

Chapter 9

Potential Strategic Risks in China-US Relations

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There is no denying the fact that the current China-US relationship is enjoying the best of times: reciprocal interests are deeply interwoven, a variety of mechanisms have been set up in succession and a fine trend of constructive cooperation is in progress. However, a cool-headed analysis reveals that, at present, the stability in the China-US relationship is tactical rather than strategic. The potential strategic risks should never be discounted considering the great differences between the social systems and ideologies of the two nations, potential clashes between the rising power and the status quo hegemon, growing collisions between geopolitics and geo-economics, and the diametrically opposed stance on the Taiwan issue which remains unsettled. Taking into consideration all these factors, this chapter intends to make a brief evaluation of those risks that will affect the strategic stability of China-US relations into the future.

From a holistic perspective, the most fundamental risk in China-US relations consists in the overall collision of China's rapid rise and all-round integration into the international system with the global interests of the United States. A primary feature of the China-US relationship is that it is comprehensive, strategic and global. This feature determines that it is unlikely that the two nations will wage war against each other given the compelling interests that each has at stake. Nevertheless, since the relationship between the two nations involves conflict of interest, the odds are extremely high for them to generate frictions on all counts. China will achieve a sustainable momentum in its development during the next decade, will become a member of the international community in a more profound way and play its due role in the construction of the international system. As a result, conflicts are bound to arise between China and the United States as the leader of the existing system. If handled inappropriately or not in time, these conflicts are prone to be turned into risks. Specifically speaking, there are altogether seven potential risks.

1. From a geopolitical point of view, the frictions between China and the United States during the next decade will mainly unfold in the Asia-Pacific region. The influence that both nations exert in the Asia-Pacific region must undergo a process of continuous checks and balances, in which risks may occur.

China is an acknowledged Asia-Pacific nation, but the United States has also always claimed itself to be an Asia-Pacific nation. There is an intense rivalry in geopolitics between the two nations. For a fairly long period after the Sino-Japanese War of 1894–95, China remained a weak and destitute power. Japan or the United States played a leading role in the order of the Asia-Pacific region and, for a time, they alternated in that role. Viewed from objective realities, competitiveness between China and the United States never took shape. However, the rapid rising of China is gradually changing this pattern, for China's initial rise proceeded in the Asia-Pacific region—the central arena of China's diplomacy. Although China had no intention of expanding its influence across the globe, it could not help but extend the rational development of economy and trade, and promote benefits from its diplomatic relations. Recently, China has made substantial headway in enhancing ties with member countries of the Association of Southeast Asian Nations (ASEAN), Middle Asia, Northeast Asia and even South Asia, which is indicative of an irresistible natural and historical trend for China to infiltrate its power into the Asia-Pacific region. In contrast, the United States got entangled in counter-terrorism and Middle East issues. Meanwhile, the misuse of strategy was undermining the dominant power of the United States in the Asia-Pacific region. In Northeast Asia, the growing gravity of the North Korean nuclear issue found the United States uncertain as to how to proceed, and the stronger dissonant tendency of South Korea was a hard nut for the United States to crack. On the surface, Japan showed a friendly gesture of cooperation, but virtually intended to take advantage of the US assistance to attain its own goal. The United States was fully aware of the real intention of Japan but could do nothing about it. Simultaneously, economic integration in the Northeast Asia region seemed to be in full swing without any hindrance from the political divergences. The United States had already sensed the great changes taking place in the historical pattern of the Northeast Asia region. Moreover, it witnessed the rapid rising of a mightier and influential China in the fact that China took the lead in the Six-Party Talks and facilitated its trade and economic cooperation with Japan and South Korea by considerable strides. In Southeast Asia, Thailand and the Philippines shared a totally different goal from their allied power—the United States—and their relationship with China seemed to gain an upper hand over that with the United States. The ASEAN influence represented by Islamic countries (such as Malaysia) was germinating a strong public sentiment against the United States. After the 1997–98 Asian financial crisis, ASEAN member countries were inclined to rely more on the rising power of China than on the blueprint of free trade advocated by the United States to revitalise their economies. A brand-new Southeast Asia was emerging on the horizon. What worried the United States more was that the 'China threat' once prevalent in the ASEAN countries was being substituted by the 'China opportunity'.

Obviously, the United States could not be reconciled with the loss of its dominance in the Asia-Pacific region, and spared no effort to consolidate, buttress and reinforce its controlling power over the region. If China wanted to rise in a smooth and steady way, it would be bound to further expand its influence in the Asia-Pacific region. How can this situation of manifest strategic competition be defused? For the time being, no effective solutions have emerged. On the contrary, misjudgement in strategic moves by both nations has been on the increase. The United States believes that China is now pursuing an Asian version of the 'Monroe doctrine', which is aimed at constructing a 'China in, America out' multilateral network to restore China as the Asian hegemon. On the part of China, the United States is seen as overtly or covertly building up a 'strategic ring of encirclement' in the hope of blocking China's rise. This strategic misjudgement is likely to touch off some sensitive issues and lead to antagonism between the two nations. Cases in point include the East China Sea issue between China and Japan, the China-US confrontation on the North Korean nuclear issue, and the fierce contest over multilateral mechanisms in East Asia. For China, the most testing policy challenge is how to continuously elevate its influence in the Asia-Pacific region while meticulously avoiding a head-on collision with the United States.

2. As regards resources and energy, a conflict is escalating between the increasing resources and energy demand of China and the control of the United States over the energy market. The risk in the energy conflict has become an inevitable reality.

For two decades since China's opening-up to the outside world, it has succeeded in materialising the rapid development of a national economy mainly dependent on its own resources and energy. Therefore, before entering into the twenty-first century, the conflict in resources and energy between China and the United States was not placed on the agenda. However, along with the acceleration of China's rise and the growing demand on resources and energy, as well as the energy diplomacy actively promoted by China in recent years with Latin America, Africa and the Middle East, the United States launched a sudden propaganda campaign over the so-called 'energy threat of China' and made the energy issue one of the primary concerns in the China-US strategic dialogues. As far as long-term development in China is concerned, the energy issue is bound to be a key factor affecting the China-US relationship over the longer term. In concrete terms, this risk comprises the following four aspects.

First, as the top two energy-consuming nations, China and the United States are on strategically competitive terms with each other. In order to strive for the global market, companies from both nations are undergoing keen competition which is liable to evoke potential friction. At the same time, the United States shows great anxiety over the increase of the international oil price ensuing from

China's soaring demand on energy resources. As was projected by several research institutions and financial service firms such as Morgan Stanley & Co., in 2020 China will have surpassed the United States and become the foremost energy consuming nation. In addition, according to the prediction of the International Energy Agency, China's petroleum imports will account for 75 per cent of the world's total demand for oil in 2020. Nowadays, 'energy threat of China' has turned out to be the most sonorous slogan in the West.

Second, there has been an upsurge of trade protectionism inside the United States, which has led to an inimical attitude toward China-US energy cooperation. Concerning the failure of the China National Offshore Oil Corporation (CNOOC)'s acquisition of UNOCAL, this move indicates that risks do exist for China-US relations: the acquisition of strategic resources could trigger tension in the political relationship.

Third, there is a clash in the energy diplomacy between China and the United States. As is stated in the book *China: the Balance Sheet—What the World Needs to Know About the Emerging Superpower*:

Beijing is endeavoring to develop diplomatic relations with almost all countries who can export resources to China so as to help China ensure a smooth and sound functioning of her economic machines. This, more often than not, gives rise to the frequent friction between China and the United States in their diplomatic field, for China has established a close relationship with some unpopular regimes.¹

Sudan's Darfur crisis has become one of the leading issues affecting China-US strategic relations. While this appears to be a collision of diplomatic principles between the two nations, it actually reflects the fact that China, in the context of its increasing demand for energy resources, is giving strategic priority to developing energy cooperation with countries such as Iran, Venezuela, Myanmar, and Nigeria, many of which have antagonistic relations with the United States. On the other hand, the United States deems that the energy diplomacy adopted by China will change the latter's relationship with Russia, Middle Asia and Japan in some measure, thus calling forth new variables in the international political order.

Fourth, risks can be found in the safety of energy pathways. Since 90 per cent of China's imported petroleum is transported via offshore oil tankers, China will develop its naval and marine policies accordingly. According to analysts from the United States, China will take greater initiatives in protecting its own energy supply, including the development of its 'blue-water' naval power and the construction of overland pipelines spanning South Asia, Southeast Asia, Middle Asia, and Northeast Asia. All these measures taken by the Chinese Government are certain to impact on the strategic interests of the United States.

In the absence of necessary strategic communication and cooperation between the two nations, further suspicion and misunderstanding are prone to cause risks.

3. From the perspective of diplomacy, the risk in China-US relations is mainly focused on how China will treat those countries that the United States, under the recent Bush Administration, characterised as so-called 'rogue states'. Such nations included North Korea, Iran, Venezuela, Pakistan, Sudan, Myanmar, Nepal, Nigeria, Syria and Cuba. Now that the basic strategy adopted by the United States towards China has already steered from exaggerating the so-called 'China threat' to exhorting 'China's responsibility', how China deals with 'the most irresponsible' states or governments in the world will be regarded as the touchstone to test whether China is willing to be a 'responsible stakeholder' as the United States has proposed. This poses a dual challenge or risk for China's diplomacy.

The first challenge or risk lies in forcing China to 'choose one side on which to stand'. The abovementioned nations, defined as 'rogue states' by the United States, have always been treated as normal developing countries or even as 'quasi-allies' in China's diplomatic framework. Over a long time, based on factors such as ideology, historical tradition, social system and political interests, China has been fostering friendly cooperation with them, and meanwhile seeking to also develop trade and strategic relations with the United States. Nevertheless, with China's gradual integration with the Western world and the deepening of the constructive and cooperative aspects of the China-US relationship, China's strategy of 'considering both sides' has outlived its usefulness and faces weightier pressure, for the United States has already sent out an explicit signal for China to 'choose one side'. However, if China turns a cold shoulder to these countries and facilitates China-US relations unreservedly, it will be caught up in a situation of 'easy to abandon, hard to resume' and experience deteriorating relations with those countries. If China sticks to its usual practice—developing a parallel relationship with both the United States and those countries—China would surely be subjected to powerful pressure from the interior politics of the United States, thereby affecting the next move in the development of China-US relations. This is therefore a dilemma for China's diplomacy.

The second challenge or risk is in urging China to forsake the principle of 'non-interference in others' internal affairs'. The pressure from the United States is not only confined to asking China to 'choose one side', but is also aimed at urging China to make due intervention in the internal affairs of those nations. As wished by the United States, the 'peaceful collapse' of Kim Jong-il's regime might materialise through China-US cooperation; while the Sudanese Government could be overturned and the Burmese regime could be reformed with an active role played by the Chinese Government. If China turns a deaf ear to these

well-advised proposals, it will continue to encounter political pressures from the United States and put its diplomacy at a disadvantage. If China did act, the 'non-interference' principle in its diplomatic relations would be shaken and toppled. In the United States, the view is already widely held that China's attitude toward the North Korean nuclear issue can be considered as the embodiment of 'interference in the internal affairs of other nations'.

The risks and dilemma mentioned above have obliged China's foreign policy community to assess carefully whether China should review its diplomatic concepts or determine that retaining the primacy of 'non-interference' continues to serve China's interests.

4. From the aspect of society system and ideology, there is a risk of a 'China model' shock on the 'America model'. As noted American strategist Joseph S. Nye, Jr. pointed out in 'The Rise of China's Soft Power', 'although China is far from America's equal in soft power, it would be foolish to ignore the gains it is making'.² Nye's view represents a widespread concern in America that the 'China model' might in fact become competitive with the American one. In the United States, the 'China model' is labelled as 'totalitarianism + market economy + soft diplomacy'. The United States has two concerns. First, the 'China model' directly 'shocks' the American model. After the Cold War, the United States spoke of 'the end of history', and considered the American liberal democracy model as having triumphed over its main rival. But, in recent years, it has gradually realised that the specific Chinese developing model not only has strong vitality in China, but also holds a special attraction for a number of states further afield. Especially at a time when the United States is in a broader strategic predicament, the sudden rise of the China model is viewed as something of a threat. Second, it indirectly 'shocks' the America model. It does so by providing an 'alternative choice' to those countries at a strategic crossroads, thereby causing some to incline to the China model, and to objectively block the US grand strategy of propelling freedom and democracy. Thus, as can be seen, the 'debate on the model' is fundamentally important to the United States. To counteract the shock of the China model, the United States is certain to increase the global infiltration of its soft power, or to choose to decry the expansion of Chinese culture so as to elevate the issue to the level of the global expansion of Chinese ideology and even of China's strategic design, leading to new perceptions of a 'China threat' worldwide. Once this occurs, it will become more difficult for China to maintain and extend its period of strategic opportunities.

5. From the aspect of domestic stability, China is faced with two risks: the interference and even fluctuation of both its economic base and its social base. At present, it seems that the risk of political confrontation and military conflict taking place between China and the United States is relatively low, because of a deep blending of China and the United States. The United States, however,

although changing its strategies and areas of emphasis, has never given up on transforming, guiding and modelling China; that is, from overturning China's political base to loosening China's social base, and from direct military restraint to undermining China's economic base.

On the one hand, the United States enhances its influence over China's social fabric via concealed but legal channels such as non-governmental organisations (NGOs) and religious infiltration. A central idea of the so-called 'Transformational Diplomacy' that former US Secretary of State Condoleezza Rice intimated in early 2006 was for US embassy staffs and NGO members to go deep inside the societies of targeted countries, not least, China. Since China is in a period of social transformation, there is an intricate array of social tensions that offer opportunities for US infiltration. The United States has seized these opportunities and is on its way toward a new 'Peaceful Transformation' in a planned and systematic way. More and more think-tank scholars are putting their emphasis on social fields such as local elections, community events, socially vulnerable groups, environment destruction, health issues (e.g., Acquired Immune Deficiency Syndrome), immigration, the income gap, and state enterprise reformation. Their research paves the way for the development of government policy. Many NGO members with backgrounds in government have also shifted their working emphasis to these fields; they 'strive for people's support with the Communist Party' and even visit the poor. Their activities have a very strong influence among the Chinese at the grass-roots level. Meanwhile, religious groups carry out infiltration of all forms, taking advantage of underground churches and of any loosening up in China's religious policy. The abovementioned methods are not easy for the Chinese Government to deal with, since the United States Government is not directly involved and because such groups and organisations reach into every corner of Chinese society in the name of charity or research. If China controls it too strictly, the government could be viewed as blocking NGO activity; but if it lets such organisations do as they like, it could all too easily cause 'boiled frog syndrome'. And once such NGOs have enough effect at the grass-roots level, they might potentially endanger China's social superstructure.

On the other hand, the United States enhances its strength through interference in China's economic base. A prominent American economic target has been the state enterprise, which is the lifeline and foundation of China's economic development. For example, in the author's opinion, the 2006 acquisition of Xugong Group by the Carlyle Group indicated that the United States was ready to take a significant shareholding in China's large state enterprises. From the US standpoint, while it has coped reasonably well with the challenges (especially intellectual property protection and an undervalued Yuan) from China's small and medium-sized enterprises, it does not seem to have found an effective way to cope with the state enterprises. The United States is going to make full use of two methods in the future. The first is to encourage market

opening and further economic reform, followed by a gradual encroachment on China's large-sized state enterprises. The second method is via the financial insurance industry, which is part of the so-called tertiary industry sector. Since the reform and opening-up, the United States has focused on China's economy in three consecutive waves. The first wave came before China's entry into the World Trade Organization (WTO). Its key objective was to exert pressure on China's primary industry (essentially its agricultural products)—a goal that the United States considers it by and large achieved. The second wave came after China's entry into the WTO, when the focus shifted to China's industry (especially textile and manufacturing), and the instruments included criticising China's Renminbi (RMB) exchange rate, its mercantilist export-oriented economic model, its failure to protect workers' rights and interests and so on. At present, the United States considers that it has made useful progress on this front. In the future, it will concentrate on China's tertiary industry, especially the financial insurance industry, which is a highly specialised industry but one that touches the entire economy. More importantly, it is America's strength in international competition and its time-tested 'unique dagger' which interferes so effectively with the economic lifeline of developing countries. The United States Government chose its then Secretary of the Treasury, Henry Paulson, to take the lead in opening the China-US strategic economic dialogue, and placed the opening-up of the financial sector at centre stage in this dialogue. It would be prudent for China to be thoughtful and vigilant about US intentions.

In sum, the United States has focused on China's two weak points (its social base and its economic base) and has engaged in activities that, while seemingly peaceful, actually have strategic intent. It is one of the most difficult risks for China to deal with in the future.

6. From the aspect of crisis management, the Taiwan issue is still the highest risk. Although the Taiwan issue is temporally in a controllable state, China-US cooperation on avoiding a sprint to independence is limited. The structural conflicts between China and the United States still reside in some fundamental problems on this front. First, the basis of America's 'one China' policy is not reliable. Not only is the connotation different from the 'one China principle' that China sticks to, voices in both the US Congress and in conservative think-tanks have often clamoured in recent times for the abandonment of the 'one China' position. If the Taiwan issue changes significantly, the United States will probably make an issue of the 'one China principle' and demand more concessions from China for its retention. Second, the 'Dual Containment Policy' policy of the United States, which keeps Taiwan from risking 'instant independence' and restrains the Mainland from non-peaceful ways to resolve the issue, has not changed. Thus, the United States can carry on its counter-balancing policy, manipulating the ups and downs of the Taiwan issue. If China ever endeavoured to resolve the Taiwan issue in its own way, it would

inevitably lead to serious confrontation and conflict with the United States. Third, the US policy on arms sales to Taiwan is becoming more dangerous. It seems to the author that the United States has shown scant regard for the '8.17 Communiqué', and US-Taiwan military transactions have become more open, with the two sides even bargaining transparently in the presence of the Mainland. If this trend is not curbed in time, the danger is obvious. Fourth, the United States has not changed its strategy that positions Taiwan as a factor to contain or influence the future direction of China. From the standpoint of containment, US-Taiwan military cooperation has reached the equivalent of a 'non-NATO ally'—a relatively select category—and has transitioned from hardware to software. In the arena of theatre missile defence, the basic US strategy is to treat its regional partners as part of a trinity: the United States, as a command centre; Japan, as a launching platform, and Taiwan as an intelligence-gathering outpost. The US purpose is to deny the Mainland any option to use force against Taiwan and to blunt Beijing's capacity to bring China's comprehensive national strength to bear, thus preserving the status of the Taiwan Strait as one of 'neither war nor peace', of 'neither unification nor independence'. In broader terms, the United States hopes Taiwan can play a role as a model of democracy, and ultimately lead the Mainland towards democratisation.

The next two years constitute a high-risk period for the Taiwan issue. First, there has been a notable increase in US arms sales to Taiwan. China's reaction to any such development will directly shape the direction of the current China-US-Taiwan interaction. Second, the United States and Taiwan entered their election countdowns in 2007, with changes in leadership by 2009.³ Taiwan is likely to go on making an issue of reunification and independence. The possibility of Taiwan's President Chen Shui-bian exploiting the Mainland's pre-occupation with hosting the 2008 Summer Olympic Games and openly taking risks for constitutional amendment could be ruled out.

7. From the aspect of military conflict, the West Pacific region and outer space are potential high-risk areas for China-US military conflict. The risks should not be ignored. Although China-US political ties gradually stabilised in 2007, the lack of mutual trust in the military sphere is still evident and, in fact, may have worsened in some respects. The response by the US Congress and the media to China's Anti-Satellite Missile Test was a case in point. The hearings of the US-China Economic and Security Review Commission of Congress held on 1 February 2007, and commentary in the *Washington Post* and other mainstream media supposedly decrying those 'taken in' by the notion of China's peaceful rise, was another.

In fact, China-US military relations, despite a great degree of recovery, have to cope with very different perspectives and even contradictory objectives. In the eyes of the United States, China's military modernisation should be

transparent and also limited. The desired limits preclude expansion onto the high seas and into outer space. The United States regards sea power and air power as the lifeline of its military strategy and any Chinese militarisation at sea (especially into the West Pacific) or in space is taboo in US eyes. Contradictions and even conflicts will be unavoidable in these circumstances. Therefore, preventing confrontations between the armed forces in the West Pacific region and in space constitutes a serious problem for China-US relations that will have to be addressed in the near future.

In recent years, the United States has made it clear that it regards the West Pacific region as its exclusive domain, and an arena in which China's military forces should not meddle. In 2006, China's military authorities were invited to observe the largest joint military exercises held in the region since the Vietnam War. This invitation appeared to be intended as a warning. The United States has repeatedly hinted that it does not care about China's development of its ground forces, but is resolutely opposed to the expansion of China's naval power. Therefore, 'punitive actions' directed at China's military power, and the generation of small-scale crises, led by the United States alone (or with Japan, in the Western Pacific region, such as the 'aircraft collision incident' off Hainan on 1 April 2001), cannot be ruled out.

ENDNOTES

¹ C. Fred Bergsten, Bates Gill, Nicholas R. Lardy and Derek Mitchell, *China: The Balance Sheet: What the World Needs to Know About the Emerging Superpower*, Public Affairs, New York, 2006.

² Joseph S. Nye Jr., 'The Rise of China's Soft Power', opinion column in the *Wall Street Journal Asia*, 29 December 2005, available at <http://belfercenter.ksg.harvard.edu/publication/1499/rise_of_chinas_soft_power.html>, accessed 17 June 2009.

³ On 22 March 2008, Nationalist Party candidate Ma Ying-jeou was elected President of Taiwan. On 4 November 2008, Barack Obama became President-elect of the United States. He was inaugurated on 20 January 2009.