

## FREEMAN REPORT



## MORE IN THIS ISSUE

## Publication

*"Implementing Health Care Reform Policies in China"* by **Charles W. Freeman III** and **Xiaoqing Lu Boyton**

## Upcoming Event

January 17 *Taiwan's January 2012 Presidential and Legislative Elections: Implications for Taiwan, the United States and Cross-Strait Relations* (see p. 6)

## Freeman Facts

China-ASEAN Trade Statistics (see p. 6)

## QUOTE OF THE MONTH

*"What I have said since I first came into office and what we've exhibited in terms of our interactions with the Chinese is we want you to play by the rules. And currency is probably a good example...For an economy like the United States -- where our biggest competitive advantage is our knowledge, our innovation, our patents, our copyrights -- for us not to get the kind of protection we need in a large marketplace like China is not acceptable."* ~ President Barack Obama, Saturday, November 12 speaking to global executives at the Asia-Pacific Summit in Bali, Indonesia. President Obama's attendance at the Summit comes as the U.S. seeks to strengthen its engagement in Asia, coupled with domestic pressure to take a stronger stance on issues in the U.S.-China trade relationship.

**Source:** Reuters, November 12, 2011.

The *Freeman Report* provides an open forum for individual opinions and commentaries on China. All opinions expressed in the feature essay of the report are those of the author.

## Feature Article

## OFFENSE-DEFENSE GAMING IN THE ASIA-PACIFIC: SINO-AMERICAN TIES ENTER A NEW ERA?

By Zhu Feng

The United States has recently launched a wave of an "Obama offensive." From Honolulu to Bali, and from Australia to the Philippines, the United States has reiterated its high-profile leadership role, while vowing to hold China to the "rule of law" and a "grown-up" standard of behavior. It is to this end that President Obama and Secretary of State Clinton have coordinated their offensive. They announced the establishment of a new military base at Darwin in northern Australia, ushered in the Manila Declaration promising a security guarantee and economic partnership for the Philippines, and pushed for a framework for a multilateral resolution to the South China Sea issue at the East Asia Summit in Bali to address freedom of navigation. The strategy behind this offensive is obviously to persuade China and even compel China to avoid challenging the U.S. in the region. Despite the denial of American officials that the United States seeks to "contain China," Obama's offensive has ignited a media frenzy of "strategic encirclement" talk in China. In the worst case, it appears that the U.S.-China relationship may be headed for the precipice of a new Cold War.

What's the key driver behind this offensive? Is it propelled by domestic political considerations in the upcoming election, or by true apprehension on the part of the Obama foreign policy team? Does the pivot to Asia signal a dramatic change in U.S. policy towards China, or merely indicate a tactical shift by the Obama Administration, which has long been frustrated over China's rising nationalist sentiment, its inability to cooperate over North Korea, Afghanistan and Pakistan, and its growing desire to throw its weight around in East Asia? The answers are complex in the eyes of the Chinese.

Obama's offensive is an alignment of reality and rhetoric. The reality is that the U.S. wants to build a strategic and economic coalition of allies and partners to resist China's expansion of influence. The rhetorical element emerges when the U.S. re-frames its Asia-Pacific strategic periphery, with a tendency to place China in the opposition. However, faced with regional turmoil in the Middle East and domestic economic stresses, the White House seems

(continued on p. 2)

to lack sufficient power leverage to “contain” China—the booming, second-largest economy in the world and the most successful business partner globally. Realistically, the epic claim of the 21st century as America’s Asian-Pacific century is destined to be a hollow shell without substantive engagement of China.

Also, there is no evidence that the U.S. should place emphasis on the “China threat,” as the power shift in East Asia which many believe is the result of the PLA’s military modernization, has not quantifiably or qualitatively altered the power disparity between Washington and Beijing. China is in no position to seriously challenge the U.S. in the foreseeable future. As far as U.S. leadership goes, American influence in the Asia-Pacific has been unmatched since the end of the Cold War in regard to its enhanced network of allies, its expanded defense partnerships and its growing popularity in the region.

China’s rise has caused East Asian countries, who have grown accustomed to American hegemony, to feel increasingly uneasy about the regional security order. While the two giants have a certain level of geopolitical competition, this competition may actually benefit the region as long as this competition is not overly focused on the military component. East Asian countries, including Japan, South Korea, Australia, and even the ASEAN nations, advocate greater U.S. commitment in the region to hedge against China. The Obama administration has deftly seized on the uneasiness of the East Asian region regarding China’s future impact to bring most countries in the region closer to the United States. Consequently, the U.S. has applied all the instruments of its power to strengthen its regional preeminence. At the same time, China’s recent “abrasive diplomacy” has broadened the U.S. strategic space in the region.

In contrast to Hillary Clinton’s smart power approach to foreign policy, China’s diplomacy has fallen short of vision and innovation in recent years. China has encountered obstacles to strengthening and perpetuating its regional influence. Despite Beijing’s insistence on its policies of a “peaceful rise” and “harmonious relations” with its neighbors through material benefit and benevolence, the nationalism and populism of the Chinese media and Chinese public, as well as a sense of infallibility within Beijing’s foreign policy bureaucracy, have damaged the international image of China’s “peaceful rise”, and deepened the United States’ suspicions and regional countries’ discontent. China’s dip-

## IN THE NEWS

**WASHINGTON**—U.S. officials have sought to reassure members of the People’s Liberation Army (PLA) that increased military ties with Australia, including an agreement to eventually station up to 2,500 US Marines in Darwin as part of military training exchanges, are not aimed at China. Chinese Defense Ministry spokesman Geng Yansheng had responded earlier to the news of the U.S.-Australia agreement with a warning that military alliances were a relic of outdated “Cold War” thinking, which could ultimately harm the interests of all countries in the Asia-Pacific region. Other Chinese military officials have gone further, suggesting that the move is part of a wider U.S. goal of encircling China militarily. The news of the U.S.-Australia agreement comes at the same time that Beijing is placing a strong emphasis on military development, with the creation of a strategic planning department in the PLA and a call by President Hu Jintao for the continued modernization of the PLA Navy.

**BEIJING**—Wang Chen, the head of the State Internet Information Office in China, has called for the government to take more forceful measures in regulating the internet. This call comes in the wake of articles published in Xinhua News and the People’s Daily urging a crackdown on ‘internet rumors’ spread by micro-blogging sites such as Weibo. Writers from both news agencies compared online rumors to heroine and other illegal drugs, calling them addictive, intoxicating, and harmful to the well-being of society. Many observers believe these latest calls for stricter regulation signal an impending crackdown on information online. In recent weeks, police have detained people in two separate Web-related incidents for disseminating false information, in the first case for saying online that HIV patients in Xinjiang were infecting food with their blood, and in the second for posting a photo alleging that 5,000 police officers in Hunan had provided an escort for a wedding convoy.

lomatic blunders have generated the leeway for the White House to reap a “China bonus” in the region.

The most important question is how China will ultimately respond to this Obama offense, and to what extent the United States is prepared to advance a new type of “leadership” on geostrategic issues, resisting China’s challenge. Chinese foreign policy has allegedly been prag-

(continued on p. 3)

matic and more inclined to be risk-averse. If this remains true, it is unlikely that China will risk generating a standoff with the United States. Even if this is the case, however, the trend of Sino-U.S. relations remains worrisome.

In fact, it is not Washington's proclamation that the 21st century will be America's Pacific century that determined U.S. reengagement in the region—the U.S. has never left East Asia. Given its geography and history, the U.S. is in reality a residential power in the Asia-Pacific. However, the way in which Secretary Hillary Clinton has forcefully kept China “cornered” and “backpedaling” with regards to the South China Sea issue, forming a quasi-alliance with Vietnam, selling advanced F-16 C/B jetfighters to Indonesia, excluding China from the TPP, and establishing the new marine base in Australia, portends a worrying trajectory for the Sino-American strategic relationship. This is particularly true in light of the United States' confrontational presentation of the Air-Sea Battle doctrine to counter China's anti-access/area denial strategy. Today's Sino-American relationship contains something more visible now than at any time since normalization of relations in 1979: strategic competition over geopolitical influence in East Asia. Myanmar could prove a significant test case. Beijing is fearful that its commercial ties with Yangon will be damaged in the face of the U.S. re-balancing. At the very least, the U.S.' strong push for Burmese political liberalization could ignite a new “Color Revolution” on the Chinese periphery. Undoubtedly, increased tension with China as a result of the U.S. diplomatic offensive is not due to fundamental changes to Beijing-Washington relations, but to the deepened effect of the “security dilemma.” What matters more is not so much the frayed ties, but growing strategic distrust. Therefore there is an increasing likelihood of geostrategic tension between the two countries escalating rather than receding.

To mitigate competing security concerns of the United States and China, two things are required: the White House should make clear to what extent the U.S. will respect China's legitimate interests while also preserving American primacy; From China's side, Beijing must build the trust of all its neighbors as well as the U.S.

Can the United States better influence China, and can China change itself in response to U.S. and East Asian expectations? These questions remain far from answered. Avoiding a new cold war is a common goal for the United States and China, as well as the rest of the world. To a large extent, achieving

(continued on p. 5)

## PUBLICATIONS

- “*Implementing Health Care Reform Policies in China – Challenges and Opportunities*” CSIS, December 2, 2011. By **Charles W. Freeman III**, Senior Adviser (Non-resident), Economic and Trade Affairs, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS and **Xiaoqing Lu Boyton**, Fellow, Freeman Chair in China Studies, CSIS

In this report, American and Chinese experts examine how health reform is being implemented in China, as well as the challenges and opportunity reform is facing. China's health system has spanned the antipodes of potential health system models, ranging from a pure government delivery model to one radically driven by profit incentives, and now China is seeking a hybrid to suit its hybrid economy. After an extensive and remarkably public debate that featured clashes between the “government approach faction” and the “market approach faction,” China has settled on a mixed vision that guarantees a level of basic universal health security while permitting market space to meet additional demands. To realize this vision, the government along with the Central Committee of the Communist Party announced a major comprehensive health reform effort in April 2010, committing RMB 850 billion over three years to the project, even amid a major economic recession. [\[Click here to view the full article\]](#)

- “U.S.-China Defense Consultative Talks on December 7” *Critical Questions*, December 2, 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS and **Brittany Billingsley**, Research Associate and Program Coordinator, Freeman Chair in China Studies, CSIS

The U.S.-China Defense Consultative Talks was originally established in 1997, having been held 11 times since then. This year saw the 12th meeting on December 7 in Beijing chaired by senior U.S. and Chinese military staff. The talks provide both sides the opportunity to discuss mutual interests and provide a forum for candid dialogue, which can reduce misunderstanding and potential miscalculation. The meeting's timing is pertinent because it is the first held since the U.S. arms sale to Taiwan in September, which caused a period of contention between the U.S. and Chinese militaries and a hiatus in communication between the two sides. As the U.S.-Chinese political and economic relationships develop, their military relationships lag behind and will need further engagement to promote greater predictability and understanding. [\[Click here to view the full article\]](#)

## PUBLICATIONS

- “*China’s Emerging Global Health and Foreign Aid Engagement in Africa*” CSIS, November 30, 2011.

By **Charles W. Freeman III**, Senior Adviser (Non-resident), Economic and Trade Affairs, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS and **Xiaoqing Lu Boyton**, Fellow, Freeman Chair in China Studies, CSIS

This volume is a compilation of papers that were written for the Conference on China’s Emerging Global Health and Foreign Aid Engagement, sponsored by the Center for Strategic and International Studies and the China Institute of International Studies, in Beijing on May 24, 2011, as part of a larger CSIS initiative to examine the global health engagement of the BRIC countries. Focusing specifically on China’s health and foreign aid engagement in Africa, the volume includes contributions by U.S. and Chinese experts. The articles discuss the history and evolution of different types of assistance to countries by the U.S. and China, examine the budgeting procedures for foreign aid projects, and consider the opportunities and challenges to U.S.-China collaboration in aid to Africa. [Click here to view the full article]

- “*Taiwan’s 2012 Presidential Elections and Cross-Strait Relations – Implications for the United States*” CSIS, November 14, 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS and **Brittany Billingsley**, Research Associate and Program Coordinator, Freeman Chair in China Studies, CSIS

Since Ma Ying-jeou assumed the presidency in 2008, relations across the Taiwan Strait have improved dramatically. In the past three and half years, 16 agreements have been signed on practical matters that have largely benefited the people on both sides of the Strait. Restrictions on trade and economic ties between Taiwan and mainland China are gradually being dismantled. However, cooperation is taking place between government bureaucracies on both sides of the Strait in many areas as well. The presidential election in Taiwan, scheduled for January 14, 2012, will have an impact on the cross-Strait situation regardless of the outcome. If President Ma is re-elected for a second term, Beijing may become impatient for faster progress toward reunification. A victory by the Democratic Progressive Party (DPP) candidate, Tsai Ing-wen, would create different challenges. Tsai is unlikely to accept the 1992 Consensus on “one China” and opposition to Taiwan’s independence. China’s leadership is pessimistic about the prospects for maintaining cross-Strait stability and progress if the DPP returns to power. [Click here to view the full article]

this goal depends on whether the United States adopts a balanced China policy—namely, a policy of hedging against the strategic aspirations of China, while also actively influencing and positively encouraging China to be innovative in developing its role in the Asia-Pacific. Clearly this also depends on whether China itself can accurately reset its foreign and security policy towards the United States and the region.

Beijing remains stuck in this current round of Sino-American competition for influence, and it seems puzzled by the worsening of China’s strategic environment along its periphery. Yet, Chinese moderation in its response to the Obama offensive so far will not automatically lead to consideration of crucial questions: China’s rise has brought economic development and prosperity to the East Asian region, and China has become the largest trading partner of nearly every East Asian country. China is sincere in its desire for a peaceful rise and in its desire to enhance its image as a major power through a win-win strategy. However, why does a rising China still lack the respect of other nations? At the same time, the Chinese people must ask themselves why China, while it has declared a series of core interests, has remained unable to achieve these interests. Why have the last 10 years of China’s foreign policy practice increasingly resulted in an inability to safeguard China’s interests?

Chinese foreign policy is truly in need of thorough overhaul. Between 1990 and the 2008 global financial crisis, China was far weaker and held only a few cards in its hand. However, through Beijing’s “charm offensive” and “smile diplomacy,” China’s international prestige and status rose steadily, and China’s relations with states in the region substantially improved. Now that China has a full hand of useful cards at its disposal, it seems that Beijing has forgotten how to play the game. In this respect, China should stop blaming the United States, Japan, Vietnam or the Philippines, and reflect first on its own diplomatic blunders.

As Beijing faces a crucial period in its transition to the fifth generation of political leadership, an internal overhaul of Chinese foreign policy will not come easily, but this does not mean that China will inevitably stand up to the Obama offensive and seek confrontation with the United States. Beijing’s low-key response demonstrates that China does not desire a standoff and instead seeks to dodge the impact of the U.S. pivot. For example, on November 16th, Cui Tiankai, Chinese vice foreign minister, said that China wants to prevent U.S.-China relations from being “hijacked by domestic politics or

(continued on p. 6)

## Publications from the Freeman Chair 2011

---

**\*Please visit our Web site to access archived publications dating back to 2002.**

### 2011

#### December

- “*Conference Report: The South China Sea and U.S.-China-ASEAN Relations*” CSIS, Keck Center for International Strategic Studies, December 2, 2011
- “*Implementing Health Care Reform Policies in China – Challenges and Opportunities*” CSIS, December 2, 2011. By **Charles W. Freeman III**, Senior Adviser (Non-resident), Economic and Trade Affairs, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS and **Xiaoqing Lu Boyton**, Fellow, Freeman Chair in China Studies, CSIS
- “U.S.-China Defense Consultative Talks on December 7” *Critical Questions*, December 2, 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS and **Brittany Billingsley**, Research Associate and Program Coordinator, Freeman Chair in China Studies, CSIS

#### November

- “*China’s Emerging Global Health and Foreign Aid Engagement in Africa*” CSIS, November 30, 2011. By **Charles W. Freeman III**, Senior Adviser (Non-resident), Economic and Trade Affairs, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS and **Xiaoqing Lu Boyton**, Fellow, Freeman Chair in China Studies, CSIS
- “Taiwan’s 2012 Presidential Election and Cross-Strait Relations” *PacNet*, Pacific Forum, CSIS, November 16, 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS and **Brittany Billingsley**, Research Associate and Program Coordinator, Freeman Chair in China Studies, CSIS
- “*Taiwan’s 2012 Presidential Elections and Cross-Strait Relations – Implications for the United States*” CSIS, November 14, 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS and **Brittany Billingsley**, Research Associate and Program Coordinator, Freeman Chair in China Studies, CSIS
- “China’s Investment in the United States: National Initiatives, Corporate Goals and Public Opinion” *Freeman Briefing*, November 2011. By **Charles W. Freeman III**, Senior Adviser (Non-resident), Economic and Trade Affairs, CSIS, and **Wen Jin Yuan**, Researcher, Freeman Chair in China Studies, CSIS

#### October

- “Articulating Why Taiwan Matters” *CogitAsia*, October 5, 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS

#### September

- “Should the United States Abandon Taiwan?” *The Washington Quarterly*, vol.34, no.4, Autumn 2011. By **Nancy Bernkopf Tucker**, Professor of History, Georgetown University and **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS

#### August

- “US-China Relations: Friction and Cooperation Co-exist Uneasily” *Comparative Connections*, vol.13 no.2, CSIS, September 2011. By **Bonnie S. Glaser**, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS and **Brittany Billingsley**, Research Associate and Program Coordinator, Freeman Chair in China Studies, CSIS

electoral demands,” reflecting Beijing’s search for a way out of the shadows of an escalating U.S.-China confrontation.

If this wave in the United States’ Obama offensive can actually serve as a catalyst for the Chinese foreign policy bureaucracy to finally engage in introspection and examination of its numerous problems, and seek to increase China’s real appeal, then this will be a fortunate development for China. Otherwise, we may soon see a more forceful, resolve-driven relationship between Beijing and Washington as a permanent feature of the Asia-Pacific.

***Dr. Zhu Feng is currently the Deputy Director of the Center for International & Strategic Studies and Professor of the School of International Studies at Peking University.***

## FREEMAN FACTS

### China-ASEAN Trade Statistics

1. Between 1995 and 2008, bilateral trade between China and ASEAN increased more than tenfold. China’s accession to the WTO and the initiation of CAFTA talks in 2001 particularly aided in this growth.
2. The ASEAN-China Free Trade Area framework was signed on January 1, 2010. As the world’s third largest free trade area after the European Union and North America FTA, CAFTA will have significant trade and development implications for Southeast Asia.
3. The free trade agreement reduced tariffs on 7,881 product categories, or 90 percent of imported goods, to zero in China and the original six members of ASEAN. This reduction took effect between China and ASEAN’s original six members: Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. Vietnam, Myanmar, Laos and Cambodia are set to follow suit in 2015.
4. As of 2008 China is ASEAN’s third largest trading partner, while ASEAN is China’s fourth largest. In 2008 China was responsible for 11.3 percent, or US\$192.6 billion, of all ASEAN trade.
5. By 2008, ASEAN’s FDI to China grew to US\$5.5 million, accounting for only about 6 percent of China’s total utilized FDI, while China’s total accumulated investments to ASEAN reached US\$4.9 billion, accounting for only 2.6 percent of China’s total outward investments.

*Sources: MOFCOM, Reuters, UNCTAD, New York Times*

## CONFERENCES AND EVENTS

- **January 17, 2012** “Taiwan’s January 2012 Presidential and Legislative Elections: Implications for Taiwan, the United States and Cross-Strait Relations”

Held in conjunction with the Freeman Chair in China Studies, CSIS and The Brookings Institution’s Center for Northeast Asian Policy Studies. Richard Bush, Senior Fellow and Director, Center for Northeast Asian Policy Studies, The Brookings Institution and Bonnie S. Glaser, Senior Fellow, Freeman Chair in China Studies and Senior Associate, Pacific Forum, CSIS will serve as opening speakers. Register for this event by emailing [freemanchair@csis.org](mailto:freemanchair@csis.org).

- **November 9, 2011** “The Current Asia-Pacific Security Situation and Taiwan”

Dr. Nien-Dzu (Andrew) Yang, Taiwan’s Deputy Minister of National Defense, discussed Taiwan’s security environment including the military conditions with the Mainland and analyzed the cross-strait situation from Taiwan’s perspective. Dr. Stephen Flanagan, Henry A. Kissinger Chair in Diplomacy and National Security, CSIS, introduced Dr. Yang. Ms. Bonnie S. Glaser moderated the discussion.

The *Freeman Report* is an electronic newsletter produced monthly by the Freeman Chair in China Studies at the Center for Strategic and International Studies (CSIS), a private, tax exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions; accordingly, all views, positions, and conclusions expressed in this publication should be understood to be those of the author(s). © 2011, Center for Strategic and International Studies. All rights reserved.

## FREEMAN CHAIR IN CHINA STUDIES

*Chairholder currently vacant*

**Bonnie S. Glaser**, Senior Fellow

**Charles W. Freeman III**, Senior Adviser (Non-resident)

**Savina Rupani**, Program Coordinator

**Xiaoqing Lu Boynton**, Fellow

**Nathaniel Ahrens**, Adjunct Fellow

**Zhang Chun**, Visiting Fellow

**Brittany Billingsley**, Research Associate and Program Coordinator

**Jeffrey Bean**, Research Assistant

**Nathan Harpainter**, **Rory Lin**, **Shanshan Mei**, **James Pearse**, and **Wen Yuan**, Research Interns