

ENABLING THE RISE OF THE DRAGON: The Challenge of Managing US-China Relations

By

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[as prepared]

We're all familiar with that famous quote from Napoleon that the world should let China sleep, for when she wakes she will "shake the world." That prescient observation was made at the beginning of the 19th Century, several decades before the British imposed on the faltering Qing Dynasty the opium trade and the treaty port system – setting in motion a century-and-a-half of foreign interventions, revolutions and war.

China's evolution after that bad century-and-a-half is a dramatic story of the resurgence of a great society and people. And perhaps most distinctive about China's "rise" from the time of internal collapse and turmoil is the economic takeoff that in little over one generation has transformed what had been a self-isolated and economically stagnant country into the world's second largest economy. In a way that Napoleon probably never imagined, China today is indeed "shaking the world."

My remarks today are one analyst-participant's observations about America's role in China's resurgence, and prospects for future relations. As first an academic and then a junior official in the process of normalizing relations with China in the early 1970s, I worked with John Holdridge as we supported President Nixon and Henry Kissinger in developing relations with a China that was still in the political turmoil of Mao's Cultural Revolution. The President's objective was to build a relationship that could countervail the shared threat from the Soviet Union; to establish what came to be called "the strategic triangle." The Nixon/Kissinger – Mao/Zhou Enlai initiative was remarkably successful, producing a fundamental transformation in the power equation of the Cold War, a development that in time contributed to the collapse of the Soviet Union.

The story of the diplomacy that ended two decades of confrontation between China and the United States has been well told. An important sub-theme in that process, one that is relevant to appreciating the way that China today is a world shaking force, is the transformation of China's development strategy. In a way that was not anticipated in the initial years of the normalization effort, the United States has enabled China's economic rise by creating conditions that supported the reform policies of Mao's successor Deng Xiaoping.

Deng turned Mao's approach to the world on its head. This is illustrated by a diplomatic encounter that followed President Nixon's visit to China in February, 1972. In June of that year, Kissinger initiated a series of follow-up visits to Beijing intended to build on the Mao-Nixon talks. During the June visit, John Holdridge and I were directed to hold "counterpart" talks with Chinese officials to address issues that might broaden the still-fragile and limited relationship. One of our tasks was to break out of the decades-long trade embargo – established at the time of the Korean War -- by proposing the establishment of economic ties.

To that end, we proposed to our counterpart official across the negotiating table – Ambassador Xiong Xianghui – the development of trading relations. The ambassador's response was a condescending sniff and the reply that China was a revolutionary country that had no interest in trade with the outside world. We were rebuffed -- in tone if not in terminology -- that resonated with Emperor Qian Long's rebuff of King George's emissary Lord McCartney in 1793. When the British envoy proposed that the two countries establish trading relations, the Emperor replied: "We possess all things. I set no value on objects strange or ingenious, and have no use for your country's manufactures."

Ambassador Xiong's put-down of 1972 was politically correct given the still-dominant influence of the Cultural Revolution, but it was out of sync with the Mao/Zhou effort to normalize relations with the United States. Ambassador Xiong disappeared from the coterie of officials supporting the Mao/Zhou initiative.

Full normalization of U.S.-China relations took the remainder of the 1970s to accomplish, following the death of Mao and purge of his would be successors, the "Gang of Four." The thrice-purged Deng regained authority in 1978, and promptly initiated his "*kai fang*" strategy of opening China to the world. Instead of class struggle, Deng's non-ideological policies – his assertion that "to get rich is glorious," and his pragmatic view that "it doesn't matter if a cat is black or white if it can catch mice" -- were designed to accelerate the country's economic development. His initiatives put China on the road to its dramatic economic takeoff.

The American role in that takeoff has been significant. Normal relations enabled Deng's policies to gain traction despite lingering areas of dispute, such as U.S. arms sales to Taiwan. An episode in 1978, during the Carter Administration, occurred during the visit to Beijing of the President's Science Adviser Frank Press. In a wide ranging discussion with Deng, Press raised the possibility of student exchanges. Deng shocked the American delegation by proposing that China send tens of thousands of its young people to study in the United States – despite the "risk" that some might defect. Since Deng's opening up, hundreds of thousands of students from China have been educated in American and other foreign universities – concentrating on the sciences, engineering and business administration. Some of them have stayed, most have gone back (many after periods of work in the U.S.), and all are facilitating China's growth and the development of U.S.-China economic relations.

The impact of China's economic takeoff on the country's domestic circumstances, on the global economy, and on U.S.-China relations after three decades of near 10% annual growth are as well known as they are complex and challenging:

- A major country embodying more than 20% of humankind is now integrating into the international system. Its economic takeoff has become a driving force for global growth. Its policy of government-managed development under Communist Party control has become an alternative to the "American model" of free market, private sector development. It is providing inexpensive consumer products to the world, and easy credit in support of its strategy of export led growth.
- That said, China is seen as "gaming" the international economic order – through manipulation of its currency exchange rate, restricting access to its domestic markets, subsidizing certain export products in violation of WTO rules, and extorting or thieving intellectual property. Its trading relationships are undermining industries in countries both developed and developing, turning some into dependent secondary producers for Chinese export manufactures. And its dramatic growth is straining the natural environment – primarily its own -- through pollution and infrastructure overload, while inducing intense competition for natural resources around the world.

{Let me share with you a recent anecdote from the *Wall Street Journal* regarding the pressure on the U.S. corn market generated by rising Chinese standards of living: If China were to double per capita meat consumption so that it matched the U.S. level, the increment would require the country to import an additional 24 billion bushels of corn to feed the hogs. This would be twice what the U.S. produces in a year, and in total there is not enough grain in the world to support such a level of consumption!}

- In matters of security, having passed through its revolutionary phase, China's normalization of relations with the U.S. and the world has been a boon to regional stability. It has eased Cold War-era security burdens on the U.S.
- Its future as a partner in matters of international security, however, is an open question. In times past, the PRC facilitated nuclear proliferation, and today it is a reluctant collaborator in counter-proliferation efforts focused on North Korea and Iran. It has become a major concern in matters of cyber espionage and electronic hacking. And its rapid military modernization, in combination with its recent assertiveness on Taiwan and territorial claims in the East and South China Seas, has begun to re-polarize East Asia.
- In matters of culture, as China has regained its national confidence – based in no small measure on its economic growth and current political stability – it is now reaching out to the world. The thousands of students it now sends abroad help to integrate the society with the world community. And the recent establishment of a global network of *Hanban* – Confucius Institutes – is propagating its language and culture abroad, in the manner of France's Alliance Francaise centers. Yet its resistance to matters of human rights and political openness, and repression of dissent, heighten concerns about how China's leaders will use the enormous power the country's economic resurgence is generating.
- For China's people, the country's economic takeoff has lifted hundreds of millions of people out of rural poverty. Rising standards of living and education in

a wired society are gradually transforming a country of parochial peasants into worldly-wise netizens. Growth is generating a sense of national rejuvenation and pride.

- At the same time, with the growth have come significant political tensions related to disparities in income and regional development. Corruption and environmental pollution are generating hundreds of thousands of local protests yearly that the leadership can barely keep under control through intensive censorship of media, the disruption or control of anti-governmental or unauthorized organizations, and threats of repression.

However one assesses the relative balance among these consequences of China's dramatic growth, two fundamental implications stand out: First, China's Communist Party leaders are "riding the tiger" of high speed domestic development. They are trapped in the imperative of sustaining rapid growth. Assessments are that if the growth rate drops much below 7% per year, unemployment and deflated expectations are likely to spark political instability. Thus, American appeals to China's leaders to adjust exchange rates, open their economy to foreign imports, reduce their export bias, and otherwise facilitate policies that would have the effect of lowering the growth rate or reducing employment, are almost certain to be resisted by a leadership concerned, above all, with maintaining domestic political stability.

Secondly, the consequences of China's "rise," however peacefully intended, are producing a defensive, if not a fearful or hostile reaction abroad -- despite the appeals of Chinese leaders to the world to see the country's growth as peaceful and non-threatening. This reaction is now being accelerated by its significant military buildup and the aggressive assertion of territorial claims in the South China Sea. Recent provocative actions by the People's Liberation Army have only reinforced these concerns -- and raised the question of whether today's Communist Party leadership (which, unlike the Mao and Deng generation has limited revolutionary credibility with the military) is fully in control of "the gun."

If China's rise has been enabled by the normalization of relations with the US -- and the rest of the world -- the great contemporary challenge is whether we can manage this complex relationship and minimize prospects for a return to confrontation. As Alexander Haig -- Henry Kissinger's deputy in the first years of normalization, and later Secretary of State -- has written in the introduction to John Holdridge's 1997 memoir "Crossing the Divide," "... perhaps the greatest international challenge facing the United States [in the 21st Century will be] managing our relations with China" -- preventing the negatives in the relationship from undermining opportunities for cooperation.

Why so? At the core of this challenge -- as Henry Kissinger details in his recent book *On China* -- is the fact that by history and culture the Chinese, the inheritors of the "Middle Kingdom," lack a tradition and institutions for dealing with the world as a system of roughly equal power centers. Their experience, now reinforced by China's size and growing power, is of a dominant center of political and economic influence to which smaller states should defer and pay tribute. This

long-standing view prevails, as was evident in recent statements by Foreign Minister Yang Jiechi, who asserted that the countries of Southeast Asia should recognize their dependence on economic ties to China, and accommodate to China's claim to sovereignty over the disputed offshore territories. "China is a big country," said Yang. "The states of the region are small countries."

That said, as best we can tell there has been vigorous debate within the Chinese leadership about how to use the enhanced power that is coming with the country's economic and military modernization – a debate that has been driven by internal political rivalries of the fifth generation of emerging leaders.

One of the outcomes of the Nixon/Mao talks of the early 1970s was an agreement to defer resolution of Taiwan's status in order to cooperate on the strategic security challenge from the Soviet Union. "Let Taiwan come in a hundred years," said Mao to Nixon, who added that while China would eventually fight to resolve the issue, in the meanwhile it was better for the United States to take care of the island while the two countries cooperated against Soviet hegemony. Since Mao's time, Chinese leaders have pressed for an earlier resolution of Taiwan's status. When now asked why they are moving away from the Mao position, their response is, "That was then; now is now." Put in other terms, they currently see no shared threat to justify security cooperation. A more fundamental change in attitude is the apparent reconsideration of Deng Xiaoping's cautious and low key approach to his country's emergence as a global force, to "hide one's strengths and bide one's time."

What can the US do to minimize prospects for a return to confrontation? This is an issue that requires a shared interest on the part of Chinese leaders; it cannot be a unilateral effort. But I would stress three approaches the U.S. should pursue – apart from the fundamental of getting our own economic house in order.

First is the necessity to vigorously engage China on the sources of economic tension – primarily the shared concern with "jobs, jobs, jobs." The specific issues currently on the bilateral economic agenda affect jobs in both countries: China's exchange rate management and the trade imbalance; protection of intellectual property; market access; and issues such as energy security and environmental challenges. As Ambassador Carla Hills stressed in last year's Holdridge lecture, there are a number of well-institutionalized bilateral and international fora and dispute-management procedures for dealing with these issues: primarily the annual U.S-China Strategic and Economic Dialogue; on-going talks at the ministerial level or via specialized agencies; and the WTO. Engagement with China on these issues can at least "contain" problems if not resolve them.

We can build cooperation on the basis of China's own interests in sustaining access to foreign markets and capital, protecting intellectual property, and jointly working issues that can only be resolved through cooperative endeavors. The Chinese, for their own domestic stability, need an open international trading environment – even as they make the slow transition from export led growth to an economy with diversified foreign markets and heightened domestic consumption. And for effective management of China's

global economic impact, as the economist Fred Bergsten has stressed, we should develop and strengthen multilateral fora for dispute management and collective approaches to economic growth – The Asia Pacific Economic Cooperation forum, or the now-forming Trans-Pacific Partnership.

Second, there are the territorial disputes over Taiwan and the East and South China Seas. Turf conflicts are the issues over which countries go to war; and failure to resolve Taiwan's future relationship with the mainland peacefully is the most likely source of a breakdown in the US-China relationship.

Over the past four decades there has been a remarkably positive evolution in cross-Strait relations. What had been a military confrontation derivative of China's civil war has now evolved into increasingly constructive economic and social dealings between the island and the mainland. There is even open political communication between leaders in Taipei and Beijing. The challenge to all three parties involved is to facilitate further demilitarization, and for the US to do what it can to facilitate a political settlement acceptable to both Beijing and Taipei. China now designates Taiwan as a "*zizhiqu*," a self-governing territory. If reality were given to this conception, there could be a favorable evolution of the current situation. The most costly outcome for all concerned, of course, would be an escalation of political tensions and a return to military confrontation.

The third element of managing the U.S.-China relationship should be the construction of a positive agenda of economic and security cooperation. This would maximize the benefits to both sides of normal relations. Energy security, access to raw materials, counter-proliferation of weapons of mass destruction and terrorism, sea lane security, the impact of climate change, and many other international issues cannot be dealt with as zero-sum challenges.

That said, it is evident that the Chinese highly value their national independence, and hold significant distrust of U.S. intentions. They see a multi-polar world of diverse and independent power centers. Collaborative relationships, much less formal coalitions or alliances, are beyond the historical experience and sense of national pride of the inheritors of the Middle Kingdom. The hope for a constructive future is in the country's increasingly close integration into the world economy, and the transformative effects of returning students and openness to global communication. These factors could be a powerful force for social change. The late nineteenth century Chinese who led the "self strengthening" movement argued that China could adopt foreign technologies while retaining the integrity of its culture – the so-called "*ti-yung*" controversy. Will contemporary China remain unchanged as it engages the world of the 21st Century?

Finally, there is one critical factor largely beyond American influence – China's internal stability. The Communist Party leadership has based its legitimacy and political support on sustaining a rising standard of living, which requires a high level of economic growth. As a system of top-down authoritarian control, the Party lacks the legitimacy of a democratically elected government, or one with a credible ideological rationale. The

effort to maintain a one-party political system governing from the top down is in growing tension with the bottom-up pressures of decentralized economic development and openness to the world.

Since Tiananmen, the leadership has been ever-more repressive of political dissent, even as it has encouraged decentralized economic growth. The Party's management of this "contradiction" has worked to a point: widespread local protests at official corruption and other sources of discontent – estimated at more than 100,000 per year – are contained through fragmentation; by localizing the protests and controlling communication among the protesters. Methods of political aggregation and mobilization, as are now facilitated around the world by social networking media, are controlled through a vast system of censorship and repression of open dissent. Yet the Chinese Communist Party, to sustain growth, needs a system of modern communications, even as it seeks to censor the Internet and social network media. This is a fundamental dilemma that over time will prove unmanageable. The Party's sense of its own vulnerability is evident in the hyper-intensive repression of uncontrolled organizations – the Falun Gong, Christian churches – and censorship of information about mass political opposition abroad – most recently the revolutions of the "Arab spring."

How long the Party will be able to impose heavy handed censorship and repress overt opposition, given its economic need to engage the world, is an open question – but one that in time will influence the agenda of US-China relations. Episodes of violent political repression, as followed the mass demonstrations in Tiananmen Square in 1989, will seriously strain public support in the United States and elsewhere for normal relations with China – despite the costs to all concerned of a renewed period of economic or political sanctions.

To conclude, China and the United States – having normalized relations – are now locked into a relationship of economic interdependence. This has enabled the resurgence of an ancient empire into a major international force. As Napoleon predicted, an aroused China is now shaking the world, and the United States has facilitated China's awakening. A succession of senior American officials over eight administrations have asserted that a secure and modernizing China would be in America's national interest -- that the country could be a positive factor in world affairs. Yet a growing nationalistic mood in China does not bode well for a constructive future. Only as leaderships in both Beijing and Washington work to develop the positives in the relationship -- while managing the areas of conflict – can they avoid the great costs that would come with a return to confrontation. This is the great contemporary challenge of managing US-China relations.

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