



**The US-China Relationship:
Avoiding a New Cold War**



Issues & Insights
Vol. 12 – No. 10

Shanghai, People's Republic of China
May 2012

Pacific Forum CSIS

Based in Honolulu, the Pacific Forum CSIS (www.pacforum.org) operates as the autonomous Asia-Pacific arm of the Center for Strategic and International Studies in Washington, DC. The Forum's programs encompass current and emerging political, security, economic, business, and oceans policy issues through analysis and dialogue undertaken with the region's leaders in the academic, government, and corporate arenas. Founded in 1975, it collaborates with a broad network of research institutes from around the Pacific Rim, drawing on Asian perspectives and disseminating project findings and recommendations to opinion leaders, governments, and members of the public throughout the region.

The Young Leaders Program

The Young Leaders Program invites young professionals and scholars to join Pacific Forum policy dialogues and conferences. The program fosters education in the practical aspects of policy-making, generates an exchange of views between young and seasoned professionals, builds adaptive leadership capacity, promotes interaction among younger professionals from different cultures, and enriches dialogues with generational perspectives for all attendees. Participants must have a strong background in the area covered by the conference they are attending and an endorsement from respected experts in their field. Supplemental programs in conference host cities and mentoring sessions with senior officials and experts add to the Young Leader experience. The Young Leaders Program is possible with generous funding support by governments and philanthropic foundations, together with a growing number of universities, institutes, and organizations also helping to sponsor individual participants. For more information, see the Pacific Forum CSIS website, www.pacforum.org, or contact Nicole Forrester, Director – Young Leaders Program, at nicole@pacforum.org

Table of Contents

	Page
Acknowledgements	iv
Key Findings	v
Introduction	1
By John Hemmings	
Political Relations: Seeing Eye to Eye on Issues	2
By Brittany Billingsley, See-Won Byun, Alexandra Doga, Scott Wilbur, and Yang Yi	
The Security Relationship: Becoming Secure in an Insecure World	5
By Eleni Ekmektsioglou, John Hemmings, Ren Yuan Zhe and Zhang Zhexin	
The Economic Relationship: Global Finance, Good Governance	8
By Wei Li, Michael Long, Xuming Qian, Albert Wu, and Qisheng Wu	
Conclusion	10
Appendix A: YL Agenda	A-1
Appendix B: YL Participants	B-1

Acknowledgements

This event marks the 12th annual China-US Security Dialogue hosted by Fudan University's Center for American Studies and the Pacific Forum CSIS. Its longevity reflects the center's commitment to building better relations with the United States. The Pacific Forum CSIS deeply thanks Fudan University for its participation in this initiative. Dr. Wu Xinbo, deputy director of the Center for American Studies and our partner throughout this project, has provided leadership and intellectual direction; the program would not be possible without his hard work.

The Asia Foundation has generously provided financial assistance for this project, and Jonathan Stromseth, the Foundation's country representative in China, also deserves recognition for introducing the global governance issues into the dialogue. Additionally, we are grateful to the many security specialists, in and out of government, both in China and the United States, who took time out of their busy schedules to join us in Shanghai to participate in the dialogue and give it meaning.

The views expressed here do not necessarily represent the views of the US or Chinese governments, the co-sponsoring institutes, or workshop participants as a whole.

Key Findings

The US-China relationship consists of both competitive and cooperative elements. However, the last decade has seen the relationship tend toward the former and become increasingly fraught with internal tensions. Participants were tasked with imagining worst-case scenarios over the next 25 years, should these trends continue. Three groups encompassing political, security, and economic/global governance issues constructed what they thought were realistic scenarios and sought to formulate policy recommendations intended to help both countries avoid those scenarios.

Key Political Recommendations:

- China and the US should create and reinforce existing bilateral forums, where they might discuss differing interpretations of international law.
- China and the US should avoid utilizing nationalist sentiment in their dealings with each other.
- China and the US should seek to include each other in regional architectures, even as observers.
- China should enact structural reforms which help streamline foreign policy creation and implementation.
- The US should pursue a persistent but more low-key approach to democracy-promotion in China, with greater appreciation for the role of NGOs as facilitators of dialogue about political reform.

Key Security Recommendations:

- China should accept US attempts to mediate during crises involving China and US allies.
- China and the US should work on crisis management and develop clear lines of communication during crises. This should be done at the Ministry of Foreign Affairs and Defense levels as well as at the Presidential level.
- China and the US should seek to change the Military Maritime Cooperative Agreement (MMCA) into an Incidents-at-Sea (INCSEA)-like regime.
- China should clarify its position on the “nine-dashed line” both internally and with its neighbors.
- China and the US should establish a South Pacific Coast Guard Forum to alleviate tensions in the South China Sea.
- China and the US should establish cyber-security as a component of the US-China Strategic and Economic Dialogue.
- China and the US should seek to work through the UN on creating a convention for cyber-security.

Key Economic and Global Governance Recommendations:

- The US and China should seek inclusive economic architecture.
- China and the US should establish a Sino-US bilateral investment treaty.
- China and the US should attempt cooperation in stabilization funds for commodities and securing energy supply routes.

- China and the US should develop a joint Sino-US public relations and communications team addressing Sino-US related economic and trade issues in the media.
- China should work with the US to improve legal and regulative infrastructure for investments and allow more US companies and funds into China.
- The US should support and help to ‘transition China’ to take on greater roles in global monetary institutions by supporting official Chinese candidates to lead them. In turn, China must work toward taking greater responsibilities in global institutions and learning to utilize them as means to advance the interests of the many.

Introduction

On May 29, 2012, the Pacific Forum CSIS brought a group of Young Leaders from the United States and China to the 12th Dialogue on Sino-US Relations, Regional Security and Global Governance. The Young Leaders attended two days of discussions led by senior US and Chinese officials and academics. Young Leaders were asked to discuss and explain the competitive side of the bilateral relationship, and the discussion that followed was revealing. Young Leaders concurred that the competitive elements of the relationship are increasing due to a host of causes: ideological, structural, systemic, and historic. In ideological terms, the differing political systems (one party versus pluralism) contribute to mistrust, along with the attendant transparency and rule of law issues that accompany them. Then there is a zero-sum view, in which China's rise is at the expense of US regional and global leadership. Systemic differences were also discussed, including the differing approaches to international relations and values. The US has a tendency to approach international relations in an idealistic manner and to view internal affairs in other countries through the prism of its rights-based values. This affects its relations with China. In turn, China's realist approach to international relations and its emphasis on sovereignty over security regimes frustrates US non-proliferation policies with regards to Iran and North Korea. Finally, the history of both states was mentioned, with reference to China's 'century of humiliation' contrasted with the US century of struggle with rising autocratic powers (Imperial Japan, Nazi Germany, Fascist Italy, and Soviet Russia). These historical experiences could be said to create negative expectations of each other at the media and public levels.

Young Leaders were put into three broad thematic groups: politics, security, and economics. To this last group was added global governance. While this could have been a separate section in its own right, it was added to economics because most prominent global architectures deal with trade, such as the International Monetary Fund, the G20, and the World Trade Organization. As they proceeded, Young Leaders discovered that there was overlap in all three areas. Issues pertaining to Taiwan, for example, can be considered as related to all three groups. To avoid duplication of effort, certain subjects were allocated to one group or another. As Taiwan has not triggered a crisis between China and the US since the 1990s, the topic was developed by the politics group rather than the security group. Young Leaders were then tasked with brainstorming worst-case scenarios for their respective themes up to the year 2025. Since prediction is by nature a speculative exercise, it was thought that any useful prediction would assume the continuation of many of the current trends in all three areas. So, for example, China's economic growth would continue to grow at a rate of at least 5-7 percent until 2025, though some minor and temporary slowdown might occur. While shifting a little on its North Korea policy, Beijing is likely to continue to back the regime and prioritize stability on the peninsula over denuclearization. Chinese military resources, both conventional and asymmetric, would continue to challenge US capabilities. There were also a number of potential events that the scenarios avoided: Japanese development of a nuclear weapon, North Korean collapse, a US or Chinese economic collapse, and a contingency in the Taiwanese Strait. While all these events are possible, at present, none were considered likely enough to warrant inclusion into their scenarios. Naturally, these

exclusions somewhat limit the scope of the final scenarios, since history reveals many examples of the unexpected. This is a weakness in the study and acknowledged as such.

On the other hand: the act of predictive analysis is a useful act in itself, as it involves the discussion of state motives, and the ability of states to shape or be shaped by trends around them. Young Leaders analyzed trends in the relationship and extrapolated the direction of US-China relations. The trends, all agreed, were negative and the relationship is in serious danger of developing into one similar to that which existed between the US and the Soviet Union during the Cold War: a relationship dominated by competitive elements. Undaunted by this result, the three groups sought to make course-changing policy recommendations that would ameliorate this dour prediction. Few of these are new; some are extensions of existing policies, promoting under-utilized measures. Others attempt to create confidence-building measures along the lines of those successfully used by the US and Soviet Union at the height of the Cold War. Others still break new ground, particularly those in the policies and recommendations that follow go some way to alleviating the gloominess of such a prediction, since they seek a course of change and will hopefully offer new thinking to the current generation of US and China government policy-makers.

Political Relations: Seeing Eye to Eye on Issues

Young Leaders agreed that the worst-case scenario for the US-China political relationship is that it develops into a Cold War type relationship similar to that of the US and USSR during the Cold War. There is also a growing danger that domestic politics will begin to favor the competitive element over the cooperative as constituencies in both countries react to economic downturns. From 2010 onwards, the Obama administration framed its Asia-Pacific policy in terms of a 'pivot,' which garnered negative reactions across the region. While a discussion of this policy or its impact on China and US allies is beyond the scope of this paper, the negative reaction among Chinese policy-makers highlights sensitivities between Washington and Beijing. Seen from Beijing, the 'pivot' seemed to be aimed at containing China. The mini-furor about the nomenclature of the pivot echoes the disquiet caused by China's 'Peaceful Rise' policy in 2004, revealing not only the importance of framing the US-China relationship, but also the importance of perceptions of that relationship, and their role in shaping media narratives.

In some ways the differences between China and the United States were echoed in the deliberations of the Young Leaders themselves. One difficulty came in agreeing on China's status, with Chinese participants referring to China as a developing nation, rather than a power or great power. US participants were surprised by this underestimation, and pointed to a number of factors that make China a power (its status as a nuclear armed power, its place on the UN Security Council, its modernizing armed forces, and its space program). This gap in perceptions is vital because it highlights the different base assumptions about China's rise by Chinese and Americans, and perhaps explains why Chinese participants tend to discount the destabilizing impact of Chinese policies or actions on its neighbors or on the US. This primary difference in opinion on China's power status colors the subsequent discussions.

Drivers and Trends

The Young Leaders discussed two major trends pushing the US-China political relationship toward competition. The first is defined as a zero-sum view of competition that exists among policy-makers in both countries. This structural realist position posits that the two states are bound to compete over vital regional interests such as Taiwan, Korea, and maritime issues, and that the gains of one are the losses of the other. In opposition to stated policy, the United States sees China's rising power as a threat to its regional interests, while China perceives US engagement in Asia as part of a containment strategy against China. While these narratives are contradicted by government policy statements, they are reflected in the media of the two states, and are gaining popularity among the publics. The reasons for this are varied, and difficult to ascertain without polling, but one explanation for the appeal of these narratives is their simplicity, the ease with which they can be conveyed in the media. A further addition to this narrative is that the 2008 financial crisis in the US has shown that not only is China *rising*, but that the US is also *declining*. It is entirely possible that US moves to counter Chinese assertiveness on its periphery are seen – by Beijing – as the containment efforts of a declining hegemon, rather than as moves to uphold regional security. The second trend which causes distrust between the two states to the two systems espoused by the two countries: liberal democracy and state capitalism. The US is, in historical terms, a unique hegemon in that it seeks to apply – and spread – a universal standard of governance based on the moral assumptions within international relations. China finds these ideas both politically and culturally threatening, and US attempts to apply them in policy statements inappropriate to state notions of sovereignty. While Washington does not accept China's management of domestic human rights in the name of international norms, Beijing resists US and international intervention based on its principle of non-intervention in internal affairs.

Policy Recommendations

Confidence Building Measures: Building trust is a key priority in US-China political relations. Despite political rhetoric emphasizing “win-win” engagement, US-China ties remain ensnared in a zero-sum narrative. Recognizing these trends, policy-makers have attempted to improve US-China relations by implementing some of the US-Soviet experience with confidence building measures (CBMs), but even here there have been problems. While the US encourages CBMs taking a bottom-up approach, Chinese counterparts maintain that without strategic trust at the top, CBMs are futile. Despite these differences, Young Leaders believe that incremental steps in transparency and dialogue are a positive force because they can work across government and can develop among large segments of those government actors that deal with each other.

The Media: Young Leaders from both China and the US agreed that the relationship has not benefited from policy criticism taking place through the media: US statements about human rights abuses should be addressed, but it is possible for these to happen in a more private way. Similarly, Chinese concerns about the status of the dollar as the reserve

currency and Taiwan arms sales should not be handled in the press. While neither side can prevent press statements about each other in general, the governments can avoid making controversial policy statements. This would lead to policy exchanges less encumbered by political rhetoric and point-scoring, and allow the two states to work on what those policy differences are.

Hold Joint Workshops on International Law: The last few years have seen a growth of tensions between China and states on its periphery. Many of these tensions are caused by different interpretations of international law, particularly maritime law. The ‘nine-dashed line’ map, outlining China’s claim of the South China Sea, is one example of Chinese interests that are not in line with internationally accepted legal norms. US intelligence-gathering activities in China’s Exclusive Economic Zone (EEZ) is another point of contention. As with all powers, China and the US have a right to defend their interests, but they must seek to uphold, rather than challenge, the existing international legal framework. They should expand their dialogue on the interpretation and execution of international law, by hosting annual bilateral symposia on international law. As well as academics and legal experts, both countries should include participants from their foreign and security policy-making community as a way of educating them on the details of international law.

Norms and Values: US policy-making should understand that political reform in China is a deep and long-term process, secondary to economic growth, but important nevertheless. Young Leaders recommended that US policy-making should tone down the human rights approach, in favor of good governance. US policy-makers should monitor and discreetly support the incremental improvements that occur as precursors to democratization, such as the growth of civic associations, the building of institutional capacity, and the strengthening of the rule of law. In this regard, they should follow trends in elections, the independence of the judiciary, and government oversight, which may signify the direction of China’s political reform.

Crisis Management: Bilateral and multilateral dialogue mechanisms influence US and Chinese perceptions of each other and the prospects for cooperation. This is particularly true during crises. However, during contentious periods, such as US arms sales to Taiwan, Chinese government officials tend to sever completely their communications with their American counterparts, as a means of showing official displeasure with US policy. This reaction, while understandable, can lead to increased instability or misunderstandings, particularly with naval units operating in close proximity together. China and the US should not let political crises affect military-to-military communications. These are too important to treat as a political tool.

The Security Relationship: Becoming Secure in an Insecure World

US and Chinese participants discussed how the bilateral relationship is becoming increasingly defined by security issues and US delegates suggested that a security dilemma is coming into existence, in which the efforts of China to create security for itself are, in themselves, causing insecurity for the US. The US reaction then causes further Chinese insecurity, and so on. The security dilemma between China and the US could be said to include: The Taiwan Strait Crisis of 1995-6 causes Chinese insecurity over its ability to maintain control over its immediate periphery against foreign navies. It develops the anti-access area denial (A2AD) strategy to keep US forces out of any future Taiwanese contingency, but this strategy has the secondary impact of threatening US access to *all* regional waters, not merely those near Taiwan. This threatens the ability of the US to guarantee sea lanes important to its allies in Northeast Asia, pushing the US to develop the counter-strategy Air-Sea Battle concept, a jointly-based concept aimed at guaranteeing US primacy in the face of A2AD. Shifting budgets and new technologies continue to destabilize the traditional Sino-US military balance, with many systems being developed with the other in mind. Notable during the discussions was the fact that Chinese participants aired grievances about the Air-Sea Battle concept, but could not understand that the policy was a justified reaction to Chinese denial strategies from the US perspective. Chinese participants also were surprised that their US colleagues believed that A2AD would be used for anything beyond a Taiwanese contingency.

Given the nature of the security community, it is perhaps unsurprising that the security discussions came up with the most negative predictions about US-China ties. Security analysts tend to focus on the security fault lines (Taiwan, the South China Sea, and the Korean Peninsula), that exist between the two states and know only too well the risks of accidental or third party escalation. One scenario discussed by the group was the possibility of a South China Sea conflict between China and a *third* party. The example discussed involved a brief naval conflict between Chinese and Vietnamese warships taking place and the impact this would have on US-China relations. Given the preponderance of Chinese forces, a Chinese victory is likely, but even if such an event were over in a matter of days, the regional countries would respond by coalescing behind either the US or side with China, hedging toward a Chinese hegemony. It was interesting that the US and Chinese participants had similar views on the right of the state to use force to secure its interests. While neither side would agree that it wanted to use force, both sides agreed that force was a necessary evil in the application of political ends.

Drivers and Trends rotate

One of the main drivers for military insecurity between China and the US is the security dilemma that developed after the 1995 Taiwan Strait Crisis and the arms build-up that followed. Chinese vulnerabilities from the US Carrier Battle Groups (CVBG) during that crises led to a number of large arms purchases from Russia as well as intensified research and development in air and naval systems. Their efforts include purchasing a number of Sovremenny destroyers, a vessel designed to punch through the defenses of US carrier groups, as well as Kilo-Class Submarines, and SU27 fighter

aircraft. In addition to air and naval systems, China has made impressive strides in its anti-ship missiles, including a supersonic anti-carrier system called the DF21-D. This system, while still under development, might be as much a 'game changer' as the Dreadnought was in the early 20th century. The missile system has a potential range of 1,500 to 3,000 kilometers, pushing the safety zone almost to Guam. Chinese submarines, some of them even with an Air Propulsion Independent (AIP) system, are very quiet while Chinese admirals capitalize on their knowledge of littoral zones and all the advantages that can offer against US Anti-Submarine Warfare (ASW) missions. Moreover, according to the U.S. Naval Institute, China has been outbuilding the US in submarines by eight to one since 2005. As for cyber warfare capabilities, China is investing a great deal given that current Chinese military inferiority will not allow it to attack against forces that operate in a fully integrated environment. On the contrary, Chinese doctrine suggests it would unleash its cyber warfare capabilities at the very beginning of a conflict in order to cripple the enemy's communications and sensor systems.

The aforementioned developments in military capabilities have not gone unnoticed in Washington. The US response – known as Air Sea Battle – is designed to counter A2AD, and ensure the US Navy's ability to transit and affect operations in waters close to its allies. The US Navy and the Air Force are working together to achieve high levels of interoperability in all domains that would allow them to enter the theatre of operations and move as freely as possible within the contested area. A step in this direction took place early this year with the publication of the Joint Operational Access Concept (JOAC). JOAC aims to establish "an overarching concept under which can nest other concepts dealing with more specific aspects of A2AD challenges, such as the Air-Sea Battle Concept." The concept transcends the limits of "joint synergy," which "focuses on the integration of service capabilities," and instead puts the emphasis on "a seamless application of combat power between domains, with greater integration at dramatically lower echelons than joint forces currently achieve." The purpose of such an application of combat power is to enhance flexibility and adaptability, along with operating capabilities, in a degraded environment. However, in a period of severe budget cuts across the board, the US is expected to meet serious challenges related to new acquisitions that would allow the implementation of such a strategy.

Both the US and China appear to be developing military capabilities that would serve strategies designed to fit conflicts that may erupt in the region. China, on one hand, seeks to prevent the US from investing in a strategy of deterrence whereas the US, on the other, aims to maintain its credible capacity for intervention countering Chinese asymmetric strategies. This being said, it becomes obvious that both countries do not prepare for a direct conflict but for a 'proxy war' kind of eventuality.

Policy Recommendations

Crisis Management: Bilateral and multilateral dialogue mechanisms influence US and Chinese perceptions of each other and the prospects for cooperation. This is particularly true during crises. However, during contentious periods, such as the January 2010 US

arms sales to Taiwan, Chinese government officials tend to sever completely their communications with their US counterparts, as a means of showing official displeasure with US policy. This reaction, while understandable, is dangerous and can lead to increased instability or misunderstandings, particularly with naval units operating in close proximity to each other. China and the US should not let political crises affect military-to-military communications. These are too important to treat as a political tool. Open channels of communication need to be maintained by both sides during these tensions.

Confidence Building Measures: With regards to the South China Sea, the US and China should promote regional CBMs for alleviating tensions. A South Pacific Coast Guard Forum could be developed by the two states, built on the lines of the North Pacific Coast Guard Forum. The Forum could be used to help develop regional capacity as well as rules of engagement in dealing with illegal fishing and other activities, which have traditionally led to inter-state tensions. The Military Maritime Consultative Agreement (MMCA), an agreement signed by Washington and Beijing in 1998, could be developed into a more formal agreement like the oft-cited US-Soviet Incidents-at-Sea Agreement (INCSEA). Critics of the MMCA state that it does not meet regularly, is run by ministries/departments rather than by the navies, and is thus overly politicized. Much of INCSEA's success was due to the fact that it met annually, was hosted by each country in turn, and was less political since it was run by the Soviet and US naval departments. The MMCA could even be expanded to become a multilateral body, to include other regional maritime powers like Russia, the ROK and Japan.

Improve Military-to-Military Ties: The developments of top-level reciprocal military visits (Robert Gates to China in 2011 and General Chen Bingde to the US in 2012) are signs of progress in US-China military to military ties. However, they remain highly symbolic and have yet to become institutionalized. The only other format for the two to speak directly to the bilateral security relationship is the US-China Strategic and Economic Dialogue. While useful, the April 2012 Dialogue restricted discussion of security to a single day, and restricted topics to maritime and cyber-security. Neither the space allocated nor the topics discussed were sufficient. The US and China need to expand the dialogue to at least another day, and open the dialogue to strategic planning, new systems, and intent. Furthermore, China and US forces need to minimize symbolic gestures aimed at each other. The revelation of the new Chinese stealth fighter on the day that US Secretary of Defense Robert Gates arrived in China did little for Sino-US mutual trust, timed as it was for maximum impact. This was equally true for the Chinese anti-satellite test and US 2008 response which only create further insecurity.

Cyber-space: Beijing and Washington are beginning to discuss the exercise of mutual restraint in this area given the potential for mistrust and escalation. The US and China should seek to develop a bilateral strategic understanding on this issue, similar to that described in the Paradox of Power, a 2011 National Defense University study which sees dialogue as a means for both to understand the risks and consequences of miscalculation and escalation in cyber-space. At the multilateral level, the US and China could seek a UN convention on the issue. A UN Conference on Cyber Space – similar to the UN Conference on the Law of the Seas – could be held, in which delegates attempt to create

an international regime on cyber activity, with supervisory and regulatory mandates. While such conventions have their limits, the absence of such regimes is infinitely worse.

The Economic Relationship: Global Finance, Good Governance

The current global order was forged after the Second World War and has advanced economic prosperity across the world. As the BRIC states rise in economic and political clout, the current system becomes increasingly unrepresentative according to the disproportionate prominence it gives to Western states, particularly in leadership of the institutions¹. Global governance and economics have two strong effects on the Sino-US relationship. On the one hand, the economic gains achieved by the US and China through cooperation are substantial. Bilateral trade in 2011 amounted to more than \$500 billion. Given the importance of the relationship, the sheer size of mutual trade, and economic interdependence, it is not surprising that there are also competitive elements and tensions over trade issues. They include currency manipulation, protectionist measures, large-scale Chinese ownership of US national debt, and the trade deficit. While these issues have existed for some time, they seemed to gain traction with the US popular media after the 2008 financial crisis. Chinese media discussed the event in terms of US decline, and there was even discussion of replacing the dollar as the global reserve currency. On the US side, criticism has focused on an artificially low Chinese currency, pegged low to keep Chinese products competitive. On the Chinese side, criticism has focused on continued high US borrowing as well as ‘fiscal easing.’ Both sides criticize each other for protectionism.

This work assumes that regional economic growth trends will remain the same for the purpose of this analysis. Asian regional economic growth continues to outperform the Organization of Economic Cooperation and Development (OECD), and China’s real gross domestic product (GDP) continues to grow between 5 -7 percent per annum, in line with the Chinese Communist Party’s (CCP) target. There is limited transformation in the economic structure, via shifting from an export-led development model to a domestic consumption-based model. The Association of Southeast Asian Nations (ASEAN) continues to experience strong economic growth, leading to a relatively high level of social stability. There is gradual implementation of economic reform in less-developed countries such as Myanmar, Cambodia, and Laos. Increasing intraregional trade and trade with China continues. Japanese and South Korean GDP growth remains stable. For the purposes of this analysis, extraordinary economic events (e.g. severe depression in both the United States and China leading to social strife) are excluded.

Drivers and Trends

Despite recent signs of flagging economic growth, confidence in the ‘Beijing consensus,’ the state-led development model, remains high in China. The United States’ frail economic recovery puts lower Chinese growth rates of 7 percent in perspective and reduces the US’ authority as the largest global economy. Due to this growth, the views of

¹ The President of the World Bank has historically been allocated to an American while the Managing Director of the International Monetary Fund has been allocated to a European.

Chinese leaders who oppose political and economic reform, are gaining in influence. Their opposition to reforming state owned enterprises (SOEs) means that Chinese economic practices will continue to be influenced and protected by government connections, a source of contention with the US. Other areas where Chinese practices are leading to friction with the US include the ‘no strings attached’ loan approach to central Africa and Latin America, driven by China’s need to secure resources and raw materials.

Despite the growing significance of Chinese-US trade, institutional structures necessary to regulate and manage Sino-US economic disputes have been slow to evolve and mature. For example, there is no bilateral investment treaty between the US and China to regulate FDI, unlike in the case of trade, where both countries can use the World Trade Organization (WTO) to resolve disputes. The lack of such processes is currently leading to increased capital controls and rising restrictions on investments. Mutual distrust on investments relating to national security is causing China and the US to erect barriers on capital flows. Protectionist policies are gradually hardening, and questions over differences in labor standards, transparency, and governance are leading to more protectionist policies.

Another driver is the increasing division of global economic trade from just dollars to dollars and renminbi (RMB). As China’s economic influence grows in Asia, the number of countries pegging their currencies to the RMB is increasing. According to the IMF, the share of global trade taking place in the RMB is around 10 percent. The likelihood of this increasing over time is widely anticipated, given China’s economic size and trade importance. This is likely to lead to countries concentrating their capital in either RMB or US dollars (USD) as a trade medium, creating economic blocks and regions of influence. In this scenario, the US and China will compete with one another to offer better terms of trade to their respective partners and ‘nonaligned’ economies.

The third driver relates to US expectations of China as a ‘responsible player,’ particularly in how Beijing behaves in the global institutions. While China is willing to selectively utilize global institutions such as the WTO to fulfill its economic and trade agendas, it is also seen as a free rider state by the US. The US continues to bear the cost of being a ‘leader’ in the institutions and is unable to encourage China to share in the costs. Chinese leaders continue to be look inward, with domestic issues being their first priority, and shying away from key global events and dialogues.

Policy Recommendations

Regional Economic Architecture: One approach is to work toward creating an inclusive region-wide economic structure. A free trade agreement that excludes one of the largest trading partners of the US and every other country in the Asian region cannot reap nearly the same level of economic benefits for any country involved. Offering better terms of trade to certain countries at the expense of China can and will distort market realities.

Foreign Direct Investment: There should be a step-by-step process towards a bilateral investment treaty to prevent future disputes as in the case of CNOOC’s bid for UNOCAL.

The bilateral investment treaty should clearly state the circumstances in which investments are considered linked to national security. This should also include further relaxation of China's capital controls to allow for outflow of RMB from China.

Energy: The two countries can work toward joint efforts in an oil stabilization fund as a precedent for other similar efforts in the commodities markets. The two can also increase efforts to improve and co-invest in renewable, clean energy, or technology that increases energy efficiency. Furthermore, the US and China can cooperate in energy supply chain security on land and sea, such as ensuring the safety of trade routes and gas pipelines.

Bilateral Exchange and Communication: Both countries should encourage educational exchange, especially to cultivate more experts that are focused on economic and governance issues, rather than political or security ones. Both countries should commit funding to promote such cultural and educational exchanges.

The two countries should also develop a joint Sino-US public relations and communications team addressing Sino-US related economic and trade issues in the media. Such a team could then dispel myths of zero-sum competition between the two countries as well as common misconceptions of the Sino-US relationship. This team will also be able to work to create a coordinated message from the US and China on key issues in order to reduce anxieties by allies and other countries in Asia.

Conclusion

Participants were quick to agree on the drivers to greater US and Chinese competition. Surprisingly, Chinese and American participants agreed on the trends; unsurprisingly, their interpretation of cause and effect differed according to their national identities. For example, both sides agreed that there was a security dilemma, but disagreed on who or what had caused it. This divergence was consistent throughout the groups, but was particularly strong in the security group. The drivers toward competition can be summarized as China's economic, military, and political rise give it an increased voice in regional and international affairs. Due to long-term historical causes (China's long influence in the region) and short-term causes (the narrative of foreign subjugation of China), China is a power willing to occasionally challenge and reframe the context in which it has risen. The US, as one of the creators of the current global order, wants to prevent China from remaking the rules and tries to frame China's rise as a responsible stakeholder. Nowhere is this more evident than in the security field, where Beijing's South China Sea claim – the nine-dashed line – stands outside all norms of international law, and suggests a China which is ambiguous about the current maritime legal system.

China is not the only rising power. India and Brazil are also rising and the world is tilting toward multipolarity, rather than unipolarity. However, given China's current power ratio, politically and economically, it is clear that it leads the pack of rising powers and will do so for at least the first half of the 21st century. Furthermore, its geopolitical presence in the Asia Pacific, the future center of global economic activity, gives its regional influence a global relevance. China is already the world's second largest

economic power and is predicted to eclipse the US by 2025. This fact, compounded by China's long history as a hegemonic power, gives its rise poignancy among regional states. Finally, the fact that China is the first autocratic power to rise after the USSR is highly relevant to US policy-makers. Chinese foreign policy may well be affected by the '100 years of humiliation,' but it is no less true that US foreign policy has been affected by a tradition of conflicts with autocratic powers. Imperial Japan, Nazi Germany, and the Soviet Union have all left their mark on US strategic perceptions. Indeed, one could argue that the US decision to welcome communist China into the global system – marked by membership to the UN and WTO – goes against this traditional wariness of autocratic states.

Despite the many successes of the US-China relationship, the trends noted in this study indicate that greater Sino-US competition might not be expected but is absolutely necessary. China's rise is a fluid event and cannot be understood without reference to other rising powers, as well as new technologies and events that may increase or delay that rise. The key element of this paper is acknowledging that nothing is set in stone. The inevitability of conflict or competition is one that has historical echoes, but it must be discarded with the knowledge that small but sustained adjustments by policy-makers can have long-term effects. The ability of states to manage their relations within rules-based systems is the mark of the modern world. Whether these rules dictate a code of conduct for maritime problems or investment issues, they are themselves tools that frame state behavior. Diplomacy, diplomats and treaties have existed as long as there have been states, but the complexity of the current international system is one that lends itself to avoiding conflict through minor adjustments, fair play, and adherence to agreed principles. While international law exists as a subset of custom and customary law, it nevertheless holds sway over great powers. States recognize the utility of these regimes and orient and align themselves accordingly in the global society of states. In this context, Sino-US competition is bound to be restrained, surely a good thing, for the international order.

APPENDIX A

PACIFIC FORUM CSIS YOUNG LEADERS

Center for American Studies, Fudan University
Pacific Forum CSIS
The Asia Foundation

The 12th dialogue on
“Sino-US Relations, Regional Security and Global Governance”

May 30-31, 2012 ♦ Fudan University

Agenda

Tuesday, May 29

2:00-2:50PM **Fudan University Campus Tour**

Young Leaders are welcome to meet with resident fellows Yang Yi and John Hemmings for an informal meet and greet followed by a campus tour.

4:00-6:00 **YOUNG LEADERS introductory session with Brad Glosserman**

YLS will discuss preconference write ups and be introduced to the program, basic guidelines, and project objectives (4-5PM). YLS will then break into groups and review pre-conference papers and look at scenario-building (5-6PM). Teams should produce an outline of the scenario by 6PM. Keep in mind that an 800-word draft will be due by 3:30PM on May 31.

6:30PM **YOUNG LEADERS Off site visit** YLS will go to Suzhou River. **YL dinner by Suzhou River**

Wednesday, May 30

8:30AM Meet Yang Yi in Qingyun Hotel lobby
Conference venue: Room 104, Center for American Studies, Fudan University

9:00AM Opening Remarks
Wu Xinbo, Shen Dingli, Brad Glosserman, and Jonathan Stromseth

9:15AM **Session 1: Review of Developments in Bilateral Relations and Regional Security**

How to evaluate the developments in bilateral relations since last meeting? What are the major improvements and major concerns? What changes have taken place in regional security since last summer? What are the major challenges?

Chair: Brad Glosserman
Presenters: Tao Wenzhao, Bonnie Glaser

10:15AM Group Photo and Coffee Break

10:45AM **Session 2: Prospects of Cross-Strait Relations in the Next 4 Years**

What are Beijing and Taipei's respective goals of Cross-Strait relations in the next 4 years? What likely measures each will take to advance its goal? What are the major challenges confronting Cross-Strait relations? What is the U.S. position on Cross-Strait relations in the next 4 years? What adjustments may happen to U.S. Taiwan policy in response to developments in Cross-Strait relations?

Chair: Phil Saunders
Presenters: Xin Qiang, David Brown
Commentator: Hu Lingwei

12:00PM Lunch at UBC coffee

2:00PM **Session 3: Korean Peninsula Issues**

How to assess the domestic situation in DPRK since the passing of Kim Jong Il? How have Beijing and Washington responded to the leadership change in Pyongyang? What are the prospects of resuming six-party talks? How can China and the U.S. better cooperate to manage the Korean peninsula issue?

Chair: Yang Yi
Presenters: Liu Ming, Scott Snyder
Commentator: Shen Dingli

3:30PM Coffee Break

4:00PM **Session 4: Obama's Asia-Pacific Strategy: Rationale and Implications**

What is the rationale behind Obama's Asia-Pacific Strategy? What are the implications for China and the region? What are the challenges to the implementation of the strategy?

Chair: Carl Baker
Presenters: Wu Xinbo, Phil Saunders
Commentator: Yang Yi

5:30PM Adjourn

6:30PM Welcome Dinner

Thursday, May 31

- 7:30 AM Young Leaders breakfast meeting with teams
- 9:00 AM **Session 5: Comparing Chinese and US Foreign Aid Policies from the Perspective of Effectiveness**
What are the respective foci of Chinese and U.S. foreign aid policies? How effective has each side been in achieving its goal? What are the feedbacks from the recipients? How can China and U.S. improve their respective foreign aid policies?
Chair: Jonathan Stromseth
Presenters: He Wenping, Jennifer Adams
Commentator: Su Changhe
- 10:30 AM Coffee Break
- 10:45 AM **Session 6: Comparing Chinese and American Approaches to Crises in Libya and Syria**
What are the commonalities and differences in Chinese and American approaches to the crises in Libya and Syria? How should the differences be interpreted? How can we promote Sino-U.S. cooperation in managing similar crises in the future?
Chair: Tao Wenzhao
Presenters: Yuan Peng, Robert Sutter
Commentator: Zhang Jiadong
- 12:15 PM Lunch at UBC coffee
- 2:00 PM **Session 7: New Trends in Globalization and Their Implications for Sino-U.S. Relations and Global Governance**
Since the global financial crisis, what new trends have emerged in international trade and investment? What are the prospects of WTO's Doha round negotiation? How have these affected Sino-U.S. relations and broadly global governance?
Chair:
Presenters: Song Guoyou, Daniel Drezner
Commentator: Pan Rui
- 3:30 PM Wrap-up
Wu Xinbo, Brad Glosserman
- 4:00 PM **YOUNG LEADERS Roundtable Discussion, moderated by Brad Glosserman**
Teams will provide a 5-minute presentation of their 800-word draft scenarios and discuss Implications and Way Forward (**To be submitted by June 20- 2000 words**).

APPENDIX B



**Center for American Studies, Fudan University
Pacific Forum CSIS
The Asia Foundation**

The 12th dialogue on
“Sino-US Relations, Regional Security, and Global Governance”

May 29-30, 2012 – Fudan University

YL Participant List

Ms. Brittany BILLINGSLEY (USA)
Research Associate/Program
Coordinator, CSIS

Mr. Geoffrey FINGER (USA)
MA Candidate
Fletcher School of Law and Diplomacy

Ms. See-Won BYUN (ROK)
Research Associate
The Asia Foundation

Ms. Lisa FRUMIN (USA)
MA Candidate
Johns Hopkins/SAIS

Mr. Trevor CLARK (USA)
MA Candidate
Johns Hopkins/SAIS

Mr. John HEMMINGS (USA)
WSD-Handa Research Fellow
Pacific Forum CSIS

Ms. Sarah DETZNER (USA)
MA Candidate
Fletcher School of Law and Diplomacy

Ms. Grace JOHNSON (USA)
MA Candidate
Fletcher School of Law and Diplomacy

Ms. Alexandra DOGA (GRC)
Coordinator of Asia Pacific Research
Team, Institute of International
Relations, C.E.A.S.

Mr. Wei LI (PRC)
Research Fellow
Ren Min University

Ms. Eleni EKMEKTSIOGLOU (GRC)
Project Assistant and Research Assistant
and Conflict Management European
Union Institute for Security Studies

Mr. Michael LONG (USA)
MA Candidate, Fudan University

Mr. Raffaello PANTUCCI (GBR)
Visiting Scholar
Shanghai Academy of Social Sciences

Mr. Fuadi PITSUWAN (TH)
MA Candidate, Harvard University

Ms. Lesley POIRES (USA)
MA Candidate
Fletcher School of Law and Diplomacy

Dr. Xuming QIAN (PRC)
PhD, Fudan University

Dr. Yuanzhe REN (PRC)
Program Officer, Center for Strategic
and Conflict Management
China Foreign Affairs University

Mr. James ROSENBERG (USA)
MA Candidate
Fletcher School of Law and Diplomacy

Ms. Jennifer SCHUCH-PAGE (USA)
MA Candidate, Johns Hopkins/SAIS

Mr. Andrew WASUWONGSE (USA)
MA Candidate, Johns Hopkins/SAIS

Mr. Scott WILBUR (USA)
PhD Candidate, USC

Mr. Albert WU (USA)
Research Analyst
Southern Capital Group

Mr. Qisheng WU (PRC)
Assistant Professor
Shanghai Academy of Social Sciences

Ms. Yi YANG (PRC)
Vasey Fellow, Pacific Forum CSIS

Ms. Phyllis (Rong) YE (PRC)
Analyst, Brandtology

Mr. Joonwan YOON (ROK)
BA Candidate, State University of NY

Dr. Zhexin ZHANG (PRC)
Assistant Professor
Shanghai Institutes for International
Studies