

# China

China is a rising power with strong ambitions that is best viewed as a serious competitor. The U.S.-China relationship is likely to define the coming century, so it is critically important to chart the right course now. We have many goals and interests in common, including ensuring stability, sustaining global economic growth, and preventing catastrophic climate change.



The United States also has real concerns when it comes to China's territorial claims, rogue business practices, human rights abuses, cyber intrusions, and

military investments—and there should be clear lines on these issues. A constructive relationship on both the issues on which we agree and disagree is critical,



## If you read only one thing A competitor, not an inevitable enemy

- America and China depend on each other. The U.S. needs China to buy our debt and goods; they need our market to sell their products.
- Different values. China embraces state-driven capitalism, giving preferential funding to its businesses that hurts other countries, and doesn't prioritize protecting human rights.
- China is focused on stability. Most of China's foreign policy decisions are driven by a desire for stability at home, which requires constant economic growth.
- China's drive for growth is leading to unfair trade practices and intellectual property theft.

## What should we do?

- Don't recreate the Cold War.
- Stand up for human rights and democracy and encourage fair trade.
- Engage military to military relations to

## because it will be impossible to resolve important global challenges without a working relationship with China.

America needs to show China that it is strong, but not aggressive. Weakness will invite China to bully its neighbors through legal and possibly military means. But the perception that American efforts are aimed at containing China will only strengthen hard-liners in China, and could lead to real and destructive conflict. A functional, working relationship requires China to understand that we have clear lines on issues such as the territorial sovereignty of Asian states, cybersecurity, trade, and human rights; that we are willing to protect our allies; and that we are willing to back our words with action. A calm but confident tone, an open-hand to assist China's legitimate growth and aspirations, and a willingness to work together with China to tackle truly global problems like climate change are all important components of a strong, values-based China policy.

## How China Looks at the World

China's foreign policy priorities—buying resources and selling exports—are intended to maintain internal stability. Though its leaders have begun to acknowledge the need to slow growth to a more sustainable level, many in China's government still believe it needs to sustain very high economic growth to maintain domestic stability. Like South Korea and Taiwan, China has tried to grow through exports. To this end, the Chinese government subsidizes the investments of Chinese companies, undervalues its currency at artificial levels to make exports cheaper

cool possible conflicts.

- Reduce China's hold on neighbors. only collect what is necessary.

### China's priorities

- China's foreign policy is driven by national interests, not a set of values. Its priorities include:
  - Ensuring continuance of Communist Party rule
  - Acquiring natural resources for steady economic growth
  - Growing the economy to ensure internal political stability
  - Expanding the military as global interests expand
  - Returning Taiwan to mainland control, a "core national interest"

(although they have allowed their currency to appreciate some in recent years), and keeps wages low to combat inflation. While these policies are not meant to harm the U.S., they do have side-effects that hurt U.S. trade. Chinese leaders know, however, that in order to sustain growth in the long term, China will have to increase its rate of consumption. Chinese leaders have begun to establish policies that extend the social safety net (thus allowing Chinese people to save less money for emergencies and retirement, and instead consume more), and this should create greater opportunities for American businesses to export to China.

**China's need for commodities drives a values-free foreign policy that props up dangerous regimes.** China's need to grow requires abundant commodities such as steel and oil. China has constructed or invested in energy projects in over 50 countries, mostly in the developing world. To secure these resources, China is willing to abet corruption and undermine good governance, human rights, and environmental standards. It often invests in regimes that brutally repress their own people and are considered adversarial to U.S. interests. China's aggressive acquisition of natural resources in the developing world led Secretary Kerry to warn in January 2013 that America is losing a major opportunity to strengthen its own economic interests and partnerships. While the full extent of China's foreign aid is unclear, China has generously supported certain African regimes to buy loyalty. This aid is provided without attention to governance standards, undermining American aid policies. Chinese aid is not entirely free; it is generally contingent on non-recognition of Taiwan's government.

**China's stated strategy is one of "peaceful development."** China claims to be focused on engaging other countries diplomatically and economically to secure markets and ensure stability conducive to Chinese



### Common Error

China's economy is growing – but the U.S. is still the world's economic powerhouse. In 2013, the U.S. economy was twice as big as China's. China is the world's biggest trading nation with regard to goods (\$3.87 trillion to America's \$3.82 trillion in 2012), but the U.S. remains the biggest market when services and goods are considered (\$4.93 trillion in 2012).

economic growth. In order to maintain high growth, the Chinese know they must transition from the export-led model of growth, upon which they have relied for several decades, towards a more balanced model driven by domestic innovation and consumption. However, China also has long had a strong defense establishment. Their weapons purchases, cyber intrusions, and coercive behavior towards countries with which they have competing territorial claims—including U.S. allies Japan and the Philippines—are recent examples of a history that includes multiple border disputes and hot wars over the last 50 years.

**China wants international norms to be based on sovereignty, not individual rights.** If the international community focused less on rights, China would have a free hand in its own internal conflicts, such as Tibet and Xinjiang, the home of Turkic Muslims in China's far west. This is why China opposes sanctions against Iran, Sudan, and other belligerent or genocidal countries. The status of Tibet and Taiwan also makes China deeply critical of separatist movements, and Beijing has refused to recognize Kosovo for this reason. However, while China claims to support the principle of sovereignty over rights, it has, for example, been inconsistent in the case of Russia's invasion of sovereign Ukraine, which it has not condemned.

## Economic Interdependence

**America's intertwined economic relationship with China has both clear benefits and undeniable costs, but we can't simply pull back.** A strong economy is crucial to keeping America strong and safe in the 21st



America and China need each other. The global economy ties us together. But China needs to play by the same rules everyone else does.

century. Therefore, ensuring that our economic relationship with China makes America stronger, not weaker, must be a national security priority. This is an achievable goal. There are clear benefits as well as costs associated with our relationship, and we must take full advantage of those benefits even as we work to minimize the costs.

**China's business practices and intellectual property piracy harm U.S. companies.** While intended to maintain internal stability, China's economic policies often hurt U.S. businesses. 80% of the businesses on the Chinese stock market and 43% of China's total industrial and business profit are state-owned enterprises, meaning that they receive preferential government funding. They can absorb short-term losses in the pursuit of long-term gains because they do not have to publicly report profits to shareholders. This has the effect of walling off a large portion of the Chinese economy from foreign investors, placing U.S. businesses at a competitive disadvantage.

**China is also using investments to gain military information** According to a 2013 report by the Pentagon, "China continues to leverage foreign investments, commercial joint ventures, academic exchanges, the experience of repatriated Chinese students and researchers, and state-sponsored industrial and technical espionage to increase the level of technologies and expertise available to support military research, development and acquisition." While avoiding protectionism, we should be aware that China's state-owned companies are not ordinary private sector investment entities.

**America needs China to continue purchasing U.S. bonds to finance our debt.** The economic relationship between the U.S. and China is



### Key Fact

A trade war with China would do great harm to America's economy. We would lose access to their market for our goods, and the cost of many items in the US would increase.

symbiotic, but cannot be counted on to prevent conflict. The U.S. needs China to continue buying U.S. Treasury bonds to finance our debt; China needs to be able to buy U.S. bonds to prevent the appreciation of its currency. Also, China needs a large market for its exports; the U.S. is the largest market for these goods. This mutually dependent set of needs means that China has become one of the largest foreign owners of U.S. debt. It should be noted, however, that as of March 2014, only about one-third of America's \$16.8 trillion debt is owned by foreign entities. China, with \$1.3 trillion (8% of the total), is the largest single foreign holder, but the Federal Reserve and the Social Security Trust Fund each hold substantially more.

**Our mutually beneficial economic relationship could help prevent possible trade wars.** China could use economic leverage to hurt the U.S., but harming our economy would reduce their exports, and thus hurt them financially. Based on the same logic, some believe that China would not risk dumping U.S. Treasury bonds, especially because it would cause the price of these bonds to plummet as it sold them, reducing China's return on the investment. However, this is less certain: China could have a hedging strategy in its investments that would give them less to fear from selling U.S. bonds. It is also worth remembering that America used to assume that OPEC members' interests were best served by maintaining steady oil markets, until their oil embargo of the 1970s showed that they were willing to shock the market. As China shifts from an export-led growth model to a more consumption-driven model, its dependence on a strong American dollar will decrease, and they will have less to lose from selling dollars. However, this shift will also open a potentially enormous Chinese market to American businesses.



## Common Error

Most of America's debt is not held by China—or even foreign countries. The biggest holder of U.S. debt continues to be private investors, and most of them are Americans. Only one-third of American debt is held by other countries, and China and Japan hold roughly the same share.

# Expanding Military Capabilities

**China is building a much stronger military, as rising economic powers often do.** China's growing military is a source of great national pride for a country that in many ways feels victimized by their 19th and 20th century relations with the West. It is normal for growing economic powers to build stronger militaries to defend their growing interests.

**China's intentions are not necessarily hostile, although the capabilities they are developing are in part designed to make it harder for the U.S. to project power into the western Pacific.** Military experts weigh possible threats in terms of two factors: the other side's capabilities and their intentions. This is especially important to keep in mind with China. China's military is growing, and in some cases China is investing in military capabilities specifically chosen to counter key American strengths, like anti-access and area denial capabilities aimed at denying the U.S. Navy freedom of movement in the western Pacific. While the Chinese military remains far behind our own, they are slowly but steadily closing the gap. One of their key goals is to complicate our decision to act in the case of a military conflict in the western Pacific.

**China's military is increasingly capable, but still far behind our own.** China now has the world's second-largest defense budget, spending somewhere between \$125 and \$215 billion a year, according to a 2013 Pentagon report. While we should not be complacent, the U.S. remains far ahead in terms of training, technology, and resources, and our defense budget is more than three times as large. China is investing in early-stage global power-projection capabilities, and recently commissioned a



## Key Fact

American military spending is over six times that of China and U.S. military training and technology remain years, if not decades, ahead. But Chinese investments in anti-access and area denial capabilities pose serious challenges for the United States.



We have to keep an eye on China's military build-up. Thankfully, we are years ahead of their technology and our servicemembers are much better-trained.

first, relatively crude, aircraft carrier. It has also been developing stealth aircraft, anti-ship ballistic missiles, and anti-satellite systems. Though much has been made of these new weapon systems, Chinese military training lags far behind the United States and our Pacific allies in terms of consistency, complexity, and scale.

**Many countries are developing cyber capabilities, but the most persistent threats appear to originate in China.** While Russia has the greatest cyber capability, currently China is the most prolific in cyber espionage and exploitation and is making heavy investments in offensive cyber capabilities as well. U.S. government computer systems in Congress and the Pentagon, along with American intellectual property, have been the targets of intrusions that originated in China. China also refuses to concede that international humanitarian and armed conflict laws apply to cyberspace. The Pentagon has concurred with the 2013 report by Mandiant, an information security company, which concluded that an overwhelming percentage of cyber incidents against American targets originate in and around a Shanghai building occupied by the People's Liberation Army. Similarly, the February 2013 National Intelligence Estimate states that many Chinese hacking groups are run by PLA officers or contract with Chinese military commands. Targets include U.S. public and private sector entities ranging from Coca-Cola to the electrical power grid to the Department of Defense.

**The issue of Taiwan's status has historically been perceived as the most likely cause of conflict, but the cross-Strait relationship has warmed in recent years.** China strongly believes Taiwan is part of China. Chinese officials say they will pay any price to prevent an independent Taiwan and their military improvements are largely focused on ensuring that end. China has over 1,000 ballistic missiles and 400,000 military



personnel opposite Taiwan and nearly 500 combat aircraft that can reach Taiwan without having to refuel. China's Second Artillery Corps, responsible for its ballistic and cruise missiles, is becoming increasingly advanced. These developments mean that Taiwan's military is increasingly outmatched by mainland forces in terms of both the quantity and quality of its weapons.

Since 1979, U.S. policy has been to deter China from using force to regain Taiwan, while also discouraging Taiwan from asserting full independence. This policy of "strategic ambiguity" has been successful at avoiding conflict, and Taiwan has formed ever-increasing economic ties to mainland China. The U.S. periodically sells arms to Taiwan, under provisions of the Taiwan Relations Act, which inevitably provokes Chinese anger.

Taiwan, for its part, is a growing democracy that sees itself as a largely independent entity following more than 60 years of separate governance. Relations between China and Taiwan have recently improved through cultural ties and expanding economic agreements, and direct flights between them have resumed. Many leaders on both sides believe that a stable and peaceful relationship is the best path forward. The U.S. must continue to walk a fine line of ambiguity, using the implicit threat of force to deter China from forcibly retaking Taiwan, while keeping Taiwan from exacerbating the situation in the expectation that America will come to its aid.

In February 2014, Taiwan engaged in the highest level direct talks ever held with China. This reflects the generally pro-engagement mindset of President Ma's administration in Taipei, and represents a positive step towards greater confidence building and cooperation.

**China is aggressively asserting its territorial claims—and worrying its neighbors—in the South China Sea and East China Sea.** In the South China Sea, China makes broad claims to sovereignty over islands that are also claimed by neighboring countries. Such claims extend to surrounding sea areas as well. The South China Sea is an important commercial shipping channel and is believed to contain valuable reserves of oil and minerals, which are resources China needs in large quantities to meet the needs of its population. To control these resources, China has become more assertive in pursuing its claims—harassing foreign vessels in the South China Sea, establishing a permanent presence in and around the Scarborough Shoal to deny others access, worrying its neighbors, and increasing the potential for a regional conflict.

In the East China Sea, China is aggressively inserting surveillance planes and ships into the territory of Japanese-administered disputed islands, known as the Senkakus in Japan and the Diaoyus in China. On more than one occasion, China has “locked radar” on Japanese vessels – a step taken immediately before firing to ensure a weapon hits a target. The Japanese believe these actions were taken by the PLA – the Chinese military – without full government approval from Beijing. Japan has responded by scrambling planes and ships while ensuring that it is not escalating. In April 2013, Secretary Kerry reasserted the U.S. position that these islands are Japanese-administered and that conflicts must be resolved peacefully. The United States does not take a position on the islands’ ultimate sovereignty. However, Japan is protected by a defense treaty with the United States, meaning we might be called upon to come to Japan’s aid militarily if fighting broke out. These sorts of incidents, which can carry great emotional weight on both sides, increase the risk of open conflict in the region.



We have to keep an eye on China’s military build-up. Thankfully, we are years ahead of their technology and our servicemembers are much better-trained.

# The Policy Landscape and Recommendations

This “rebalancing” to Asia should not be mistaken for a policy of containment. China is not the Soviet Union, and the U.S. is not encircling them with a military build-up. We do not seek to delay or prevent China’s emergence as a great power; our interest is in ensuring that their rise is peaceful and that territorial disputes in the region are settled without violence or coercion. America has always been a Pacific power, and the rebalance reflects the increasing importance of Asia, and U.S.-Asia relations, in global affairs. The U.S. could reduce misperception about the rebalance by emphasizing our commitment to the rule of law, instead of focusing primarily on U.S. defense policy and military basing in the region.

Some, believing China is the next Soviet Union, want to recreate the Cold War. Emboldening hardline elements and intensifying the concerns of those in China who already fear the U.S. is bent on a policy of containment, some speak of China as an ideological enemy intent on destroying American influence and pushing America out of the Asia-Pacific region. However, this kind of talk is counterproductive and antagonistic. While the Cold War was seen as a zero-sum game, the U.S. relationship with China should not be viewed through that lens. Rather, we want China to act in accordance with international norms and standards that increase trade fairness, promote regional stability, and ensure protection of our allies.



The better friends we are with China's neighbors, the less subject they are to coercion by China.

**Don't mistake military build-up for inevitable conflict, but be prepared to protect U.S. interests and allies if deterrence fails.** China's military build-up does not negate our economic interdependence and need for cooperation. Rising economic powers have always invested in stronger militaries, and China is no different. In fact, China's announced defense expenditures represent only 2% of GDP, while U.S. spending on defense is projected to be approximately 4% of GDP even under sequestration. There are real tensions with China and uncertainties over aspects of its military modernization program, but we also share significant economic ties that create incentives for cooperation and international stability. The U.S. needs to respond to the more troubling elements of China's military modernization with the development of concepts and capabilities that will allow us to protect our interests and those of our allies and security partners. However, this is not a zero-sum relationship; China needs us and we need them. Maintaining robust military-to-military relations is critical to building trust.

**Continue building political, economic, and military ties with China's neighbors.** Currently, most East and Southeast Asian economies depend heavily on China. This gives China great influence and a strong position from which to force its will on its neighbors. Many Asian countries wish to be less beholden to Chinese interests. This has led some to look to the U.S. for stronger ties, including Myanmar, which is opening to Western influence in part out of a desire to balance Chinese influence.

The U.S. should expand economic ties with this fast growing region to improve our economy and enhance regional stability. The Obama Administration's Trans-Pacific Partnership (TPP), a free-trade bloc, is a strong step in this direction. China has not joined the TPP, although it is open to China if it meets the same requirements for open trade



The Trans-Pacific Partnership: a team of countries in the area that can work together to balance China's regional influence.



Rather than let China bully smaller countries, everyone should follow the same rules of the road and work out differences using international law.

adhered to by other countries working to enter the partnership. In the end, stronger economic ties are a win for everyone. Increased trade with China's neighbors means that these neighbors will have more to spend in the global market, including on Chinese-made goods.

An enhanced military presence will also reassure allies in the region and deter conflict. Since WWII, Japan's constitution has barred it from having offensive military capabilities; it relies on a treaty with the U.S. for protection. A similar agreement is in place between the U.S. and South Korea, as are alliances with the Philippines, Thailand, and Australia. The Obama administration is working to further strengthen the long-standing U.S. military partnership with Australia to offset some of the concerns of U.S. allies and other countries in the region about China's more assertive behavior, especially its attempts to demonstrate its control over the South China Sea.

**Be clear that force or coercion cannot be used to resolve territorial disputes.** Adversarial claims between China and its neighbors continue to be flashpoints for potential conflicts in the East China Sea and South China Sea. The Obama administration's position is that disputes in the South China Sea must be resolved using existing legal frameworks, including the Law of the Sea and International Customary Law. A key point of disagreement between the U.S. and China hinges on whether these disputes should be settled through open regional talks or through one-on-one negotiations between China and its much weaker neighbors. The U.S. has an important interest in the South China Sea, which is a major global shipping lane. The success of invoking international law to manage this dispute is one reason the U.S. should ratify the United Nations Convention on Law of the Sea (UNCLOS). Additionally, multilateral institutions, like the Association of Southeast Asian Nations



## If you only read one thing

### Law of the Sea Treaty

- Originally introduced in 1982, the Law of the Sea Convention has been ratified by 162 nations.
- The U.S. is one of only seven maritime nations that has yet to sign the convention.
- The U.S. Navy, U.S. Coast Guard, Department of State, Department of Commerce, and many others favor joining the Law of the Sea Convention.
- The convention would give the U.S. exclusive economic rights over thousands of square miles of international waters and sea beds off our coasts.
- Formally joining the Law of the Sea Convention would give the U.S. internationally legitimate grounds on which to support our allies in resisting expansive Chinese territorial claims in the Pacific.
- The convention would also strengthen environmental protection and codify the international maritime norms that the U.S. already enforces.

(ASEAN), can help smaller nations stand up to China without increasing the risk of open conflict.

Recent altercations between Chinese maritime forces and ships belonging to China's neighbors, including Japan (in the East China Sea), Vietnam, and the Philippines, have underscored how unstable the situation is, and how important it will be to find a diplomatic or legal solution to these territorial disputes. The United States does not recognize China's extremely expansive claim to the South China Sea.

**Ensure China knows that the U.S. will militarily support our treaty allies.** The U.S. has made commitments to our allies and security partners and we need to be clear with China that we will honor those commitments; doing so will decrease the chance of war. At the same time, we need to be clear with our allies and friends, so they do not take actions that unnecessarily increase the risk of armed conflict with China. The clearer we are with all concerned parties, the less likely we will be pulled into a fight that no rational actor in the region would want.

**Continue to support peace and dialogue between Taiwan and China.** Fortunately, Taiwanese President Ma Ying-Jeou's reelection and his pragmatic policies toward China should help ensure a stable situation in the China-Taiwan relationship over the next few years. China-Taiwan relations have improved to a point few could have imagined even a decade ago. The U.S. should continue to encourage a stable and constructive cross-Strait relationship.

**Deepen military-to-military relations with the Chinese.** Strengthening military contacts with the Chinese is critical to building



It's easier to stay on good terms with someone you know. Military-to-military relations keep us informed and prevent possibly dangerous misunderstandings.

trust, gaining knowledge, and managing friction within our relationship. These exchanges increase the mutual understanding of our respective military institutions, build cooperative capacity, and reduce the risks of miscommunication and miscalculation. They should be conducted not only at high levels, where attitudes and mindsets may be more fixed, but also among more junior officers. We should also engage more with Chinese civil society on military issues, promoting the idea that the military should be beholden to its people, as well as its leaders. We can also pursue more robust joint training on issues like humanitarian relief, anti-piracy, and crisis management. Lastly, the U.S. should continue to urge China to maintain these institutional relationships, rather than disrupting them periodically to express its displeasure with U.S. arms sales to Taiwan.

**Urge China to liberalize its markets and support its effort to expand domestic consumption.** To hold down the costs of exports, China previously engaged in currency manipulation in order to fuel growth. Now, China is attempting to shift from an investment-driven model to a consumption-driven model. This is a difficult task. Currently, China's consumption as a percentage of GDP is roughly 35%; by comparison, America's is close to 70%. To foster a market of consumers, it must allow wages to continue to rise. This is likely to slow growth, and may increase domestic turmoil. But in the long term, this emphasis on domestic consumption is good for China, good for America, and should be strongly encouraged. An open and active Chinese consumer market would provide an enormous opportunity for American businesses, and would ease the current trade imbalance.



A trade war, just as we're climbing out of the ditch, would be disastrous for America's economy.

**Stand up for human rights and democracy.** The U.S. should not compromise our values to appease China's leaders. They censor media, strictly limit internet freedoms, have an extensive police and surveillance network, and engage in massive detentions of those deemed to be spreading "harmful information." Additionally, we should continue to promote the rights of Tibetans and Uyghurs. We should continue to raise all of these issues with the Chinese in diplomatic and high-level meetings. Progress may be frustratingly slow, but our efforts to change China's behavior can bring real, much-needed help to Chinese political prisoners and the many Chinese activists now fighting for reforms. The State Department works hard to help Chinese reformers and to make information and communication more accessible. These initiatives must be continued and expanded.

Support for human rights and democracy is not only a moral issue, but an essential part of America's China strategy. Respect for the rule of law, an independent judiciary, and open press are all important mechanisms for creating an environment in which American businesses can function. American companies need to know that their operations and intellectual property are protected under reliable Chinese courts. Another example: Chinese worker rights can be strengthened when reporters can fully report on abuses. This will relieve some of the downward pressure on Chinese wages, which in turn contributes to downward pressure on American wages.

**Reduce the impact that China's intellectual property theft and currency manipulation has on American business.** To maintain a healthy relationship through the 21st century, economic interactions need to be fair. This means that China must respect the intellectual property rights of U.S. businesses and stop manipulating their currency.



Just as we require protection for important buildings in the physical world, it's time to require those protections in cyberspace too.



Nothing less can serve as the foundation for a strong, sustainable relationship between the world's two largest economies. China must also provide adequate wages and safe working conditions for its people. Honest, persistent diplomacy that addresses these issues head-on must be applied, with the goal of helping U.S. businesses facing unfair Chinese competition. The U.S. should also improve the security of computer networks and encourage businesses that are potential targets of cyber theft to do the same, so that we are less vulnerable to Chinese cyber attack.

**Make American networks more resilient by improving U.S. cybersecurity.** Given the recent reports of high-profile cyber incidents originating in China, it is imperative that American policymakers make significant advances in cybersecurity. President Obama signed an Executive Order in 2013 that encourages the federal government to work within existing authorities to share cyber threat information with private entities and develop, in consultation with the private sector, cybersecurity best practices for U.S. critical infrastructure. The President, however, can only do so much. Congress must build upon these steps to further cooperation between the public and private sectors and ensure best practices are incorporated, so that our most critical networks are secure.

## Key People

China's domestic and foreign policy decision-making has become more regularized in recent years but it is still far from transparent. In the fall of 2012, China underwent a major leadership transition. Its new leaders, however, are unlikely to significantly alter China's current course.



**Xi Jinping (shee jin-ping)** Xi is the General Secretary of the Communist Party of China, the President of the People's Republic of China, and the Chairman of the Central Military Commission – posts he took on between in the fall and winter of 2012-2013. He succeeded Hu Jintao as the leader of China. He is known for his hardline, outspoken, and unscripted style. In 2008, Xi raised his profile by managing the Olympic Games in Beijing. He has a reputation for fighting corruption, although it is unclear whether this is sincere, or is a cover for unseating potential rivals for power, or both. Xi is considered to be tech savvy, and is expected to expand China's current military modernization efforts.

**Li Keqiang (lee kuh-cheeang)** Li is the Premier of the People's Republic of China and party secretary of the State Council, replacing Wen Jiabao. He has a reputation as a hard worker who is committed to expanding China's domestic consumption as a means of driving economic growth. He was at one time considered a possible candidate for the presidency, but lost out to Xi.



**Ma Ying-Jeou (mah yeeng-joh)** Ma is the President of Taiwan (Republic of China). Reelected to a second term in January 2012, he is a member of the KMT Party, which leans toward engagement with mainland China. While in office, he has supported policies to improve ties between Taiwan and China and he has stated that he will not pursue Taiwan's

independence or reunification with China. His reelection should stabilize cross-Strait relations at least until Taiwan's next presidential election in 2016, easing a major source of friction in our relationship with China.

## Going Deep: Background & Context

**China deeply fears instability.** For much of the first half of the 20th century, China was engulfed in war. The end of the Qing dynasty in the early 1900s led to anarchy and eventually civil war. When China was invaded by Japan during WWII, civilians suffered war crimes, rape, and mass killing. After Mao's Communists won the civil war and the Nationalists fled to Taiwan, China became involved in the Korean War. In the early 1960s, it endured a horrific famine that resulted from Mao's failed economic policies. In the 1960s and 1970s, the Chinese people suffered through the violence and chaos of Mao's Cultural Revolution. Only in the 1970s did the country see stability once again, and it had come at a tremendous cost. This recent experience of the chaos and hardship of decades of war and internal turmoil has left a deep mark on the nation and its government, which fears instability over all other threats. It is widely believed among Chinese politicians that if growth falls too low, the ensuing unemployment would lead to major popular protests. As a result, Chinese leaders view threats to growth (and, therefore, threats to resource supplies) as existential threats. However, growing inequality in China is also creating social disturbance, a threat that equally concerns new President Xi Jinping. China is therefore caught in a difficult dilemma and its energy is largely focused inward.

**China has two faces, both true: a global economic powerhouse and a nation that is still developing.** On the one hand, China is one of five permanent members of the United Nations Security Council and has the world's second largest economy. Its influence continues to grow; it now exports more goods than any other country in the world and it is expanding its involvement in international peacekeeping efforts, counter-piracy operations, and disaster relief.

On the other hand, China remains a developing country. While it has cities of great wealth, its rural and migrant populations are still very poor. The social divide between urban and rural Chinese has widened dramatically over the past three decades, and it poses major political and social problems for the Chinese leadership. And China is still eligible, based on economic indicators, for World Bank aid. When China is asked to shoulder more global responsibility, it tends to maintain that it is still a developing country and must invest at home. However, it also wishes to be treated with the respect of a great power.

**The Chinese Communist Party (CCP) is still in power and almost all of its decisions are based on national stability and party survival.** The primary objective of the CCP is to remain in power, and all of its decisions are meant to serve that goal. With the end of the Cold War and the collapse of Communism as a dominant political ideology, the party has had to rely on promises of economic growth, internal stability, and national unity as the foundation for its governing legitimacy.

To fulfill these promises, the CCP must leverage China's foreign policy tools to meet a number of objectives. First, it has to spur sustained economic development that raises Chinese living standards while dampening social disaffection. Second, China must acquire the resources



### Common Error

Though the Communist Party leadership in Beijing is the center of power in China, a great deal of internal policy, and even intellectual property, investment, and trade policy, is made on the provincial level, leading to tremendous disparity from province to province. Contrary to popular perception, the Chinese policymaking apparatus is anything but monolithic. Parochial interests frequently trump stated national policy.

necessary to satisfy its already voracious and growing energy demands. And third, the party needs to show that it is returning China to a position of global power. Nationalism has proven a highly effective, if sometimes hard to control, force for rallying popular support for the government.

**The United States maintains a “One China” policy, but we still sell arms to Taiwan to ensure its security, in accordance with the 1979 Taiwan Relations Act (TRA).** Since Nixon famously began the process of reopening government relations with China in 1972, the United States has honored the position that there is one China and that Taiwan is not a separate country. China considers Taiwan to be an inalienable part of its territory and directs much of its strategic focus toward ensuring the island does not move toward formal independence.

The United States maintains a security guarantee that we will come to Taiwan’s aid if China seeks to forcibly retake the island; we also continue to sell arms to Taiwan. China is angered by these arms sales, and the announcement of new sales often causes diplomatic reprisals from the Chinese. In 2010, for example, China halted U.S.-Chinese military-to-military relations due to an arms sale. The key tenet of the U.S. “One China” policy is that China and Taiwan must come to an agreement on Taiwan’s status peacefully and mutually.