

Establishing Credibility and Trust: The Next President Must Manage America's Most Important Relationship

The U.S.-China relationship seems certain to be a dominant issue in any foreign and defense policy debate during the 2012 presidential campaign. Although foreign policy in general appears unlikely to become a major focus of this year's election, the distinctions between foreign and domestic policy are not always clear-cut, especially when many see China's primary challenge to the United States as more economic than strategic. Both parties have placed America's relations with the Asia-Pacific region at the center of their foreign policy priorities, with clear expectations that China's economic weight, strategic intentions, and military capabilities will increasingly impact on U.S. policy choices.

The Obama administration has moved over time toward a stronger focus on hedging against China's power, even as it continues to advocate Beijing's fuller inclusion in the regional political, economic, and security order. The administration's Republican opponents have advocated a much more hard-edged approach with respect to economics and trade, security, and human rights. However, setting forth ambitious objectives without detailed regard for their potential effects on larger U.S.

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interests could entail significant costs and unanticipated consequences for U.S. foreign policy.

China's rise is having a large and complex impact on the United States and Asia, and on various global issues. The best American strategy to pursue warrants serious debate. At this point, though, it appears there will be more posturing than thoughtful analysis during the campaign, and there is more than a little danger that the dynamics of the China debate in the campaign will exacerbate tensions and problems in U.S.-China relations.

In the coming presidential term, the administration will need to confront the reality that the single biggest factor determining the shape of the U.S.-China relationship will be the extent of America's success in getting its domestic house in order. It will therefore need to focus enormous attention on setting the United States on a fiscally sound path that includes allocating resources for investments necessary for long-term growth and innovation.

Whoever is president during 2013–17 also must work to establish initiatives with the new Chinese leadership that hold out the possibility of building greater trust based on deeper consultations and concrete actions. A key part of achieving this goal is to conduct in-depth, sustained discussions of U.S. and Chinese military doctrines in Asia, their perspectives toward potential contingencies on the Korean peninsula, their efforts to address their respective domestic economic challenges, and the prospects for the coordination of development assistance and possibly other policies in Central Asia.

The Obama Administration's Record

President Obama entered office convinced of the need to place U.S. relations with Asia at the forefront of U.S. foreign policy. In the president's view, the withdrawal of U.S. forces from Iraq and advances in the struggle against al Qaeda should enable a rebalancing of U.S. attention and engagement toward the Asia-Pacific region as a whole. As the self-declared "first Pacific president," he believed regional issues in the Asia-Pacific had not received full or appropriate attention in the aftermath of September 11. He sought at the same time to avoid the increased tensions in U.S.-China relations that have typically occurred during the first year of a new president's term.

However, the mushrooming global financial crisis of 2008–09 had immediate consequences for how the U.S. and Chinese leaderships perceived their respective

interests and capabilities. Before 2008 Beijing had viewed the United States as having the most capable financial system in the world, and it anticipated that China would not be seen as a major global player until 2013 or later. But the financial crisis changed this—Beijing regarded the crisis as “made in America,” and Washington’s credibility for financial wisdom and prowess declined precipitously. In addition, Beijing suddenly found that its own relative standing in the global pecking order had advanced far faster than anyone there had anticipated.

President Obama decided that the United States should treat China as an emergent global power and that China must assume responsibilities commensurate with its increased economic weight. He broached these possibilities in his first meeting with Chinese president Hu Jintao at the G-20 summit in London in April 2009, where both leaders discussed their respective plans for global economic recovery.

During 2009 the Obama administration sought to sketch out a vision for long-term U.S.-China relations that involved efforts to reassure Beijing of U.S. strategic intentions, while also inviting China’s greater participation in the redesign of global institutions. Both presidents assented to ambitious shared goals in a joint communiqué issued during President Obama’s state visit to China in November 2009. Three areas were identified as comprising the principal components of a twenty-first-century policy agenda: reform of global financial arrangements and institutions; heightened attention to mitigating the effects of climate change (the United States and China already ranked as the leading emitters of greenhouse gases); and accelerated efforts to curb nuclear proliferation, with North Korea and Iran the immediate test cases. At the same time, Washington and Beijing agreed to manage their differences over an inherited array of bilateral issues so as not to permit differences over any one issue to spill over and disrupt the entire relationship. The Obama administration felt that treating China as a major power and according it the opportunity to contribute directly to designing the future global order would foster far closer bilateral ties.

Relations since Obama’s November 2009 visit to China have fallen well short of expectations. Though the atmosphere bilaterally has remained generally quite positive, most of the administration’s longer-term policy objectives have remained unmet. The unprecedented frequency and scope of exchanges at senior leadership levels (including numerous meetings and telephone conversations between the two presidents and between Cabinet officers) have not produced genuine strategic trust between both

countries. Bilateral relations are not confrontational or zero-sum, but they lack a sense that both leaderships are prepared to act fully on a mutual recognition of shared interests.

Some of the most contentious issues have involved economics and trade. China's continued rapid economic gains at a time of global financial turmoil have reinforced concerns about its unfair economic and trade practices. These included China's unwillingness to consent to more rapid appreciation of its currency in relation to the U.S. dollar, large-scale subsidies for state-owned industries, and major impediments to full access of U.S. firms to China's domestic market. As very high unemployment persisted in the United States, President Obama voiced mounting frustration with Beijing's trade practices, deeming them unworthy of China's steady advance to the top rungs of the global economic ladder.

Chinese foreign policy since early 2010 has also proved prickly, especially on regional issues where the Obama administration sought to advance presumed common (or at least complementary) interests. These issues have included constraining North Korea's nuclear weapons program and countering Pyongyang's military provocations, including its sinking a South Korean corvette and shelling a South Korean coastal island in 2010. In the U.S. view, Beijing's reactions to these North Korean actions were highly unsatisfactory in light of the risks posed to peace and stability on the peninsula. China, in turn, has objected strongly to U.S. calls for a collaborative approach to conflict prevention or dispute resolution in contested maritime domains in the South China Sea.

Also, the leadership at Obama's Defense Department and senior Chinese military officers have frequently been engaged in a dialogue of the deaf. Long-term Chinese investments in military modernization have begun to bear significant fruit, creating an increasing prospect of Beijing's being able to restrict the U.S. ability to conduct uncontested operations in waters and air space contiguous to Chinese territory. Despite the major strategic implications of a heightened U.S.-China military rivalry, the relationship between the Department of Defense and the People's Liberation Army remains episodic and underdeveloped, enhancing the possibility of misunderstanding and miscalculation that neither state seeks.

Amidst these mounting suspicions, the Obama administration has increasingly elaborated a two-track policy in Asia: advancing bilateral relations and high-level contacts with China whenever possible, while expressly pursuing apparently China-focused political, economic, and security ties with other Asian countries that are themselves

viewing China's power ascendance with growing concern. For example, President Obama's advocacy of the Trans-Pacific Partnership (TPP) at the Asia-Pacific Economic Cooperation summit in Honolulu did not preclude Chinese membership in this regional grouping, but it highlighted requirements for a level of transparency, reciprocity, and attentiveness to environmental and labor standards well beyond China's present practices. China is the largest trading partner of every country in Asia and is also America's second leading export market. Against this reality, the U.S. focus on developing a TPP that may well exclude China is an indication of the level of concern in Washington about China's future role in the region.

The shifts in U.S. regional defense strategy also represented a significant evolution in American thinking. President Obama's ten-day Pacific trip in November 2011 included visits to Australia, where he announced rotational deployments of U.S. Marines to facilities near Darwin, and to Indonesia, where over China's objections the United States and other participants at the East Asia summit focused on maritime security issues. In January 2012 the president blessed a new defense strategy in which he had been extensively involved over a number of months. Even as the Defense Department confronted the need to reduce defense spending as stipulated by the Budget Control Act of 2011, the revised defense guidance noted that "*we will of necessity rebalance toward the Asia-Pacific region,*" calling attention to the need for heightened attention to "existing alliances" and "expand[ed] networks of cooperation with emerging powers throughout the Asia-Pacific," including investment in "a long-term strategic partnership with India." This same guidance referred to "states like China and Iran," a startling choice of words, given that the U.S. seeks extensive Chinese cooperation in containing the threat posed by Iran.

The defense review openly acknowledged the growth of Chinese military power and reiterated calls for "greater clarity of [Beijing's] strategic intentions." These reflected the very modest success in building a sustainable security relationship with Beijing to date.

The initiatives highlighted in Obama's November 2011 Asia trip positions his administration far better to deflect critiques of its China policy from its political opponents. However, the credibility and sustainability of a new Asia-Pacific strategy remains an open question, given mounting U.S. budget deficits. It is too soon to judge how China weighs the potential risks to its security interests in relation to U.S. defense policy priorities—rather than restraining Chinese actions, U.S. policy moves could tilt the balance of opinion within China in a more adversarial direction. In addition, no Asian state—including any

U.S. ally—wishes to face an “either-or” choice between Washington and Beijing. All feel they can benefit from some level of U.S.-China competition in the region, but none wants to see that competition force them to choose sides. Even as the near-term possibilities for full cooperation with China seem doubtful, the need for China’s active participation in building a more durable and stable regional order remains beyond dispute. The question is how to realize this fundamental objective.

The Republican Critique of Administration Policy

Pending the outcome of the competition for the Republican nomination for president, it is premature to speak of a fully defined Republican policy approach toward China. Newt Gingrich has to date articulated views basically similar to those of Barack Obama, stressing the importance of rebuilding America’s domestic strength as key to its long-term relationship with China and of not encouraging the Chinese to view the United States as an enemy. Governor Rick Santorum has mentioned China only obliquely and has not laid out any specific policy he would adopt toward Beijing. Governor Mitt Romney has a distinct view, as does Representative Ron Paul. We believe that the possibility of Paul’s becoming the party candidate is too small to warrant substantial consideration of his approach to China here. It is equally unlikely that his views on foreign and defense policy will be reflected in Republican policy. Because Governor Romney’s stance is both different from President Obama’s and quite feasibly embodies what is likely to emerge in the coming months, we examine that in more detail.

Romney advocates a vigorous reassertion of American primacy. He argues that China’s growing strength must be counterbalanced by an appreciably increased U.S. military presence and heightened security relationships with regional security partners “with which we share a concern about China’s growing power and increasing assertiveness.” He contends that the objective “is not to build an anti-China coalition,” but that a greatly reinforced U.S. security role represents a viable “way of closing off China’s option of expanding its influence through coercion.” He criticizes China for “abusive commercial practices” and for “deny[ing] its people basic freedoms and human rights.” Governor Romney argues that the United States must therefore confront China more directly on major economic disputes. He has promised to declare China a currency manipulator on his first day in office (this in reality is a determination legally reserved for the Treasury Department). He also calls for unequivocal support for dissident groups

within China, faulting the Obama administration for not doing so, “out of fear of offending the Chinese government.”

Governor Romney’s call for a major reassertion of American military primacy explicitly includes increases in U.S. shipbuilding, heightened naval activities in the West Pacific, and national missile defense. He specifies that core U.S. defense spending must be maintained at 4 percent of GDP or more. Many of these goals are presumably aimed at ensuring U.S. global primacy, rather than being directed against China per se. But Romney argues that, “China has made it clear that it intends to be a military and economic superpower,” underscoring that China’s economic and military ascendance helps justify many of the policies he has advocated. By implication, American military power should be geared toward denying China any possibility either of regional domination or of surpassing U.S. capabilities.

Governor Romney’s policy stance makes a number of assumptions, though few have been explicitly addressed in the campaign to date. It assumes that a policy that frontally challenges China on economics and trade is likely to be basically cost free to the American economy. Indeed, when asked about this in a televised debate, he indicated that China relies too heavily on exports to the United States to risk a trade war with America. But there will in reality be risks in both directions, which in a worst-case scenario would result in serious trade-distorting actions by both sides. China’s prior instances of retaliation for preemptive U.S. moves outside the World Trade Organization (WTO) process indicate that China will escalate rather than accommodate. Moreover, no Asian country desires a head-to-head U.S.-China economic confrontation that would be detrimental to all.

A sustained, strong American military posture in Asia is important for the politics of the region and for the way China calculates its policies toward the United States. But critical to this will be the credibility of a commitment to enhanced defense expenditures. The Congress has mandated savings of nearly \$500 billion over the coming ten years in the defense budget, and there is a possibility of sequestration of an additional roughly \$500 billion. Those numbers appear incompatible with the defense posture Governor Romney is advocating, short of unrealistic reductions in other parts of the national budget. Because the proposed military posture will be highly resource-intensive and would easily compound the U.S. fiscal crisis, it inherently will raise questions in Beijing and throughout Asia as to whether it is politically and fiscally sustainable.

The ultimate results of such a posture will depend on whether it induces greater respect and prudence in Beijing's calculations or, conversely, heightens Chinese threat perceptions to the point where China increases its investments to defeat U.S. capabilities. China has grown its military budgets on average by somewhat more than 10 percent a year since the mid-1990s, and Beijing appears ready to turn that up a notch if its threat perceptions warrant it. Avoiding this Chinese response at a time of major American fiscal constraints will require managing the overall U.S.-China relationship in a way that makes Beijing more likely to cooperate than to conclude that its relations with the United States are destined to become more antagonistic.

Last and by no means least, there is a long and unhappy history of new administrations challenging China out of the starting gate. Experience to date suggests that it can take years to regain sufficient equilibrium in bilateral relations to promote regional stability and prosperity. This may become particularly difficult in the first year of the next U.S. administration because China is itself undergoing a generational change in its national level leadership at the same time.

Campaign rhetoric does not necessarily equate with what an administration chooses to do in office, but it does foster a mood and direction that could greatly compound the inherent challenges of a relationship as complex as that between the United States and China. No matter who is elected president next November, the successful candidate will face a host of daunting questions in U.S.-China relations that do not admit to easy answers or tidy solutions. But campaign rhetoric – especially that which promises very specific tough actions – can greatly complicate the early period of a new administration.

Policy Recommendations

The relationship between the U.S. and China is arguably the most consequential bilateral tie in future world politics, and how well it is handled will affect American interests both in the Asia-Pacific and globally. On every major issue the country confronts, U.S. goals will be easier to achieve if China acts cooperatively or in parallel fashion with the United States and will become more difficult if the United States and China act at cross-purposes. At a time of major fiscal adjustment in America, this should be a sobering and important consideration.

This reality is made more complicated by uncertainties about China's own trajectory. Beijing faces daunting challenges, as it must change its economic development model in order to sustain growth and must try to maintain stability with a restless populace. Not surprisingly, the Chinese leadership that will take control in 2012–13 will put top priority on domestic stability and growth. Also unsurprisingly, policy toward the United States is as contentious in China as is policy toward China in the United States.

Even acknowledging the prodigious economic and political challenges that China faces in coming years, it is fanciful to assume that Beijing has no credible alternative to accommodating to U.S. policy preferences. At the same time, if control of the White House changes hands in January 2013, an incoming president would be well advised not to reinvent the wheel. That is especially true given that a new leadership in China will be seeking to consolidate its power and determine what changes it should make in its dealings with the United States.

We make the following recommendations for whatever administration assumes office following the 2012 election:

First, as mentioned at the outset, the U.S. president as of 2013 should recognize clearly that the single biggest factor determining the shape of the U.S.-China relationship over the coming four years will be the extent of America's success in getting its domestic house in order. Expectations are extremely important in this relationship, and throughout Asia—very much including in Beijing—there is great uncertainty as to whether America will resolve its domestic political dysfunction and bounce back as a vibrant and strong engine of global growth and center of global innovation. A positive answer to this question will do more than any potential initiative to ensure a more respectful, cautious Chinese policy toward the United States.

Second, distrust in both countries over each other's long-term intentions has deepened in recent years, despite a generally very sound record of handling U.S.-China relations by the Obama administration. Such distrust is corrosive. Mutual suspicion moves both sides into worst-case scenarios on issues like military strategy and postures, and it thus threatens to become a self-fulfilling prophecy, at very high cost to both sides.

The U.S. administration should therefore work to establish initiatives with the new Chinese leadership that hold out the possibility of building greater trust based on deeper consultations and concrete actions. There should be a serious effort to develop in-depth, sustained discussions of respective American and Chinese military doctrines in Asia, of

their respective thinking about potential contingencies on the Korean peninsula, of their initiatives and results in their efforts to address their domestic economic challenges, and of their views on the evolution of Central Asia and their own roles in that evolution.

These discussions should be accompanied by efforts to at least act in broadly mutually reinforcing ways, if not in actual cooperation. Those efforts might focus on, for example, development assistance in central Asia and then move to more difficult issues. An agreement to proceed in consciously parallel—and increasingly in actively cooperative— fashion may over time deepen mutual understanding to the point where it is possible to agree on, *inter alia*, mutual restraint in development and deployment of certain types of military capabilities.

The above agenda appears to be very ambitious. It can in reality be approached in small steps. This is not a set of recommendations based on naive assumptions that things will easily improve if only one side or the other changes its attitude. Rather, it recognizes that in many areas U.S.-China relations are now potentially headed for significantly greater problems, and some attention must be given to the underlying sources of distrust in order to improve the chances of results that will serve America well.

This context highlights that the president in 2013 should focus his attention on setting the United States on a fiscally sound path that includes allocating resources for investments necessary for long-term growth and innovation. He should be prepared to be firm on a wide array of concrete issues in U.S.-China relations, but he should also be sensitive to the need to orchestrate overall U.S. initiatives so as to communicate credibly not only U.S. strength but also an American goal of achieving normal (as versus antagonistic) relations with China as it becomes the world's largest economy over the coming decade or so.