

U.S.-China Relations

Is a future confrontation looming?

Disputes that have bedeviled relations between the United States and China for decades flared up again following President Obama's decision to sell weapons to Taiwan and receive Tibet's revered Dalai Lama. From the U.S. perspective, China's refusal to raise the value of its currency is undermining America's — and Europe's — economic recovery. Beijing also rebuffed Obama's proposal of "a partnership on the big global issues of our time." In addition, the Chinese insist on tackling their pollution problems in their own way, and have been reluctant to support U.S. diplomatic efforts to impose tough sanctions on nuclear-minded Iran. With the central bank of China holding more than \$800 billion of the U.S. national debt in the form of Treasury notes, and their economy speeding along at a 9 percent growth rate, the Chinese are in no mood to be accommodating.



President Obama meets with Chinese President Hu Jintao during his Asian tour in November 2009. Conflict over issues ranging from Iran's nuclear ambitions to China's currency to U.S. support for Taiwan have roiled relations between China and the U.S.

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U.S.-China Relations

BY ROLAND FLAMINI

THE ISSUES

President Bill Clinton's trip to China in July 1998 was a splashy, 10-day display of America's power and prestige. Clinton arrived in Beijing with an entourage that included his wife, Hillary, and daughter Chelsea, five Cabinet secretaries, more than 500 White House staffers, members of Congress and security personnel, plus a swarm of journalists. His meetings with China's leaders turned into vigorous and lively debates. At Beijing University, Clinton delivered a forthright speech on human rights and answered questions from Chinese students, all of which was televised live nationwide. The authorities released a number of dissidents, and as the American visitors toured China's landmarks large crowds turned out to greet them.¹

But that was then. President Obama's China visit in November 2009 was a low-key, four-day affair, part of a swing through Southeast Asia.

Wife Michelle and daughters Malia and Sasha remained at home in Washington. His one direct contact with the Chinese public, a town meeting with 500 Chinese students in Shanghai, was deemed a local event and not broadcast nationwide. Throughout his stay, Obama made no public statement on human rights — although he did criticize China's Internet censorship, without mentioning China by name. In Beijing, his joint press appearance with his Chinese host, President Hu Jintao, was limited to a statement from each leader, with no press questions taken. Like Clinton, Obama visited the For-



AFP/Getty Images/Philippe Lopez

Bustling Shanghai — with twice the number of high rises as Manhattan — reflects China's phenomenal growth. Some economists worry that China holds nearly \$900 billion in U.S. Treasury securities, refuses to fairly value its currency and maintains an annual trade advantage over the U.S. of more than \$230 billion.

bidden City, but only after it was emptied of tourists.

In the years between the two presidential visits, China has emerged as the world's third-largest economy after the United States and Japan, and a force to be reckoned with in global affairs. And while the United States and Europe continue their uphill struggle to recover from the world recession, China is back on track, posting a phenomenal 11.9 percent growth rate for the first quarter of 2010 — well above the annual 8 percent its leaders consider crucial to keeping unemployment and social unrest at bay.²

Last year, China overtook Germany as the world's top exporter. China is now America's second-biggest trading partner after Canada, with \$62.3 billion in trade to date in 2010 (up from \$52.5 billion during the same period in 2009).³ But China is also the leading trading partner of the European Union, Japan, Brazil and India, reflecting the global reach of its burgeoning commercial activity. It is second only to the United States in energy consumption, has overtaken the U.S. as the biggest producer of greenhouse gasses on the planet and is also the No. 1 market for automobile sales.

The string of accomplishments has tilted the balance of the world's most important bilateral relationship in favor of the Chinese. With America's economy weakened, its military mired in two long and costly wars and its trade imbalance with China heavily in the red (-\$238 billion) Obama's trip was fashioned to Beijing's specifications — brief and businesslike.

Because China holds more than \$877 billion of U.S. Treasury securities, commentators likened the visit to a debtor meeting with his bank manager.

Persuading the Chinese to increase the value of their currency was high on Obama's talks agenda. Concerned American manufacturers and unions say China deliberately keeps the renminbi (also referred to as the yuan) low against the dollar, giving China's goods an unfair advantage in U.S. and other foreign markets. China's refusal to adopt a floating currency system, according to experts, leads to so-called

Trigger Points in the East and the West

China shares a western border with Pakistan, which buys 36 percent of all China's arms exports — the largest share. Security experts worry that some of those arms may end up in the hands of anti-American insurgents in Afghanistan. In the east, concern focuses on the buildup of China's naval fleets and its bellicose comments about U.S.-supported Taiwan.



Sources: The World Factbook, Central Intelligence Agency

goods “dumping” by Chinese exporters — making their goods cheaper and undercutting foreign manufacturers.

The dispute over pricing has led to

a tit-for-tat tariff battle. The United States currently imposes special tariffs and duties on 95 categories of goods imported from China — the highest for any country.⁴

When — shortly before Obama’s visit — the United States announced stiff penalties on \$3.2 billion in steel pipe from China for use in oil and gas fields, the Ministry of Commerce

China at a Glance

Area: 9.6 million sq. km. (slightly smaller than the U.S.)

Population: 1.34 billion (July 2009 est.); U.S.: 308 million

Birth rate: 14 births/1,000 population (2009 est.); United States: 13.82 births/1,000 population (2009 est.)

Ethnic groups: Han Chinese 91.5%; Zhuang, Manchu, Hui, Miao, Uyghur, Tujia, Yi, Mongol, Tibetan, Buyi, Dong, Yao, Korean, and other nationalities 8.5% (2000 census)

Religions: Mainly Daoist (Taoist) and Buddhist; Christian 3%-4%, Muslim 1%-2%

Languages: Standard Chinese or Mandarin (Putonghua, based on the Beijing dialect) about 70%; Yue (Cantonese), Wu (Shanghainese), Minbei (Fuzhou), Minnan (Hokkien-Taiwanese), Xiang, Gan, Hakka dialects, minority languages

Government: Communist state. President and vice president elected by National People's Congress for five-year terms. Unicameral National People's Congress with 2,987 seats; members elected by municipal, regional and provincial people's congresses and People's Liberation Army to five-year terms.

Economy: GDP: \$8.8 trillion (2009 est.); United States: \$14.43 trillion (2009 est.)

Exports: mining and ore processing, iron, steel, aluminum, other metals, coal; machine building; armaments; textiles and apparel; petroleum; cement; chemicals; fertilizers; consumer products, including footwear, toys, electronics; food processing; transportation equipment, including automobiles, rail cars and locomotives, ships and aircraft; telecommunications equipment, commercial space launch vehicles, satellites.

Unemployment rate: 4.3% (Sept. 2009 est.); United States: 9.3% (2009 est.)

Military expenditures: 4.3% of GDP (2006); United States: 4.06% of GDP (2005 est.)

Sources: The World Factbook, *Central Intelligence Agency*

denounced the move as “protectionist” and said it was looking into whether American sedans and big sport utility vehicles on sale in China were subsidized by the United States government. “By not recognizing China as a market economy, the U.S. is acting in a discriminatory manner,” stated ministry spokesman Yao Jian.⁵

Not so, said U.S. Steelworkers Union president Leo Gerard. “We’re fed up with [the Chinese] cheating on our trade laws. Penalties for these transgressions are long overdue.”⁶

On the foreign-policy front, the Obama administration needs China’s help in containing Iran’s nuclear ambitions. The next planned step in Washington’s high-priority attempt to stymie the ruling ayatollahs’ efforts to produce nuclear weapons is tight U.N. sanctions to block Iran from acquiring any more of the technology it still needs. As one of the five veto-wielding, permanent members of the U.N. Security Council, China possesses an indispensable vote needed to pass any U.N. sanctions resolution. (The other members are the United States, Russia, Britain and France.)

But Iran is China’s third-largest crude oil supplier, shipping 460,000 barrels a day in 2009 and about the same this year. China’s National Petroleum Corp. also has sizable investments in Iranian oil production.⁷ In Beijing, the Chinese shared Obama’s concern that Iran should become a nuclear power but resisted his pressure to cooperate. Since then they have agreed to help in drafting a U.N. resolution — but have said nothing about voting for it. The president also raised U.S. concern over China’s lack of respect for copyright laws and patent rights — a perennial Western complaint. Despite some new legislation to protect intellectual property, the production of knock-offs of famous brand names and the piracy of music, films and electronic game software remains a full-blown industry.⁸

In China’s latest copyright scandal, the embarrassed organizers of Shanghai’s \$40 billion Expo 2010, which opened on May 1, recently withdrew the trade fair’s promotional theme song after being deluged with protests that it had been plagiarized from a Japanese pop song.⁹

Such controversies are hardly new, but as China’s economy and military have become more robust, so has its belief that it is operating from a position of strength, and the United States from growing weakness. “I think it is a common perception in the region that U.S. influence has been on the decline in the last decade, while Chinese influence has been increasing,” Jeffrey Bader, director of Asian affairs at the National Security Council, declared prior to Obama’s Asian trip. “And one of the messages that the president will be sending in his visit is that we are an Asia-Pacific nation and we’re there for the long haul.” Coming from a senior White House adviser the admission was revealing.¹⁰

In the end there was very little give by the Chinese leadership on either trade or Iran. Obama also made a

pitch to the Chinese for what he described as “a positive, constructive and comprehensive relationship that opens the door to partnership on the big global issues of our time: economic recovery, development of clean air energy, stopping the spread of nuclear weapons and the surge of climate change, the promotion of peace in Asia and around the globe.”¹¹

Zbigniew Brzezinski, a former U.S. national security adviser who advised the Obama election campaign, described Obama’s proposal more succinctly as a Washington-Beijing G-2 partnership. But the Chinese seemed lukewarm to Obama’s power-sharing offer. “China fundamentally has not promoted the idea that China and the U.S. will form the two major powers,” says Feng Zhongping, the head of the European section of the Beijing-based Chinese Institute of Contemporary International Relations. “China believes that the idea that [China and the United States] could undertake the responsibility of administering the world is incorrect.”¹²

As experts try to read the tea leaves on the future of U.S.-China relations, here are some of the questions being asked:

Is a U.S.-China partnership actually possible?

Until the early 1970s, when President Richard M. Nixon made his historic trip to China, the two countries were virtual enemies — militarily and ideologically. Today, as China becomes a global powerhouse and a challenge to U.S. commercial and political interests, the relationship is deeply complex.

“It may be a cliché, but there are issues on which the United States and China have a common interest, and other issues with divergent interests, and difficulties are going to persist for some time, and occasionally there will be some friction,” says China specialist Bonnie Glaser at Washington’s Center for Strategic and International Studies. “But China does not want to

China — roughly the same number of Chinese currently studying in the United States.”¹³

The Chinese leadership’s determination to avoid even the impression of giving in to pressure is almost a conditioned reflex because this would mean a dreaded loss of face.

Thus when Obama in Beijing held out the prospect of a closer partnership to tackle the major global issues, the response was non-committal. Four months later, President Hu came to Washington to attend the Nuclear Security Summit. In a one-on-one with Obama, according to the official Xinhua news agency, he put forward a five-point proposal “to establish a partnership to jointly deal with common challenges.”

Hu’s overture covered much the same ground as Obama’s, but only up to a point: The second of his five points stressed that each country “would respect



A February meeting between the Dalai Lama — Tibet’s exiled leader — and President Obama miffed the Chinese government, which maintains that Tibet is an inherent part of China and refuses to recognize Tibetan independence.

AFP/Getty Images/STR

have an unstable, unhealthy relationship with the United States. It’s extremely important to the Chinese to have good relations.”

To underline this, Chinese officials pointed out to the author that in Beijing Obama signed 11 bilateral agreements, including those on nuclear proliferation, economic cooperation, climate change, participation in multinational anti-pirate patrols in the Horn of Africa, visits between U.S. and Chinese forces (the U.S. carrier *USS Nimitz* visited Hong Kong in February), plus a joint commitment to strengthen people-to-people exchanges. As part of an enlarged U.S. academic-exchange program, Obama has promised to send 100,000 American students to

the other’s core interests and major concerns,” a point not specifically made by Obama, and one that left wide latitude for divergence. Two of these interests were Tibet and Taiwan, which “concern China’s sovereignty and territorial integrity and its interests,” Xinhua stated, and which the United States should “handle with caution.”¹⁴

This balance-of-interests approach by the Chinese is typically — and almost cryptically — expressed by Kaiser Kuo, an associate researcher at Beijing’s World Politics Institute. “Sino-American competition and cooperation are increasingly intertwined,” Kaiser says. “There is cooperation within competition, and competition within cooperation. There is no absolute

cooperation or competition. Therefore, we should not completely reject competition — and we should strengthen cooperation.”¹⁵

In Washington, President Hu also hinted that China might be considering a revaluation of its currency, “based on its own economic and social-development needs.” In other words, not because Washington is pressing for it.¹⁶

Hu also agreed that Beijing should cooperate on the wording of an Iran sanctions resolution. But in Beijing, Chinese Foreign Ministry spokeswoman Jiang Yu repeated China’s position that “dialogue and negotiations are the best way.”¹⁷

But some analysts think U.S.-Chinese relations may be less about cooperation and more about an ascendant China challenging the United States in areas once firmly in America’s sphere of influence. “Obama and his policy makers are required to face up to a new reality,” commented the Seoul-based English-language *Korean Times*, “in which China is jockeying for the world’s No. 2 position while the U.S., the world’s sole superpower, is waning, especially in the aftermath of the global financial and economic crisis.”¹⁸

Unlike U.S.-Soviet relations during the Cold War, the challenge is not ideological. Still, according to the Congressional Research Service, “China’s growing ‘soft power’ — primarily diplomatic and economic influence in the developing world — has become a concern among many U.S. policy leaders, including members of Congress.”¹⁹

Because of its voracious demand for raw materials, Chinese trade with Latin America — the United States’ back yard — grew tenfold between 2002 and 2007. In 2008, Chinese trade with Latin America (\$142 billion) was a sixth of U.S. trade with the region — but growing at a faster rate. China’s footprint in Africa is even larger in terms of both financial aid and investments.²⁰ But more significant from

China Sells Most Arms to Pakistan

Pakistan purchased more than a third of all Chinese conventional arms from 2003-2007 — by far the largest share. The second-largest buyer was Sudan, followed by Iran, Saudi Arabia and Egypt.



Source: “Military Power of the People’s Republic of China, 2009,” Office of the Secretary of Defense

Washington’s point of view is Beijing’s increasing involvement in the Middle East.

In 2009, exports of Saudi Arabian crude to China were higher than to the United States, as Beijing courted the world’s largest oil producer — and longtime U.S. ally.

“Saudi Arabia used to be very much an American story, but those days are over,” said Brad Bourland, head researcher at Jadwa Investment in Riyadh, Saudi Arabia. The Saudis “now see their relationship with China as very strategic, and very long term.”²¹

In a recent interview, Xu Xueguan, director of North American affairs at the Chinese Foreign Ministry’s huge headquarters in Beijing, told the author he couldn’t understand why China had not been included in the so-called Quartet, the coalition of the United Nations, European Union, United States and Russia that is seeking a peaceful solution to the Israel-Palestine confrontation. When the Quartet was set up eight years ago, China did not yet have the clout to insist on being included. More recently, Beijing has expressed interest in becoming the fifth member of the U.N.-sponsored

peace effort, without success — at least so far.

Is a confrontation with China inevitable, as some predict?

The Chinese leadership is “gunning for a paradigm shift in geopolitics. In particular, Beijing has served notice that it won’t be shy about playing hardball to safeguard what it claims to be ‘core national interests,’” writes Willy Lam, a China specialist at the Washington-based Jamestown Foundation think tank.²² At the top of those national interests is Taiwan which, *The Economist* magazine said recently, “has been where the simmering distrust between China and America most risks boiling over.”²³

The chance of a war between China and the United States is generally regarded as remote. The Chinese threat to the United States is indirect — for example, if China should decide to use force to annex Taiwan, and America intercedes — as it is committed to do even though the United States does not recognize the island as an independent state.

China hands like Elizabeth Economy, director of Asia Studies at the Council on

U.S. Trade Deficit With China Has Surged

The United States imports far more from China than it exports, causing a significant and growing trade gap. U.S.-China trade rose rapidly after the two nations reestablished diplomatic relations and signed a bilateral trade agreement in 1979 and provided mutual most-favored-nation treatment beginning in 1980. In recent years, China has been one of the fast-growing U.S. export markets, and it is expected to grow even further as living standards continue to improve and a sizable Chinese middle class emerges.



* Based on actual data for January-April 2009

Source: Wayne M. Morrison, "China-U.S. Trade Issues," Congressional Research Service, June 23, 2009

Foreign Relations think tank in Washington, downplay the new "Red Scare." Economy argues that the West — particularly the United States — has "completely lost perspective on what constitutes reality in China today." Economy concedes that "there is a lot that is incredible about China's economic story, but there is a lot that is not working well on both the political and economic fronts," distorting the real picture.

In other words, China has enough problems without provoking the challenge of an international nemesis. The Chinese leadership appears to worry about a fragile society: A persistent nightmare is that a sudden significant spike in unemployment, officially kept at 4 percent (but possibly higher because of the huge, hard-to-track migrant-worker population) could lead to widespread unrest.²⁴

Still, looking at the Chinese as the potential aggressors, does China have the capacity for a military confrontation with the United States?

In the past five years China has spent hundreds of billions of dollars modernizing its armed forces, with special emphasis on the navy. China's 1.7 million Chinese under arms is considerably more than the 1.4 million in the U.S. armed forces, but in 2009 the U.S. defense budget was \$738 billion and China's estimated at between \$69.5 billion and \$150 billion.²⁵

The government insists it seeks a peaceful solution to the issue of uniting Taiwan to the mainland, but the Chinese have built up a formidable fleet of submarines and developed anti-ship missiles to counter a possible U.S. defense of the Taiwan Strait. The Americans will be ready for them. In its annual report

to Congress on China's military power, the Pentagon said it was "maintaining the capacity to defend against Beijing's use of force or coercion against Taiwan."

Beyond the strait, the Pentagon reported, "China's ability to sustain military power . . . remains limited."²⁶ The Pentagon's annual report is a source of irritation to the Chinese, who routinely denounce it. This year, the Xinhua news agency dismissed the assessment as "a largely subjective report with distorted facts and groundless speculation."²⁷

Less hypothetical is the threat to the U.S. government's computer system. The Pentagon's 2009 report said U.S. government computers had been the target of "intrusions that appear to have originated" in China, although not necessarily from the military.²⁸ And in his annual "Threat Assessment" to the Senate Select Committee on Intelligence, Director of National Intelligence Dennis C. Blair warned in February that "malicious cyber activity is occurring on an unprecedented scale with extraordinary sophistication."

As a result, Blair added, the United States "cannot be certain that our cyberspace infrastructure will remain available and reliable during a time of crisis." Blair did not refer to China directly at that point. However, later in his assessment he called "China's aggressive cyber activities" a major concern.²⁹

In January, after Google reported that hackers in China had targeted the computers of more than 30 U.S. corporations, including its own, and that the e-mail accounts of human rights activists had also been hacked, Secretary of State Hillary Rodham Clinton called on the Chinese government to investigate and to make its findings public.³⁰ (See sidebar, p. 422.)

U.S. officials and business executives warn that a trade war could also erupt if the Chinese don't yield to international pressure and raise the aggressive undervaluation of the renminbi, kept artificially low to favor

Chinese exports. China's cheap currency is a serious problem for the global economy by undercutting exports throughout the industrial world, including the United States, and contributing to the trade imbalance. (President Obama has contended that if China lets the renminbi appreciate, U.S. exports would increase.)

The Obama administration has so far avoided picking a public fight with China over its currency — even to the extent of postponing indefinitely a Treasury Department report on worldwide currencies originally due out on April 15. Without any movement by Beijing on the currency front, the report could well label China a “currency manipulator.” If that happens, Sen. Charles E. Schumer, D-N.Y., is ready with draft legislation that would place more tariffs on Chinese goods.

Chinese Commerce Minister Chen Deming recently told *The Washington Post* that the United States would lose a trade war with China. “If the United States uses the exchange rate to start a new trade war,” he said, “China will be hurt. But the American people and U.S. companies will be hurt even more.”³¹

One way for America to increase its exports, said Chen, would be to remove the restrictions on high-tech goods with possible military applications, which the United States imposed following Beijing's repressive crackdown on student demonstrations in 1989 in Tiananmen Square — something the Obama administration shows no signs of doing.

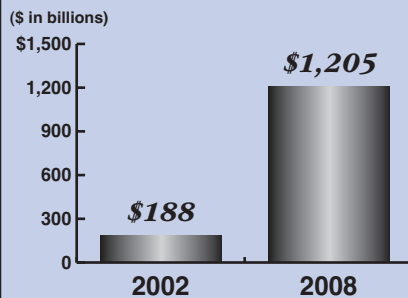
Has China's “market authoritarian” model of government emerged as an alternative to Western democracy?

Despite predictions, China's emergence from isolation and its spectacular economic growth have not led to democratization. Instead, China has developed what Stefan Halper, direc-

China's U.S. Holdings Greatly Increased

Since the early 2000s, China's holdings of U.S. securities — including U.S. Treasury securities and corporate stocks and bonds — have risen above \$1.2 trillion — an increase of more than 500 percent. While China's U.S. holdings have helped the United States meet its investment needs, some policymakers worry they could give China increased leverage over the U.S. on political and economic issues.

China's Holdings of U.S. Securities
(June 2002-June 2008)



Source: Wayne M. Morrison, “China-U.S. Trade Issues,” Congressional Research Service, June 23, 2009

tor of the Atlantic Studies Program at Cambridge University, calls “a market authoritarian form of government, in which the free market is allowed to operate, but the government holds a very firm hand on political activity in the country.”

In so doing, says Halper, author of the recent book *The Beijing Consensus*, the Chinese have produced an alternative to the Western democratic system that is thought to go hand in hand with a free-market economy. Non-democratic countries around the world

like Egypt, Indonesia, Myanmar and Malaysia must find much to envy in a country that has achieved a 9 percent growth rate yet “managed to control its media, the legislature and the dissident voices, and has achieved global prominence,” Halper adds.

The Chinese system “offers a seductive model that is eagerly taken up by the leaders of countries that have not yet settled on democratic structures,” writes Australian China hand Rowan Callick in *The American*, the magazine of the American Enterprise Institute, a conservative Washington think tank. The Chinese model attracts autocrats because “their broader populations become content and probably supportive because their living standards are leaping ahead.”³²

China, however, has no interest in exporting its form of government. Its dealings with the rest of the world are dominated by the single-minded pursuit of one objective: economic development. As a ubiquitous lender and financial aid donor, China finds the door open in developing countries because Beijing's money comes with no strings attached about human rights and democracy — which is hardly the case with financial assistance from either the United States or the European Union.

Chinese money “is made available relatively easily and quickly without the political, economic, social and environmental conditions . . . that U.S. and European donors typically impose,” says the Congressional Research Service report on China's foreign trade.³³

But envious autocratic leaders should take note: Authoritarian capitalism may only work up to a point, writes Thomas P.M. Barnett, author of the recent book *Great Powers: America and the World after Bush*. He argues that when an economy starts to mature and needs to become more efficient, productive and innovative-based — “then we're talking intensive growth . . . something that nobody ever has been able to

plan, because it lives and breathes on fierce competition, which only a true free market, accompanied by democracy, can supply.”³⁴

Moreover, under closer scrutiny, China’s economic success has fragile underpinnings, with some doubting its long-term sustainability. For example, for all its progress, China’s per capita income is still \$6,546, compared to \$40,208 in the United States. China’s gross domestic product barely reaches \$9 trillion, whereas allowing for the recent volatility of exchange rates, U.S. GDP exceeds \$14 trillion.

Because China’s economic development is export driven, the world recession caused 23 million Chinese workers to be laid off as Chinese exports dropped by 15-18 percent, says Stephen Green, chief economist at the Sun Trust Bank in Shanghai. By the end of 2009, however, 98 percent of those had found other work, as the Chinese economy bounced back quicker than Western economies, boosted by a 4 trillion renminbi (\$586 billion) stimulus package. (The U.S. economic stimulus was \$874 billion.)

But the lesson to Beijing was that China can’t export itself to growth. Though exports have picked up, the Chinese have turned their attention to trying to develop a domestic market. For example, to stimulate sales of domestic appliances in rural areas, the government offered 13 percent rebates to farmers who buy refrigerators, TV sets and even mobile phones. In 2009, Beijing also spent \$755 million to push car sales, cutting the purchase tax from around 15 percent to 5 percent. The result was a record 770,000 sales in March alone, a 27 percent jump over the previous month. Banks had instructions to increase mortgage lending, but the government reined them in again when they started granting loans for third homes.³⁵

Though officials in China say 250 million Chinese were lifted out of

poverty between 1980 and 2005, about 70 percent of China’s population of 1.3 billion still lives in rural areas, often in villages with few paved roads and frequent water and power shortages. An ambitious and costly urbanization program is trying to shift people to the cities.

State-controlled media limit reports about unrest, but “bottom-up pressures for change in China are intense, spontaneous and multifaceted,” according to a report by Ying Ma, a visiting fellow at the Hoover Institution at Stanford University. “Every day, Chinese leaders worry about the challenge to regime stability, but they have responded by continuing to exert brutal and sophisticated top-down control.”³⁶

“Riots take place in China every day,” Ying says. The Chinese authorities reported 10,000 protests throughout the country in 1994, and 87,000 in 2005. Mobile phones and the Internet have given protesters and activists effective new weapons, which the regime is battling tooth and nail. Using the new technology the Chinese people clamor for the government to address their grievances on the local level in increasing numbers: 10 million petitions in 2004 jumped to 30 million the following year.³⁷ ■

BACKGROUND

Presidential Challenges

Shortly after Mao Zedong’s death in 1976, Chinese leaders took a hard look at their country and didn’t like what they saw. China was just emerging from the Cultural Revolution, a decade of mob-led extremism started by Mao himself that had kept the country in chaos. China was desperately poor, deliberately isolated from the world economy and aloof from or

opposed to nearly every international institution, including — until 1971 — the United Nations. Under Deng Xiaoping, China’s leaders reversed course and embraced globalization.

Since then successive U.S. presidents have wrestled with the challenge of how to deal with China’s rapid rise. The Clinton administration fashioned a policy of “constructive engagement,” calling for close bilateral economic and political cooperation, at the same time urging democratization and human rights.

“Seeking to isolate China is clearly unthinkable,” President Bill Clinton declared in July 1998, defending his approach. “We would succeed instead in isolating ourselves and our own policy.”³⁸

The George W. Bush administration used the catchphrase “responsible stakeholder,” pressing China to become a responsible member of the international community and to embrace democracy. Prior to President Obama’s November China trip, Deputy Secretary of State James B. Steinberg mapped out a policy of “strategic reassurance” towards Beijing, and the phrase — as intended — has stuck.

“Just as we are prepared to accept China’s arrival as a prosperous and successful power,” Steinberg explained, the Chinese must “reassure the rest of the world that its development and growing global role will not come at the expense of the security and well-being of others.”³⁹

Whatever the label, the fundamental underpinning of American policy toward China has been economic engagement. In 2000, for example, Congress granted China permanent normal trade relations (PNTR) with the United States. In 2001, the United States backed China’s entry into the World Trade Organization, thus placing the Chinese under international business rules, which was reassuring for would-be foreign investors.

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Chronology

1970s-1980s

After Mao's death Deng institutes sweeping reforms, including relations with the United States.

1972

President Richard M. Nixon makes historic trip to China, meets Mao Zedong and signs Shanghai Joint Communiqué declaring Taiwan part of mainland China.

1975

President Gerald R. Ford visits China, meets the ailing Mao, who dies the next year.

1978

Deng Xiaoping emerges as new leader, launches economic and social reforms.

1979

U.S. and China establish diplomatic relations. . . . Congress passes Taiwan Relations Act pledging to continue to supply Taiwan with weapons. . . . Deng visits United States.

1982

In joint U.S.-Chinese communiqué, United States pledges to gradually reduce arms sales to Taiwan.

1984

President Ronald Reagan visits China and meets Deng, who says that Taiwan remains a crucial problem in bilateral relations.

1989

President George H. W. Bush visits Beijing, invites dissidents to dinner. . . . People's Liberation Army crushes student-led pro-democracy demonstration in Beijing's Tiananmen Square, killing hundreds of protesters. . . . White House National Security Adviser Brent Scowcroft holds secret meeting in Beijing with

Chinese leaders following the Tiananmen Square massacre.

1990s-2000s

China's economy welcomes Western investors; U.S.-China relations continue to warm.

1992

Reversing a decade of U.S. policy, President George H. W. Bush decides to sell Taiwan F-16 combat planes, infuriating the Chinese.

1993

Newly elected President Bill Clinton establishes policy of "constructive engagement" with China, meets President Jiang Zemin in Seattle.

1996

China tests missiles off Taiwan to discourage vote for separatist Lee Teng-hui in the presidential election; U.S. sends two aircraft carrier battle groups to area to support Taiwan.

1997

Britain hands Hong Kong back to China after 156 years. . . . Clinton is first U.S. president to visit China in a decade; criticizes Tiananmen massacre but strengthens U.S. commitment not to support Taiwan independence.

2000

U.S. Senate passes Permanent Normal Trade Relations bill (PNTR) giving China the same low-tariff access to the American market as other trading partners.

2001

China seizes U.S. spy plane after midair collision with Chinese fighter, hands over 24 American crewmembers after President George W. Bush apologizes for the Chinese pilot's

death. . . . Bush makes first trip to China. . . . China joins World Trade Organization.

2002

Bush makes second visit to China to mark the 30th anniversary of Nixon's historic trip. . . . Future leader Hu Jintao visits White House for talks. . . . President Jiang Zemin visits Bush at his Texas ranch; they agree to cooperate on crisis following North Korea's announcement that it has nuclear weapons.

2003

With U.S. participation, Beijing hosts six-party talks on a unified approach to North Korea's nuclear weapons program.

2006

China's Great Firewall, or Golden Shield, Internet censorship system goes into service.

2008

China closes down Twitter, YouTube to block discussion on 20th anniversary of Tiananmen massacre.

2009

President Obama visits Shanghai and Beijing, makes no headway in persuading Chinese to raise value of their currency or to back sanctions against Iran.

2010

President Hu attends summit on nuclear security in Washington, despite tense U.S.-China relations over Iran sanctions, currency issues and imminent American weapons sale to Taiwan. . . . Expo 2010 opens in Shanghai. . . . Annual "strategic dialogue" between U.S. and China set for late May. . . . U.S. and China to attend G20 summit in Seoul, South Korea, in late June.

Is China Less Welcoming to U.S. Investors?

As Chinese know-how grows, opportunities diminish for foreigners.

It's one of the ironies of the U.S. trade deficit with China that a sizable portion of the goods exported to America are made by Chinese workers for U.S. firms. Earlier this year, the state-run Xinhua news agency reported that of the 200 top exporting firms last year, 153 were "foreign funded firms" — up from 141 in 2008.¹

It's estimated that at least a third of those companies are U.S.-owned. For example, Shanghai alone has about 3,600 American expatriate business executives — although it was around 4,000 before the 2008 economic downturn. Chongqing, China's largest city, with a population of 32 million, lists 41 foreign firms operating there, including Lear, Du Pont, Delphi Packard and Pepsi. General Motors, the largest auto maker in China, expects to sell 3 million vehicles in the Asian market by 2015 from its Chinese plants. In 2009, the 665,000 foreign firms in China accounted for 28 percent of the nation's industrial output, 56 percent of its exports and 45 million of its workers. In the first quarter of this year, foreign investment rose 12.1 percent, to \$9.4 billion, according to *Business Week*.²

Even so, Google's recent difficulties with hackers in China may be an indication that as the Chinese economy matures the investment climate may no longer be as welcoming as it once was. One American executive doing business in Beijing says industrial espionage is rife and that the Chinese are experts at copying products. A foreign firm has at most a two-year win-

dow to establish itself on the Chinese market before it is challenged by an emerging local competitor.

As Chinese industrial know-how grows, the opportunities for foreign investors continue to diminish, according to business executives in Shanghai and Beijing. Recently, the Chinese authorities issued a directive encouraging government agencies to buy Chinese goods.

In a country where the state is still a major customer, this is a disturbing measure. But investors remain attracted by China, argues writer Zachary Karabell, author of the 2009 book *Superfusion: How China and America Became One Economy and Why the World's Prosperity Depends on It*. Says Karabell, "There's really nowhere else to go where you have 10 percent growth, 300-600 million emerging middle class Chinese who want to buy stuff and an environment where the rule of law is increasingly at least adequate in enforcement of contracts and getting your investments out of the country."

Google quit China after its servers were hacked, adds Karabell, partly because it wasn't doing very well in the Chinese market, and because it could afford not to do business with China.

The continued uncertain global environment has focused the Chinese government's attention on generating a domestic consumer market, so far with mixed results. Parting older-generation Chinese with their money means reversing a culture of saving, but the younger generations are avid shoppers. In the modern high rise that houses the Standard Chartered Bank in Shanghai — one of

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All Business

In his inaugural address last year, Obama echoed Clinton's 1997 statement that communist China stood "on the wrong side of history." The conventional wisdom about China was that the market forces unleashed by global trade and investment would inevitably give more people a stake in the economy and open up China politically, leading to the creation of political parties and more democracy and respect for human rights.

Only it hasn't happened. In China, the party's far from over. China calls its authoritarian capitalism a "socialist market system," and the ruling Chinese Communist Party (CPC) appears

more entrenched than ever — helped by a large, efficient and pervasive police organization.

In 2009, the party celebrated its 60th anniversary, and the state-controlled media took care to trumpet the regime's economic and political achievements.

Yet how much is left of communist ideology is open to question: As the author discovered during a reporting trip to China last November, the huge portrait of Mao still looks out over Tiananmen Square, and Marxist theory is still taught at the party school for senior officials. But the old party slogans praising the proletariat class and condemning capitalism have disappeared from the walls and factories.

The party has opened membership to entrepreneurs and business people,

and the state-held shares of the country's 1,300 companies, many of which are listed on the Beijing stock exchange, are publicly traded.

Challenged to explain exactly how Marxism-Leninism fits into the "socialist market system," Chinese officials quote Deng Xiaoping's famous observation that it doesn't matter whether the cat is black or white as long as it kills the mouse.

Officials today will even quote Confucius without first cautiously looking over their shoulder. The great Chinese sage has had his ups and downs. In the Cultural Revolution he was reviled as an imperial lackey because of his position as adviser to the emperor.

But Confucius has been rehabilitated as a symbol of China's glorious

the thousands that crowd the city's skyline — Stephen Green, head of research, says older Chinese stubbornly stick to the “rainy day” syndrome — but “anyone born after 1980 behaves like an American.”

In the past decade, for example, Starbucks has opened more than 350 coffee shops in China, where it is flourishing at the same time its U.S.

business has been hammered by recession. Starbucks' success is puzzling because the Chinese really don't drink coffee; China produces about 30,000 tons of beans a year but exports most of it.

Caren Li, Starbucks' spokeswoman at the company's downtown Chinese headquarters in Shanghai, says Green Tea Frappuccino is a predictably steady seller, but “we're promoting a coffee culture, offering the Chinese more choices besides tea.” Even so, it's not really about coffee: The coffee houses with the round green logo have become trendy meeting venues (there's even one in Beijing's Forbidden City), the chic place to be seen.

In 2009, a former Starbucks executive in China, Eden Woon, launched Toys Я Us in China (locally called Toy LiFung), and today the American retailer has 15 stores in the country. China may be



Chinese flock to the 350 Starbucks coffee shops in China, including this one in Shanghai, but customers come for tea, not coffee, and because Starbucks is considered cool.

AFP/Getty Images/Oliver Lang

the world's leading toy manufacturer, but its citizens buy mainly for very young children. “There's no toy culture in China because parents think toys distract children from their studies,” Woon says over breakfast in a bustling hotel restaurant offering acres of dishes ranging from American pancakes and waffles to wonton soup. So Woon launched a campaign in this nation of overachievers

with the message: “Toys are an important part of growing up.”

Mary Kay Inc., the Texas-based home-sales cosmetics firm, began operating in China in 1995. Headquartered in Shanghai, it marshals about 200,000 independent beauty “consultants,” thanks to a skin-care line tailored to the local market, including a four-week “whitening cream” treatment that sells for the equivalent of \$120.

— Roland Flamini

¹ Xinhua news agency, http://news.xinhuanet.com/english2010/business/2010-04/20/c_13260044.htm.

² “Foreign Investment in China Jumped in First Quarter,” *Business Week*/Bloomberg, April 14, 2010, www.businessweek.com/news/2010-04-14/foreign-investment-in-china-jumps-in-first-quarter-update1-.html.

past. The Chinese have set up hundreds of Confucius institutes worldwide, including 25 in the United States. The institutes promote Chinese language and culture, just as the Goethe institutes promote German culture, and the Dante Alighieri institutes do the same for Italy.

Even so, “China did not take a missionary approach to world affairs, seeking to spread an ideology or a system of government,” writes Robert D. Kaplan, a senior fellow at the Center for a New American Security. “Moral progress in international affairs is an American goal, not a Chinese one. China's actions abroad are propelled by its need to secure energy, metals and strategic materials in order to support the living standards of its immense population.”

In Kaplan's view, Beijing “cares little about the type of regime with which it is engaged. It requires stability, not virtue as the West conceives it.”⁴⁰

As early as 2005, when China for the first time was included in the annual economic survey of the Organization for Economic Cooperation and Development (OECD), it noted, “Well over half of China's GDP is produced by privately controlled enterprises.”⁴¹ But while the trend has continued, communications, transport, infrastructure, banking and energy remain under tight state supervision.

In late November 2009, Xu Kuangdi, a senior adviser to the Chinese Communist Party, told this reporter and other visiting U.S. journalists that it would be dangerous to hold free elections because China was “not ready,”

and some demagogue might win by promising to take the money from the new rich and give it to the poor! “The ultimate goal is common prosperity,” he said, “but we have to let a group of people get rich first.”

In 2003, looking for places to put its growing export revenue, China began buying U.S. Treasury bills on a large scale. By 2005, China had acquired \$243 billion worth of the U.S. debt, second only to Japan. In 2006, China overtook Japan when its holdings climbed to \$618 billion. In 2009, possibly fearing that the global recession would undermine the dollar, China sold some \$34 billion of its Treasuries — but was soon back on a buying spree. By February 2010, China held a whopping \$877.5 billion in Treasuries.⁴² Meanwhile, a well-heeled

'Harmonizing' the Internet in China

China's love affair with the Net is increasing along with censorship.

When a website is censored in China, the screen usually doesn't reveal that the government has blocked it. Instead, either a fake error message appears or an announcement about the site being unavailable, with an invitation to "Please try again."

By now, most of China's estimated 384 million "netizens" (nearly a quarter of the world's Internet users) are not taken in: They know the site has been "harmonized."¹

In China, Internet censorship is often ironically called "harmonizing" because "harmony" — the absence of public dissent — is a key phrase in the government's propaganda. So as China's love affair with the Internet increases so does the Communist regime's censorship effort intensify — possibly because there is so much more material online for the government to worry about.

"China's blocking of overseas websites — including Facebook, Twitter and thousands of other sites is more extensive and technically more sophisticated than ever," Rebecca MacKinnon, a Hong Kong-based university journalism professor and China Internet expert, tells me via e-mail from Princeton's Center for Information Technology Policy, where she is currently a visiting fellow. "Controls over domestic content have also been tightening."

The Chinese authorities use a filtering system nicknamed The Great Firewall of China, but officially referred to as Golden Shield, to scan Internet content for specific key words and then block, or try to block, Web pages in which such words are used.

A list of blacklisted terms compiled by ConceptDoppler, a tool developed for the purpose by the universities of California, Davis, and New Mexico includes triggers such as "eighty-nine" and "June 4," the year and date of the Tiananmen Square protests, "massacre," "political dissident," "Voice of America," "Playboy magazine" and "Xinjiang independence" — a reference to the restive, predominantly Muslim province in northwestern China. Any one of these terms sends a series of three reset commands to both the source and the destination, effectively breaking the connection, says Jed Crandall, a professor of computer science at the University of New Mexico and one of the developers of ConceptDoppler, in an e-mail message.

A more recent addition to the list is "Charter 08," a lengthy manifesto calling on the Communist regime to relinquish its monopoly of power and introduce democratic reforms. Originally, Charter 08 was signed by 300 intellectuals and activists. After the document appeared briefly on the Internet — and before Chinese censors banned it — some 10,000 other signatures were added.

U.S. computer giants like Google entered the market knowing that they would have to comply with the regime's policy and exercise content censorship. Ultimately, Google found the controls too constricting to live with and earlier this year shifted its operations to less restrictive Hong Kong, at the same time complaining of Chinese hacking into the e-mail accounts of human rights activists and U.S. corporations.

Other U.S. Internet companies still operating in China, including Microsoft and Yahoo!, now face even tougher censorship restrictions. A new law, adopted on April 29 and set to take effect Oct. 1, requires them to stop the transmission of "state secrets" over the Internet, if they "discover" them — effectively requiring them to act as police informers.²

Some analysts maintain that while flowers were placed outside Google's Beijing office by users sorry to see it go, the impact of Google's departure is limited because the majority of China's netizens prefer to use homegrown Internet servers that exercise self-censorship rather than jeopardize their access.

Besides, the analysts point out, even with the constraints that grow daily the Internet has given Chinese citizens an unprecedented voice in the country's affairs.

"We should measure protest in China not by protests on the streets or availability of news on protests, but by the involvement of the Chinese citizens in policy decisions," says Yasheng Huang, a China expert at MIT's Sloan School. "By the latter yardstick, China had made huge progress, thanks largely to the Internet."³

In recent years, Internet-based campaigns have pressured the Chinese government to release political prisoners, launch investigations into scandals, such as kidnapping boys for slave

middle class has emerged in China. Cars create traffic jams in Chinese cities, and the once ubiquitous bicycles are now kept by many Chinese for weekend country excursions.

In Beijing, a five-star hotel is flanked by two glass-fronted dealerships, one for Maseratis, the other for Lamborghinis. Four years ago, the China branch of HSBC Bank launched a credit card: It

now boasts 11 million cardholders, said D.G. "Dicky" Yip, of the Bank of Communications in Shanghai last November.

China's new rich have acquired a taste for art as well as luxury cars. First it was contemporary art by artists who a decade earlier had been suppressed or even jailed because of their avant garde works. More recently, classic traditional paintings and Chinese calligra-

phy have been sold at auction for millions of RMB. In a crowded auction hall in Beijing filled with Chinese bidders in November, a scroll painting by the Ming Dynasty landscape master Wu Bin sold for the equivalent of \$24.7 million to a Chinese bidder.

The bad news for the government has been the widening gap between the urban prosperous and the rural improv-

labor in mines, and convict corrupt officials.⁴ China's version of Facebook, called Douban, and YouTube, called YouKu, as well as thousands of Internet bulletin boards teem with debate on current events.

Still, the censorship is not well-defined, and some well-known dissident bloggers don't know when they have crossed the line until there is a knock at the door.

But mainly, it works by suggestion: "Many Internet users only have access to public computers at Internet cafes or universities, and just the existence of censorship might cause them to avoid topics they know they're not supposed to access, changing their online behavior," says Crandall.

The government maintains that censorship is partly a security measure and partly a responsibility to protect the public from what it sees as the negative side of the Internet's rapid growth.

Qian Xiaoqian, vice minister at the Chinese State Council information office, whose functions include deciding what gets blocked, says that while the government intervenes when a site is seen as plotting to overthrow the state, on another level it is also responding to public worry about the addictive nature of the Net.

"There is a discussion going on in this country about the potential negative influences of the Internet," Qian said last December over cups of tea, invariably served to visitors to any Chinese office. "Chinese parents are worried about the pornography; but not just the pornography." The government blames "Internet addiction" for youthful alienation.

A recently published survey by the Chinese National People's Congress found that 10 percent of Chinese youth were addicted to the Internet, Qian says. Many Chinese parents



Bloomberg/Getty Images/Doug Kanter

Mounting concerns over security and censorship by the government led Google to leave mainland China in March and relocate in Hong Kong.

are sending their children to "boot camp" to cure them of "internetitis" — a solution which the government first encouraged but later seemed to back away from, warning against too much brutality in rehab methods.⁵

Critics of Chinese Internet censorship, including MacKinnon, say the regime uses such arguments to justify tightening control over the Net.

But Qian claims "the Chinese

government assumes a very important responsibility in managing the Internet. America is a mature society. At this stage Chinese society is still not — and besides, different people have different interpretations of freedom."

For those who prefer the Internet censor-free, the United States is leading the effort to produce circumvention software that connects to blocked websites via proxy computers outside the country. Programs like Psiphon, Tor and the Global Internet Freedom Consortium have been increasingly successful at breaching the wall.⁶

— Roland Flamini

¹ David Talbot, "China's Internet Paradox," *MIT Technology Review*, May/June 2010, www.technologyreview.com/web/25032/page1/.

² Mike Elgan, "New Chinese law may force Microsoft, Yahoo, to follow Google," *ITWorld*, April 29, 2010, www.itworld.com/internet/106191/new-chinese-law-may-force-microsoft-yahoo-follow-google-out, and Jonathan Ansfield, "Amendment Tightens Law on State Secrets in China," *The New York Times*, April 30, 2010, p. A9.

³ Quoted in Talbot, *op. cit.*

⁴ *Ibid.*

⁵ The information is from a Chinese television news "magazine" show, with a translation provided to the author.

⁶ For example, www.FreeGate.com, the Freedom Consortium's software developed by a group of Chinese expatriates in the United States.

erished. China's poor are a restive majority running into the hundreds of millions. In 2008, the average income of a rural worker was \$690, compared to a city average of \$2,290 — and higher in Shanghai and Beijing.⁴³ But the annual salary of a chief executive in China is around \$100,000, a fraction of corporate salaries in the United States but still astronomical in Chinese terms.

To make matters worse for the poor, the government has been slow to reform a social system that cuts off the medical and other benefits of China's millions of internal migrant workers once they quit their hometowns. As things now stand many immigrants are left to fend for themselves — even when they find employment.

The social system also needs to catch up with the aging Chinese population, which is getting older faster than in the United States. The problem is exacerbated by a relatively high life expectancy — about 73 — versus 77 in the United States. By 2040 demographers say that each Chinese worker will be forced to support two parents and four grandparents.

An 'Edgy' Game

With the economic boom unfolding against a background of frequent unrest, "The No. 1 challenge for China is to maintain domestic stability and at the same time sustainable economic development," says Yang Jiemian, director of the Shanghai Institute of International Studies.

The Internet, which has gone from 620,000 users in China in 1997 to 370 million users today — more people than the entire U.S. population — has become a forum for online dissent. The authorities crack down on the deluge of cyber-dissent using a (patchy at best) online censorship, ironically known as the Great Firewall of China — which also tries to block pornographic sites. (See sidebar, p. 422.) Persistent blogging about subjects deemed subversive can lead to imprisonment. (There are 20 million bloggers in China.) For example, Chinese writer Liu Xiaobo was jailed for 11 years on Dec. 25 after co-drafting and posting "Charter '09," a lengthy manifesto calling on the government to introduce democratic reforms.

The regime's biggest nightmare remains large-scale unemployment. To keep it at the current 4 percent level China needs to ensure continued growth generating 24 million new jobs every year.⁴⁴ Hence the need to buttress its current dependence on exports by boosting consumer demand at home. But the Chinese are not only great savers but also traditionally have an aversion to being in debt. For ex-

ample, no doubt to the chagrin of HSBC officials, 80 percent of the bank's credit card holders avoid interest charges by paying their whole bill every month — compared to the national U.S. average of 20 percent.

Commenting on the government's combination of a market economy and tight control, Halper at Cambridge University says, "This is an edgy game, and things could go seriously wrong.



AFP/Getty Images/Liu Jin

More than 150 nations and 50 international organizations have registered for the Shanghai World Expo, and 70 million visitors are anticipated, making the six-month-long world's fair the largest ever. The Expo's theme — "Better City — Better Life" — is intended to showcase Shanghai as the next great world city in the 21st century.

Just trying to control the Internet is really tough work. The glue that holds the whole thing together is a ferociously powerful security service." ■

CURRENT SITUATION

Tense Beginning

This is a period of waiting for the other shoe to drop in U.S.-China relations following a tense first quarter of 2010.

There is unresolved business on the currency front, on Iran sanctions, on the issue of U.S. weapons sales to Taiwan and on the broader question of how the two countries should engage in the future.

The Obama administration has put a lot of effort into trying to convince the Chinese government that it is in both sides' interest to move toward what Obama calls "a more market-oriented exchange rate" for the renminbi. Following a meeting between President Obama and President Hu Jintao in Washington in April, during the Nuclear Security Summit, it seemed clear that the Chinese had not budged on revaluing their currency. Any change would not come from U.S. pressure, Hu said.⁴⁵

In New York, the five permanent members of the U.N. Security Council are working on an Iran-sanctions resolution. "The Chinese were very clear they share our concern about the Iranian nuclear program," said Bader at the National Security Council.⁴⁶ Still, the Chinese government has not said that it will vote for a U.N. resolution and still insists publicly that diplomacy and negotiation are the way to go.

Cooperation on climate control seems at a stalemate after Hu told the December Copenhagen summit that China's own emissions control program would not be subject to U.N. supervision. For its part, the United States rejected a Chinese request that developing countries should be compensated for cutting carbon emissions.

Yu Qingtou, the official responsible for climate change at China's Ministry

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At Issue:

Is today's China a communist country?



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WRITTEN FOR *CQ RESEARCHER*, MAY 2010

the Chinese Communist Party (CPC) has never done things by the book. In the early days, some party members, following the lead of the Soviet Union, launched the workers' movement in the cities. But the party shifted its focus to the rural areas where government control was relatively weak. We mobilized the peasants; we developed land reform.

Today, we don't do things according to what Karl Marx wrote or Vladimir Lenin said 80 years ago. We're doing things to advance the development of productive forces, and we are doing things to serve the interests of the vast majority of people.

Marx is still widely respected by the party. He is a great mind and a very great thinker on the development of civilization. His theories on capitalism inspired us on how to overcome the current financial crisis. But Marx lived 100 years ago; he couldn't predict how science and technology would develop. That is why our new ideology is to keep pace with the times. That doesn't mean we have forgotten Marx. Marxism is still our long-term goal.

The CPC is committed to building a society in which property and well-being can be enjoyed by all, a society of harmony between rich and poor. Today, we have a problem of a widening gap between rich and poor, which we are trying our best to narrow. But it will not be solved by dividing the property of the rich among the poor.

Our previous lessons showed us that the division of property is not the answer. Nor is Western democracy the answer. If we introduced Western democracy, we may have turbulence in the society.

A Western friend told me that he would only go to church three times in his lifetime. The first time is to be baptized, the second for his marriage and the third for his funeral. It doesn't follow that he doesn't have God in his heart. It's the same for us with Communism.

To live up to our beliefs we sometimes have to take different paths. As [former CPC leader] Deng Xiaoping has put it: The ultimate goal is common prosperity, but we have to let some people get rich first.



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WRITTEN FOR *CQ RESEARCHER*, APRIL 2010

there's a wonderful comment by the legendary U.S. diplomat and Russia expert George F. Kennan, who said, "Let's not ask what communism has done to Russia, but rather what Russia has done to communism." Much the same didactic is applicable to today's China.

Mao and Stalin would be spinning in their graves if they saw what was happening in China in the name of communism. China has shed any remnants of Marxist ideology, even to the point of directly addressing the question of who owns the land, a serious point of contention in the recent People's Congress. It is now accepted that land can be privately owned and houses built on it.

China is not expansionist, it does not seek to undermine the Western system: instead, its market-authoritarian system provides an example for the world beyond the West where growing numbers of leaders admire China, see China as a Third World nation at the pinnacle of world power and wish to emulate China's progress.

So while China may continue to call itself communist, it certainly isn't communism as we know it, but more of a form of state capitalism; the role of state is market authoritarian, not Marxist-Leninism. A Marxist economy is the polar opposite of the dynamic market economy China is developing today.

The Chinese leadership is highly practical, opportunistic and focused on economic growth and stability. The only remnants of communism are the single party rule of the party, a general embrace of socialist principles and the various structures that the party employs to govern the country: a politburo, a people's congress and a central committee.

Of course, it still calls itself communist, but it's just as much a corporatist state, even a form of fascism in its classical, Mussolini-type form, which is to say a process that coordinates the interest of the state and large corporations. Put another way, the business of China is business.

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of Foreign Affairs, explained the familiar Chinese position in an interview in Beijing on Dec. 1. Simply put, Yu said, the world's climate change problem was not the making of China or India but of the developed countries. The United States and the other industrialized nations should "acknowledge their historic responsibility" as emitters of greenhouse gases and not put so great a burden on the emerging nations that it would set back their development, he said.

The latest tension had its origins in November, when Obama's Chinese hosts insisted on a low-key visit that minimized his contact with the public.

"It's a mystery," David Shamburgh, a professor of Chinese studies at Georgetown University, told *The Wall Street Journal* during the presidential visit. "[Obama is] a populist politician, but he's not getting any interaction with Chinese people."⁴⁷ It's not such a mystery, perhaps, when one considers Obama's popularity worldwide, in contrast to a Chinese leadership with limited contact with its own people.

Indeed, on the morning following Obama's arrival in Shanghai, the city's government-controlled English-language paper carried a large front-page photo of Hu with the prime minister of Canada, who was in China at the time. A one-column photo of Obama appeared below the fold. In a country where much importance is attached to not losing face, such signals matter.

The tension had escalated two months later when Obama made two

moves calculated to anger the Chinese. First, in February the president received Tibet's exiled spiritual leader, the Dalai Lama, after Beijing had expressly asked him not to do so.

The meeting drew a protest from Beijing even though the White House kept the visit private and carefully avoided showing pictures of Obama and the Dalai Lama together.

In a second affront, Obama approved

added advanced F-16 jet fighters to the sale.⁴⁹

The Chinese went still further. Beijing threatened to sanction U.S. firms involved in the deal. And then it showed off its military prowess by successfully testing — without warning — an advanced missile interception system. The timing also seemed a further demonstration of Beijing's ire. "The people who tied the knot should untie the

knot," said Chinese Foreign Ministry spokesman Qin Gang.⁵⁰

Commentators attributed China's new tough and uncompromising attitude to more than one factor. They said China's seemingly quick recovery from the global financial crisis while the West continues to struggle has vindicated the Chinese development model in Chinese eyes and the weakness of the less-disciplined Western approach.

A second explanation, though, was the jostling for position in the leadership in advance of the 2012 Com-

munist Party Congress, an event that spurs aspiring candidates to display their nationalist credentials. Behind the united front China's leadership shows to the world, deep divisions exist between the hard-line "realists" and those who favor openness in China's international dealings — and the hard-liners currently have the upper hand. According to another explanation, the regime's aggressiveness toward the outside world stems from the government's desire to find a distraction from socioeconomic problems at home.

After all, this is the Year of the Tiger — always turbulent and often unpredictable.⁵¹



AFP/Getty Images/Liu Jin

China spends more than 4 percent of its gross domestic product (GDP) on its military, about the same ratio as the United States. The country's rising military spending, including the beefing up of key naval bases near Taiwan, has caused concern in Washington.

a long-delayed \$6.4 billion weapons sale to Taiwan, which China continues to threaten with hundreds of missiles while at the same time insisting that it wants a peaceful solution to the island's claims of independence. The package includes 114 Patriot missiles worth \$2.2 billion, and 60 Blackhawk helicopters worth \$3.1 billion.

Beijing promptly ratcheted up its rhetoric, and U.S.-Chinese relations took "a nosedive," *The Washington Post* said.⁴⁸ A senior Chinese Defense Ministry official, Huang Xueping, said China was resolved to punish the United States if the weapons were delivered and that the U.S. could expect even greater consequences if Washington

OUTLOOK

The Taiwan Question

It remains to be seen how the Chinese will react, if or when the United States begins delivery of the weapons sold to Taiwan.

Analysts say the recently proposed (but not finalized) additional sale of F-16s would raise the level of China's objections even further. Although the original weapons deal drew protests, it had initially been negotiated by the Bush administration and was well-known to the Chinese. But Jean-Pierre Cabestan, a professor of international studies at Hong Kong Baptist University, predicts that "if an F-16 sale moves forward, we can expect another wave of difficulties between the U.S. and China."

The outlook is hard to forecast with any accuracy because of the ongoing co-operation-competition dance between China and the U.S. For example, despite its protests over Taiwan, Beijing at the same time is committed to working with Washington and other governments in securing vital sea lanes and enforcing regional stability. Early in 2010, China agreed to take a lead role in anti-piracy patrols off Somalia. Chinese navy units had not strayed outside Chinese waters for centuries, but today 80 percent of China's oil imports are shipped through the narrow Straits of Malacca that connect the Indian Ocean and the South China Sea.

There is no indication that China would actually support sanctions against Iran. In the past, China had signed on to three previous U.N. sanctions resolutions — and the Chinese eventually delayed and weakened every one of them, said Iran expert Flynt Leverett, a senior fellow at the centrist New America Foundation think tank.⁵²

Also casting a shadow over the next few months is the thorny question of China's undervalued renminbi. Foreign-

policy issues are rarely prominent in U.S. elections, but at a time of high unemployment and economic uncertainty, some analysts believe China's currency seems set to become a thorny question in November's mid-term elections, possibly creating anti-Chinese public sentiment.

Given the upcoming elections, some analysts say a slight currency revaluation designed to take the dispute out of the campaign is in the offing. But, says Glaser at the Center for Strategic and International Studies, "The Chinese are not going to revalue their currency because we tell them to. They will choose their own time."

cy manipulation would be unacceptable even in good economic times," Schumer said in a recent statement. "At a time of 10 percent unemployment, we simply will not stand for it."

There is an obvious political edge to Schumer's bill: The senator is up for re-election. But others also feel the time has come to confront the Chinese. The Obama administration "needs to draw a line in the sand, and say to the Chinese: 'You're exporting unemployment by undervaluing your currency by 20 percent to 40 percent,'" says Cambridge University's Halper. If the Chinese don't revalue, "we should impose similar tariffs."

Despite its protests over Taiwan, Beijing at the same time is committed to working with Washington and other governments in securing vital sea lanes and enforcing regional stability.

One reason: Chinese leaders cannot afford seeming to act in response to pressure from the "foreign devils" (*quwailo*) — which to the Chinese is just about everybody including the United States — without serious loss of face in the eyes of their own people.

The United States has a risky card of sorts to play in the shape of the annual U.S. Treasury analysis (mandated by the 1988 Omnibus Trade and Competitiveness Act) of the currencies of foreign countries to determine whether they are manipulating the currency to gain unfair trade advantage. To Congress' exasperation, the Treasury has so far not labeled China a "currency manipulator."

If and when it does, New York's Sen. Schumer has a draft bill waiting that would impose stiff penalties on countries that manipulate their currencies, including possible tariffs. "China's curren-

It was out of consideration for Hu's visit in April that Treasury Secretary Timothy Geithner postponed publication of the Treasury report, which is normally released on April 15. No new date has been announced, but analysts say the delay is strategic, giving the Chinese more time for further reflection.

Two important dates are coming up for possible further discussion — the U.S.-China yearly "strategic dialogue" in late May, and the broader forum of the G20 summit in Seoul, South Korea, in late June.

The Chinese, however, are focused on another event they hope will boost their prestige, much as the 2008 Summer Olympics had done: The Shanghai Expo 2010, which the city expects will attract over 70 million visitors. Its theme reflects China's hopes and aspirations — "Better city, better life." ■

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Researcher Update

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U.S.-China Relations

Here are key events, legislation and court rulings since publication of the CQ Researcher report by Roland Flamini, "U.S.-China Relations," May 7, 2010.

In early May, the Chinese embassy in Washington opened the doors of its vast I. M. Pei-designed building to more than 800 prominent diplomats, officials and Washingtonians for the annual Opera Ball, one of the capital's premier social and fund-raising events. The embassy's large public rooms were lavishly transformed for the occasion. The main auditorium became an ancient tea house for dancing (to a Western orchestra); another room was turned into "The Peking Duck Gallery," where 10 chefs served China's national dish. And hundreds of red Chinese lanterns were hung for good luck.

Hosting this year's event was a significant first for China's once-reclusive diplomats, and another sign of China's growing global confidence.

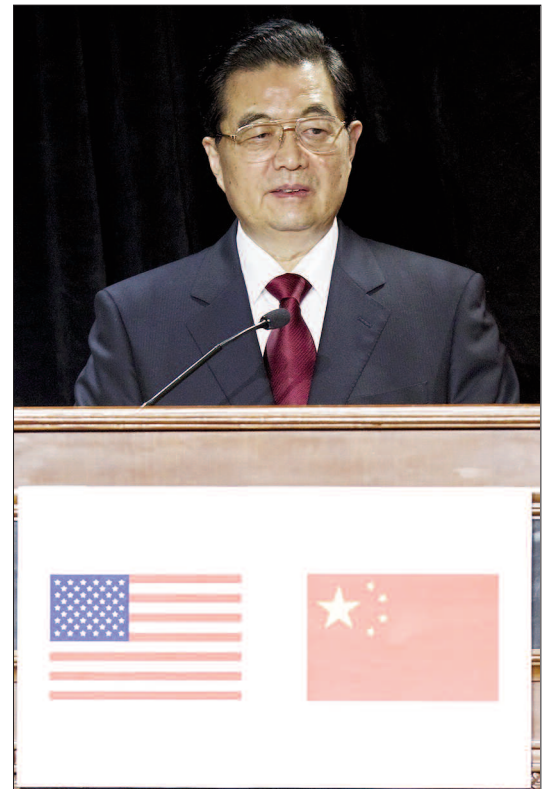
A week later, a bilateral meeting in Washington between top U.S. and Chinese officials presented a less frivolous symbol of the priority both sides place on their sometimes bumpy relationship.

Hundreds of Chinese officials, generals and businessmen came to Washington for the two-day Strategic and Economic Dialogue. The meeting —

the third in two years — was not expected to produce any major decisions but did end with agreement on some key economic issues, which could represent "very promising shifts in the direction of China's economic policy," according to U.S. Treasury Secretary Timothy F. Geithner. Cui Tiankai, China's vice minister of foreign affairs, put it more poetically: "As we say in China, spiritual things can be turned into material ones."

Currency Concerns

The Obama administration worked from an agenda that seemed frozen in time — protecting human rights, curbing Chinese cyber attacks on corporations, raising the value of China's renminbi currency against the U.S. dollar, dealing with North Korea. The administration agreed, for example, to look into easing tariffs on Chinese goods and easing the ban on selling China high-tech items with potential defense uses. The Chinese government agreed to eliminate the preferential treatment it gives to Chinese companies on government contracts. China also would allow U.S. financial



Chinese President Hu Jintao addresses corporate and policy leaders at a meeting in Washington on Jan. 20, 2011, sponsored by the U.S.-China Business Council and the National Committee on U.S.-China Relations. Hu acknowledged during his visit that "a lot still needs to be done" with regard to human rights in China.

institutions better access to China's state-controlled financial markets.

The longstanding issue over the undervalued *renminbi* (also known as the *yuan*) was less contentious than in the past because the Chinese have allowed their currency to rise about 5 percent against the dollar since June 2010 — double that when adjusted for inflation. While this has helped reduce the price advantage of Chinese exports in U.S. and other foreign markets, concerned members of Congress and U.S.

manufacturers still consider China's currency greatly undervalued.

Focus on Human Rights

The strategic dialogue was held against the background of a tough crackdown on Chinese activists who had tried to organize a nonviolent pro-democracy Jasmine Revolution in China, inspired by the so-called Arab Spring in the Middle East.⁵³ Human-

Joseph R. Biden publicly expressed American "concern" over the recent crackdown in China, including attacks, arrests and the "disappearance of journalists, lawyers, bloggers and artists." Biden said he recognized that "some in China see our advocacy as an intrusion and Lord only knows what else. But President Obama and I believe strongly in protecting fundamental rights and freedom."⁵⁵

what China expert Elizabeth Economy, director of Asia studies at the Council on Foreign Relations think tank in New York City, calls China's "virtual political system."⁵⁷ A new, home-grown Twitter-like service called QQ has more than 90 million users.⁵⁸ News of government corruption and cover-ups goes viral in a matter of minutes, and the regime is forced to react with uncharacteristic speed.

Nevertheless, China has become increasingly sophisticated at censoring undesirable websites. In February, "jasmine" was added to the list of proscribed key words that trigger a blockage. Others include "Hillary Clinton" and "Dalai Lama." The U.S. State Department has undertaken a \$19 million program to develop software to circumvent Chinese censorship of websites and searches using terms the government deems subversive. The software will be made available free to anyone in the world wanting to download it.

Given the uptick in China's diplomatic and military assertiveness, the United States must manage an increasingly complex and challenging relationship. For the first time, at U.S. insistence, representatives of the Chinese military (the People's Liberation Army, or PLA) participated in the two-day talks in Washington, and both sides agreed to resume regular military contacts, broken off last year after the Obama administration agreed to sell \$6.4 billion in arms — including missiles and 60 Black Hawk helicopters — to Taiwan, over Beijing's strong objections. Despite its enormous size and rapid technical development, the PLA remains inferior to U.S. forces in equipment and capability, even though the United States contends the PLA needs to be closely watched.

'Welcome Air of Reality'

For Jeffrey Bader, a former Obama security adviser on Asian affairs and now a visiting scholar at the centrist



Getty Images/Alex Wong

Chinese and American officials meeting in Washington in May for the Strategic and Economic Dialogue at the State Department include, from left: Vice Premier Wang Qishan, State Councilor Dai Bingguo, Secretary of State Hillary Rodham Clinton, Treasury Secretary Timothy Geithner and Defense Secretary Robert Gates.

rights groups said the government's reaction was the most severely repressive in a decade.⁵⁴ When online calls went out for demonstrations, Chinese security officers quickly locked down the proposed venues and arrested dozens of activists, even those with only a loose connection to the unrest. Florists were even discouraged from selling jasmine, because of its link to the planned dissent.

In the past, the Obama administration has taken a low-key approach to Chinese human rights violations. But as he opened the bilateral conference on May 9, Vice President

Secretary of State Hillary Rodham Clinton has been tougher still. In an interview in *The Atlantic*, she called China's human rights record "deplorable" and said the regime was living on borrowed time. Ultimately, she said, China's communist leadership faced the same destiny as the Arab world's dictators. "They're worried and they are trying to stop history, which is a fool's errand," she told the magazine. "They cannot do it."⁵⁶

With more than 450 million Chinese accessing the Internet, 230 million bloggers and 120 million microbloggers (Twitterers), the web has become

Chronology

2010

Jan. 6 — President Barack Obama approves \$6.4 billion in weapon sales to Taiwan despite strong protests from Beijing. Deal includes missiles, ships and helicopters.

Jan. 26 — In retaliation for the U.S. arms deal with Taiwan, China suspends military contact with the United States, imposes sanctions on companies selling weapons to Taiwan.

Feb. 17 — President Obama receives exiled Tibetan spiritual leader, the Dalai Lama. China “resolutely opposes” the meeting.

May 24 — Secretary of State Hillary Rodham Clinton and Treasury Secretary Timothy F.

Geithner hold talks with their counterparts in China. Topping the agenda is a discussion of tensions created when North Korea torpedoed a South Korean navy ship in March, killing 46 sailors.

Aug. 16 — Pentagon reports that Chinese military is increasing spending on long-range missiles, submarines, aircraft carriers and cyber warfare. The activities could alter East Asian military balances and enable China to conduct a range of military operations in Asia well beyond Taiwan.

Sept. 24 — President Obama and China’s Prime Minister Wen Jiabao hold two-hour meeting on the sidelines of the U.N. General Assembly in New York. Obama urges China to speed up the revaluation of the *renminbi*,

complaining that the slow pace of China’s proposed currency reforms was affecting both the global and U.S. economies.

2011

Jan. 18 — Chinese President Hu Jintao, visiting Washington, acknowledges for first time that “a lot still needs to be done” with regard to human rights in China.

April 6 — Chinese authorities suppress nascent Jasmine Revolution, inspired by the Arab Spring, arrest many activists.

May 9-10 — Third meeting of U.S.-China Strategic and Economic Dialogue is held in Washington, D.C.

Brookings Institution think tank in Washington, the two sides “have developed reasonable expectations about both the possibilities and limits of cooperation, which will reduce the chances of future miscalculation.”

Economy says when it comes to relations with China, “a welcome air of reality is blowing through Washington these days.”

As a rule, the Chinese cooperate with Washington when it is not against their interests to do so. For example, China was persuaded not to veto the recent U.N. Security Council resolution on Libya, even though it did not favor NATO intervention. But it has been less helpful with sanctions against Iran, where it has sizeable commercial interests.

In Washington, the Chinese lectured administration officials on reducing the U.S. deficit, reflecting Beijing’s concern that the United States might run into problems meeting its debt obligations. China is the largest foreign holder of U.S. debt — some \$1.7 trillion, according to economists testifying recently before the bipartisan U.S.-China Economic and Security Review Commission.⁵⁹ In 2010, the United States imported \$365 billion worth of goods from China but exported only \$92 billion worth.⁶⁰

As the talks proceeded, Beijing drove home the point of its growing accumulation of U.S. dollars by publishing export data for April showing its worldwide exports exceeded im-

ports by \$11.43 billion, primarily in trade with the European Union, United States and Japan.⁶¹

Normally, the United States responds by pressing the Chinese to enlarge their domestic consumer base, thereby reducing their heavy dependence on exports, and grant foreign manufacturers more access to the Chinese market. In fact, the Beijing government began boosting domestic consumption in 2008, when the global financial meltdown first hit China’s exports. China’s rapidly growing middle class is expected to reach 700 million people by 2020, or 48 percent of the population.⁶² The country aims to increase domestic spending from today’s 36 percent of GDP to 42-45 percent by 2015.⁶³ But first the regime must

transform the Chinese — by long tradition a nation of savers — into a nation of spenders. ■

— **Roland Flamini**

Notes

⁵³ For background, see Roland Flamini, "Turmoil in the Arab World," *CQ Global Researcher*, May 3, 2011, pp. 209-236.

⁵⁴ Jamil Anderlini and Richard McGregor, "China elite faces curbs on US visas," *FT.com*, April 26, 2011, www.ft.com/cms/s/0/02bfc8cc-702e-11e0-bea7-00144feabdc0.html#axzz1LzE8BL9v.

⁵⁵ Cornelius Lundsgaard, "US Criticizes China Again for Poor Human Rights Record," *The Tibet Post*, May 10, 2011, www.thetibetpost.com/en/news/international/1680-us-criticizes-china-again-for-poor-human-rights-record.

⁵⁶ Jeffrey Goldberg, "Hillary Clinton — Chinese System Is Doomed, Leaders on a 'Fool's Errand,'" *The Atlantic*, May 10 2011, www.theatlantic.com/international/archive/2011/05/hillary-clinton-chinese-system-is-doomed-leaders-on-a-fools-errand/238591/.

⁵⁷ "450 million Chinese use internet," *Xinhuanet*, Dec. 31, 2010, http://news.xinhuanet.com/english2010/china/2010-12/31/c_13671684.htm. See also "Human Rights lecture not needed," statement by Embassy of China in London in *China Daily*, April 29, 2011, www.chinadaily.com.cn/opinion/2011-04/29/content_12418153.htm.

⁵⁸ Michal Kan, "Chinese Top Microblog Hits Over 90 Million Active Users," *PCWorld*, May 11, 2011, www.pcworld.com/article/227608/chinese_top_microblog_hits_over_90_million_active_users.html.

⁵⁹ "China holds more U.S. debt than indicated," *The Washington Times*, March 2, 2010, www.washingtontimes.com/news/2010/mar/02/chinas-debt-to-us-treasury-more-than-indicated/.

⁶⁰ "US-China Trade Statistics and China's World Trade Statistics," U.S.-China Business Council, www.uschina.org/statistics/tradetable.html.

⁶¹ "China Exports Hit Record in April," *Finance Business News*, May 10, 2011, www.financebusinessnews.net/chinese-exports-hit-record-for-april/.

⁶² Malbritt Christiansen, "Open Seminar on the Chinese Consumer Market," *Renmin Shimbin*, March 27, 2011, <http://news.asianstudies.dk/2011/03/open-seminar-on-the-chinese-consumer-market/>.

⁶³ Alan Wheatley, "Analysis — For China, new plan is a question of balance," Reuters, March 14, 2011, <http://uk.reuters.com/article/2011/03/14/us-china-economy-rebalancing-idUKTRE72D4JF20110314>. **Update**