



**Statement before the
Senate Foreign Relations Subcommittee on
East Asia, the Pacific, and International Cybersecurity Policy**

***“THE CHANGING LANDSCAPE OF U.S.-CHINA
RELATIONS: WHAT NEXT?”***

A Statement by:

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Distinguished members of the Subcommittee, good afternoon, and thank you for this opportunity to come before you for this important hearing. I've been asked here today to provide my assessment of U.S.-China ties in the wake of last week's summit between President Obama and Chinese President Xi Jinping and to give my view on where the relationship is likely headed going forward. In evaluating the summit's outcomes, I would like to focus my opening remarks on the degree to which they have helped narrow the gap between two narratives—one "official" and one "unofficial"—circulating in Washington in recent months with regard to bilateral ties. In the "official" view, there are substantial areas of discord and tension with Beijing, but there remains a belief that these disagreements are manageable and that, given the significant complexity of U.S.-China ties and the many cooperative dimensions of the interactions between the two countries, overall, the relationship is stable and being managed well. In the "unofficial" view, the strategic competition between the United States and China is the dominant theme and, left unchecked, that competition is driving Washington and Beijing toward a "tipping point" in the race for global hegemony. This view also holds that the disagreements are not under policy control within either the Chinese or the U.S. bureaucracies, suggesting that the potential for accidental conflict is high and growing steadily. Against that backdrop, let me turn to a quick analysis of the summit's achievements, as well a look at areas where little headway was made.

Evaluating the Obama-Xi Summit's Outcomes

Given the serious tensions between our two countries over cybersecurity this year, it is safe to say that the most unexpected outcome of the summit was the agreement between the two sides on this contentious topic. Within the agreement, the most significant component is the declaration that neither government will "conduct or knowingly support" cyber-enabled economic espionage. As President Obama noted in his joint press conference with President Xi, the focus of the U.S. side must now be on ensuring China's actions comport with its words. In fact, we can and should expect that, the next time the U.S. side has releasable evidence of this type of activity emanating from China, the Administration will present such evidence to the Chinese, with the expectation that the responsible parties will be prosecuted to the full extent of Chinese law. If this does not occur, then we should expect the United States to levy the type of financial sanctions against the offending Chinese individual or entity that were hinted at before President Xi arrived for his visit.

President Xi's visit also witnessed some progress in the bilateral economic relationship. One key commitment was both sides' acknowledgement that they have a shared interest in promoting a stable global economy "supported by the multilateral economic institutions founded at the end of World War II that have benefited the people of both nations." This recognition is a helpful step toward addressing some of the concerns that China seeks either to undermine those institutions or to short circuit their effectiveness through the development of parallel institutions such as the Asian Infrastructure Investment Bank (AIIB). As with the cybersecurity agreement, however, it remains to be seen whether China's actions will match its words. Commitments from the U.S. side to implement the 2010 IMF quota and governance reforms "as soon as possible" and to endorse, with the appropriate caveats, the inclusion of the Chinese currency, the renminbi, in the IMF's SDR basket of reserve currencies presumably will serve as positive inducements to China to remain committed to working within these established global financial structures.

President Xi also made an effort, primarily through his interactions with senior U.S. business executives in several events in Seattle, to reassure the U.S. business community on issues of market access and the promotion of a level playing field in China. Here, there was less reason for optimism. Although Xi in his public and private remarks acknowledged the various concerns U.S. business has raised, he offered little in the way of concrete solutions. In fact, in several instances, Xi seemed to intimate that the ball was in the U.S. court in these areas, or that there simply was no role for U.S. opinion, such as in the case of several pending laws in the Chinese legislature that have sparked controversy among foreign business. The two leaders' commitment to continuing the negotiations toward a bilateral investment treaty is encouraging, as the high standards envisioned would address many of these problems, but there was no clear vision laid out by either side for how to expedite those discussions.

Moreover, aside from the agreement on cybersecurity, there was very little progress on the several security issues currently complicating U.S.-China ties. For example, President Xi showed almost no willingness to address U.S. concerns on maritime security, especially as it pertains to brewing tensions in the South China Sea. In fact, the absence of any reference to maritime security in the fact sheet released by the White House represents a glaring omission and suggests the two sides are fundamentally at loggerheads, with the United States calling for Chinese restraint with their island building and the militarization of reclaimed islands and the Chinese reiterating their sovereignty claims. Similarly, while there was agreement to continue bilateral human rights talks, the Chinese made no concessions on what might be called "non-traditional" human rights concerns, such as the worries over the provisions of China's draft law promising major—and potentially worrisome—changes to the way the Chinese government manages non-governmental organizations operating there.

So, taking what seems to be a very mixed picture into account, can we divine with any greater clarity whether the "official" or "unofficial" narrative on U.S.-China ties has more explanatory power? As with all complex analytic problems, the truth probably lies somewhere in between, as we see elements of both narratives operating in the context of the summit's negotiations and its results, and those same features are likely to be manifest in the relationship going forward. With that in mind, let me close my remarks by highlighting three trends in the relationship that do seem to point toward growing strategic divergence between the United States and China.

U.S. Reluctance to Acknowledge China's Great Power Ambitions is Exacerbating Tensions

Many in the U.S. policy community choose to ascribe the Xi administration's seeming intransigence on sensitive bilateral issues to a developing sense of Chinese arrogance. However, the Chinese in fact are fundamentally looking for a basic U.S. recognition of Beijing's growing global stature and influence. They want the United States to formally recognize that the cadence and the mechanics of U.S.-China relations must change to reflect the shifting power dynamics in a rapidly changing global order. The U.S. policy establishment has yet to craft an approach that offers concrete measures for signaling U.S. recognition of Chinese thinking in this regard without judging it is compromising on U.S. strategic interests in the region, whether real or perceived.

This shortcoming results in several practical policy effects. The feckless attempt by the United States to block China's establishment of the AIIB offers a poignant example. Misguided concerns that the AIIB somehow represented a dagger pointed at the heart of the Bretton Woods system prompted a U.S. policy response that resulted in unnecessary awkwardness—and even tensions—with key U.S. allies such as Australia, the United Kingdom, and South Korea while emboldening a victorious China to view such institutions as desirable workarounds to the glacial pace of change in established institutions. Similarly, seeming U.S. discomfort with accepting China's growing power and prestige may lead to unfounded confidence in the inevitability of Chinese policy failure. Talk of China “scoring own goals” with its regional diplomacy, military posture, and economic statecraft seems accurate given that China's behavior has resulted in a counterproductive demand signal from its neighbors for greater U.S. security presence in the region. That said, a kneejerk assumption concerning the likelihood of Chinese failure is an excuse for intellectual and policy laziness in the U.S. diplomatic, economic, and security establishments, especially since the evidence to date in several of these areas points to mixed conclusions at best.

A More Capable Chinese Military Meets an Underfunded U.S. Defense Establishment

In many ways, China's burgeoning ambitions are a reflection of the staggering success of its robust military modernization program over the last two decades. Beijing's desire for advanced military capabilities stems from its general assessment of the pillars of U.S. military power projection and the recognition that these capabilities amounted to an insurmountable obstacle for the People's Liberation Army (PLA). It is intuitively obvious that Chinese planners, with the assurance of sustained, targeted funding, have responded to these shortcomings by developing a suite of capabilities designed to counter each U.S. pillar: aircraft carriers; air superiority and long-range precision strike; regional bases and alliances; and space and information dominance.

At the same time, however, senior U.S. military officers presumably are concerned over the risk of degradation in U.S. combat effectiveness resulting from the sustained tight budgetary and fiscal environment imposed by sequestration. The impact on operations and maintenance accounts—to say nothing of the substantial drawdown in key investment accounts for future modernization of the force—makes responding to the challenge of China's rise more daunting. As such, a growing chorus of U.S. military voices appears to be advocating for pushing back on the PLA's expansion of its military operational activities while U.S. forces are still in a position to do so. Changes in Chinese defense strategy and priorities strongly suggest, however, that U.S. and Chinese forces will be coming into contact more often rather than not going forward. As such, the risk is rising that the potential for miscalculation is increasing faster than the two countries' national security establishments can keep those tensions under policy control.

A Balkanized U.S. Business Community is Less Supportive of Stable Bilateral Ties

Finally, one of the immediate consequences of President Xi's apparent turn to the left on the state's role in the economy is the effective Balkanization of the foreign business community into something akin to “haves” and “have nots.” In this construct, the “haves” include firms that

produce products—especially high-technology items—that Chinese domestic firms are either completely incapable of producing on their own or can only do so with very poor quality. As to the “have nots,” these are firms where a domestic Chinese competitor is already close to producing products on par with those produced by the foreign firm, or where the foreign firm is directly competing with a Chinese counterpart in an industry where the government has clearly signaled its intent to favor an indigenous capability.

Regardless of which category various U.S. firms happen to fit into, the net result is a business community less capable of—and less willing to—come together in using its lobbying power to stress the maintenance of sustained healthy U.S.-China ties. In fact, it is likely that the business community will turn toward greater pressure on the relevant government agencies to push back on the more blatant manifestations of Chinese industrial policy. Given the fundamental role of the economic relationship historically in stabilizing U.S.-China ties in times of security or political tension, the deterioration of that influence provides the potential for a more conflictual relationship going forward.

In conclusion, the summit between President Obama and President Xi succeeded in highlighting the challenges in the U.S.-China relationship but offered little in terms of providing concrete policy solutions or strategies. Each of the three trends I’ve laid out pointing to increased strategic divergence between the United States and China is entirely manageable with the application of creative thinking and strong leadership on both sides. The alternative is to allow these and other negative trends in the relationship to conspire to effect a steady worsening of ties. Moreover, the risk of that happening is amplified by the fact that the Obama Administration will soon enter its final year in office, making a disposition toward maintaining the status quo its likely default setting. Given that the U.S.-China relationship arguably should be the chief strategic preoccupation of U.S. foreign policy thinkers in the 21st Century, allowing such policy malaise to enter the equation is something both of our nations—and arguably the world—can ill afford.

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