

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

Jeffrey A. Bader and Richard C. Bush III

### **Summary**

China's rise may pose the most important foreign policy challenge to the United States in the twenty-first 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 have arisen to place relations between the two sides of the Taiwan Strait on a more stable basis.

## Context

China's power is growing rapidly, as its economy expands at about 10 percent annually. Corporations have seen 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 the Chinese 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 twenty-first century—*if* China surmounts massive internal challenges and becomes a superpower. Although the Communist Party does not enjoy high legitimacy, its mix of promotion of 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 we treat China 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 United States–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, eighteen 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, 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 of China (PRC). 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 \$2,500
- 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 cannot 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 wisely has 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 buildup and reckless overreaction? 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 twentieth 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 but 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 on recognition of its status as a great power and the expectation that it would adhere to international norms, such as those of the World Trade Organization, the Nuclear Non-Proliferation 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. The Chinese will react negatively if a new president throws difficult issues on the table before establishing such trust.

### **Ensure 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 ten-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 has coordinated 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 it requires watching, and the United States should make prudent preparations for threats that could emerge (but we hope will not). 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 during a test in January 2007 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 Taiwan resistance, it can do considerably more damage today than it could have done 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 Chinese leaders who might seek confrontation with the United States. Hedging could lead China to cease cooperation with Washington on key international security issues, for which 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 the countries of 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 with 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 ensuring 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 the 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 more than a trillion dollars in foreign exchange reserves, it will not remain a novice for long. China's entry into the framework of Organization for Economic Cooperation and Development (OECD) rules is critical.

### **Actively Manage Cross-Strait Relations**

The only issue presenting a clearly discernible risk of armed conflict between the United States and China in the foreseeable future is Taiwan, so the next president must have a clear handle on the complexities of the Taiwan Strait issue. Because crises in other parts of the world, such as the Middle East, are more visible and immediate, U.S. policymakers sometimes pay insufficient attention to this issue, which risks allowing cross-Strait tensions to escalate.

During the past fifteen years, China and Taiwan have each feared that the other side intends to unilaterally change the status quo and challenge its fundamental interests. Each side has crafted policies based on those fears, despite growing economic interdependence. In this environment, the Clinton and Bush administrations have pursued a sound policy of sending clear, cautionary 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 2008 Taiwan legislative and presidential elections have created a strategic opportunity for transforming cross-Strait relations in a positive direction. Leaders in Beijing and Taipei appear to be prepared to reassure each other about their intentions toward each other and embark on multifaceted cooperation, including, perhaps, in the security arena. If China and Taiwan are indeed willing and able to seize this strategic opportunity (and China as the stronger party should avoid an excess of caution), it will be a net gain for the United States, for we will bear less of the responsibility for preventing a conflict through miscalculation. The next administration should therefore support this process of reconciliation and cooperation. Although it is highly unlikely that U.S. mediation will be needed, Washington should favorably consider requests from the two sides for specific assistance. At the same time, the United States should improve relations with Taipei, which have been in the doldrums since 2006 because of the provocative tactics of President Chen Shui-bian. The next administration can consider resuming arms sales to Taiwan if they are clearly justified as being intended to ameliorate a Taiwan Strait military balance that is shifting sharply in China's favor.

### **Defend U.S. Trade Interests**

The China of 2008 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 2007 our trade deficit with China reached \$232 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 the 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 sixty 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 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 240 percent since 2001. 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 of China 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 Wang Qishan. 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 antidumping standards, "countervailing" duties on state-subsidized products, and more aggressively using 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 1.68 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 Chinese 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 technological 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 ensure 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, Korea, 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 of China and feign indifference to the continuing and massive abuses of human rights that characterize the Chinese system. Recent protests and riots in Tibet demonstrate that Tibetans have simmering grievances that may be masked by repression but have not been addressed.

Our policy on human rights, 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 nonofficial 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 twenty-first century is penetrated by the Internet, international media, and a very "open door." Chinese read about the United States 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 lifestyles 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 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 a China policy. To maximize support and defuse the extremes, the president should use the bully pulpit of the presidency to make the case for cooperation with China and ease anxieties; rebuild a

base of support encompassing the business community, religious leaders, educators and scholars, NGOs, and the science and technology sector; and bring congressional leaders and congressional experts on China into the policy development process.

To date, the performance of the 2008 presidential candidates on issues related to China can best be described as mixed. On the one hand, discussion of China has been seriously unbalanced, with much greater emphasis on the perils rather than on the opportunities brought about by China's rise. In the Democratic primaries, the discussion has been overwhelmingly on the negative impact of Chinese imports on U.S. jobs and food and product safety concerns. On the Republican side, candidates have concentrated on the security threat, with calls for formation of a "concert of democracies" that would exclude China and perhaps be aimed at containing China. Neither of these approaches deals effectively with the complexity of the U.S.-China relationship, nor does either help educate the American public about the importance of the relationship and how to get it right. On the other hand, none of the major candidates has made irreversible commitments to take actions against China that would seriously damage relations, as their predecessors in earlier campaigns did to the detriment of U.S. interests. As such, they have retained the flexibility to deal with China in a pragmatic way. So far, at least, they have lived up to the injunction of Hippocrates, "First, do no harm." That may not point the way to a China policy based on a strategic vision of the future relationship we desire with the world's most populous country, but at least it does not point the way toward disaster either.

## **About the Authors and the Project**

### **Jeffrey A. Bader**

Jeffrey A. Bader is director of the John L. Thornton China Center at Brookings. Bader, a former ambassador and senior official at the State Department, National Security Council, and the Office of the U.S. Trade Representative, has three decades of expertise on China and East Asia.

### **Richard C. Bush III**

Richard Bush, a Brookings senior fellow, is director of the Center for Northeast Asian Policy Studies. His expertise includes Northeast Asia, Taiwan, and U.S.-China relations. He was chairman and managing director of the American Institute in Taiwan. Bush also worked on Asian-Pacific issues for the Democratic staff of the House Foreign Affairs Committee.

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.