

Bridging the Foreign Policy Divide

Keeping Tabs on China's Rise



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China Rising

With almost clockwork precision, every 50 years for the past two centuries China has appeared to be at a “hinge” moment in its history. Once again that is the case, as China stands poised at the verge of a return to great power status. By all appearances it is already, or soon will be, a dominant player in East Asia—whether on economic, political, or security issues—and is playing an increasing global role. And, in decades ahead, China could even present a challenge to US primacy.

Indeed, the rise of China is the principal strategic fact of the 21st century. Where China goes—and how fast—will have a significant, if not defining, impact on the shape of the international system and will exert considerable influence on the future of US security and prosperity. The rise of China presents challenges to the United States across several dimensions of power (military, diplomatic, political, economic, even cultural), and there is virtually no issue critical to America's future—global economic growth, nonproliferation, controlling potential pandemics, climate change, energy security—that is not affected by the US-China relationship.

Despite several encouraging trends in bilateral relations, America's relationship with China faces significant challenges: economic and trade practices contribute to a troubling trade deficit; China's adherence to its international commitments and norms (such as human rights) is mixed at best; China's military buildup has made the already difficult-to-manage Taiwan question that much harder, and has greatly complicated relations with Japan, and with the US-Japan Alliance.

A conclusive answer to the question of whether China will continue to rise is beyond the scope of this paper. China faces immense problems, including pollution, disease, poverty, inequality, corruption, abuses of power, an aging population, and shrinking labor force that make an answer to this question far from a foregone conclusion. Nonetheless we assume that China will continue to rise, and we will address the implications of China's growing power—for China, for the United States, and for the rest of the world.

Although all too often the debate about China's rising power tends to focus on the military dimension, it is critical to understand that the challenge the United States faces is not necessarily only or

even primarily a military one (although that element can't be ignored). The challenges posed by China's rise cuts across all dimensions of power. Indeed, in many ways Chinese capabilities do not represent a unique challenge; we face other major powers that are authoritarian and don't respect human rights, that import energy and employ mercantilist energy strategies, that have savings surpluses that affect global and bilateral trade balances. What makes the rise of China so important to the United States, however, is that China, alone among other nations, has the potential to be competitive across several dimensions of power. In recent memory, the United States' experience in great power competition has been with one-dimensional challengers, such as the Soviet military threat during the Cold War or Japanese economic power in the 1980s. China, however, has the potential to be a true peer competitor—a regional hegemon with global aspirations—which makes the question of how to best manage the US-China relationship critically important.

The rise of China is one of the most remarkable transformations the world has ever seen. Following a “hundred years of humiliation,” it is a testimony to the power of Chinese history, Chinese culture, and the Chinese people.

A few statistics give a sense of the magnitude of China's rise thus far, and of its potential. China, Japan, and the United States are the world's three most productive economies, but China is by far the fastest-growing, at an average rate of 9.5 percent per annum for more than two decades. Even the 8 percent slowed-down target set by Premier Wen Jiabao is blaz-

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ing fast by any standards. China is today the world's sixth largest economy by conventional measures (the United States and Japan being first and second), and the United States' third largest trading partner after Canada and Mexico. However, according to CIA statistics, China is already the second-largest economy on earth, measured on a purchasing power parity basis—that is, in terms of what China actually produces rather than prices and exchange rates.

The CIA's National Intelligence Council forecasts that China's gross domestic product (GDP) will equal Great Britain's this year, Germany's in 2009, Japan's in 2017, and the United States' in 2042. Shahid Javed Burki, former vice president of the World Bank's China department predicts that by 2025 China will have a GDP of \$25 trillion in terms of purchasing power parity and will surpass the United States as the world's largest economy.

China's trade volume for 2004 was \$1.2 trillion, third in the world after the United States and Germany. China's trade with the United States grew 34 percent in 2004 and has turned Los Angeles, Long Beach, and Oakland into the three busiest seaports in America.

Chinese domestic economic growth is expected to continue for decades, reflecting the pent-up demand of its huge population, relatively low levels of personal debt, and a dynamic underground economy. Most important, China's external debt is relatively small and easily covered by its reserves. (The United States, by contrast, is approximately \$700 trillion in the red.)

Along with this economic growth, China's military has made a quantum leap in recent years. Chinese military spending will be up 17.8 percent this year, according to recent announcements, following a decade-plus of double-digit growth. The official military budget of some \$45 billion (with more in unofficial spending) represents a significant increase in efforts to enhance military capability.

There is little doubt that China's current military modernization efforts and defense spend-

ing have been increasing, and increasingly focused. Beginning in the early 1990s, modernization of the People's Liberation Army (PLA) was elevated from a low priority to a central one for national policy. China's ambitions as a rising power—combined with PLA threat perceptions that are driven by displays of US military dominance in the Gulf War, Kosovo, Afghanistan, and Iraq and the US 2002 national security strategy document—have all prompted a rich debate in China over the need to upgrade Chinese military capabilities and refine its military doctrine.

According to China's own 2006 White Paper on national defenses, the Chinese Navy is moving to extend its offshore capabilities and increase its strategic maritime depth. In addition to building out its amphibious assault capabilities, it has assembled a fleet of 29 modern submarines, including 13 Kilo-class

submarines purchased from Russia, along with ten additional submarines under construction in Chinese shipyards. China has also added seven new destroyers, including two Sovremenny-class destroyers purchased from Russia since 2000. Chinese naval doctrine has begun to emphasize the ability to operate in the South and East China Seas. China may view these moves as purely defensive, intended to safeguard China's territorial waters and the sea lanes that carry critical natural resources, but any objective assessment would have to note their offensive capabilities as well.

When one adds the purchase of advanced fighters from Russia; a continued missile buildup across the Taiwan Straits; and the December 2004 Defense White Paper's emphasis on extending China's ability to project power, develop strike capabilities, and conduct regionwide operations, serious questions about the portent of these changes emerge. It is just these sorts of changes that led then-CIA Director Porter Goss to comment in 2005 that China may soon "tilt the balance of power in the Taiwan Strait."

Likewise, although China has for several decades calibrated its nuclear forces to a doctrine of minimum deterrence (with 24 ballistic missiles capable of hitting the United States), there are new signs, highlighted recently in congressional testimony by Admiral Lowell Jacoby, that China might be in the midst of preparations for a "nuclear breakout," involving a seven-fold increase in warheads by 2015.

By these measures, China's growth in the past few decades has been tremendous. Looking only at China through the prism of these statistics one would conclude that China is rising, and fast; that the Pentagon's 2006 Quadrennial Defense Review conclusion that "China has the greatest potential to compete militarily with the United States" is somewhat understated; and that the advice of analysts such as John Mearsheimer that the United States should do all it can to "slow the rise of China" now as

The challenges posed by China's rise cut across all dimensions of power.

decades from now it will be too late, seems prudent counsel.¹

China's Military Power in Context

But this now-familiar litany of the rise of China and the potential military and economic challenges that it presents to the United States is only part of the story.

To begin with, as William Perry and Ashton Carter comment in a recent article, no one, including perhaps the Chinese themselves, knows where they are going.² China could be a friend, foe, or something in between. The rise of China could disrupt the international system or add a strong new pillar for upholding international norms. What the future holds is as much a mystery to the Chinese as it is to anyone else.

Second, in the effort to "right-size" US policy, the rise of China presents what one analyst has termed the *baseline versus trend-line* problem: While there is no doubt that certain trends in the growth of Chinese power appear deeply troubling, when placed in context of a broader

baseline of measure, the implications are ambiguous. And, while it is clear that we must take seriously the trend in China's growing military power, including its growing desire to project that power, context suggests we need not panic.

For example, while China might want some day to exercise military power in a region outside its own, its ability to do so will be very limited for quite some time. China has no operational aircraft carriers (let alone the fleet of destroyers necessary to sail with one); no long-range bombers or long-range airborne capabilities and very limited strategic reconnaissance capabilities. China is in no position today to challenge American military might outside of a perhaps very limited scenario in the Taiwan Strait. Despite the Chinese modernization efforts, a vast gulf still exists between the United States and China across a range of measures of military power, including research and development, hardware, training, information warfare, command and control, and lift. This gulf will not be bridged for years to come; assuming that the United States does not stand still, it may never be bridged.

In fact, the United States is not standing still. More submarines have been added to the Pacific fleet, advanced fighters and bombers and an additional carrier group are being moved into the region, new basing arrangements have been made with Asian and Pacific countries, and Washington has expanded and consolidated regional security partnerships.

In short, whatever else China's accelerating defense spending and military modernization efforts may suggest, the facts don't support a simple argument that China is today a major military threat to the United States—or that it will be any time soon. China remains far short of a peer competitor, and actually presents complications for only a limited handful of military scenarios.

China's Economic Power on the World Stage

Moving beyond the military dimension of power, the growing impact of China's econo-

my is a second area of both concern and ambiguity. The metrics of an economically rising China support, at best, muddied and unclear conclusions about what it all means for the United States and the rest of the globe.

Since 1978, China's economy has grown at an average annual rate of more than 9 percent. And while it does not appear that China's economic growth will slow significantly any time soon, its ability to keep growing at this blistering pace, or grow at all, depends on a myriad factors, including whether China's leadership continues to implement economic reforms, the strains on political and social stability as economic growth causes societal shifts, constraints associated with lingering weaknesses in infrastructure, a huge burden of nonperforming loans, and chronic water shortages. Indeed, while it is easy to offer scenarios in which China's economy continues to boom, it is just as easy to offer others in which it starts to falter.

To keep this in perspective, while China's GDP is at \$7 trillion on a purchasing power parity basis (60 percent of our own), on a straight dollar-for-dollar basis China's economy is just the size of California's, and per capita GDP stands at \$1,300 as compared to nearly \$40,000 for the United States.

Even so, China's emergence in the world economy presents the United States with both a great economic challenge as well as a great opportunity. In 2005, China exported \$243 billion in goods to the United States while importing only \$42 billion, leaving the United States with a \$201 billion trade deficit—nearly 30 percent of America's overall trade deficit and 40 percent of its non-oil deficit.

For example, China's unfair restrictions on US market access demand redress, but this is somewhat mitigated by the near tripling of US exports to China since China received permanent normal trade relations and joined the World Trade Organization (WTO), exceeding initial expectations. While our exports to China are lower than we may want, they have risen about ten times faster than American

exports to the rest of the world, and include everything from soybeans to aircraft. On the import side of the balance sheet, a Morgan Stanley study estimates that China alone has saved US consumers \$600 billion over ten years: \$521 in disposable income for every American household each year for ten years. Moreover, although other variables such as China's low labor cost are significant, the single biggest factor in the US trade deficit with China may well be the very low US savings rate rather than the value of the Chinese currency.

While it is true that China's control of the world's second largest reserve of foreign currency—and its current status as the world's largest recipient of foreign direct investment (FDI)—gives it a potentially powerful tool to use to deter or punish the United States, the

contracts for imports, and conducting a staggering level of sophisticated diplomacy. All of which has led to a notable increase in Chinese soft power—a broad concept that, as Harry Harding has noted, includes the new excitement about China as a place to live and work, now viewed as a land of opportunity for many young Americans, Japanese, and Europeans. This has also been manifest in China's creation of “Confucius Institutes” to promote its culture and meet the rising international demand for the study of Chinese language, as well as expanding educational opportunities and training programs for foreigners inside China.³

There is also a growing international interest in the Chinese model of development—and the increasingly explicit (although still indirect) Chinese presentations of that model as a preferable alternative to the “Washington

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reality is that China is as trapped by the situation as we are. If China were to take steps to drive down the dollar, for example, the impact on China's own economy would be at least as damaging as its impact on ours—but with political ramifications likely much graver and more destabilizing for China and the party leadership than for the United States.

China's Soft Power

A third element of the challenge posed by China's future trajectory is the rise of China's “soft power.” Here again the record is unclear, although China's ability to compete with the United States in “soft power” is highly significant in and of itself, which again underscores the need for a multidimensional US policy to deal with and engage China in world affairs.

China has embarked on a “charm offensive” in Asia, courting US allies, settling disputes with neighbors, supporting multilateral forums, forging free trade agreements, signing

Consensus” or the “American model.” It is, however, troubling to see that the exercise of Chinese diplomatic efforts in this context often appears tightly tied to competition over scarce energy resources in Africa and Latin America.

Thus the Chinese model of poverty alleviation, presented as an appealing alternative development model—the so-called “Beijing Consensus”—presents a direct and formidable ideological challenge to the United States. This is not the China of the “permanent revolution,” actively proselytizing Mao's brand of agrarian-based communism, but rather a benign China, building hospitals and schools and providing loans and aid, all with no questions asked about the nature of local political structures and elites, and accompanied by pledges of noninterference.

A recent BBC poll of global public opinion shows that in all but 12 countries China's influence is seen as more positive than America's. China polls better than the United States even

with traditional US allies like Canada, the United Kingdom, France, Germany, Saudi Arabia, and Australia. In India, the two countries are tied.

Yet many around the globe still have their doubts about China, and China has not done the ideological spadework to transform opportunistic rhetoric into a global ideological battle. Despite the damage to America's image over the past several years, most of the globe still appreciates the United States' role as security guarantor and economic partner. As in baseball—a team is never as good as it is when it is winning, or as bad as it is when it is losing—US influence in Asia has not declined, *per se*, but we can no longer take our friends in the region (or elsewhere) for granted.

Lastly, any attempt to understand the nature of China's rise must take into account the fact that China's economic development—and social stability—remains extremely vulnerable, largely because of unevenness of development, income inequality, education bottlenecks, ethnic strife, and underdeveloped capital markets. For many who watch China, there is both a sense of awe at what China has accomplished as well as a sense that it could all unravel overnight.

Indeed, the priority that the Chinese leadership has given to the maintenance of harmony and social stability is a strong indication of the stress that China is under, and how close to the breaking point China may be—or at least how close China's leaders believe it to be.

Internal Economic Stresses

Examined more closely, China's economic boom has also created tremendous stress that threatens to rip China apart. Twenty-six of China's east coast cities account for 82 percent of China's import-export and trade-led growth, meaning that the rest of China—some 900 million to one billion people—have received just 18 percent of the benefits of this economic boom. In fact, while eastern China booms, recent statistics suggest that middle and western China may actually be in economic decline, with living standards moving backward not just relative to China's east coast, but in absolute terms.

The explosive and highly uneven economic growth over the past decade has led to a great deal of labor unrest, with an attendant series of mine disasters, a record number of strikes, and a migrant workers' crisis surpassing an earlier such crisis in the 1980s. Recent years have seen a sharp increase in spontaneous riots across China, over issues as diverse as access to food, perceived police abuses, and environmental problems. In fact, there has been a steady pattern in which Chinese cities (some as large as 50,000) are "taken over" by protestors for a matter of hours, and sometimes days, before police and the military restore order.

There has been a marked increase in citizens' petitions to local as well as central government for redress of judicial, political, economic, or other wrongs. Estimates are that more than 10 million petitions are ongoing in China at any given time. As a result, Beijing's southern bus terminal has become the site of what amounts to a migrant village of thousands of people who camp out, sometimes for months at a time, while they wait to present their petitions to central authorities.

China's government has also become more concerned about the combination of economic and social stress, the inability of local governments to function, and the rise and widespread dissemination of online communication. The ability of disaffected individuals and groups to organize and share information via e-mail, cell phones, and other modern technology—and in real time—creates a real challenge for central government control.

Rising Nationalism

Similarly, the increasingly visible role of nationalism as a political force in China represents a double-edged sword for the central government. On the one hand, it has become a, if not the, key source of legitimacy for the post-Communist Chinese Communist Party. On the other hand, many international observers, and many Chinese, see nationalist protests ostensibly directed outward as, in actuality, a thin cover for those whose real grievances are with their own government. It is far from clear whether the government can

control these nationalist impulses given the other stresses Chinese society is under, or whether, once unleashed, nationalism may take on a life of its own. If “performance legitimacy” (the requirement for the party and its leadership to deliver economic performance to retain their legitimacy) has now replaced revolutionary ideology as the key legitimizing function for the party, then the party’s legitimacy is at serious risk if the economy falters.

As such, China may be a rising global power, but it also may be a colossus with clay feet, unable to reach its potential due to the cross-pressures that threaten to rip it apart. No one, least of all the Chinese themselves, knows what kind of China to expect in the future, or how China will use its new capabilities on the global stage. Policymakers, however, do not have the luxury of simply throwing up their

of course, for the average Chinese citizen, the sphere of personal autonomy he or she enjoys has expanded significantly, just as the political chaos associated with the old order becomes a distant memory.

And there are good reasons to believe that such progress will continue. Key fundamentals, such as a high savings rate, a prevailing work ethic, and a huge labor pool give China a solid base on which to build. It is not difficult to be bullish on China and, indeed, most analysts have consistently underestimated China’s economic growth.

Yet there is another view of China. Despite its progress, China has not lived up to the expectations built up by propagators of the Marco Polo myth. Shanghai is a case in point for this more wary and worried view of China.

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arms and shrugging over known unknowns and unknown unknowns. Assessments and best guesses—even if they are only guesses—are a necessary part of policy development.

Problems and Prospects for Reform

Ever since Mao’s death and the demise of the Gang of Four, China watchers have been divided into optimists and pessimists. Certainly, no one would deny the progress that China has made in the past 30 years. By almost all measures, Chinese citizens today are better off than their parents were a generation ago. Life expectancy in China is the third highest in East Asia, behind only Japan and South Korea. Since 1979, China’s GDP has been growing at a near double-digit rate. As a result, urban and rural per capita income have each shot up more than tenfold, and a once virtually nonexistent middle class now numbers some 40 million households, with an increasing number owning their homes. And,

Looking at Shanghai’s skyline is like looking at the futuristic skyline from the classic American television cartoon, *The Jetsons*. The city only needs flying cars jetting from the top of one ultra-modern skyscraper to another to complete the picture. At the same time, these skyscrapers have an occupancy rate that would drive any normal real estate market into a recession. Impressive as Shanghai is, one walks the streets as if on a razor’s edge, with a keen sense that it could all collapse as quickly as it has risen.

Similarly, China’s economic performance, while impressive, is by no means record-shattering. Between the late 1970s and today, China’s per capita GDP grew at a compound rate of little over 6 percent. This was lower than the growth rates of Japan, South Korea, and Taiwan during comparable periods of economic development. In terms of return on investment, American firms consistently report

lower profit margins in China than in their other global operations.

A large part of the problem is that China has only partially opened up its economy. The government still controls a significant segment of the Chinese economy through state-owned enterprises (SOEs). By some accounts, less than a third of China's economy is in private hands. In fact, more than half of its fixed industrial assets are owned by the government—including many by the PLA—and the government continues to hold a dominant position in key economic sectors such as banking, energy, heavy industry, steel, and transportation. Reflective of the control the state retains over the economy, of the 1,500 Chinese companies listed on domestic or foreign stock exchanges, less than 4 percent are private corporations.

This level of government control over the economy might be tolerable if the SOEs were profitable, except that they aren't. More than a third lose money; the ones that do make money do so at an extraordinarily low rate of return on assets (1.5 percent in 2003). Almost 20 percent of the SOEs would have long ago filed for bankruptcy had standard accounting rules been followed.

What keeps these companies afloat is the giant piggy bank controlled by the state-owned banks. Drawing on the capital resulting from the extraordinarily high personal savings rate of Chinese citizens, nearly half of the banks' loans go to SOEs. The result is a staggering level of nonperforming loans (NPLs), estimated at \$480 billion in 2002 but probably much higher after a major expansion of credit by these same banks between 2002 and 2004.

All of which leaves nagging but serious questions about China's economic liberalization thus far, and its future prospects. Even after more than a quarter-century of economic reform, many of the leading industrial and technology companies in China remain SOEs. Lacking access to financing and at the mercy of arbitrarily enforced laws and state regulations, private industrial firms have had a tough

time. (This is one reason that most of China's new crop of billionaires are real estate speculators.) Moreover, neither SOEs nor private firms have incentives for the kind of long-term investment in technological capabilities that marked Japan's and Taiwan's development.

Fearing the social unrest that the closure of SOEs might spur, and faced with a massive influx of rural Chinese into urban areas, China's leadership has used the banks, billions of dollars of FDI, and an undervalued currency to keep its industrial base running and its export manufacturing capacity growing. So far, the strategy has worked, as reflected in the growth in China's GDP. Nonetheless, huge questions and uncertainties remain. Can such a strategy continue to work and maintain a glide path for the transition toward a genuine market economy? Are problematic bubbles building within China's economy?

Perhaps more problematic is that this nexus of local party officials, government-controlled capital, and corporate life is an open invitation to engage in self-dealing and corrupt practices. Even today, the party picks the vast majority of SOE CEOs—with party secretaries dominating corporate boards more often than not. And while this form of crony capitalism had resulted in misguided investments, it has also, if Minxin Pei's analysis is correct⁴, created a dynamic in which China's elite are co-opted and political liberalization deemphasized.

So far, however, the hope that broad and deep political reforms would follow economic reforms has not fully materialized. In fact, party and elite interest in democratization is far lower today than it was in the late 1980s. Officially, China's recent White Paper on democracy makes clear that the Communist Party has no intention of giving up its primacy: "Democratic government is the Chinese Communist Party governing on behalf of the people." Chinese democracy is one with "vivid Chinese characteristics," meaning the West's notion of democracy appears to be of no or little interest as a model for Beijing. And despite the recent National People's Congress decisions on private property and the *laogai* system, these signs of

potential progress are more than offset by the stalled innovation of village committee elections, the failure to create a real system of checks and balances by empowering the National People's Congress, the lack of independent, nationwide civic associations, or by the level of censorship, which, in aggregate, create trend lines that are not particularly encouraging.

One critical factor in the direction these trends take will be China's still relatively small and underdeveloped middle class. Experience elsewhere suggests that without a significant demand-led and middle class-based drive for political liberalization, it is highly unlikely that it will occur; and it will certainly not transpire as a result of a top-down process—given from above, rather than mandated and shaped from below.

Regardless of whether one views China's leadership as fundamentally and implacably anti-

Ultimately, this system can continue to work as long as the economy continues to grow at its current pace. However, it would be unprecedented for an economy to keep chugging along at this rate year after year. Assuming that the above analysis is largely correct, there are some serious structural flaws in China's economy that cannot be fixed without some short-term dislocations and slowed growth.

The real question is what happens when China finally hits a jarring bump in the road. Does it possess the social cohesion and civic institutions necessary to keep the bump from leading to a crash? In fact, many Chinese, including those in senior leadership positions, make precisely this argument for why China cannot move too quickly toward democracy: given all the cross-stresses at work within China and the uncertainties about China's current situa-

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democratic or merely as trying to control a process of tremendous economic, social, and political change without everything flying apart, the upshot is that the only reforms the current leadership will pursue are those that seek to make the party's own governance more efficient and less corrupt. Such reforms, however well-intentioned, are bound to run into the fact that the Chinese patronage system itself lies at the root of elite privilege and loyalty to the party's rule in the absence of any ideological attachment to Marxist-style socialism. To all appearances, many of China's high-profile corruption cases seem mainly to be a battleground on which one faction in the leadership uses corruption charges to undermine another and consolidate power rather than an effort to actually wring corruption out of the system. Hence, as the Chinese themselves admit, serious corruption remains a pervasive problem and may well be getting worse.

tion, the risk of total and catastrophic failure is simply too great. Yet there is an equal risk that without the shock absorbers of pluralism and democracy, resentments about rising inequality, workplace safety, public health, the environment, and government corruption could spill into the streets, leaving China's leaders with little option but police crackdowns. Mechanisms of democratic governance such as an independent judiciary or a duly elected representative body are the best ways to manage such pressures.

China's leaders today are, thus, holding a tiger by the tail. They have built the legitimacy of their continued rule largely on meeting the rising expectations of a billion-plus people, but to meet those expectations they eventually have to release the reigns of economic and political power that they are clutching so tightly.

International Expectations

China's rising expectations are not limited, of course, to domestic prosperity. As it has for every rising power predecessor, China's new national wealth has created both the incentives and resources for the country to become a far more formidable player on the regional and world stage.

The domestic and foreign dimensions of rising expectations are not necessarily in tension as long as China's rise does not duplicate the violent history of previous rising powers. A truly peaceful rise will rest on the recognition that China's future success depends on its supporting and benefiting from the globalization of economic markets and the institutions of a liberal international order. If China adopts this approach, its ascent will be, as some in China have suggested, a post-modern one—freed from the traditional concerns with hard power and competition among states.

Yet, as a recent *Economist* editorial asked: “Why are there so few takers outside of China for its self-proclaimed doctrine of ‘peaceful rise’?”⁵ In part, of course, China's closed decision-making circle, combined with its military buildup, is bound to make neighbors nervous. But it also stems from the fact that despite the unprecedented level of trade between China and Japan and China and Taiwan, relations between Beijing and Tokyo and Beijing and Taipei remain tense. In addition, Beijing's decidedly mercantilist approach to locking up as much energy supply as it can as seen by some as belying its supposed faith in markets.

Perhaps most troubling, China's rise has also given rise to an increased level of old-fashioned Chinese nationalism. This is hardly surprising; following what Chinese refer to as a “century of humiliation,” the Chinese naturally take pride in what their nation has become. But for a party whose legitimacy is no longer assured by Marxism, this nationalism can be both a bulwark of its rule and a standard by which its policies can be judged. As former Clinton State Department official Susan Shirk argues in her new book, *China: Fragile Superpower*, Chinese nationalism is a

product of state propaganda organs but is also the inevitable result of popular satisfaction with the country's growing strength. Assuaging that nationalism—by righting the wrongs of the past “century of humiliation”—without disrupting the peaceful and stable international climate they need for continued economic growth, is perhaps the Chinese leadership's most daunting task.

Has China's foreign policy fundamentally shifted in the past two decades? For more than 20 years and under both Democratic and Republican administrations, US policy toward China can best be described as a modified hedge. In judging the continued wisdom and relevance of a hedging approach to China—or whether an alternative might be preferable—it is critical to assess China's foreign policy and national security orientation.

There can be little question that Chinese foreign policy has undergone a significant change since the mid-1990s, reflecting a more nuanced approach to both regional and global affairs. This change is reflected in China's increased engagement with the United States, and with international institutions and norms. For example, numerous Chinese analysts have suggested that China, as a rising great power, needs to act in a way that is commensurate with the responsibilities of a great power in upholding the international system.

Although these trends in foreign policy orientation are likely to continue in the near and medium terms, it is essentially unknowable, whatever China's intentions today, whether China's intentions will change over time with the growth of its capabilities and interests. There is also considerable debate over whether China's evolving foreign policy orientation represents a tactical or strategic shift.

Since the end of the Cold War, and especially since 9/11, China has adopted what can best be seen as a pragmatic approach to international relations, believing that a stable world order is necessary for China to be able to solve its internal problems. Playing the long game, many in China are also convinced that its rising power

status will inevitably lead to Taiwan falling into its lap and allow China to take its rightful place as the preeminent power in East Asia and the Western Pacific.

As Francis Fukuyama, among others, has argued, China's diplomacy is no longer governed by a vision of China as merely the victim of the global order.⁶ Instead, Beijing increasingly sees itself as a power that can shape that order. But, again, the particular shape it seeks is determined by a mix of interests and ambitions that are not always in harmony with one another.

For example, China has sought membership in several multilateral political and security regimes. On nonproliferation, China recently joined the Nuclear Suppliers Group and, after some foot-dragging, published its first export

famous phrase) a “responsible stakeholder” in the international system. And, here again, the record is mixed. Beijing garners praise for its role in the six-party talks on North Korea's nuclear program, but it has been, more often than not, an obstacle rather than a help with regard to Europe's effort to rein in the Iranian nuclear program. Similarly, Beijing has become an active contributor to UN peacekeeping efforts, yet continues to provide political support to a global roll call of dictatorships for what appears to be a very narrow set of self-interests.

So while one can reasonably conclude that China has made significant progress in normalizing its foreign policy and today appears as a defender of the liberal international order, China's behavior still at times has something of a “supermarket” approach—picking off the

China has adopted a pragmatic approach to international relations, viewing a stable world order is necessary to allow it to solve its internal problems.

control laws. Similarly, China's quest to join or play a role in Asia's emerging architecture (such as the East Asia Summit, APEC, and ASEAN), as well as heightened bilateral diplomacy (such as the Free Trade Agreement reached with Chile, and those under consideration with Korea and Australia) all seem to point to a China that has developed a keen sense of its interests in such forums and arrangements. Some, of course, help stabilize political and economic relations. Others, such as the East Asia Summit and the Shanghai Cooperation Organization, have their origins in Beijing's desire to counter what it perceives to be hegemonic policies and strategies on the part of Washington.

China clearly values its new status on the world stage, but with that status comes increasing scrutiny of whether or not it acts in a manner befitting (to use former Deputy Secretary of State Robert Zoellick's now

shelves what it wants and ignoring what it doesn't. Most significantly, even given that China's orientation today is fundamentally changed from what it once was, there is no guarantee that, like other rising powers before it, an ascendant China will not seek to rewrite the rules of international politics and economics in the years and decades ahead.

Interests and Ambitions

For the United States, developing the right approach toward China is complicated by the fact that the China of 2007 is a country with unfamiliar characteristics. China is a rising, nondemocratic power, with no overriding totalitarian vision for the world. The last time the United States faced anything remotely similar was Japan of the late 19th and early 20th centuries. More recently, of course, US habits of strategic thinking were primarily shaped by the superpower competition between the United States and the former Soviet Union.

Today the world's other great powers are either democratic or, like Russia, not rising. In this respect, US-China policy will inevitably be *sui generis*.

The fact that China, for the moment at least, does not have an overriding vision of a new world order, suggests that its policies will be tied to what its leaders believe will promote either their own, or their nation's, interests. As such, we should expect fewer decisions designed to score ideological points on the world stage. Yet the image of a China that sets policy on the basis of its best interests is complicated by the possible divergence between the interests of the nation and the interest of the party's leaders in retaining power. While liberal democratic states do not always choose policies that are truly in the best interests of their citizens, simple political survival compels democratically responsible leadership to be in sync with the public interest or risk losing its position of leadership. Over time there is little question that democratic states do a better job of capturing and reflecting national interest than do nondemocratic states.

Mutual Interests

That said, the United States and China have a number of shared interests that can provide the basis for productive relations. First and foremost, of course, is China's need to continue to expand its economy and improve its citizens' quality of life. This is the sine qua non for the leadership's legitimacy, now that communism has hit the dustbin of history. However, China's economic expansion will only continue if the global economic order on which China depends is properly sustained and cared for. (Addressing climate change, in this context, may provide a unique challenge to China's continued economic growth, and for US-China relations.)

As two of the world's leading economies, the United States and China have compatible interests in many areas. Given Chinese leaders' desire for broad-based growth to create the so-called "harmonious society," US trade and investment in China's rural hinterland can help with this objective. As a rapidly aging

society, China could benefit if the US private-sector helped to develop health care and pension systems in China. China's first banking and financial reforms should, if fully implemented, provide business opportunities for US companies and lay the ground for the opening of China's capital markets and freeing its currency—both of which are priorities for the United States. Finally, China's desire to construct a "knowledge economy" creates a mutual interest in protecting intellectual property and preventing counterfeiting.

Broadly speaking, the United States and China have a common interest in global economic and financial stability. China's low-cost exports to the United States keep our own inflation low, while its investment of earned dollars in US government financial instruments helps keep our interest rates low. This, in turn, helps keep America's economy growing, with a capacity to continue buying China's exports. Although in the long term this may create some real problems for the US economy, it is, at least in the near term, a "win-win" situation.

To the extent that this system functions effectively, it is in the interest of both countries to fend off any steep fall in the value of the dollar, increase in oil and gas prices, or rise of US protectionist policies. Of course, the United States and China also share an interest in curbing pollution, global warming, and the spread of infectious diseases.

China's economic growth creates opportunities for the United States to benefit from its rising prosperity, but it also raises expectations in America that China will be a responsible international economic actor. But it is not clear that China's leaders have fully embraced a win-win approach to economic affairs. As noted earlier, China retains the vestiges of a mercantilist approach when it comes to monetary affairs, banking, and energy supplies. And although there are encouraging trends indicating that China will shed those vestiges as it further integrates into the world economy and adheres to the norms of conduct of the WTO, it is by no means a given that this happy outcome

will, indeed, come to pass. And as long as China remains a one-party state, there will always be tension between maximizing economic gains and sustaining the party's rule through preferential treatment of China's governing and business elite.

The Taiwan Question

Underlying this tension, of course, is the fact that economic interest is not Beijing's only interest. Other concerns continue to make US-China relations more than simply a matter of baking and carving up the world's economic pie. On the security and diplomatic front, there is first and foremost the question of Taiwan. While the Taiwan Strait has been kept from flaring up for decades now, the numerous Taiwan crises of the past 15 years reveal that stability is tenuous. The United States' view has been that there is only "one China" and the matter of how the

alism among China's citizens, compounded by the fact that China's leaders have staked some of their own legitimacy on not allowing Taiwan to remain permanently separate from the mainland. This form of nationalism, and resentment over what is perceived to be "lost" territory, is of course nothing new when it comes to rising powers. What it does suggest, however, is that while China certainly has an interest in working with the United States and others to maintain a calm international political climate and ensure its own economic growth, China's interests will not be static. It is a rising power whose ambition to play a larger role in the region and on the world stage will grow as its power grows—which, in turn, will generate new "interests" on China's part.

From this, China appears to have concluded that its own strategic interest is best served to

While the US can benefit from China's rising prosperity, it also raises American expectations that China will be a responsible international economic actor.

Taiwan question is resolved can remain open—as long as it is resolved peacefully. Yet, after a decade of double-digit increases in Chinese military expenditures, there are indications that some in the Chinese military increasingly believe that China is on the verge of being able to coerce Taiwan into unification with the mainland—and on the mainland's terms. At the same time, as the process of democratic consolidation moves forward in Taiwan, the Taiwanese are less and less interested in simply becoming part of "one China." Polls show that although most Taiwanese prefer the status quo, fewer than 5 percent think of themselves as simply Chinese. Not surprisingly, as Taiwan has moved away from being governed by one party and toward democratic self-rule, many in Taiwan have come to think of themselves as an independent nation.

The risk is that democratic consolidation and national identity in Taiwan may be on a collision course with the expanding sense of nation-

the degree that the world is less unipolar—that is, less dominated by the United States. To this end, China has tried to create new security, economic, and diplomatic structures in Central and East Asia that exclude Washington and allow Beijing to play the part of "first among equals." In addition, China has apparently decided that it can gain international leverage by cultivating ties to states that either the United States or Europe have tried to isolate, be they Iran, Burma, Sudan, Zimbabwe, or Venezuela. China's leaders seem careful never to push these relations to a point where they cause a major rift with the United States, but neither do they accept the idea that real pressure should be brought to bear on those states in a manner that might lead them to change. Beyond creating new institutions through which it might seek to balance US power, China has also come to recognize that one advantage of playing the role of a status quo power in already existing international institutions is that it may also serve to effectively bind

US power and freedom of movement by simply challenging the United States to live up to its own standards and values.

Conflict with China is not inevitable. And while it is sensible to argue that China's interest lies with a peaceful and stable regional and international order, nevertheless, China's ambitions may well keep it from following those interests in what the United States would think is the most coherent and reasonable fashion.

"Managing" China's Rise

"Managing" China's rise is largely out of US hands. With China in the WTO, the United States has relinquished one potentially powerful tool to shape Chinese behavior—the withholding of trade and economic ties. Of course, the underlying hope was that bringing China into the WTO, and engagement itself, would be a significant shaper of Chinese behavior, and the WTO's "rules of the road" would gradually lead China into a pattern of behavior that is in step with the world's other great powers. It is still perhaps too early to tell if this bet turns out to be a good one.

It is still unclear, for example, whether China's growing buy-in and adherence to international institutions and norms is tactical or strategic in nature. Without additional decisive action to irreversibly "lock" China in as an upholder of the current system, China's current rhetorical efforts to portray itself as a nonthreatening status quo power may not suffice.

Perhaps tellingly, Zoellick's call for China to become a responsible "stakeholder" in the international order has had something of a contradictory impact in China. On the one hand, China's leaders were quite pleased with the idea that the speech signified, to their minds, Washington's public acceptance of China as a power to be respected. It was a speech, they believed, that signaled they were to be taken seriously. On the other hand—and probably not the intention of the speech's author—the term *stakeholder* is now used as a standard for judging China's each and every action on the world stage. What China does or does not do at the United Nations on Sudan,

Iran, et al., is routinely held up against the question of whether that behavior is consonant with the world's expectation of what it means to be a responsible "stakeholder." This may prevent China from ignoring the opinions of the other great powers altogether but not to the degree that it fundamentally changes its international behavior.

For many Chinese, reflecting on the historical experience of "one hundred years of humiliation," the wish to become strong in order to protect China against exploitation by other powers is understandable. And many Chinese are undoubtedly sincere in this belief. But the fact remains that as China's power grows, so will its range of options. While the "economy first, military second" approach may look reasonable and nonthreatening from the Chinese perspective, to the United States and to others in the region and around the globe it nonetheless raises questions. If the purpose of a peaceful rise is economic development to build China's strength, at some point won't China want to start flexing its military muscle as well? It's hardly reassuring that this is a pattern followed not just by imperial Japan and Germany but also by the United States.

For the foreseeable future, the United States will be dealing with a nondemocratic China whose ambitions will probably grow alongside its economic and military power. In the best of all scenarios, the United States and its democratic allies will insist on political liberalization within China as a *quid pro quo* for good relations. But such a policy has two problems. First, China is now part of the world economy. No one in the West, the United States included, has the stomach for putting at risk prospects for greater access to the Chinese market. Second, for China's leaders, staying in power is very likely worth whatever difficulties that come with being seen as autocrats. Indeed, if China's leaders learned one thing from watching the West's reaction to the massacre at Tiananmen Square, it is that such behavior may bear a minimal long-term cost internationally.

Unless there is a change domestically, however, unless China begins to undertake political

reforms, the United States and its allies will be left with policy options that work on the margins—cooperating where we can, yet probably unable to head off the competition for regional hegemony. China’s vision of its national security will not change unless it changes internally and, arguably, a liberalized China may well move in a populist nationalist direction, at least in the short run, bringing another set of problems.

Current US policy is a mix of engagement and hedging, as it was in the previous administration. In theory, this is a perfectly reasonable response to the complexity of Chinese interests and ambitions we have described. But getting the right mix of engagement and hedging in practice is no easy thing. The challenge is complicated by the fact that China’s lack of strategic transparency keeps us from ever being quite sure about the impact of our policies in China, either now or over the long run.

Unless China undertakes political reforms, the US and its allies will be left with policy options that work on the margins.

For example, does hedging against China’s ambitions require less or more deterrence on our part? On the one hand, it could be argued that pragmatically strengthening our military and strategic posture will help prevent China from misjudging either US strategic interests or our will. On the other hand, if our hedge is viewed not as prudence, but rather as a bid for supremacy or an effort to block China from assuming its rightful place in the region, it might fuel further resentments and incite precisely the reaction we don’t seek, a redoubling of countervailing military, economic, and diplomatic strategies. Moreover, ratcheting up our deterrent posture with respect to China will be doubly hard since—unlike with the Soviet Union—the United States is engaged with China on numerous fronts, such as trade, and hedging against China’s larger ambitions will complicate efforts to cooperate with China on issues of mutual interest.

There is no less a conundrum for a policy of engagement. Both Presidents Clinton and George W. Bush have articulated a similar rationale for that approach. Engagement, combined with China’s economic growth, will eventually foster a dynamic within China that will lead to political liberalization. But there is no agreement about the time horizon in which significant progress could be expected on that front or, for that matter, the character of the progress made to date. For policymakers, this uncertainty matters a great deal. If China’s “turn” were to be relatively soon, one could expect policymakers to overlook problems in Chinese behavior on the sensible ground that there is no reason to complicate a relationship that in time will work itself out to our benefit. On the other hand, if China’s “turn” is a distant thing, policymakers will be forced to make choices based on the realities of today.

Moreover, while it may well be the case that economic modernization generally does lead to political liberalization, is it as inevitable as is sometimes suggested? If not, could a policy of relatively unconditional engagement with China actually be counterproductive, leading, as some have argued, to a stalled reform process in China?

In sum, designing a US policy toward China will take far more sophistication than US policymakers from either political party have previously shown. In the best of all worlds, China’s desire to take care of its internal development would lead it to be a rational actor, in which economic reasoning would control its policies. While there would certainly be disagreements and competition between the United States and China even on this front, they would be the sorts of disagreements and competition that trade negotiators and economists routinely hash out to the ultimate advantage of both countries.

The skilled handling of China's rise will require a smart, forward-leaning, and concerted effort by the United States. Policymakers will have to craft an approach that will lock in the gains thus far from China's political and economic development, and also encourage China to make positive future choices. Without such a well-balanced and calibrated policy, the Communist Party's ambitions to remain in power and the rise of Chinese nationalism may well make a more straightforward relationship with China more a hope than a reality.

Endnotes

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