



## Sweet and Sour (Part 2)

---

### U.S.- China Strategic Dialogue Report

April 12-13, 2011

By Donald S. Zagoria

The National Committee on American Foreign Policy (NCAFP), the Center for Naval Analyses (CNA), and Tsinghua University co-sponsored the second in a series of U.S.-China Track II strategic dialogues in Alexandria, Virginia on April 12-13, 2011. For the list of participants, see Appendix A. For the report on our first meeting in New York in November 2010, see our report titled “Sweet and Sour.”

The following report is divided into four sections: Introduction; Troubling Aspects of the U.S.-China Relationship; Positive Aspects of the U.S.-China Relationship; and How to Move Forward.

This is not a consensus document. The conclusions are those of the author.

## Introduction

There are powerful imperatives for cooperation between the United States and China. Among these imperatives are growing economic interdependence (what one American participant called “mutual assured economic destruction” if they do not cooperate) and the need to meet common global, regional and bilateral challenges which no one power can meet single-handedly. There are also a wide range of common interests on many global, regional and bilateral issues - e.g., ensuring a global economic recovery, preventing nuclear proliferation, preserving peace and stability in Northeast Asia, denuclearizing the Korean peninsula, combating terrorism, dealing with climate change.

But there are equally powerful obstacles to developing a truly cooperative relationship. These include: domestic politics, ideological differences, differences of national interest and mutual strategic suspicions. (For a very valuable discussion of both the common interests and the obstacles to cooperation, see the papers by Amb. Stapleton Roy and Chu Shulong in Sweet and Sour (Part I) and the paper by Prof. Michael Lampton which was presented to our second meeting and is attached to this report. Please see Appendix B.)

While there were diverse views on both sides during this conference, on the whole the Chinese participants seemed more optimistic about near term relations than the American participants.

In view of the mix of imperatives for, and obstacles to, cooperation, it will be very challenging for leaders in both countries to develop a long-term, stable strategic relationship.

One way to maximize the prospects for developing such a relationship is to have very candid discussions between the two sides about our common interests and our differences. That is what we seek to accomplish in our informal Track II strategic dialogues.

## Troubling Aspects of the U.S.-China Relationship

In an earlier meeting in November, 2010, J. Stapleton Roy and Professor Chu Shulong identified a number of troubling aspects of the current U.S.-China relationship. Most of these themes were echoed in this April 2011 meeting.

According to Roy:

- Recent U.S.-China relations are becoming more complex.
- The year 2010 was a particularly bad year for the relationship.
- China's foreign policy seems to be increasingly assertive, less deft in reassuring international actors, and seems to reflect a greater voice for the Chinese PLA.
- There is a fundamental strategic debate occurring in China, with some advocating a much firmer line towards the United States, and the outcome is not yet fully obvious.
- Economic frictions and insecurities, along with domestic politics in both countries, compound the challenges in constructively managing the relationship.
- Chinese generally are impressed with their rapidly expanding comprehensive national power and Americans are not sufficiently appreciative of their own strengths.
- In order to avoid future tension over U.S. arms sales to Taiwan, both sides need to make progress in demilitarizing the cross-Strait relationship through parallel, mutually reinforcing confidence-building measures.

According to Chu:

- Ideological contention in the relationship is getting more pronounced.
- Conflicting national interests create friction in U.S.-China relations and help strengthen U.S. security alliances and this in turn alarms Beijing.

- Chinese perceive a lack of U.S. respect for the PRC's "core interests." The Chinese especially resent continued U.S. arms sales to Taiwan and close-in U.S. military and surveillance operations close to China's coast.
- The proportion of conflict and cooperation in the relationship is about 50-50.

To all of these unwelcome developments, Prof. David Lampton adds in a paper written for the April 2011 meeting:

- There has been no discernible progress in areas of Sino-American cooperation such as space, strategic systems and doctrine, and cyber warfare.
- There has been no discernible progress on technology export liberalization in the United States.
- China's reaction to the awarding of the Nobel Peace Prize to Liu Xiaobo was completely disproportionate.
- The North Korean nuclear program is moving forward and the Chinese seem prepared to live with that, or at least place a higher priority on the "stability" of the North Korean regime. Beijing's reaction to the North Korean shelling of South Korea's Yeonpyeong Island in November 2010 was not reassuring. Nor was China's reaction to U.S.-ROK exercises in the Yellow Sea.
- Chinese statements about the Obama Administration's reorientation toward engaging Asia are quite worrisome inasmuch as they suggest that the purpose of this so-called re-engagement is to constrain China.
- There are ongoing double-digit increases in the PRC military budget.

Lampton concludes that in the six months between our November 2010 meeting and our second meeting in April 2011, "it is hard to find a net increase in the health of the U.S.-China relationship." He also discusses at some length three worrisome dynamics in the relationship: 1) the pluralization of Chinese society and the policy process in which hard-line views are now increasingly apparent and the domestic security and propaganda

organizations have gained strength; 2) China's views of its own growing capabilities lead it to want to "renegotiate" prior bargains struck with the U.S., such as the one on Taiwan and another on the U.S. military's close-in surveillance of the Mainland and 3) Expanding Chinese interests and capabilities into new spaces such as air, naval, missile and space capabilities means that China is slowly moving from being an insular, continental power to becoming a more regional and even global power and this is creating anxiety in the U.S., Japanese and other Asian security establishments.

At our April, 2011 meeting, other troubling aspects of the relationship were identified.

- Ideological differences were again highlighted. One American participant said that China was moving backwards on political reform and towards becoming a "police state". This, he said, was the biggest single obstacle to establishing trust. The Chinese countered by saying that China was moving towards political reform at its own pace and that, in any case, national interest and not ideology should dictate foreign policy.
- Military and strategic competition between the two powers was also discussed. One American said that China's military strategy was aimed at "area denial" – an attempt to prevent the United States from having free and open access to areas close to Taiwan and the Chinese mainland. The American strategy was "counter denial." The PRC and the United States were the only two countries in the world who were seeking to improve relations while simultaneously preparing for war against each other. On related law of the sea issues, some on the U.S. side laid out the case for freedom of navigation, permissible activities in the economic zones, and implementing agreed rules of the road at sea.
- The Chinese again highlighted what they called the "three major obstacles" to improvement of U.S-China relations. These are: 1) continued U.S. arms sales to Taiwan; 2) close-in U.S. surveillance and reconnaissance; 3) laws and regulations in the United States which prohibit the sale of high-tech goods to China.

- There are difficulties on each side in identifying accurately the strategy of the other side. Many Chinese continue to believe that the United States is determined to contain China or, at least, to diminish its influence and power -- what one Chinese called “soft containment.” Americans countered that if America’s strategy was to contain China, it is doing a lousy job of it, since U.S. policy over the decades had emphasized contributing to China’s growth, including by strengthening trade and investment links between the two countries.

### Positive Aspects of the U.S.-China Relationship

Despite these troubling aspects of the relationship, there is another more positive side to the story. Both Chinese and American participants at the April, 2011 conference agreed to much of the following:

1. While U.S.-China relations were in a very bad downward spiral in 2009-10, this trend was reversed by a successful summit meeting between Presidents Obama and Hu Jintao in January, 2011. One Chinese participant at the April 2011 meeting said that the summit “reshaped” U.S.-China relations, “reassured both sides” about the strategic intentions of the other, “redefined” the framework of relations to one of a “cooperative partnership based on mutual respect and mutual benefit”, and laid out a “roadmap for cooperation in every field.” An American participant pointed out that while there were promising agreements at the January summit, there has been little actual implementation, and this is what counts.

Another American participant concluded that the bilateral relationship is now better than during the downturn because both sides have a more realistic view of what they can get out of the relationship. The Obama Administration set out expecting a more positive mix of cooperation on many issues. Now Americans are talking about a “new normal” in U.S.-China relations which sees competition within the framework of a need for cooperation on many global, regional and bilateral issues.

2. Participants from both sides welcomed the high level visits and exchanges that will follow the summit. There will be another round of the Strategic and Economic Dialogue (SED) in May, 2011, a visit to China by Vice President Biden, and a visit to the United States by Xi Jinping, widely believed to be the successor to Hu Jintao in 2012. Also there are plans for a substantial increase in people-to-people and educational exchanges in order to deepen ties between the two societies. And there are plans for more mutual visits by local officials (e.g. mayors and governors and their equivalents in China).
3. Although there are many voices in each country, some of them calling for a tougher line towards the other, participants from both sides argued that the leaders and the foreign policy mainstreams in both countries are pragmatic and understand the importance - indeed the necessity - of developing a stable and cooperative relationship with the other side. Moreover the two leaders, Hu and Obama, seem to have developed a good personal relationship.
4. With \$400 billion of trade, growing U.S. exports to China, and the potential for a big increase in Chinese investment in the United States, the economies of the two countries are clearly intertwined. Indeed, there is a situation of “mutually assured economic destruction” if the two sides do not cooperate.

One Chinese participant said that economic growth is China’s “grand strategy” and that such growth was and is made possible by integration into the global economy.

5. The two sides expressed considerable agreement at our April 2011 meeting that the past three years in cross-strait relations, since the election of Taiwan’s President Ma Ying-jeou, have been the most stable and peaceful period in the Taiwan Strait for many decades and a huge blessing for both sides. One Chinese participant said that the chance of war in the Taiwan Strait has been reduced to almost zero. Another Chinese participant said that he did not see any possibility for confrontation over Taiwan. Both sides agreed that they want to see continued progress in cross-strait relations.

The two sides also agreed that even if and when the opposition Democratic Progressive Party (DPP) returns to power, that party is bound by realities to be less hostile to the mainland than it was in the past.

6. In the Korean peninsula, despite the very tense period in 2010 as a result of North Korea's provocations, participants from both sides agreed that the United States and China retain a common interest in the denuclearization of North Korea. One authoritative Chinese participant at the conference presented a paper which described the North Korean nuclear program as a threat to China's security. The Chinese side was insistent that the only way to resolve the challenge posed by North Korea's pursuit of nuclear weapons is through diplomacy and dialogue.

There was a recognition, however, that there were different tactical approaches and that Korea was "a land of lousy options."

7. The two sides agreed they have a common interest in the resumption of a stable military to military dialogue. It now appears as if military to military dialogue on strategic issues will be embedded in the SED process scheduled for May, 2011. Such issues include nuclear strategy, missile defense, space, maritime security and cyber-security. They will be discussed jointly by military and foreign policy officials. One Chinese participant at the April 2011 meeting said that suspending military dialogues was "stupid" and represented a passing episode which should not be repeated. Both sides agreed that the two militaries should begin to cooperate on the least controversial areas such as "non-traditional" security challenges: disaster relief, anti-piracy and protecting the sea lanes of communication.
8. There was widespread agreement on both sides that both of the two great powers need a stable international environment in order to focus on their many growing domestic challenges. One Chinese participant emphasized that Chinese leaders were "inward oriented". They realized that they had huge domestic challenges and meeting them was their highest priority.



9. There was also widespread agreement that the two sides need to do a much better job of understanding each other's true strategic intentions and conveying their own intentions to the other side: for example, the U.S. attitude toward China's rise and the Chinese attitude toward the U.S. role in Asia and the Pacific. At this meeting several American participants stressed that containment of China was neither sought by the U.S. nor even feasible. Some on the Chinese side acknowledged the enduring role of the U.S. in the Pacific region.

### What Is to Be Done?

Participants from both sides made suggestions for how to stabilize the U.S.-China relationship and move forward to an enduring, cooperative relationship.

One American participant said that both sides need to understand that the relationship will continue to be a mix of cooperation and conflict. While mutual trust is not possible, we should strive for greater transparency, predictability and reliability. There is, a floor. The two powers should not be and do not want to be enemies. But there is also a ceiling. There are divergent values and interests that will limit the upside potential in the relationship. So the task is to make the mix as positive as possible. That is the realistic task for the future. He stressed that this is a two-way street. The U.S. needs to take its own steps, including getting its economic and political house in order.

The good news, he continued, is that the recent summit has stabilized relations and there are follow-up high-level visits and meetings where we could make further progress. The bad news, he said, is that the 2012 succession arrangements in China and the presidential election in the United States may cause each side to adopt a firmer line towards the other. What then should be done?

The first and primary task, the American continued, is to prevent conflict or confrontation that neither side wants. The biggest dangers are accidents or miscalculation. There need to be rules of the road, especially regarding potential incidents

at sea and in the air. There are such rules, he understands, but they are not being implemented.

A second priority is to improve communication about future uncertainties on the Korean peninsula by signaling red lines and concerns, sharing our respective assessments of developments and working to ensure that our interests do not come into conflict. This is sensitive for the Chinese, but it is important that we understand each other's basic concerns.

Third, military-to-military dialogue needs to be strengthened and not subjected to periodic interruption. It is a hopeful sign that the two sides have now agreed to embed some strategic issues in the military dialogue within the Strategic and Economic Dialogue.

Fourth, China needs to become a "responsible stakeholder" by working together with the United States in resolving pressing global and regional issues such as the struggle against terrorism, nuclear proliferation, reining in Iran and North Korea, getting stability in the Persian Gulf, getting agreements on climate change, and fighting piracy. It is important that Chinese leaders make clear to their domestic audience that acting on these issues is in China's self-interest and not a favor to the U.S. The United States, in turn, needs to make clear that it welcomes China's rise, including Chinese investment in the United States.

Fifth, the two countries must continue to make progress in knitting the two societies together through people-to-people, educational and cultural exchanges, and exchanges of visits by local leaders. This will build constituencies in each country for improving relations. But all of these channels are hampered by the repressive Chinese political system. There must be greater openness and rule of law, for example, for these areas to flourish.

The greatest source of mistrust, he concluded, is what he called "disturbing trends" in China's political system.

Several American and Chinese participants said that there needs to be a strategic rationale for an enduring relationship. One American said that the United States should sign on to the rationale now being offered by China – i.e. that both countries need to use the current “window of opportunity” in order to focus on internal problems and challenges. Several Chinese participants agreed that the common rationale for cooperation should be the need for both countries to focus on domestic concerns.

There was general agreement among American participants that the U.S. needs to do more to lower barriers to Chinese investment in the United States and to establish partnerships with Chinese provinces. One American noted that the Department of State had recently established an Office of Sub-national Engagement with China. Also President Obama has pledged to greatly increase the number of American students in China.

One American participant said that the Taiwan issue, despite all the recent progress in cross-strait relations, remains at the center of strategic mistrust between the two sides and provides the basic rationale for the two militaries to plan actions and counter-actions against the other side. Therefore the Taiwan issue needs to be taken off the table by agreeing that it will not and cannot be resolved by force. The same American said that the two sides also need to agree on “traffic lights” when their military forces are operating in close proximity to each other. When the light turns red, everyone should stop.

A Chinese participant concluded that a foundation exists for an enduring, cooperative relationship. That foundation included a variety of common interests, common vulnerabilities and a common desire for a peaceful and stable international environment. These common interests and perspectives would continue to provide great incentives for the two sides to work together.

As for differences, one Chinese participant said, we can distinguish between “strategic” ones like Taiwan and human rights, and “tactical” ones like Korea where we have the same aims but different approaches.