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An Overview: The China Balance Sheet

The China Balance Sheet is a joint project of the Center for Strategic and International Studies (CSIS) and the Peterson Institute for International Economics (PIIE) that examines the rise of China and the implications of this rise for U.S. foreign policy. The CSIS Freeman Chair is looking at domestic sociopolitical developments, the PIIE is looking at domestic and international economic issues, and the CSIS International Security Program-Asia project (ISP Asia) is looking at foreign and security policy issues.

The project was sparked by the need to separate the rhetoric from the reality of China's rise and to debunk the myths and misperceptions plaguing the understanding of China in the political, economic, and security spheres, as was demonstrated by the failed bid by the China National Oil Corporation (CNOOC) for the Union Oil Company of California (Unocal) in 2005. The project has three phases.

Phase One: Phase one resulted in the release of the book, *China: The Balance Sheet* (PIIE, 2006), which was an attempt to highlight all the areas of concern facing China's rise and U.S.-China relations. The book release coincided with the U.S. visit of President Hu Jintao of China in April 2006.

Phase Two: Phase two culminated in a conference last month, in which papers were presented that went into more depth on some of the major crosscutting issues. These papers were presented in the form of a compendium. An updated paperback edition of the book was released, and this phase coincided with the second round of the U.S.-China Strategic Economic Dialogue in Washington, D.C.

Phase Three: The current planning of phase three involves publishing a new book and hosting a major conference in the spring of 2008. Whereas the first book was intended to provide a factual, balanced overview of the major issues, the next will focus on a set of "hot topics" likely to emerge in U.S.-China relations in the short-to-medium term and will provide policy recommendations on how to best manage them.

Domestic Sociopolitical Developments

In phase three of the China Balance Sheet project, the CSIS Freeman Chair will continue looking into the domestic and social challenges that the Chinese leadership continues to face.

It will look at the fall 2007 induction of the Chinese Communist Party's 17th Congress. This five-yearly event is crucial, because it is at this forum that the direction of China's overall political and economic development for the next five years will be set. It is also the time when China's top leadership will be reshuffled and the old guard will be replaced by the "new generation." In November 2005, the leadership issued a white paper on democracy, outlining the party's plans to pursue so-called socialist democracy with Chinese characteristics. This is basically a form of participatory democracy that combines the party's authoritarian leadership with popular participation through elections at local and lower levels and with the establishment of the rule of law, thus eschewing "Western, liberal democratic" ideals of universal suffrage and multiparty elections.

Another issue likely to be discussed in the next China Balance Sheet book is social unrest. Official statistics put the number of riots, demonstrations, and strikes in 2005 at 87,000, up from just 8,700 a decade earlier. Although the validity of Chinese statistics can be debated, the bottom line is that social unrest is a growing problem for the Chinese leadership.

One other issue that will surface in the next China Balance Sheet book, one that has the potential to galvanize nationwide political action, is the environment. And accordingly, the central leadership is paying close attention to this issue. Sixteen of the world's 20 most-polluted cities are found in China, and the Chinese government is starting to take action, promising to increase energy efficiency by 20 percent by 2010. Together with the PIIE, the CSIS Freeman Chair will look at how China can balance its often-competing energy needs with its environmental goals. The Freeman Chair will also be taking a closer look at the impact of environmental pollution, accidents, and other issues

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Upcoming Strategy Hour

Lebanon

19 June 2007
4CR – 9:00am

Featured speakers:

Karin von Hippel, Co-Director of the Post-Conflict Reconstruction Project

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on the already-overburdened Chinese health care system.

Domestic and International Economic Issues

Soft Power

China's soft power has been receiving growing attention, especially in the developing world. Driven by the desire to ensure growth and internal stability, China's foreign policy has focused on gaining access to resources, preventing instabilities on China's peripheries from spilling over into China, and isolating diplomatic recognition of Taiwan.

These policies have brought it into conflict with the United States, as China has supported pariah regimes that the United States is attempting to reform or isolate; the regimes of countries such as Zimbabwe, Sudan, Iran, and Burma. For instance, in January this year, China and Russia issued a joint veto against a U.S.-sponsored resolution at the United Nations Security Council that condemned Burma's military junta. China's calls for a multipolar world and democratic international system also challenge the U.S. role in the international system, while its support for the principles of nonintervention, territorial integrity, and sovereignty contrast with U.S. support for preemptive action and humanitarian intervention. China's policy of providing aid without conditions, and its development model that is based on economic growth without political representation, a model that has been described as the "Beijing Consensus," is in contrast to the Washington Consensus model of free markets, democracy, good governance, and the rule of law.

Foreign and Security Policy

Military Modernization

There has been continued attention to the lack of transparency in the intentions and capabilities, as well as the pace, of China's military modernization. The U.S. Department of Defense's 2006 *Quadrennial Defense Review* (QDR) recognizes that China "has the greatest potential to compete militarily with the United States and [has] field military technologies that could over time offset traditional U.S. military advantages."

China's modernization efforts have been demonstrated by its deployment of the J-10 fighter, its first indigenously developed fighter jet, in December 2006, and its antisatellite test against one of its own weather satellites in January 2007 that demonstrated its ability to attack low-orbit satellites.

Modernization efforts remain focused on strategies that deter and delay U.S. intervention in a conflict in the Taiwan Strait through the upgrade of China's air and naval capabilities and strategic missile force, foreign acquisitions and an indigenous development of its defense industrial sector, improvements in its joint operations and information-warfare capabilities, and a doctrine of "active defense," which seeks to take the initiative for a swift conclusion to hostilities.

Taiwan

Finally, the issue of Taiwan has been identified as the most likely source of military conflict between China and the United States.

China has adopted a carrot-and-stick approach in dealing with Taiwan. Carrots in the form of engaging Taiwan's proreunification Pan-Blue opposition parties, toning down its rhetoric on reunification, and encouraging economic, transportation, and people-to-people contact; and sticks in the form of increasing and upgrading its military presence across the Taiwan Strait with the presence of approximately 900 short-range ballistic missiles (SRBMs), according to the latest Department of Defense report, and codifying the use of force with its 2005 Antiseccession Law, which states China's intention to employ "non-peaceful means" to prevent Taiwan's separation.

Meanwhile, the United States has maintained a policy of strategic ambiguity and dual deterrence that opposes any unilateral change to the status quo—deterring Taiwan's moves toward *de jure* independence but also China's attempt to take Taiwan by force, the latter of which has been backed by the U.S. commitment to the defense of Taiwan under the Taiwan Relations Act; and selling advanced weapons systems to Taiwan while supporting the "One China" policy.

Building on the work of the first book, phase 3 of the China Balance Sheet project will reassess the situation in the Taiwan Strait and U.S. policy toward Taiwan in the context of the U.S. and Taiwanese presidential elections and the Beijing Olympics in 2008.

A final issue that will be addressed in phase 3 of the China Balance Sheet project is the debates within China and the United States on the rise of China. These include the appeasement vs. engagement debate in the United States, with Bob Zoellick, former deputy secretary of state, calling for China to emerge as a responsible stakeholder; as well as the argument of author Jim Mann that U.S. engagement with China is strengthening the Communist Party's hold on power.

■ **Melissa Murphy and Chietigj Bajpae led a Strategy Hour on June 6, 2007 discussing the China Balance Sheet project.**

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