

MEMORANDUM

To: President Hu Jintao
From: Freeman Chair in China Studies
Date: January 18, 2010
Re: What Do the Americans Want?

Background

As you begin your U.S. state visit, you will encounter increasing ambivalence among mainstream U.S. policy circles about the U.S. relationship with China. This is worth examination: U.S. policy toward China has been remarkably consistent over the past 40 years. While originally conceived in a Cold War context, the fundamental thrust of that policy is to engage China and build equities for Beijing in a U.S.-led international order in such a way as to (1) reduce Beijing's interests in disrupting or challenging that order; and (2) encourage Beijing to contribute positively to the maintenance and strengthening of that order. The essence of this longstanding policy was articulated in 2005 by then Deputy Secretary of State Robert Zoellick: that Washington seeks a China that is a "responsible stakeholder" in the international political and economic architecture. The basic tenet of this policy, of course, is the unquestioned assumption of U.S. primacy in international affairs.

The United States, of course, is a highly pluralized society, and multiple interests shape American foreign policy. U.S. policy toward China may continue to reflect the essential realism of Richard Nixon and Henry Kissinger, but any U.S. administration's policy necessarily accounts for a wide range of views. The Obama administration therefore must account, in its policy toward Beijing, for the demands of American advocates for individual human rights and values, those concerned about China's potential challenge to U.S. military primacy in Asia, and those concerned about the U.S. domestic impact of economic integration with China. The resulting policy may therefore seem schizophrenic to Chinese leaders: one that seeks simultaneously to draw China closer as a normative, strategic, and economic partner while challenging Beijing's management of domestic Chinese affairs; hedging against China's potential emergence as a direct military opponent; and threatening disruption of bilateral economic ties.

Strategic Mistrust

The contrast between Beijing's rather clear and unambiguous assertion of its core interests in dealing with the United States and Washington's sometimes confused and contradictory articulation of its interests in dealing with China is marked. While China can readily state its primary foreign policy goals: international stability that preserves territorial integrity (i.e., Tibet, Taiwan, etc.) and an international environment that enables domestic economic development (i.e., open markets for trade), the United States is constrained in its ability to prioritize "core" interests. Were the Obama administration to articulate any such hierarchy it would result in domestic political criticism from those

whose issues were not primary or even excluded from the list. Thus, U.S. goals appear ambiguous to Chinese analysts.

This ambiguity contributes to the phenomenon that both Beijing and Washington recognize as the most serious problem in the bilateral relationship: a lack of strategic trust. With Washington's multifaceted, many-headed hydra of a China policy forcing Beijing into a multifaceted policy response, the two sides are left with basic questions about each other's fundamental strategic intent. Earlier in the Obama administration, Deputy Secretary of State James Steinberg articulated a China policy based on "strategic reassurance." While that precise nomenclature may not have been adopted as the administration's *de jure* policy, it does capture the administration's sense that building trust about each side's respective strategic intentions is a principal task of diplomatic engagement.

A Special Global Relationship

The Obama administration's tactic to reduce strategic mistrust in bilateral diplomatic engagement has been to lessen the emphasis on purely bilateral issues and increase the emphasis on matters of global strategic importance. In other words, the extent to which Beijing and Washington become partners in tackling matters that affect the world as a whole would help overcome friction and mistrust arising from more narrow bilateral concerns. This focus on the role of the United States and China as partners in setting and managing a global agenda was initially mischaracterized by some as "the G-2": it doesn't go that far by any means. However the thrust of the new diplomatic tactic has signaled an evolution of thinking about China's international role. While the United States continues to pursue a policy in which it is the lead player in international economic, political, and strategic governance, it now recognizes that China is a considerable, if secondary, mover in that architecture. By elevating its assessment of China's role in global affairs, however, the United States expects China to play an active role in promoting the effectiveness of and reducing threats to the (U.S.-led) international architecture.

The new emphasis on global matters in bilateral engagement assumed two criteria: (1) that China appreciates the importance of the existing international architecture (and U.S. leadership therein) to its own domestic growth and international stature; and (2) that Beijing was willing to step beyond the Deng Xiaoping maxim that China should "lie low" (韬光养晦) in international affairs and take an active leadership role in strengthening international institutions. This was a bold gambit, in that it required Beijing to accept that U.S. leadership in global affairs is the best guarantor of China's core interests, something Beijing has never conceded.

Given China's status as the world's second largest economy and major diplomatic player, Americans may view as natural its graduation from "free rider" to "responsible stakeholder" in the international architecture. Yet while many Chinese can accept and appreciate that a *Pax Americana* in the Asia-Pacific region, as well as support from Washington for a rules-based, institutionalized approach to trade and economic integration, have played an important part in setting the table for China's development since 1978, most Chinese also recognize that the United States, if it so chose, would also be the biggest single threat to core Chinese interests. Accepting that American hegemony is inevitable to China's peaceful development is a tough sell for even the most internationally minded of Chinese policymakers. A U.S. charge to China to take on a leadership role in international affairs in pursuit of goals designed (at least in part) to preserve American primacy is therefore not easy for most Chinese to accept without thoughtful debate, particularly when China's cautious "lie low" approach has been so successful in pursuing China's core interests for so long.

A positive Chinese response to U.S. requests to become more active partners in leading international affairs is further complicated by two facts. First, many of the interests the United States is pursuing

within the international architecture do not seem to China to be aligned with China's interests (i.e., U.S. vs. Chinese approaches to climate change). Second, in the wake of the global economic crisis, the presumption of long-term U.S. primacy is being questioned by many Chinese that view the United States now in a state of permanent decline.

Responsibility by Whose Terms, and a Stakeholder in What?

The two sides are therefore at somewhat of an inflection point in their relationship. On the one hand, the United States is beginning to test whether its 40-year engagement policy has been successful: if China is unwilling to take on a more active role in supporting U.S. goals within that order, then from an American perspective the policy may have reached the end of its useful life. On the other hand, from a Chinese perspective if U.S. leadership and norms are not subject to scrutiny by participants in the international architecture, then the value of participation in a U.S.-led order is inherently lessened.

With this background, one can examine the key security, economic, and normative ("soft-power") issues in the relationship and, in particular, try to understand what the United States wants from China, why, and what the two sides might do to manage expectations from one another on these issues going forward.

Security Matters

Military-to-Military Affairs

Some Chinese analysts view the U.S. alliances with the Republic of Korea and Japan; enhanced ties between the United States and ASEAN countries, including with respect to international interests in the South China Sea; the warming of relations between Delhi and Washington; and even the costly U.S. presence in Afghanistan, as a concerted U.S. strategy to encircle and contain China's rise. There is no question that U.S. attention to China's rise plays a factor in U.S. policy with respect to the rest of Asia. China is not, however, the primary driver in overall U.S. Asia policy.

After years of punditry on the twenty-first century being the "Asian century," the United States has dramatically altered its overall global focus from one that is transatlantic to one that is transpacific. The United States now views its economic and strategic future inexorably rooted in Asia-Pacific affairs, and maintaining its role as a Pacific country is a primary U.S. strategy. Certainly, concerns about potential Chinese efforts to supplant the U.S. role in Asia are a factor in U.S. interaction with other Asian countries, but the primary factor is simply a desire to maintain a strong foothold in Asia to serve long-term U.S. interests.

By and large, the U.S. presence in Asia has security benefits for China and has been a net source of stability for Chinese development. There are, however, some undeniable challenges to Chinese interests resulting from the U.S. military role in Asia. As China's international economic interests expand, China's reliance on the U.S. Navy to protect sea lines of communication is a potential vulnerability, and China's ability to more forcefully lay claim to disputed areas of potential economic opportunity (in the South China Sea, for example) is reduced. Navigating between a recognition that the U.S. contribution to stability in Asia has some positive aspects and an increased sense of exposure to risk from reliance on U.S. benevolence is not an easy task for Chinese leadership.

For the U.S. military, disciplined to look for potential threats, it may be natural to view with suspicion emerging new sources of military power like China. Likewise, it may be natural for the Chinese military, particularly given China's increasing international interests, to view with hostility U.S. probing of its strategic capabilities. While the two militaries may not ever, given mutual suspicions, achieve strategic trust, finding means to reduce the threat of hostilities that may arise over a

miscalculation regarding strategic intent is important. Neither country can afford an escalation of tensions that might result from another incident at sea, such as that involving the U.S. surveillance vessel *Impeccable* in 2009. Strong civilian leadership is necessary to remind the two militaries of the overall interest in preserving a peaceful, productive bilateral relationship and encourage the two militaries to develop an effective means of communication to quickly defuse tensions before they occur, if not develop a broad strategic understanding of respective capabilities and planning that reduces the threat of miscalculation.

Nuclear Proliferation

President Obama has placed a high premium on a global reduction/elimination of nuclear arms. The negotiation and passage of a new treaty with Russia to reduce the stockpile of nuclear weapons was a signature victory for the administration in late 2010. China, which has a far smaller nuclear arsenal than the United States or Russia, has been less interested in dialogue on the subject of reducing nuclear weapons. While this stance is understandable, given relative asymmetries, it feeds a sense in the United States of a Chinese desire for military peer-competitor status that, far from providing strategic reassurance about Chinese intent, undermines efforts to reduce U.S. strategic mistrust. At a minimum, the two sides should resume the direct nuclear dialogue that stalled after former U.S. secretary of defense Donald Rumsfeld visited the PLA's Second Artillery in 2005.

Beyond the bilateral nuclear relationship, the U.S. interest in curbing global nuclear proliferation has been a key plank in the Obama administration's efforts to elevate dialogue with China and enhance China's role as a leader in international affairs. Seizing on China's core interest in international stability, the United States has sought to encourage China to be more assertive in dissuading countries that are unfriendly to the U.S.-led international architecture from acquiring or proliferating destructive nuclear technologies. These efforts have centered on convincing China to exercise leverage with North Korea and Iran to restrain their nuclear ambitions and adopt policies that would be less threatening to global security (as defined and guaranteed by the U.S.-led architecture).

While it may not be lost on Beijing that China has some leverage (though how much is in dispute) with Pyongyang and Tehran precisely *because* China has not towed the U.S. line in its relationships with them, Beijing does face an interesting dilemma in its policy with respect to North Korea and Iran. Washington has challenged Beijing to align with the international order in dealing with nations that may be disruptive to the collective interests (as defined by the United States) of that order. This places Beijing in the uncomfortable position of determining whether supporting the goals of the international architecture (and thus accepting the U.S. contention that long-term international stability is otherwise at risk) supersedes immediate, narrow benefits (political, in the case of North Korea; economic, in the case of Iran). The question for Beijing is whether the old "lie-low" (韬光养晦) formulation is sustainable, given the increasing clout that others, including the United States, ascribe to China. If China is unwilling to exercise whatever clout it possesses in defense of the international order, however, the fundamental basis for the 40-year engagement policy will inevitably begin to unravel in the United States.

Iraq and Afghanistan

To place these as third on the list of U.S. security priorities is misleading in that they currently occupy the lion's share of foreign and security policy attention in Washington. At one point in the wake of 9/11, the counterterrorism origins of the campaigns in Iraq and Afghanistan provided a concrete set of common interests on which the United States and China could have found meaningful common ground. At this point, however, those campaigns have devolved into exercises in finding exit strategies

that leave the respective countries and their regions no less secure than they were when the United States first invaded. There is little room for cooperation on counterterrorism in that formulation.

Certainly, the United States would like China to play a constructive role with Iran (in the case of Iraq) and Pakistan (in the case of Afghanistan) to reduce the potential destabilizing role of those countries for U.S. efforts. But most U.S. analysts do not believe Chinese leverage with Tehran is so extensive that Beijing would have much impact on Iranian mischief making in Iraq; and setting aside domestic U.S. concerns about China's role in Afghanistan, Washington is sensitive to concerns from Delhi about inviting greater Chinese political activity in South Asia. As for potential alignment of U.S. and Chinese interests regarding counterterrorism within China, Washington is increasingly cynical about Chinese claims of Uighur and Tibetan terrorism, and these ethnic groups have broad sympathy throughout the body politic in the United States.

Economic Matters

Correcting Global Imbalances

In the past, economic issues between the United States and China have been secondary matters for U.S. leaders. U.S. diplomats in the 1970s and 1980s openly wondered "what could China possibly have to sell us?" Now, China exports nearly \$300 billion in goods and services to the United States. The U.S. trade deficit with China is the largest in human history. In the best of times, these are politically shocking statements. These days, with the United States in a fragile economic state, and with unemployment at around 10 percent, they are like a bomb with a lit fuse.

In hard times, the extraordinary benefits of open markets and free trade have much less political and emotional appeal. When much of what Americans buy in stores is marked "MADE IN CHINA," how does a member of Congress tell out-of-work constituents "you couldn't possibly be employed producing those goods in the United States" and expect those constituents to continue to elect him or her to office?

Given the fact that much of what the United States buys from China has not been produced in the United States for decades, the economic linkage between U.S.-China trade and U.S. joblessness is tenuous at best. Yet economic realities rarely interfere with political mythology. In the United States, trade with China and U.S. unemployment have become inextricably linked in American political consciousness. The Obama administration thus has little meaningful political choice but to address the perception that trade with China is unfair and is costing the United States jobs.

There has always been an element of worry in Washington about U.S.-China trade. Labor groups have long warned that trade with China puts U.S. workers at a disadvantage to Chinese counterparts, while large U.S. multinational businesses with ambitious growth plans in China have (with great success) promoted open trade between the two countries. However, in the first two years of the Obama administration, the political influence of American business in Washington was significantly less than that of organized labor. U.S. political attention to issues that may impact the competitiveness of U.S. labor may therefore have been relatively higher than in previous administrations. The valuation of the RMB as a factor in bilateral trade is one such issue.

To be certain, the valuation of the RMB is a matter of global economic importance, yet the United States' bilateral engagement on the subject is motivated by parochial political concerns and animated with faulty economic logic. Within China, the RMB's value has a serious impact on Beijing's ability to manage domestic inflation and otherwise ensure efficient asset allocation. As the world's second largest economy, China's currency regime necessarily affects global economic balances. For some

products, notably in commodity-intensive sectors like steel production, China's relative global competitiveness is seriously affected by the value of the RMB. But for the most part, the relative value of the RMB has little to do with China's overall competitiveness in international export markets. Margins on Chinese goods in foreign markets, particularly at the consumer level, are quite high by international standards. The notion that a realistic adjustment in the value of the RMB would lead to significant shifts in production from China to the United States is highly doubtful. Certainly, there is hope that an appreciated RMB will lead to better competitiveness for U.S. exports to China, but U.S. export competitiveness in China is affected by many other factors than currency valuation. Unfortunately, these facts seem to be lost on those in the United States who favor an aggressive stance on China's currency regime, so the political attention to the issue obscures the importance of the issue for other than political purposes.

Market Access Issues in China

U.S. business has spent less time concerned about competition from China and more time concerned about navigating the increasingly complex and competitive business environment in China. Quite frankly, since WTO accession U.S. businesses have become nervous about the extent to which China would welcome their participation in the Chinese domestic market. A range of concerns are at the forefront of U.S. business attention to these matters: the ability to protect intellectual property rights and technology from unscrupulous competitors in the Chinese market; government policies that complicate foreign participation; and other matters that suggest to American companies that Beijing's commitment to a market-oriented economy has waned. Not all of these concerns are wholly valid, but as a political matter the perception that China will hold fewer opportunities and more challenges for U.S. businesses has meant that China's most powerful friend in Washington—the U.S. business community—is less friendly and supportive of China's interests in Washington.

For the first two years of the Obama presidency, the relative political power of labor and related groups was a primary reason currency issues were such an obsession and why the Obama administration was willing to implement a greater range of trade remedies against China than were previous administrations. In early November 2010, however, the U.S. election brought into office a new Congress with a Republican-controlled House of Representatives and a Senate with only a slim Democratic majority. In this environment, U.S. businesses will likely have more political "pull" than in the previous two years. It is probable, therefore, that issues of market access and compliance are going to rise to the forefront of the economic relationship between the two countries. The currency issue will continue to play a role, but it is doubtful it will be as dominant a factor in the economic relationship as it has over the past two years.

U.S. vs. Chinese "Soft Power"

The global standing of the United States in the wake of the Iraq/Afghan wars and the global economic crisis has surely taken a hit. One would assume that China's global standing would naturally be enhanced, at least relatively. Certainly, in parts of Africa and Latin America, China's straightforward emphasis on mutual economic and cultural benefit has played well, especially in comparison to the occasional high-handed nature of U.S. public diplomacy and development assistance efforts. But the rise of China's relative influence (in economic and security, as well as soft-power terms) has had a consequence, particularly among China's Asian neighbors: as Chinese power increases, a sense of vulnerability has caused other Asian countries to try to draw the United States closer as a regional counterbalance to a China that may not always maintain a benign regional stance.

As a result, there is some concern that China and the United States will begin a not necessarily friendly competition for influence in other parts of the world. This competition is already manifest and palpable in Southeast Asia. That might easily spread elsewhere, and with potentially damaging consequences.

China's interests may be narrowly served by a development strategy that achieves a greater sense of relative acceptance by some countries. But in the long-term, is that more valuable than a strategy that seeks common ground with the United States on matters of mutual interest—reduction of infectious disease, for example—rather than scores narrow victories in a competition that almost certainly does not serve China's overall foreign policy interests? It might be more advisable to find areas on which to work to establish a better and broader framework for cooperation and trust between the two countries. Joint efforts on health and development would be such an area and would help demonstrate the capacity of the two countries to exercise soft power together.

Conclusion

The United States has long had a relationship with China that has sought to integrate China into the international community in ways that serve U.S. interests. Economic and normative success from that integration, and even a relative enhancement of China's ability to secure its own interests militarily, were foreseen and even cheered by the architects of this 40-year-old U.S. policy toward China. Of course, when the original policy was conceived, China represented less than 1 percent of global GDP and was not perceived as a significant security challenge to any other country or territory. Now, of course, China is the world's second largest economy and all aspects of its comprehensive national power are growing rapidly.

For the United States, its efforts to integrate China into the international community are at a crossroads. It was one matter to try to dictate the terms of a country's international participation when U.S. power was so vastly superior. Now that China's rise has been such a success, will the United States continue to be able to dictate those terms, or will it have to temper its insistence on having a final say on the acceptability of behavior in an international order for which it is the sole architect? For that matter, will China seek to actively sustain an architecture that has helped pave the way for its success, or will it challenge the nature of that architecture and U.S. primacy therein in ways that will, ultimately, strike the United States as a decision by Beijing to choose conflict over engagement? These are the questions that are beginning to be actively debated throughout the policymaking community in Washington. China can do much to influence the way they are answered.