen Shui-bian. The United States then could encourage China, as the stronger party, to offer substantial incentives to the new Taiwan president to improve cross-Strait relations.

Defend U.S. Trade Interests

The China of 2007 looms spectacularly larger in world trade and investment than did the China of 2000. Newspapers are full of stories about how China's economic

achievement challenges U.S. manufacturers and service providers. In 2005 our trade deficit with China reached \$200 billion. Many small- and medium-sized enterprises in the United States see Chinese competition as an existential threat. If the next President fails to tell the American people how to respond to Chinese economic challenge, demagogues and protectionists will have the field to themselves.

The next Administration should welcome China's advancing prosperity, building on Treasury Secretary Henry Paulson's assurance that "we wish you success." For 60 years, the United States has promoted global prosperity to undergird our own, engineering an international system of open trade, open investment, and efficient international markets. China's (or south Asia's) emergence should not persuade us to smash that cornerstone of U.S. policy. In any case, a trade war with China would not be in our interests and would not be containable; it could spark recession throughout East Asia and, in turn, depress our own economy. China is by far our fastest-growing large market, with U.S. exports increasing 90 percent since 2002. That means jobs for Americans. China also is a supplier of low-cost everyday products that Americans purchase to the tune of tens of billions of dollars a year. This helps to keep inflation in check. The People's Republic also is a major purchaser of U.S. Treasury instruments, which helps hold down interest rates. Further, access to the Chinese market is fundamental to the global strategy of many American companies.

While we must avoid a trade war, we need to defend our trade and investment interests. The Bush Administration is right to place our bilateral economic relationship in the context of broader issues of growth and reform, as Secretary Paulson does in his regular dialogue with Vice-Premier Wu Yi. We should encourage China to move away from an export-driven strategy toward a demand-driven strategy, building a social safety net that will give ordinary Chinese the confidence to consume. Adjusting the *yuan* to a market-determined level should be part of that strategy, as China more rapidly contributes to global growth by reducing its trade surplus. We need to persuade China's leaders to reinvigorate reform by creating a financial services sector that encourages rational allocation of capital, by eliminating subsidies to bankrupt

state-owned enterprises, and by introducing modern standards of corporate governance.

Positive incentives we could offer in return for reform include admitting China to the G-7 Finance Ministers group, reclassifying China as a market economy under World Trade Organization (WTO) rules, and working toward listing Chinese companies on U.S. stock and commodity exchanges. Negative incentives could include strong anti-dumping standards, “countervailing” duties on state-subsidized products, and more aggressive use of the WTO’s dispute settlement mechanism. Certainly, we should vigorously attack unfair trading practices by the Chinese, in particular their woeful enforcement of intellectual property rights. If there is not significant improvement in that arena, the next Administration should initiate a complaint within the WTO and pursue it to adjudication.

Being true to our principles may, at times, require the next Administration to buck public opinion. For example, we should encourage, not discourage, Chinese investment in the United States. With a trillion dollars in reserves seeking higher rates of return, the Chinese should be persuaded that investment here, thereby generating U.S. jobs, is a better way of penetrating the U.S. market than relying exclusively on exports. The next President should make that case publicly, so that the next time a major Chinese company seeks to invest in the United States, the decision is not overwhelmed by protectionist and xenophobic fears, as was the China oil company CNOOC’s bid for Unocal in 2005.

A truly stable and balanced economic relationship with China should be based not only on a higher level of Chinese consumption but also on achieving higher levels of savings at home, getting the federal budget under control, investing more in education—to strengthen our most important asset, our human capital—and supporting scientific and technologic research and development.

Finally, we need to prevent emerging East Asian regional organizations from freezing us out. The Shanghai Cooperation Organization, the proposed East Asian Community,

and the ASEAN Plus Three all exclude the United States—despite U.S. leadership in creating a sense of regionalism and several of the leading regional organizations. To assure that these arrangements do not harm U.S. interests, we should act to improve our relations with Japan, Korea, India, Australia, and ASEAN, so that these friends will block steps contrary to our interests. For example, we could negotiate a free-trade agreement with ASEAN to complement current and pending agreements with Australia, Thailand, Malaysia, and Singapore.

Promote Human Rights

As the world's largest remaining Communist state, China poses special challenges to the United States in the field of human rights. Democracy and human rights are our defining national values. Beijing's violent repression of the 1989 Tiananmen Square demonstrations destroyed Americans' hope for rapid political liberalization of China. We cannot, simply for the sake of economic gain and greater security, carve out a foreign policy exception for the People's Republic and feign indifference to the continuing and massive abuses of human rights that characterize the Chinese system.

Our policy, however, should be tethered firmly to reality and should match action to rhetoric. That is easier said than done. China's human rights record is poor, but its people are much freer than were their parents under Mao. China's spectacular economic growth has produced a leadership and a population that are proud of the country's achievements, wary of risky departures, and resentful of foreign intervention. Outside pressure applied with a heavy hand will not produce positive results and could even impede progress on human rights.

To date, U.S. government actions aimed at improving human rights in China have produced very little impact. We have succeeded in persuading the Chinese to release a number of individual dissidents from prison. But, it is hard to point to other significant actions that the Chinese government has taken in response to overt American pressure. In general, we Americans have cause to be modest about our ability to create a free society in a culture steeped in autocracy.

Through non-official means, however, the United States has significantly enhanced respect for human rights in China. The most important way lies through force of example. No longer surrounded by the bamboo curtain, China in the 21st century is penetrated by the Internet, international media, and a very “open door.” Chinese read about America and how Americans live. Chinese who travel or study abroad and Chinese-Americans who visit the mainland furnish accounts of the American way of life. The effect has transformed Chinese lifestyles and expectations. The emergence of freer life styles in China is directly tied to China’s opening to the West.

Over time, this process of osmosis will affect political developments as well, although the Communist Party continues periodic crackdowns, in order to send a message that it intends to control the pace of change. But, more and more young Chinese accept, and routinely speak about, the inevitability of democracy in China. Chinese central leadership may soon realize that elements of an open political system, such as a free press, can help curtail the regime’s most serious political problem, rampant corruption. Thus, history is on the side of democracy, not autocracy, in China.

What are the elements of a realistic human rights approach with respect to China?

- strongly supporting U.S. non-governmental organizations (NGOs) and academic institutions working with their Chinese counterparts on issues like the rule of law, an independent judiciary, a free and responsible press, local elections, and NGO functions and rights
- indicating American disapproval of breaches of human rights, and raising cases of concern privately with the Chinese Government
- vigorously backing the Dalai Lama’s effort to initiate a direct dialogue with the Chinese Government to protect Tibetan culture, religion, and way of life, as well as discuss his return
- setting an inspiring example on matters such as treatment of prisoners, due process, minority rights, and torture
- pressing China to grant safe haven to North Koreans fleeing persecution, and

- maintaining a positive overall relationship with China, which will weaken forces of isolation and repression

Concluding Observations

Beyond crafting a complex and effective policy toward China, the next President will have to obtain and sustain domestic support for that policy. Rising polarization between conservatives fearing security threats and liberals fearing economic ones clouds the prospect of widespread public support for China policy. To maximize support and defuse the extremes, the President should: (1) use the bully pulpit of the Presidency to make the case for cooperation with China and ease anxieties; (2) rebuild a base of support encompassing the business community, religious leaders, educators and scholars, NGOs, and the science and technology sector; and (3) bring congressional leaders and congressional experts on China into the policy development process.

Finally, there is another issue that our next President will not have to deal with, but Presidential candidates may: the Beijing Olympics, which will occur in August 2008, as party conventions are occurring and the general election campaign is heating up. The Chinese people are enormously proud that the Olympics will be held in Beijing. They view this not as a vindication of the Communist Party but as a triumph for their nation— recognition of how far China has come. With the world's media spotlight on China, there will be many stories we cannot anticipate today that will attract public attention. Many will be positive, because the Chinese will go all-out to assure a smoothly run Games. Other stories, though, may showcase glaring shortcomings in China's political system, and the vast country's social and economic disparities. Possibly, groups inside or outside China will foment such coverage, and perhaps events, in order to embarrass the Chinese government.

It is impossible to script how our Presidential candidates should react in all such scenarios that might arise. But, the experience of American political reactions to Tiananmen in 1989 may offer some guidance, positive and negative. Our Presidential

candidates should avoid the temptation to politicize the exceedingly complex China issue. Of course, they should react in a manner true to our principles if there are serious human rights violations, but being respectful of the Chinese people's wishes to see their Games honored and mindful of our long-term interests in maintaining a constructive relationship with China that goes beyond November 2008. In other words, first do no harm.

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Opportunity 08 aims to help 2008 presidential candidates and the public focus on critical issues facing the nation, presenting policy ideas on a wide array of domestic and foreign policy questions. The project is committed to providing both independent policy solutions and background material on issues of concern to voters.