

## China's Peaceful Rise: Roadmap or Fantasy?

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This book analyzes the Asia-wide implications of China's rapid and unanticipated emergence as an economic, political and military power, and as a significant, expanding presence in regional and global affairs. China has recently surpassed Japan as Asia's leader in terms of import-export trade and military spending. According to some measures, China's economy is now larger than Japan's.<sup>1</sup>

Our central mission is to examine the theme of 'China's peaceful rise' associated with President Hu Jintao. This optimistic perspective holds out the prospect of a smooth and peaceful adjustment to China's emergence as a regional power and major player in global economic and political affairs. The rise of the United States in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries demonstrates that peaceful emergence of new powers can occur, as does the rise of Japan in the concluding decades of the 20<sup>th</sup> century.

But this felicitous outcome is only one possibility. The history of regional and global adjustment to the ascent of new powers has as often been punctuated by large-scale military conquest and attendant political and economic disruption. When one thinks of the Napoleonic wars, Japan's colonization of East Asia, or the World Wars of the 20<sup>th</sup> century, it is tempting to conclude that armed conflict on a grand scale is the more typical backdrop to the emergence of newly powerful states.

Two factors have tended to limit large-scale warfare in recent decades. The first is nuclear deterrence, the development of significant, survivable nuclear weapons forces capable of wreaking unimaginable damage on adversaries, who have striven mightily to secure their own

second strike or retaliatory nuclear option. The second is global economic interdependence. No two nuclear forces have engaged militarily to date. Instead, the nuclear powers, excluding North Korea and Pakistan, have engaged both nuclear and non-nuclear states in a thickening web of trade, investment, technology transfer and commercial diplomacy. Membership in multilateral political and economic organizations and broad-based economic integration through trade, unfettered capital markets, and networks of multinational corporations all militate against conflict.

These innovations highlight the possibility that the dynamic adjustments associated with China's economic and political rise could proceed without massive strife. Our objective is to examine the feasibility of this result, to test the hypothesis that China's 'peaceful rise' represents a realistic outcome following China's unexpected dash from poverty and backwardness into an era of dynamic growth and rapid technological development. Can existing systems of global trade, finance and overall economic relations accommodate the extraordinary system-wide stress that Chinese competition will surely engender? To address this issue, we invited a group of talented and accomplished researchers to examine this issue from multiple disciplinary vantage points. To our surprise, two years of discussion and debate produced considerable agreement.

#### China's New Trajectory of Growth and Openness Will Continue

The growth and internationalization of China's economy represent long-term shifts that we expect to survive the volatility of business cycles and the uncertainty surrounding China's elite politics. Three decades of unprecedented economic expansion and market opening have injected an enormous array of knowledge and skills into every level of China's economy. Future growth can build on accumulated expertise; thousands of Chinese firms and millions of

managers, engineers and entrepreneurs have mastered the art of expanding and deepening the economic, industrial and technological capabilities on which international competitiveness rests. In addition to such decentralized processes, economic growth is firmly entrenched as a central objective of China's political system.

China's political economy rests on a grand but unspoken bargain between the Communist Party and the Chinese public. The Party delivers economic growth and promotes China's global standing in return for public acquiescence to its autocratic rule and anachronistic ideology. The primacy of economic advance among the objectives of Chinese leaders at every level encourages our confidence that Beijing's pro-growth stance does not depend on the continuation of Communist rule. At the same time, the economic liberalization that has brought unprecedented wealth and economic freedom could generate pressures for political reform that might endanger the regime's stability. Such pressures certainly exist: Keller and Pauly found restrictions on free speech to be the number one complaint among U.S.-educated returnees in China's semiconductor industry.

China faces a veritable litany of internal challenges and impediments as it navigates the path toward parity with the advanced industrial states. Rising inequality between city dwellers and villagers, between educated and unskilled, and between residents of the coastal provinces and the vast rural heartland could ignite political or economic disruption. China is in the midst of a vast migration, with many millions moving to the cities each year. China's 'one child' policy has led to a significant gender imbalance and a rapidly aging population. Unfunded pension systems and inadequate health care will pose major hurdles. Unrestrained economic growth has exacerbated environmental degradation. While these and other difficulties could obstruct future growth, it would be unwise to underestimate the capacity of China's leadership or

its populace to overcome adversity. We have no reason to expect that China's 21<sup>st</sup> century economy has lost its 20<sup>th</sup> century capacity to shrug off the impact of repeated setbacks arising from invasion, warfare, embargo, natural disaster and policy blunders.

The opening of China's economy is as dramatic as its growth. China's trade ratio (the combined value of exports and imports as a percentage of GDP) has jumped from pre-reform levels reflecting North Korea-style isolation to heights that no large nation has ever achieved. China's 2004 trade ratio of 70 percent is far higher than comparable figures for the United States, Russia, India, Brazil or Japan. At 150 percent, the 2004 trade ratio for China's coastal region, a vast economy of nearly 550 million people, exceeds comparable figures for every EU nation except Luxembourg, Ireland, and Belgium.<sup>2</sup> In tandem with China's new status as the world's leading recipient of foreign direct investment, this shift has catapulted China to a level of economic openness unprecedented among large nations.

The contrasting history of major crises before and since China's economic reform illustrates the extent and impact of China's integration into global markets. Accounts of the oil shocks that roiled the global economy during the 1970s hardly mention China. Nor do reviews of China's pre-reform economy allude to the OPEC embargoes. The reason is clear: at that time, connections between global markets and China's semi-autarchic economy were so thin that neither steep rises in global oil prices nor the ensuing global recession exerted a substantial impact on China's economy. The effect of Chinese internal developments on world markets was equally slight.

The contrast with more recent episodes is stark. China's maintenance of the fixed parity between its renminbi currency and the U.S. dollar is widely credited with softening the impact of the 1997/98 Asian financial crisis by preventing a downward spiral of competitive currency

devaluations. Following the September 2001 attack on the World Trade Center towers in New York, the phrase ‘9-11’ entered the quotidian vocabulary of Chinese analysts describing circumstances in their own economy. Today China figures prominently in discussions of the American trade deficit, of the development paths for autos, textiles, garments, semiconductors, steel, consumer electronics, shipbuilding and many other industries; as well as price trends in global commodity markets, among them energy, iron ore, scrap steel and even used cardboard.

Finally, China looms large in recent debates on ‘offshore outsourcing.’ With ‘Made in China’ labels visible everywhere and manufacturing employment continuing its long decline, many observers complain that jobs are fleeing from the United States (and other nations) to China. These claims, whatever their merit, illustrate the tensions emanating from accelerated growth in China (and India, among others). The combination of ongoing changes in product design, management systems and information technology with accelerated growth of technical and engineering skills in China (and India) encourages multinational firms to add R&D, design, and back-office operations to the manufacturing operations already underway in the People’s Republic.

New opportunities associated with the evolution of overseas investment in China, along with the benefits that Beijing anticipates from growing offshore investment by Chinese firms, allow us to anticipate that China’s “open door” policies will continue despite an undercurrent of chauvinism that has sparked nationalistic resistance to foreign takeovers – for example in China’s construction equipment and cookware industries.

### The Limited Scope of Chinese Military Ambitions

The economic, diplomatic and technological transformation chronicled in the chapters of this book is proceeding hand in hand with a major upgrading of Chinese military capabilities. Large expenditures aimed at force modernization should come as no surprise. The “Four Modernizations” program of the late 1970s highlighted national goals for defense together with industry, agriculture and technology. Conversion of economic prosperity into military strength fulfills Chinese ambitions that date back to late nineteenth-century ‘self-strengthening’ efforts designed to eradicate the humiliation of successive ‘unequal treaties’ beginning with the 1842 Nanking agreement that ended the first Opium War. These objectives echo Japanese ambitions captured in the “Rich Nation, Strong Army” slogan that inspired Japan’s economic growth and consequent military expansion beginning in the late nineteenth century.<sup>3</sup>

But here the parallel could easily be drawn too closely. China’s current military ambitions target local objectives, rather than global force projection. Both the history of Chinese military activity since 1949 and the recent military build-up focus on protecting China’s borders, controlling regions (including Taiwan and Tibet) that Beijing has consistently identified as part of its national territory, and expanding power projection within what might be described as China’s ‘near abroad.’ Thus the United States Department of Defense, in its 2003 annual report on Chinese military power, observes that “Preparing for a potential conflict in the Taiwan Strait is the primary driver for China’s military modernization.”<sup>4</sup> Three years later, the Pentagon’s 2006 report describes a “process of long-term transformation from a mass army designed for protracted wars of attrition on its territory to a more modern force capable of fighting short duration, high intensity conflicts against high-tech adversaries,” but also notes that “China’s ability to sustain military power at a distance is limited.”<sup>5</sup> In a similar vein, one analyst observes

that “[t]he foundation of Beijing's security policy is a high-tech armed force that is capable of winning ‘local wars’—a posture it calls ‘active defense.’”<sup>6</sup>

China’s dramatic advances in engineering education and in semiconductors and other defense-related areas of electronics and information technology will continue to translate into more sophisticated weaponry. The infusion of digital technology into Chinese military platforms will advance as China’s high technology sectors aggressively compete for global market share with their commercial counterparts in the United States, the European Union and Japan.

Although the U.S. Quadrennial Defense Review describes China’s “potential to compete militarily with the United States and field disruptive military technologies that could over time offset traditional U.S. military advantages absent U.S. counter strategies,” China shows no sign of initiating an arms race with the United States. We emphasize that realization of ‘China’s peaceful rise’ does not require perfect harmony between Beijing and its partners in trade and diplomacy any more than today’s global balance rests on complete agreement between the United States and leading European nations on the invasion and occupation of Iraq, the war on terror, or the Kyoto Protocols. From this perspective, the apparent absence of Chinese plans to overcome United States leadership in nuclear weapons, long-range delivery systems and countermeasures, space-based military assets, or control of the high seas indicates that Beijing’s present military trajectory does not conflict with the objective of ‘China’s peaceful rise’.

China’s military operates within the context of current and likely future economic realities. China’s economic expansion rests on extensive participation in global markets for energy and mineral resources, manufacturing and farm products, capital, technology, ownership rights and business acumen. Interdependence is broad and deep. China’s dynamic coastal provinces represent a classic instance of export-led growth. Companies with part or full foreign

ownership contribute more than half of China's exports and imports. Exports depend not only on overseas markets and on China-based foreign-owned manufacturers, but also on massive imports of components and raw materials.

Discussions surrounding Chinese economic policy and future plans assume continued large-scale expansion of China's involvement with global markets, as Chinese firms scour the globe in search of oil, raw material inputs, export markets, investment opportunities and business partners. Chinese companies initiate high profile takeover bids in pursuit of established brand names and technology resources, such as Lenovo's acquisition of IBM's PC business. Occasional dissent suggesting that China should limit its global involvement and economic ambitions falls on deaf ears at home.<sup>7</sup>

This burgeoning web of economic interactions extends far beyond the limits of Chinese military ambition. No military planner in Beijing can imagine that Chinese forces could control the trade routes linking China with Middle East oil and gas, Australian and Brazilian iron ore, or Canada's tar sands. During the early twentieth century, Japan attempted to secure its economic future by establishing the Greater East Asian Co-prosperity Sphere to exert control over key raw materials and export outlets, But the scale of China's economy, the scope of its current and future raw material imports and the sweep of its export markets preclude China's leaders from contemplating a similar effort.

Let any analyst or military planner identify regions of the globe over which China might gain dominion within the next 10, 20 or 30 years. Whatever the outcome, the indicated territory cannot provide China with the resources that it now absorbs or with the markets on which its exporters currently depend, not to mention future absorption or sales outlets.



These realities militate against the advent of what might be termed a Second Cold War with China. There are doubtless scenarios in which internal political developments might lead to a more aggressive Chinese military posture, but the commercial and diplomatic cost to China would be very steep. China's leaders understand these dynamics. They also understand that continued Communist Party rule depends on sustained growth in Chinese living standards.

The contributors to this volume generally agree that China's future economic security will rest more on international cooperation and commercial diplomacy than on military strength or force projection capabilities. China continues to expand its military power in order to protect its borders, to support its claim to great power status, and above all, to strengthen its leverage over Taiwan's political future. Neither recent military modernization nor feasible increments to China's armed forces can provide significant protection against the most likely external threats to continued Chinese growth: disruption of global trade in energy and other raw materials, global recession, or reversal of recent trends toward liberalization of international trade and investment flows.

Under these circumstances, China's push to join the World Trade Organization, followed by multiple initiatives to reduce barriers to intra-Asian economic linkages, dismissed in some quarters as a temporary 'charm offensive,' appears firmly rooted in China's long-term national interests. In joining the WTO, China's leaders quietly agreed to uniquely onerous conditions. Complaints of unfairness, of discrimination, of interference in domestic affairs, although surely justified, were never aired, in all probability because China's top leaders viewed WTO membership as the only viable strategy to sustain their high-growth economy.

We observe that China's behavior in the international economic arena bears similarities to U.S. actions in the immediate aftermath of World War II. Beijing now takes the lead in

proposing sweeping reductions in trade barriers—for example through its plan for a free trade arrangement with the ASEAN states—and in offering immediate unilateral concessions, specifically in the form of ‘early harvest’ tariff reductions, to assuage the concerns of reluctant partner nations. China’s active commercial diplomacy has spawned a surge of trade negotiations as Japan, Korea and India scramble to modify traditional protectionism in favor of new options for bilateral and multilateral trade opening. In this context, it seems entirely possible that China will emerge as a leading advocate, perhaps the leading advocate, of large-scale liberalization of trade and investment flows over the coming decade. The question, which would have been unthinkable even a few years ago, is whether China’s major trading partners will contemplate putting on the brakes.

#### Asia’s Response to the Rise of China is Multiplex and Diverse

The international consequences of China’s growing economic power and military strength are separate and may be quite distinct. In this volume, Robert Ross argues that the combined impact of China’s economic and military power is gradually shifting the political orientation of both Taiwan and the Republic of Korea from Washington toward Beijing. Recent developments reinforce this view. For example, President George W. Bush’s public demand in 2005 for restraint on the part of Taiwan’s leaders, delivered on global television with Chinese Premier Wen Jiabao at the president’s side, underlined the weakness of Taiwan’s military and diplomatic position.<sup>8</sup>

China’s growing military power and far-flung web of commercial interactions reduces the likelihood that a future U.S. leader would opt to replicate President Clinton’s dispatch of aircraft carrier battle groups to the Taiwan Strait in advance of Taiwan’s 1996 elections. In their

chapters, Ross and Adam Segal argue that strong mainland economic links have inspired elements of Taiwan's business community to oppose the independence-oriented policies of Taiwan's ruling party. Popular approval of opposition politicians' highly publicized visits to the People's Republic during the spring of 2005 has obliged Taiwan President Chen Shui-bien to adopt an uncharacteristically accommodating stance toward Beijing. Thus Beijing's astute diplomacy has at least temporarily transformed Taiwan's democracy from an obstacle to China's goal of unification into a check on the behavior of Taiwan's independence-minded leader.

While Ross argues that Taiwan and Korea have entered a transition process that will gradually bring them under some form of Chinese dominion, his chapter, and those of Ellen Frost, Segal, and John Ravenhill demonstrate that China's growing strength has inspired very different responses in Japan and in the nations of Southeast Asia, with economic outcomes diverging sharply from security trends. These states have eagerly embraced the economic opportunities associated with China's extended boom. China has become Japan's largest trade partner, and its share in the trade of ASEAN nations has risen steeply. But the magnetic attraction of China's dynamic coastal provinces has exercised no comparable influence on the security side. U.S. military ties with Japan, Indonesia, Singapore, the Philippines and India have strengthened markedly in the past decade, while (or perhaps, as Segal suggests, because) China's military capabilities have expanded relative to those of its Asian neighbors.

There is ambivalence as well to the rise of China in the business community. As Keller and Pauly argue in Chapter 3, China is now educating more engineers each year than the rest of the world combined. This unprecedented talent pool will facilitate China's transformation from an agrarian to a technocratic society. In time, this development will catapult Chinese industry and productive capability into the most technologically advanced sectors of the global economy.

One side effect will be a protracted debate regarding the terms and conditions of competition and cooperation in the international arena, as local industries everywhere feel the pressure of Chinese high-technology wage competition, and businesses increasingly opt to ‘outsource’ segments of high-end manufacturing and even research and development operations to China.

This process is already underway. Expertise is flooding into China, as Chinese firms expand their recruiting abroad, and as foreign direct investment bolsters a semiconductor industry (and its corresponding electronics sector) expanding to serve both global and internal markets. An internationally competitive high-technology manufacturing sector in China will fully establish itself in the near term; in the medium term, the emergence of a globally competitive research base will create new generations of opportunities for cross-national research collaboration and investment.

### Envisaging China’s ‘Peaceful Rise’

The contributors to this volume see China’s peaceful rise as a plausible outcome that is well worth pursuing in a world where economic, political and military realignments are likely to characterize international relations for some time to come. Notwithstanding President Franklin Roosevelt’s admonition not to “let so-called facts or figures lead you to believe that any Western civilization’s action can ever affect the people of China very deeply,”<sup>9</sup> U.S. foreign and economic policy will certainly cast a long shadow over Asia for the foreseeable future... Indeed it may be determinative.

The assumptions underlying U. S. foreign policy are likely to define opportunities both for bilateral diplomacy and for doing business with China, and may also exert a marked directionality on the rise of China itself. Lack of continuity within and across recent U.S.

administrations makes it difficult to characterize America's China policy. In part, this reflects changing circumstances: the rise of new economic challenges, the unexpected demise of the Soviet threat and new security challenges associated with transnational terrorist organizations. Nevertheless, from an Asian perspective, U.S. foreign policy must appear volatile, unstable, reactive and increasingly difficult to read, much less to predict. At a macro policy level, three basic worldviews now compete for ascendance in Washington, each emphasizing different aspects of 21st century American global presence: (1) America as hyperpower (neo-conservatism), (2) a return to Cold War realism (ideological confrontation) and (3) economic interdependence (liberalism).

Because American foreign policy will exert a strong influence on the ultimate configuration of Chinese power in the 21<sup>st</sup> century, each of these views can contribute some insight to our understanding of the road ahead. In the neo-conservative view, the United States emerged victorious from the Cold War as the only remaining superpower, or 'hyperpower' as the French describe it. This perspective emphasizes the opportunity for U.S. foreign policy to embrace global leadership. Advocates view lone superpower status as a perishable commodity, which leads them to propose expeditious consolidation of America's international primacy. Above all, in this view, the United States must prevent the rise of a peer competitor. Military power and agile force projection are key ingredients, along with the presumption that unilateral action is a viable diplomatic and military tool. In the neo-conservative lexicon, the United States must 'shape' the 21<sup>st</sup> Century to its advantage. In this policy universe, China, with its rapidly expanding economic, diplomatic, technological and military power, is the only plausible peer competitor. This position, prominent in the first administration of President George W. Bush, is widely seen as undergirding the U.S. invasion and occupation of Iraq.<sup>10</sup>

A second formulation of American foreign policy envisages a new Cold War, this time with China. It proceeds from the traditional realist view that the international system is an inherently anarchic and dangerous realm where states compete for power, first to survive and later to dominate. In this worldview, states' security concerns dominate national policies. States may achieve equilibrium of military power through 'balancing' or 'bandwagoning,' or through the mutual assured destruction of bilateral deterrence. But as John Steinbrenner has noted, realism requires the "continuous presentation of an active threat."<sup>11</sup> This is the essential logic of the Cold War, and those who espouse it in the 21<sup>st</sup> century may go so far as to posit that a Cold War II may be necessary to 'contain' what they see as China's superpower ambitions.

A third option emphasizes the mutual benefits of economic interdependence. Here, authority is distributed or decentralized locally, regionally and globally. In recent decades, the deterrent capabilities of nuclear weapons and the benefits of expanded trade and financial relationships have progressively lessened the concern of leading states with security concerns, most notably in Western Europe. Economic interdependence gives states common goals, principally economic growth and expanded social security. National policies shift from confrontation toward more orderly systems of free markets and open trade on the theory that a rising tide lifts all boats. Multinational corporations figure prominently in the spread of prosperity and the transnational organization of production, research and capital flows.

China represents a huge national entity -- huge in terms of demography, economy and, eventually, military strength. History demonstrates that the absorption of newly risen giants into pre-existing structures of regional and global trade, security and order is always difficult, and often punctuated with catastrophic armed conflict. Despite this daunting background, the authors of this volume are inclined to believe that the idea of 'China's peaceful rise' is more than wishful

thinking, provided that U.S. foreign policy is constructed along liberal lines that encourage economic integration rather than the other dimensions described above.

Peaceful absorption of a greatly strengthened China into regional and global nation state structures is feasible because accommodation to China's growing power need not threaten the fundamental interests of potential rivals, especially the United States. What will China demand of the world community in recognition of its enlarged power and influence? We see Beijing's key concerns as including the integrity and security of territory now under Beijing's control; prevention of formal independence for Taiwan to allow scope for Beijing's continued efforts to secure mutually agreed reunification; the removal or prevention of potentially hostile forces in China's 'near abroad'; and continued access to international markets for resources and technology and to global outlets for China's exports and capital.

In the absence of a neo-conservative backlash or a reassertion of containment, protectionism or isolationist tendencies that could arise in response to outsourcing or structural economic adjustments, these requirements raise no deep conflict with the United States, with other industrial powers, or with China's neighbors. The collapse of the Soviet Union eliminated the only threat to China's territorial integrity. No nation, with the possible exception of the United States, possesses the capacity or the desire to concentrate military assets near China's borders. It is increasingly unlikely that Taiwan's elected leaders will precipitate a crisis with a bold independence initiative. And China's consummate commercial diplomacy only increases that country's access to markets, intermediate inputs, foreign investment and raw materials.

What are the minimal conditions that would alleviate U.S. concerns about the rise of China? From the American perspective, the essential conditions for acceptance of China's new status would appear to be: Chinese reliance on persuasion rather than force in its efforts to regain

control of Taiwan; Chinese avoidance of any challenge to U.S. strategic dominance and control of the high seas; continued vigorous implementation of Beijing's WTO commitments to pursue market opening and respect intellectual property rights; and avoidance of the non-tariff barriers to inward trade and investment that characterized Japanese and Korean foreign economic policy in the last decades of the 20<sup>th</sup> century. Here again, we see no clash with China's fundamental interests.

### Even a Peaceful Rise of China Will Impose Significant Costs

To say that the peaceful absorption of a greatly strengthened Chinese nation and economy into existing structures of trade and global finance as well as multinational networks of research, production and distribution is feasible does not mean that the process of accommodating China's new power will advance smoothly. Success presupposes the recognition and acceptance of unpleasant realities on all sides.

For China, 'peaceful rise' necessitates acceptance of protracted delay in achieving its quest to regain Taiwan. This could prove difficult, particularly if a major economic slowdown or demands for greater political freedom were to cause growing numbers of Chinese to question the legitimacy of the ruling Communist party. For Taiwan, the 'peaceful rise' of China will doom the quest for independence, an objective cherished by a substantial fraction of the island's citizenry.

For the United States and the European powers, the greatest difficulties cluster on the economic side. Asian dynamism will continue to reduce America's and Europe's relative economic strength – Asia's oil consumption, for example, overtook North America's in 2005.<sup>12</sup> This gradual shift of economic weight may compel Washington to back away from its long-



standing insistence that other nations bear the brunt of adjustment to economic change, be it the 'dollar shortage' in the 1950s, when the United States expected the deficit nations to make needed adjustments; or today's difficulties, when the United States, burdened with massive trade deficits, calls for China and other surplus nations to revalue their currencies.

The most profound economic consequences of China's rise involve the restructuring of specific industries. The historical experience of Japan's impact on global manufacturing structures shows that accommodation to new economic power is painful and controversial at best, as increasingly competitive firms domiciled in the new player shatter long-established industrial structures (e.g. in the impact of Japanese competition on U.S. steel and auto industries).

China's economy, while far smaller than Japan's in terms of nominal output (converted to U.S. dollars using current exchange rates), now exceeds Japan's current economic size if GDP is measured at purchasing power parity. China's demographic mass – more than ten times Japan's -- and low level of per capita income and consumption underscore the growth potential of Chinese industries, which already rank first in global output of coal, steel, textiles, televisions, cement and many other products. As noted earlier, continued expansion of China's higher education system will surely expand the array of sectors and activities in which China-based producers develop formidable capabilities.

We anticipate that the eventual impact of China's growth on global economic structures will be far larger than Japan's. Recent developments illustrate what this will mean. Rising Chinese demand (along with other factors, including accelerated growth in India, temporary shortages of shipping capacity, and instability in the Middle East, Nigeria, and Venezuela) produced a spike in global prices for crude oil, iron ore, and many other mineral products during 2004-2005. Initial exports of China-made automobiles call attention to the anticipated impact of

China-based producers (including both domestic and foreign-invested firms) on global markets for both cars and auto parts. Clearly this phenomenon will not be limited to the auto and auto parts sectors. Actual and proposed takeover of international companies by Chinese firms in the computer (Lenovo), energy (Unocal), and automotive (Ssangyong, MG-Rover) and machine tool (Ikegai) sectors, among others, prefigure a growing role of Chinese companies in the upper echelons of global commerce. And finally, current investment trends indicate a massive shift of semiconductor production to China, which housed fully one third of all fabrication facilities under construction as of 2004.

During the half-century since the Second World War, only America's national economic perturbations regularly translated into global economic fluctuations. We have now entered a new phase in which China's economy (and in 10 years, perhaps India's as well) will be sufficiently large and open to permit domestic economic and political factors to spill over into a broad array of global markets. The resulting uncertainties and dislocations will create strong economic and political ripples in many regions. The impact of such reverberations on U.S. political life is particularly important because of the long-standing dependence of global trade liberalization on U.S. leadership.

### Policy Considerations

The essays in this volume demonstrate the impact of China's long boom on Asia's political and economic circumstances. The changes are not simply responses to events in China, but rather broad realignments of economic, technological and business structures as well as political and security relations. The response to China's ascent includes indirect consequences such as strengthening bilateral military ties between the United States and Japan, India,

Singapore, and Indonesia, as well as growing interest in bilateral and multilateral free trade arrangements on the part of Japan, Korea, and India

The wide-ranging discussions that produced this volume reveal that neither the Clinton nor the George W. Bush administrations have responded to these events in proportion to their size and significance. Perhaps the scale and permanence of China's new position was not yet sufficiently clear to elicit a sustained response from the Clinton policy team. Overwhelming focus on the twin issues of terrorism and Iraq may have diverted the Bush administration from rethinking Asian policy. Whatever the causes, recent U.S. administrations have not yet come to terms with the magnitude of economic and political change that must accompany the emergence of a new economic and political center of gravity in Asia. Republican and Democratic administrations alike have failed to initiate a comprehensive reevaluation of U.S. policy toward Asia that the broad impact of China's rise would appear to warrant. Such an assessment should surely become a top priority for President Bush's successor.

A full-scale reevaluation of the U.S.-China relationship should aim to develop a consistent, coordinated, comprehensive, and constructive foundation for future Asia policy to supplant the ad hoc and often inconsistent policies that have prevailed over the past fifteen years.<sup>13</sup> This is increasingly critical because Asia's influence on the U.S. economy and on the global market system has expanded massively and will continue to grow. Likely future trends, including the acceleration of India's growth, the revival of Japan's economy, and the growing scope and sophistication of Asian innovation systems will magnify this outcome by enhancing Asian economic and military strength relative to Europe and the United States.

Only an integrated policy can provide a consistent framework for resolving thorny policy issues and calibrating responses to new developments. The costs associated with ad hoc policy-

making have become painfully apparent in recent years. Do we welcome Chinese imports because they ameliorate inflationary pressures and raise real incomes or do we attack them as foot soldiers of domestic unemployment? Do we welcome opportunities to sell computing and communications equipment to China or strengthen export controls in the hope of slowing China's military progress? Do we welcome Chinese participation in international capital markets or prevent Chinese firms from making overseas acquisitions in energy or other sensitive industries? Do we assign a central role to decrying China's limited progress in the human rights field, or push these issues into the background following the example of Washington's policy toward Russia, Israel and Saudi Arabia? In the absence of serious and thoughtful policy guidelines, many current policy choices seem unduly influenced by the media and by the concerns of single-issue interest groups.

While Washington pursues a national security policy focused on the Middle East and the Islamic world and founded on the dual pillars of "promoting freedom, justice, and human dignity" and "leading a growing community of democracies,"<sup>14</sup> the Chinese focus on diplomacy intended to configure relations in the Pacific basin in their own, apparently more pragmatic interests. Given the importance of the Asia-Pacific region to future peace and prosperity, the United States must develop a consistent and long-term policy toward Asia that emphasizes key commercial and military objectives, and institute a coordinated strategy to pursue them.

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<sup>1</sup> World Bank, *World Development Report 2005* gives total output (GNI, gross national income) for 2003 in purchasing power parity terms as US\$6,235 billion for China, \$3,641 billion for Japan, \$3,068 billion for India, and \$10,914 billion for the United States (pp. 256-257).

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<sup>2</sup> EU trade data are for 2000: see

<http://aol.countrywatch.com/includes/grank/traderanum.asp?TBL=TRDRANUM&TYPE=GRANK&vCOUNTRY=3>, accessed 19 March 2006.

<sup>3</sup> Richard J. Samuels, *"Rich nation, strong Army" : national security and the technological transformation of Japan*. (Ithaca, Cornell University Press, 1994).

<sup>4</sup> See Annual Report to Congress: Military Power of the People's Republic of China 2003, Executive Summary.

<sup>5</sup> Annual Report to Congress: Military Power of the People's Republic of China 2006, Executive Summary and pp. 1-6.

<sup>6</sup> Michael A. Weinstein, "China's Geostrategy: Playing a Waiting Game," *Power and Interest News Report*, 7 January 2005.

[http://www.pinr.com/report.php?ac=view\\_report&report\\_id=253&language\\_id=1](http://www.pinr.com/report.php?ac=view_report&report_id=253&language_id=1).

<sup>7</sup> In this context, note the concern expressed by prominent economist Liu Guoguang that China should curb the growth of foreign economic influence ["Views on Several Macroeconomic Issues." *Gaige [Reform]* no. 2, 2002: 5-9].

<sup>8</sup> On December 9, 2003, with Premier Wen at his side, President Bush said "We oppose any unilateral decision by either China or Taiwan to change the status quo. And the comments and actions made by the leader of Taiwan indicate that he may be willing to make decisions unilaterally to change the status quo, which we oppose."

<http://www.whitehouse.gov/news/releases/2003/12/20031209-2.html>, accessed 2 July 2005.

<sup>9</sup> President Franklin D. Roosevelt, in a letter to a friend, 1935. Quoted in Barbara Tuchman, *Stilwell and the American Experience in China, 1911-1945*, New York: Macmillan, 1970, p. 249.

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<sup>10</sup> For a comprehensive treatment of the preventive military intervention, see William W. Keller and Gordon R. Mitchell, eds., *Hitting First: Preventive Force in U.S. Security Strategy* (Pittsburgh, PA: Pittsburgh University Press, 2006) passim.

<sup>11</sup> John Steinbruner, *Principles of Global Security* (Washington D.C.: Brookings Institution Press, 2000), p.2.

<sup>12</sup> Daniel Yergin, “Ensuring Energy Security,” *Foreign Affairs* 85.2 (2006), p. 72.

<sup>13</sup> Brett C. Lippencott, “Ending the Confusion in U.S. China Policy,” (Heritage Foundation, Asian Studies Backgrounder, April 18, 1994) provides extensive detail on the first Clinton administration’s “confusing policy of mixed signals and misunderstanding.” See [www.heritage.org/Research/AsiaandthePacific/asb130.cfm?renderforprint=1](http://www.heritage.org/Research/AsiaandthePacific/asb130.cfm?renderforprint=1), accessed 19 March 2006. Subsequent policies remain open to similar criticism.

<sup>14</sup> George W. Bush, “The National Security Strategy,” March 16, 2006, p. 2.  
<http://www.whitehouse.gov/nsc/nss/2006/intro.html>