



A Global Imperative

*A Progressive Approach to U.S.-China
Relations in the 21st Century*

August 2008

ABOUT THE CHINA TASK FORCE AND THIS REPORT

The Center for American Progress recognized the need for an updated and forward-looking approach to China—one that understands the challenges as well as opportunities of China’s dynamic rise. We needed to develop a China policy that adapted to the realities of the 21st Century and would leave Americans safer and more prosperous.

To this end, the national security team at the Center assembled a list of top China specialists from around the country and reached out to experts from a variety of backgrounds—academia, policy, business, and journalism, as well as advocates in the field. Participants ranged in their experiences and ideological positions. Under the leadership of then Senior Vice President for National Security Robert Boorstin, and with the support of Rebecca Schultz, the national security team at the Center convened a series of meetings with the task force over the course of a year and numerous consultations thereafter.

The meetings covered issues ranging from China’s economic development and military modernization to human rights and climate change. Many of the insights, ideas, and recommendations that emerged from these meetings came to serve as the foundation of this report. We would also like to thank our task force members, presenters, and reviewers, whose insights, ideas, and oversight were critical to the formulation of this report. Task force members participated in many of our meetings and several rounds of reviews of this report. They generously lent us their valuable thoughts; many of them offered significant personal time and energy.

This report could not have been written without the sustained assistance of Liz Economy, Bates Gill, Harry Harding, and Evan Medeiros, who were present from the

genesis to the conclusion of this report, and went above and beyond in their contributions. They provided intellectual leadership, numerous rounds of meticulous edits and comments, and long hours of their personal time to the project. While we are deeply indebted to them, it is important to note that they do not necessarily agree with all the content of the report. The views, findings and recommendations here are the responsibility of the authors and the Center for American Progress.

The task force members included Robert Boorstin, Elizabeth Economy, Erin Ennis, Michael Fuchs, Bates Gill, Andy Grotto, Harry Harding, Sharon Hom, James Mann, Evan Medeiros, Peter Rundlet, Andrew Scobell, Rebecca Schultz, Adam Segal, David Shlapak, Michael Swaine, and Anne Thurston. A number of guests and presenters attended task force meetings, and we would like to thank them for their work. We also benefited greatly from the additional comments, edits, and oversights of our reviewers, including Richard Bush, Roger Cliff, Rudy deLeon, Kenneth Lieberthal, Jim Loi, Andy Nathan, Bill Overholt, Ira Shapiro, and William Schulz.

Robert Sussman, Senior Fellow at the Center and a veteran of the energy and environmental policy fields, was instrumental in drafting the report’s lead chapter on Climate Change and Energy.

The report reflects only the opinions of the authors and the Center for American Progress. The authors take full responsibility for any errors that may appear in it. Participation of task force members and reviewers is not an endorsement of the content and opinions of this report.

Contents

1	MEMORANDUM TO THE PRESIDENT-ELECT
3	INTRODUCTION AND SUMMARY
4	A PROGRESSIVE STRATEGY: U.S. STRATEGIC GOALS
7	U.S.-CHINA POLICY PRIORITIES
13	UNDERSTANDING THE CHALLENGE OF A RISING CHINA
15	U.S. STRATEGIC GOALS IN SINO-U.S. RELATIONS
16	A PROGRESSIVE CHINA STRATEGY
22	AN UNSUSTAINABLE ENVIRONMENT
24	CLIMATE CHANGE AND ENERGY SECURITY
35	BALANCED AND SUSTAINABLE GLOBAL GROWTH
50	ASIA-PACIFIC REGIONAL SECURITY
57	MILITARY MODERNIZATION
63	STABILITY IN THE TAIWAN STRAIT
69	GOVERNANCE AND INDIVIDUAL RIGHTS
74	CONCLUSION
75	ACKNOWLEDGEMENTS
76	ABOUT THE AUTHORS
77	ENDNOTES



MEMORANDUM

To: The U.S. President-elect
From: The Center for American Progress
Re: A Progressive China Policy

The choices you make as the next president will have a defining influence on the contours of U.S.-China relations and, ultimately, China's trajectory as a rising power.

Realizing the potential of the U.S.-China relationship, while guarding against future uncertainties, will constitute a central challenge of your presidency and of American foreign policy this century. Because China's future remains deeply uncertain, we can assume neither that the stability nor the prosperity that have generally characterized U.S.-China relations for the past several decades will continue, nor that conflict is inevitable.

As president, you will have to manage the many national security problems bequeathed to you by your predecessor, especially in Iraq and Afghanistan, alongside a struggling global economy. But China's rise across nearly *every* dimension of power is a central strategic fact of the 21st century, and your choices will shape the geopolitical environment for a long time to come. While the United States cannot determine what path China takes, your administration can help create the global context for China's peaceful rise.

Getting China strategy right *from the beginning of your administration* will be critical to a successful U.S. policy on China. Presidents Ronald Reagan, Bill Clinton, and George W. Bush all entered the White House in the wake of presidential campaigns replete with promises to be "tougher" on China—only to embrace a more pragmatic approach once the realities of the relationship became apparent. All three presidents lost valuable time and political capital.

Today, rapid changes to the global economy, the outsourcing and offshoring of U.S. jobs to China, and overall U.S. economic weakness combine to give unique momentum to the case that you, too, should take a "tougher" stance. To be sure, we have many serious policy differences with China—on human rights, currency exchange rates, and Sudan, to name a few. Yet the urgency of our shared challenges, most particularly on the need for dramatic reductions in global carbon emissions, but also on North Korea and other issues, requires a results-oriented strategy from the beginning.

Thus, you must reject the alarmism that frequently clouds policy debates on U.S.-China relations and take a clear-eyed, practical approach that does not see ruin or victory around every corner, but instead makes steady progress in advancing American interests. Our "risk management" approach to China outlined in this report focuses on real results by recognizing China's growing importance to global problem-solving. We need to engage China's leaders and the Chinese people in the urgent challenges of our time, including global warming. Without a serious commitment by the United States and China, humankind will not be able to avoid the most dire consequences of climate change. We cannot afford to continue with a reactive, piecemeal, and uncoordinated policy. Now is the time to embark upon a progressive strategy toward China.

By Nina Hachigian,
Michael Schiffer,
& Winny Chen

A Global Imperative

*A Progressive Approach to U.S.-China
Relations in the 21st Century*

INTRODUCTION AND SUMMARY

The next four years offer a critical window of opportunity to forge an innovative, durable, pragmatic, and effective approach to U.S.-China relations. A progressive China policy will safeguard U.S. national security interests, encourage the emergence of a China that meets its responsibilities both to the international community and to its own people, and ensure that Americans as well as Chinese are able to enjoy a rising standard of living.

The ultimate goal of our China policy is the emergence of a China that adopts a cooperative and mutually beneficial relationship with the United States, and fulfills its responsibilities as a stakeholder in the global system by addressing the most urgent global challenges, such as tackling climate change, fighting weapons proliferation, and promoting global prosperity. Our China policy aims to encourage a China that develops over time a stable, equitable, and open domestic system—one that guarantees universal human rights, including social, political, economic, labor, and religious rights.

Given China's uncertain future, the United States must always ensure that it retains adequate capabilities to respond to the variety of scenarios that flow from a strong and aggressive China or a weak and unstable one. But our policy toward China must also work toward renewing the international system of multilateral rules, norms, and

institutions that has proven durable and effective in integrating new powers, growing the global economy, preserving the peace, promoting political pluralism, and safeguarding U.S. interests.

Many of these multilateral institutions need reform and adjustment, offering the United States an opportunity to recommit itself to this effort, and to draw China into these processes. The United States should work to include China as a more engaged

and responsible global partner, give China a greater stake in the current system, and further bind China to the global success of these efforts. Working toward this goal is imperative because effective solutions to the most pressing problems of our time—global warming, terrorism, pandemic disease, expanding the global middle class, and nuclear nonproliferation—cannot happen without the full participation of the United States and China.

A PROGRESSIVE STRATEGY: U.S. STRATEGIC GOALS

The next president and his administration must move beyond the current, China policy framework of “engaging but hedging.” Instead, we suggest a practical, forward-looking “risk management” strategy to forge a new phase in U.S.-China relations. Such an approach contains these core elements: embedding China in the international arena; managing the risk of China’s uncertain future trajectory; understanding and collaborating with China while engaging the rest of the world in dealing with China; and re-establishing U.S. moral authority and global economic competitiveness.

Embed China

The United States should move beyond the engagement strategy we’ve pursued for 30 years and seek China’s integration into the international system as a responsible, engaged, and respected stakeholder so it can address urgent global problems such as climate change. In the long run, this will strengthen the international system and

will also help mold China’s behavior. The United States should signal to China that it understands China occupies an important place in the existing international order, that its development depends on the preservation of that order, and that the United States and the world expect China to fulfill its regional and international responsibilities. In return for China’s fulfillment of more responsibilities, it will have greater opportunities to shape evolving norms, rules, and institutions.

Manage potential downside and upside risk

The United States must always ensure it retains adequate capacity, militarily and diplomatically, to handle a variety of scenarios that could result from China’s strengths and weaknesses. The uncertainties regarding China’s possible future pathways cut across a broad range of issues, from internal governance, to military modernization, to consumer protection, to nationalism, and to Taiwan. Indeed, the

likeliest scenarios for the foreseeable future is a China with a “mixed record,” meeting U.S. expectations and requests in some areas, but falling short in others. We must be prepared for every contingency.

Better understand China

The United States must devote greater resources to understanding China, especially its leaders’ thinking and their priorities in foreign policy, domestic and economic policies, and military planning. Greater diplomatic, intelligence, and military assets should be devoted to this important task.

Collaborate with China

Common challenges, such as sustaining and broadening global economic growth, curbing climate change, staunching the proliferation of weapons of mass destruction, and combating infectious diseases, will require the United States and China and the international community to cooperate on large-scale, long-term policies. While we must be clear when we have differences, the next president and his administration should seek to establish a collaborative relationship with China where possible, and dispel notions that the United States seeks to inhibit China’s peaceful development.

Cooperate with other nations to influence China

Persuading China to consider its global responsibilities has not been easy, but working through multilateral channels and building international pressure has effectively

induced China to modify its stance, at times, on certain controversial issues, among them nonproliferation and dealing with North Korea. The United States must strengthen its ties with other nations and with global institutions when dealing with China on many issues, including global warming, human rights, international economic integration, and China’s opaque military buildup. On bilateral issues, prioritizing U.S. demands will be key to effectively eliciting results from China.

Reestablish U.S. moral authority

Key to effective bilateral relations with China is reestablishing U.S. moral authority and leadership around the globe. America’s ability to lead by example remains our most powerful asset. The United States must once again provide leadership and direction based on our nation’s fundamental values.

Prepare to compete globally

The United States can neither engage China from a position of strength nor guarantee U.S. competitiveness in a globalized world unless we put our own domestic house in order. To compete successfully amid rapid globalization, the United States must invest in key domestic priorities, among them transforming to a low-carbon economy, feeding our science and technology innovation engine, empowering workers to seize the opportunities of globalization, and ensuring that the next generation is well prepared to thrive.



Chinese Vice Premier Wu Yi, 2nd left, and U.S. Treasury Secretary Henry Paulson, right, with both countries delegates sit during the Third China-U.S. Strategic Economic Dialogue at Grand Epoch City in Xianghe, central China's Hubei province, southeast of Beijing. Source: AP Photo

U.S.-CHINA POLICY PRIORITIES

The scope, breadth, and complexity of U.S.-China relations will require coordination and prioritization within the U.S. government—a critical and daunting task. It will require consistent high-level attention and engagement starting with the president. A commitment to regularized presidential-level meetings between the United States and China are necessary both to further strategic dialogue and consensus between our two nations, and to facilitate decisions on pressing issues that demand resolution. Given the array of issues at play in the relationship, we need coordinated policy making—in digestible portions—that addresses the multiplicity of political, security, and economic issues.

These separate but coordinated dialogues should each be headed by appropriate cabinet-level officials, and will be critical to assure that outstanding issues are addressed and strategic dialogue moves forward. And it is imperative that the next administration consult with Congress early and often to forge a coalition that can support a progressive China policy.

The next president should concentrate on six policy priorities in U.S.-China relations:

- Climate change and energy security
- Balanced and sustainable global growth
- Enhanced security in the Asia-Pacific region
- China's military modernization
- Stability in the Taiwan Strait
- Governance and individual rights

Coordinating U.S. policy on China in these six arenas will demand that senior officials in the next administration manage Sino-U.S. relations across departments and in league with Congress. At the same time, engaging Chinese officials in a coordinated fashion will allow the United States to assess more easily the opportunities and risks inherent in U.S.-China relations at different working levels within China. This pragmatic approach will allow the United States to tackle the tough problems in our bilateral relations while engaging China on our common global interests.

Climate change and energy security

The next president and his administration have an unparalleled opportunity to engage China in a constructive partnership on climate change and energy security—an extraordinary and urgent challenge we face in this new century. The Bush administration's shortsighted energy policies and refusal to commit to reductions in greenhouse gases prevented the United States from exploring and building on our two nations' shared objectives. Tackling climate change in earnest offers the opportunity not only to safeguard the future of our environment but also to enhance the U.S.-China relationship by creating common ground on this critical issue. As the two largest emitters of greenhouse gases in the world, both nations must work together to find solutions that will stave off the most severe consequences of climate change. No international effort to address global warming will be successful without the full engagement of both countries.

Consequently, the next president should announce early in his administration that the United States will commit to substantial,

mandatory reductions in U.S. greenhouse gas emissions that are not conditioned on the specific actions taken by China. At the same time, the president should make clear that China and other developing countries must assume meaningful, binding commitments to slow and ultimately reverse the growth of greenhouse gas emissions.

To lower its rate of emissions growth, China should commit to ambitious goals for improving energy efficiency, increasing renewable power, and accelerating deployment of advanced clean energy technologies. In addition, China should be pressed to agree to a fixed date by which it would begin reducing emissions in absolute terms. When coupled with the contributions of developed countries, these reductions should be of a magnitude sufficient to achieve an overall global emission reduction of 50 percent below 1990 levels by 2050.

The next president should make clear that, in parallel with far-reaching actions to reduce emissions, our government will protect the interests of U.S. workers in industries that could be placed at risk under a global climate change agreement if unequal cost burdens are imposed on producers in developed and developing countries. The extent of these measures to preserve U.S. competitiveness should depend on how far China goes to reduce its carbon footprint, which will in turn determine whether there is a level economic playing field for our major energy-intensive industries.

To reinforce our efforts to negotiate an acceptable global agreement, the next administration should work directly with China on mutually beneficial initiatives to improve environmental protection, stimulate deployment of clean-energy technologies, and enhance China's technical and institutional capacity to address environmental and

energy challenges. The next president should call for the two countries to immediately undertake a program of cooperative research and development on climate change and energy security, including demonstration projects to speed the deployment of advanced energy technologies. The new administration should also support mechanisms in U.S. climate legislation that create project-based carbon-emission credit opportunities for U.S. companies that allow them to offset their carbon emissions by investing in emission-reduction projects in developing countries.

Finally, our next president should signal the seriousness of our nation's commitment to work with China as an equal to combat climate change and boost global energy security by pushing for greater and regular Chinese participation in the International Energy Agency. Successfully partnering with China on climate change and energy security on a bilateral basis and on the global stage holds the potential to create positive interactions between our two governments and our two peoples. This, in turn, could generate positive spillover across many aspects of our bilateral relationship.

Making progress on global warming and energy security could benefit our economy by creating new export opportunities for American clean energy companies. It would help promote human rights and civil society capacity-building by strengthening environmental nongovernment organizations and the ability of citizens to hold local leaders accountable for environmental degradation. And tackling climate change and energy security together will strengthen Asia-Pacific regional security and stability by highlighting an issue on which greater cooperation with Japan, a leader in energy efficiency, could be beneficial.

Balanced and sustainable global growth

The next administration will need to build a more equitable and mutually advantageous economic relationship with China. It must encourage China to be a more responsible steward of the international economic system, and to accelerate market-based economic and labor market reforms. But the next administration must also improve America's own economic and technological competitiveness so that our country competes in the global economy from a more secure position of strength. An important measure of whether the next administration manages a successful economic relationship with China will be rising standards of living for a greater number of Americans, as well as a greater number of Chinese.

The next administration should use a high-level bilateral dialogue (like the ongoing Strategic Economic Dialogue initiated by Treasury Secretary Henry Paulson) to sharpen the focus on a number of areas, including not just energy and climate but also enforcement of international trade and regulatory standards; institutional reforms including social safety nets and proper enforcement of labor standards; exchange rate policy; and compliance with international rules on foreign aid. The United States must also bring advancement of working conditions and labor rights into those discussions, and push for China to honor its commitments as a founding member of the International Labor Organization.

The United States must be prepared to use both multilateral and unilateral tools, such as the World Trade Organization and the International Trade Commission, to enforce economic agreements and standards. In addition, the United States, in concert

with other nations, should propose that in exchange for China gaining a greater voice in international economic institutions such as the International Monetary Fund, the World Bank, and the Group of Eight process, China will take further steps consistent with becoming a responsible steward of the global economic system.

At home, the next administration must renew our domestic competitiveness. America must invest in human capital and create a nimble, innovation workforce at every skill level. The United States must empower workers with the public policy tools they need to become an even more flexible workforce, including universal health care, expanded unemployment benefits, and new jobs training programs, with a focus on the growth sectors of green jobs. We also must seek to restore economic mobility and put ourselves back on a path of fiscal responsibility.

Enhanced security in the Asia-Pacific region

To get national security policy toward China right, the United States needs to get its Asia-Pacific regional strategy right. Stability and security in East Asia is increasingly tied to overall U.S. national security goals; conflict and instability in East Asia would undermine a broad range of U.S. economic and security interests. The rise of China complicates the challenge of U.S. policy in the region, but it also affords us a chance to reinvigorate relations with our long-standing allies and partners in the region. U.S. political and diplomatic leverage in Asia depends on greater engagement.

The new administration should reaffirm the U.S. security commitment to allies and partners in the region. The United States should engage diplomatically with consistency at the highest levels to repair, revital-

ize, and bolster U.S. involvement in regional security, and economic and political affairs, leveraging traditional bilateral means and new multilateral forums. A first step would be signing the Association for South East Asian Nations' Treaty of Amity and Cooperation, and, in the context of ongoing progress in the Six Party Talks, working with Japan, South Korea, and China to develop a permanent institution dealing with security issues in Northeast Asia. The United States must also work with China on shared regional interests, including rolling back the North Korean nuclear program.

China's military modernization

China's military modernization is focused on developing limited force projection capabilities alongside anti-access and area denial capabilities by leveraging advanced precision strike missiles, cyber-warfare, and anti-satellite weapons. Still, China suffers from very serious weaknesses in its military, including many obsolete weapon systems, a lack of battle experience, and not a single working aircraft carrier or military base outside of China—despite years of double-digit growth in its military budget.

The new president should task the Department of Defense with conducting an in-depth assessment of the ability of U.S. forces to fulfill our security commitments in the Western Pacific in the face of the Chinese military capabilities over the next decade. Based on that review, and in light of the toll Iraq has taken on the U.S. military, the new administration needs to develop a long-term defense program and strategy for U.S. basing and posture in the Western Pacific, and then make specific recommendations for investment, acquisitions, and procurements.

Greater trust and confidence between the United States and Chinese militaries will help contribute to greater strategic stability in the region. The United States should work with allies in the region to press China for greater transparency in its military modernization. The new administration should also intensify the strategic nuclear dialogue with China, deepen the high-level strategic dialogue on regional security issues, and initiate treaty discussions on weaponization and militarization of space. Additionally, the new administration should increase joint military capacity with allies in the region.

Stability in the Taiwan Strait

Taiwan is the most sensitive issue in the U.S.-China relationship. Despite recent improvements in tone and tenor of relations between Taipei and Beijing, Taiwan still remains an issue that could trigger greater tension and perhaps open armed confrontation between China and the United States. To Beijing, the island of Taiwan is the last piece of Chinese territory not reintegrated back into the nation after more than a century of struggle. But to the United States a thriving democratic Taiwan is linked to U.S. regional credibility and our democratic values.

Maintaining the now standard set of diplomatic assurances that offer a common language for Beijing and Washington and Taipei is an important starting point for any efforts to address cross-Strait issues. The United States should encourage Beijing and Taipei to continue building commercial, cultural, economic, and other ties to enhance confidence and trust in their interactions. We should also rebuild a relationship of trust with Taiwan and respond in accordance with the Taiwan Relations Act to appropriate Taiwanese requests to meet their defensive needs.

Governance and individual rights

China's human rights record remains poor. China's economic liberalization has lifted millions out of poverty, but progress toward political openness and pluralistic reform is incomplete, and in some ways regressing. Electoral reform at the local level seems stalled, and organized political dissent not tolerated. In other pockets, though, there is progress—the Chinese government is imposing more accountability on officials and providing more societal input into policy decisions.

Political and social change in China will largely need to come from within, but the United States can influence those developments. China's desire to be treated as a respected member of the international community is a principal point of leverage for political change, as are China's own governance needs and the aspirations of the Chinese people. What is required is a persistent but respectful witnessing to the *universality* of human rights, and encouraging other nations and groups of nations to reinforce concerns about China's human rights, including labor rights practices.

The new administration should work with mechanisms that bring together international opinion to pressure China on human rights. The United States should enhance bilateral U.S.-China and EU-China human rights dialogue, and encourage China to ratify the International Covenant on Civil and Political Rights. The new president should pledge that the United States will join, and thus strengthen, the UN Human Rights Council at which China's record can be reviewed consistently, and support Chinese civil society and rule of law programs and China's engagement with the International Labor Organization.

America must work to increase its leverage in the human rights arena by reclaiming our moral authority and leadership in the world. Chastising U.S. businesses or the Chinese government will achieve nothing if the United States doesn't live up to its own principles. The next administration must work to re-establish U.S. moral authority and leadership, which has always been one of the strongest and most efficacious tools in the American foreign policy toolbox. Leading by example is a powerful avenue America can take. Without American leadership and authority, convincing China to change will be all the more difficult.

A progressive strategy for U.S.-China relations

The United States cannot determine China's future; that task belongs to the Chinese people. But the United States can forge a relationship with China that delivers on American interests and the global common good by working with China to tackle our shared global problems, addressing our areas of difference in a sober and practical way, and facing up to our own challenges. Peacefully integrating China into the international order will embed this rising power in the web of norms and responsibilities that come with being an active participant in the world stage.

In the pages that follow, the authors of this report will detail the progressive strategic goals and top policy priorities we recommend to the new president and his administration. Our policy proposals are presented against the backdrop of current global and Sino-U.S. environmental, economic, and political realities. We believe the analysis and conclusions contained in this paper will prepare the United States to engage China effectively and assuredly in the decades to come.



Proud Chinese in San Francisco supporting the 2008 Beijing Olympics. Source: Flickr

UNDERSTANDING THE CHALLENGE OF A RISING CHINA

Realizing the potential of the U.S.-China relationship, while guarding against future uncertainties, will constitute a central challenge of American foreign policy this century. We can assume neither that the stability nor the prosperity that have generally characterized U.S.-China relations for the past several decades will continue, nor that conflict is inevitable. A key policy challenge will be finding a balance between the cooperative and competitive aspects of U.S.-China relations.

Although the next administration must focus on managing the national security bequests left by the Bush administration—especially in Iraq and Afghanistan—China’s rise across nearly *every* dimension of power is a central strategic fact of the 21st century, and the choices the next president makes will shape the geopolitical environment for a long time to come.

We cannot afford to continue with a reactive, piecemeal, and uncoordinated policy. We need a pragmatic and balanced “risk management” approach that focuses on real results on issues Americans care about, and at the same time recognizes China’s growing importance to global problem-solving. First and foremost, without a serious commitment by the United States and China, we will not be able to avoid the most dire consequences of global warming—one of the most urgent security challenges of our time.

Modern China is unlike any international challenge the United States confronted in the 20th century. As a rising power, China is simultaneously a weak and a strong state. On the one hand, China is exemplified by the gleaming skyscrapers of Beijing and Shanghai, by the record-breaking economic growth of the past two decades, by the hundreds of thousands of graduates in engineering and science, by 220 million Internet users, some 400 million cell phone users, and by its rapidly growing military. On the other hand, China is a country where hundreds of millions of people live in poverty, where political repression is omnipresent, and where ecological disaster is almost everywhere apparent.

Pressured by social, political, and nationalist protests, China’s leadership remains preoccupied above all with maintaining stability and averting rebellion in order to bring these two very Chinas closer together. And in building a “harmonious society,” China’s leaders also aim to perpetuate the rule of the communist party. In many ways, they are succeeding. China has the fastest-growing large economy in modern history. It is now the fourth-largest economy in the world, and is poised to overtake Germany.¹ China’s gross domestic product grew 11.4 percent in 2007, the fastest rate in 13 years, capping more than two decades of robust economic growth.² China is now the largest trading partner of Japan, Australia, South

Korea, and Taiwan. Most recently, China became the greatest source of manufactured goods to the European Union.³

This stunning economic growth has allowed China to transform its army, air force, and navy into leaner, better trained armed forces equipped with advanced information and communications technologies. China is increasing its military spending dramatically—19 percent this past year alone—and actively deploys espionage to advance its modernization program. It has made significant gains in its capabilities over just the past few years, including considerable new asymmetric capabilities. Some analysts argue that China is now capable of disrupting U.S. naval operations in the Taiwan Strait and the Strait of Malacca.

But behind these impressive measures hides a poor developing country. The World Bank reports that more than 128 million Chinese, many in resource-poor areas in the western and interior regions, live on less than a dollar a day.⁴ Not one of the world's 50 most innovative companies are Chinese.⁵ And China remains at best a regional military power with many outdated weapons platforms, an untested army, and limited blue-water naval capabilities, or even regional power-projection capabilities. The U.S. military is decades ahead across almost every measure of capacity.

China also faces unprecedented pollution problems as a result of its rapid industrialization. Life expectancy in China is rising, but an estimated 750,000 people die prematurely each year in China from breathing polluted air.⁶ According to the World Bank, 20 of the world's 30 most polluted

cities today are in China.⁷ Contamination of traditional agricultural areas results in declines in crop productivity, unhealthy livestock, and unsafe drinking water, undermining the sustainability of rural communities, and accelerating migration of the rural workforce to the cities.

Widespread environmental degradation is taking a toll on China's economy, with studies estimating China loses between 8 percent and 12 percent of gross domestic product annually due to these debilitating problems.⁸ (See box on page 22 for more details.) Moreover, rising protests by Chinese citizens over environmental degradation are placing an unwelcome spotlight on the government's failure to enforce environmental standards. Social unrest is building.

China's rapid transformation results in other trends that create social stress: rampant corruption, great economic inequality, and rapid urbanization. Protests (87,000 in 2006⁹) driven by unrest over labor rights, pollution, income disparity, and corruption—increasingly enabled by text messaging and email—are widespread. So, too, are ethnic tensions, especially in the western provinces with the Uighurs and Tibetans, as the world learned during the riots in Lhasa and elsewhere this past spring.

The ruling Chinese Communist Party has identified “social harmony” as a political imperative—the word harmony features largely in the leadership's explanation of its choice of “one world, one dream” Olympics slogan—and fears that these centrifugal forces of social unrest and economic disparity, if unaddressed, could metastasize into a real challenge to regime stability.

U.S. STRATEGIC GOALS IN SINO-U.S. RELATIONS

The next four years offer a critical window of opportunity to forge a new, durable, pragmatic, and effective approach to the U.S.-China relationship. The next president can safeguard U.S. national security interests; encourage the emergence of a China that meets its responsibilities, both to the international community and to its own people; ensures that Americans as well as Chinese are able to enjoy a rising standard of living; and creates the conditions for greater U.S. and Chinese cooperation and partnership as responsible powers on the world stage. The ultimate goal of our progressive China policy is the emergence of a China that:

- Adopts a cooperative and mutually beneficial relationship with the United States
- Fulfills its responsibilities as a stakeholder in the global system by addressing the most urgent global challenges, such as tackling climate change, reducing nuclear proliferation, maintaining regional and global security, and promoting widely shared global prosperity
- Develops over time a stable, equitable, accountable, open and pluralistic domestic political system that guarantees universal human, social, political, economic, labor, and religious rights

Yet China's future is uncertain to leaders in both China and the United States. China could continue to integrate peacefully into

the world order and become a responsible stakeholder, or grow more belligerent and nationalistic—seeking to confront the United States and others on an increasing range of issues—or choose some path in between. The United States cannot determine what path China takes, but the next president can help create the global context for China's peaceful rise.

U.S.-China policy must go hand-in-hand with reinvigorating the international system of multilateral rules and institutions, which has proven durable and effective in addressing global challenges, integrating new powers, growing the global economy, preserving the peace, promoting political pluralism, and safeguarding U.S. interests. Many of these multilateral institutions and rules are in dire need of reform, offering the United States an opportunity to press for change that includes China as a more engaged and more responsible global partner.

A peaceful China that operates within the international system is in the best strategic interest of the United States. Working toward this goal is imperative as the most pressing problems on the international agenda—global warming, terrorism, pandemic disease, trade, nuclear nonproliferation—cannot be solved effectively with China on the outside. Nor can the international system retain its efficacy and thus its legitimacy without the committed participation of China.

A PROGRESSIVE CHINA STRATEGY

China policy in every area will require patient and consistent efforts, but getting the strategy right *from the beginning* of the next administration is critical. Presidents Ronald Reagan, Bill Clinton, and George W. Bush all entered the White House in the wake of presidential campaigns, replete with promises to be tougher on China—only to embrace a more pragmatic approach once the realities of the relationship became apparent. All three presidents lost valuable time and political capital, which the next administration cannot afford to do.

Today, rapid changes to the global economy, the outsourcing and offshoring of U.S. jobs to China, and overall U.S. economic weakness combine to give unique momentum to the case that the next president should take a “tougher” stance. To be sure, we have many serious policy differences with China—on human rights, currency exchange rates, and Sudan, to name a few. Yet the urgency of our shared challenges, most particularly on the need for dramatic reductions in global carbon emissions, but also on North Korea and other issues, requires a results-oriented strategy from the beginning.

Thus, while never shying away from articulating our differences, the next president must, from the outset, establish a sober, tempered, forward-looking posture toward China that makes progress on our shared challenges while delineating where we have differences and then seeking to overcome them. He must reject the alarmism that frequently clouds policy debates on U.S.-China relations and take a clear-eyed, practical approach that makes steady progress on advancing U.S. interests, rejecting grandi-

ose rhetoric that impedes real gain. Neither overly optimistic nor bellicose, a pragmatic approach focuses on real results.

Through 30 years and seven presidencies of both political parties, the United States has followed a strategy of “engagement” with China, which has been effective in opening avenues of dialogue, mitigating tensions in times of crises, and most importantly contributing to sustained peace between our two countries. Now, though, is the time to move beyond this framework of “engaging China but hedging,” an approach necessary but no longer sufficient to secure U.S. strategic goals and interests given the realities of a rising China and the imperative of moving China toward becoming a more responsible stakeholder in the international system. We suggest a practical and forward-looking seven part “risk-management” approach that can take us to this new phase.

Embed China

The United States should move beyond the engagement strategy we’ve pursued for 30 years and seek China’s integration into the international system as a responsible, engaged, and respected stakeholder so it can address urgent global problems such as climate change. In the long run, this will strengthen the international system and will also help mold China’s behavior. The United States should signal to China that it understands China occupies an important place in the existing international order, that its development depends on the preservation of that order, and that the United States and the world expect China to fulfill its regional and international responsibili-

ties. In return for China's fulfillment of more responsibilities, it will have greater opportunities to shape evolving norms, rules, and institutions.

Manage potential downside and upside risk

The United States must always ensure it retains adequate military and diplomatic capacity to handle a variety of scenarios that could result from China's strengths and weaknesses. The uncertainties regarding China's possible future pathways cut across a broad range of issues, from internal governance, to military modernization, to consumer protection, to nationalism, and to Taiwan. Indeed, the likeliest scenarios for the foreseeable future is a China with a "mixed record," meeting U.S. expectations and requests in some areas, but falling short in others. We must be prepared for every contingency.

Better understand China

In the past, major U.S. missteps stemmed from a lack of understanding of China's motivations, intentions, and domestic constraints. The United States must devote greater resources to understanding China, especially its leaders' thinking and their priorities in foreign policy, domestic and economic policies, and military planning. Greater diplomatic, intelligence, and military assets should be devoted to this important task.

Collaborate with China

Common Sino-U.S. challenges, such as sustaining and broadening global economic growth, curbing climate change, staunching

the proliferation of weapons of mass destruction, and combating infectious diseases, will require the United States and China and the international community to cooperate on large-scale, long-term policies. While we must be clear when we have differences, the next president and his administration should seek to establish a collaborative relationship with China where possible, and dispel notions that the United States seeks to inhibit China's peaceful development.

Cooperate with other nations to influence China

Working through multilateral channels and building international pressure has effectively induced China to modify its stance, at times, on certain controversial issues, among them North Korea's nuclear program. China does not wish to be an outlier in the international community. Recognizing this, the United States must strengthen its ties with other nations and with global institutions when dealing with China on many issues, including global warming, human rights, international economic integration, and China's opaque military buildup. On bilateral issues, prioritizing U.S. demands is key to effectively eliciting results from China.

Reestablish U.S. moral authority

The key to effective bilateral relations with China is reestablishing U.S. moral authority and leadership around the globe. Lost among the missteps of the past eight years is the recognition that America's ability to lead by example remains our most powerful asset. The Bush administration squandered this asset by invading Iraq under false pretenses, enabling the horrors of Abu Ghraib, and actively torturing prisoners at Guantanamo Bay and other overseas detention

centers. The new president and his administration must once again provide leadership and direction based on our nation's fundamental values to meet the greatest challenges of our time. U.S. moral leadership can serve as an effective tool in managing a rising China. The United States must once again provide leadership and direction based on our nation's fundamental values.

Prepare to compete globally

The United States can neither engage China from a position of strength nor guarantee continued U.S. competitiveness in a globalized world unless we put our own domestic house in order. To compete successfully amid rapid globalization, the United States must invest in key domestic priorities, among them transforming to a low-carbon economy, feeding our science and technology innovation engine, empowering workers to seize the opportunities of globalization, and ensuring that the next generation is well-prepared to thrive. When America controls its health care costs through universal health care, companies producing goods and services in the United States will have one less reason to look overseas. When America's workforce is better educated and more flexible at every level, China's lower labor costs will determine fewer production location decisions. An effective foreign policy toward China, ultimately, will depend on an effective domestic agenda.

All seven of these risk-management tenets are key to a pragmatic approach to China.

To achieve results (given the great complexity of our relationship) better coordination within the U.S. government on China policy, informed by a clear prioritization of U.S. objectives, will be important. There are dozens of bilateral groups throughout our government working with China on is-

suces from agriculture to health to terrorism, and we want action from China on multiple issues at once. Much of this activity occurs at the working level, and should continue as a matter of course.

Still, the United States needs to be able to make it clear to the Chinese what our true priorities are at any moment. The National Security Council must take an active role in coordinating across all departments and agencies engaged in China-related issues. Implementing a successful China policy will also require consistent high-level attention and engagement starting with the president. A commitment to regularized presidential-level meetings between the United States and China are necessary both to further strategic dialogue and consensus between our two nations, and to facilitate decisions on pressing issues that demand resolution.

Given the array of issues at play in the relationship, we will need an interlocked set of senior-level dialogues that parse out—in digestible portions—the multiplicity of political, security, and economic issues. These separate but coordinated dialogues should each be headed by appropriate cabinet-level officials, and will be critical to assure that outstanding issues are addressed and strategic dialogue moves forward. Finally, it is imperative that the next administration consult with Congress early and often to forge a coalition that can support a progressive China policy.

Our most important recommendation, however, is that the next administration make energy and the environment a new central priority of Sino-U.S. relations. Working in partnership with China to forge an international consensus on climate change and energy security is critical to meeting one of the most pressing security challenges of our time—global warming. In addition, focusing the U.S.-China relation-

ship on climate change and energy holds the potential to create positive interactions between our two governments and our two peoples that will have a positive spillover to other aspects of our bilateral relationship, from economics and trade (by creating new investment opportunities for clean energy companies), to human rights and civil society capacity building (by strengthening environmental nongovernmental organizations), to strengthening Asia-Pacific regional security (by highlighting an issue on which greater Sino-Japanese cooperation would be greatly beneficial).

Challenges to implementing a progressive policy toward China

Pursuing these policy recommendations will be an ambitious undertaking, requiring considerable high-level attention and significant political capital. Four main obstacles and challenges will constrain the development and implementation of successful China policy.

Prioritizing China will be difficult in light of the wars in Iraq and Afghanistan. Without careful consideration, the next administration will face a significant challenge in simply finding adequate high-level attention for dealing with China. Yet China's influence and potential to influence the strategic landscape (including in the Middle East and Central Asia) makes China far too important to be relegated to a second-tier issue.

The United States and China will not resolve their differences in values and interests quickly or easily. On many issues—from human rights to Taiwan, trade policies to currency alignments, climate change policies to military transparency—the United States and China hold divergent positions. These differences create tensions in the relationship—and they are not going away anytime

soon. Even in areas where progress is possible there will be disconnects between the “policy time” in which progress will occur and the “political time” of the U.S. political process. The next president will need to manage expectations carefully.

China's rise comes at a time in which global interdependence is changing the rules of the game. Deep and rapid economic and security interdependence make traditional policy levers increasingly ineffective. As the multiple U.S.-China consumer product safety crises of 2007 illustrate, our two nations' economies are tied together in ways never before experienced, with implications we are only now beginning to appreciate. What's more, new cross-border flows of products, services, information, capital, and people complicate traditional policy decision making, blurring the lines between foreign and domestic policy. An increasing number of issues can no longer be managed at the border, but only through deep and difficult changes and reforms beyond the border.

U.S. domestic political cross-pressures involving China can result in U.S. diplomatic missteps. Finding a bipartisan working coalition that can support effective China policy is always a critical challenge. The complex nature of U.S.-China relations leads to disagreements and fissures among policymakers that often transcend party lines. Rancorous debate among many disparate groups about genuine U.S. interests can distort policy and send mixed signals to the Chinese about Washington's intentions. Traditional characterizations of coalitions organized as advocates for human rights, or alternatively focused on national security, no longer serve as accurate guideposts of how legislative branch policymakers will approach China.

This last challenge is perhaps the greatest the next president and his administration will face. Those who focus on “single issues”

when it comes to China include representatives from both sides of the aisle, while proponents of a full-spectrum relationship with China also range across political divides. Rep. Nancy Pelosi (D-CA), the Speaker of the House and a long-time champion of religious freedom in China, has at her side conservative Republicans who are equally critical of China's heavy-handed response in Tibet. On trade, bipartisan members of the Senate Foreign Relations Committee argue that a long-term policy of engagement ultimately serves U.S. economic, business, and security interests. Yet other key senators, among them Sens. Charles Schumer (D-NY) and Lindsay Graham (R-SC) lead a delegation of Democrats and Republicans who are severely critical of China's currency exchange policies.

The next administration must work hard to bridge these many differences to execute pragmatic policymaking toward China. It must consult with Congress on a sustained and regular basis to forge a coalition that can support a progressive China policy. A more elaborate "buy-in" process for Congress will both help the executive branch gain a better understanding of domestic concerns, as well as develop domestic support for foreign policies. Moreover, repeatedly making the point to Congress and the American public that the U.S.-China relationship is a complex one will bring to light the stakes of such a relationship, and the nuanced approach necessary to address it.

These four challenges will complicate the next administration's relationship with China. But there are six key areas of China policy—beginning with climate change and energy security—that will set the stage for an effective approach to the U.S.-China relationship—one that safeguards U.S. national security and economic interests and creates the conditions for Chinese cooperation as a responsible power on the world stage. These six areas, all of which will require sustained presidential leadership, are:

- Climate change and energy security
- Balanced and sustainable global growth
- Enhanced security in the Asia-Pacific region
- China's military modernization
- Stability in the Taiwan Strait
- Governance and individual rights

Each of these arenas offers the potential for positive Sino-U.S. interaction, even reshaping of the relationship, but each area also has the potential for negative outcomes if not handled right. We will now turn to a detailed analysis of each of these areas to highlight the policy priorities and strategies necessary for the next administration to engage China effectively on all six fronts.



A local tour guide walks along the Bund, one of the most visited tourist destinations in Shanghai. In the background is Pudong, the city's new business and finance landmark. Source: AP Photo

An unsustainable environment

China's pollution problems are pervasive and costly

China's environmental problems are enormous and growing worse by the day. China's leadership has an enormous stake in finding sustainable solutions to its environmental and energy challenges for its own well-being. Unchecked global warming could have devastating consequences for China, and the country is already feeling the impact of horrific pollution problems on its people, government, and economy.

Costs to the economy

Studies conducted inside and outside of China have found that environmental degradation is costing the Chinese economy between 8 percent and 12 percent of gross domestic product each year.¹ Natural disasters, which are up from years past, are said to cost China between 1 percent and 3 percent of GDP annually.² Absenteeism, stemming from pollution-related health ailments, is also eating into the country's productivity levels.

In China's northern and western regions, desertification and water scarcity are slowing economic growth and limiting agricultural and industrial output.³ In a study conducted by the Chinese government, scientists found that China's production of wheat, rice, and corn could decline by as much as 37 percent by the end of the century.⁴ Other countries, including the United States, are growing wary of purchasing Chinese products because of contamination by pollution and chemicals. And global warming is expected to bring severe flooding on China's coastal

areas, where 41 percent of China's population, 60 percent of its wealth, and 70 percent of its megacities are located.⁵

The health crisis

More than 500 million people in China—1.5 times the total U.S. population—live without access to clean water.⁶ Only 1 percent of the Chinese urban population breathes air considered safe by the European Union.⁷ An estimated 750,000 people die prematurely each year in China from breathing polluted air.⁸ And according to state-run media, “China will have the world's highest number of lung cancer patients,” adding at a rate of “1 million a year by 2025 if smoking and pollution are not effectively curbed.”⁹

Global warming will probably lead to higher rates of infectious disease in China. One Shanghai-based study concluded that the lethal H5N1 virus, also known as Avian Flu, will spread as climate change shifts the habitats and migratory patterns of birds.¹⁰ Another study, conducted by Harvard Medical School, highlighted the link between extreme weather events and the outbreak of diseases such as malaria, typhoid, cholera, and dengue fever.¹¹ This has serious implications for China, as global warming is expected to result in major flooding on China's heavily populated eastern seaboard. The Harvard study also found that warming climates will lead to the spread of disease-carrying insects such as deer ticks, which spread Lyme Disease and are prevalent in China.

Migration and environmental refugees

Global warming has accelerated desertification of China's northern regions and exacerbated water scarcity. Regions that benefit from more abundant water sources will need to cope with an influx of migrants from water-scarce areas. One study by the United Nations projected that there could be as many as 50 million environmental refugees in China by 2010, many of them fleeing water shortages and sand dunes.¹²

Desertification will also add to the migration of rural Chinese looking for employment in already overcrowded and dangerously polluted urban centers.¹³ China's current rural-to-urban migration constitutes the greatest migration in human history.¹⁴ Overpopulated urban centers will grow in size and population, becoming breeding grounds for disease.

Social unrest

In 2007, The Minister of Environmental Protection Zhou Shengxian reported yet another increase in the number of "mass incidents" related to pollution, citing an 8 percent increase in number of petitions submitted to his agency over the same time period in 2006.¹⁵ This is presumably up from more than 51,000 environment-related protests that occurred in China in 2005, or about 1,000 protests a week, according to an independent report.¹⁶

Indeed, thousands of protestors took to the streets last year in Xiamen, an economic boomtown in China's coastal Fujian province, to halt the construction of a chemical plant. This past May, hundreds marched against the building of an ethylene plant in the city of Chengdu, the capital of inland Sichuan province. Though this march was peaceful, the same cannot be said about all of the environment-related demonstrations around the country.

In response, China has elevated the State Environmental Protection Agency into a full-fledged cabinet-level ministry with access to the State Council's decision-making process, more staff, and greater financial support. In March 2008, Zhou announced that the ministry will bolster its law enforcement capabilities with enhanced surveillance, stricter monitoring, regular meetings, joint enforcement, and information-sharing systems between environmental protection departments of all levels, as well as law enforcement and judicial bodies.¹⁷

The severity of China's pollution and climate change problems provide an opening for the United States to collaborate with China on this urgent set of challenges. Both countries have an interest in staving off the most severe consequences of environmental degradation, and both will benefit greatly from a constructive partnership in this arena. It is a global imperative that the next U.S. president work with China and the rest of the world to address China's pollution problems and the world's climate change crisis.

CLIMATE CHANGE AND ENERGY SECURITY

The energy and climate challenge we face in this new century is extraordinary in its urgency, stakes, and scope. The next president has an unparalleled opportunity to engage China in a constructive partnership on energy and the climate. While the Bush administration did not explore and build on our shared objectives because of its shortsighted energy policies and refusal to commit to reductions in greenhouse gas emissions, the next administration has the opportunity not only to safeguard the future of the global environment, but also to strengthen the U.S.-China relationship by finding common ground on these issues.

Climate and energy are complex and difficult issues for both countries. As energy becomes more scarce and expensive, and concern rises about climate change, the path the United States and China follow will determine whether the global economy can grow in a sustainable manner or instead will be undermined by competition for dwindling resources and the threat of global warming. If either country refrains from acting aggressively to reduce carbon emissions, then the world will face humanitarian and financial disasters of devastating proportions—disease, instability, civil strife, state failure, migration crises, water shortage, and conflicts over scarce resources.

The new administration will enjoy a unique opportunity to break the current climate change stalemate and create a more productive relationship between the two nations on environment and energy. Seizing this opportunity will require U.S. willingness to take bold measures without waiting for reciprocal action by China. It will also require the United States to be more sensitive to Chinese political and economic

constraints, and to invest in technology sharing and capacity building as a first step in laying the groundwork for longer-term changes in China's energy and environmental footprint. If we exercise patience and initially have modest expectations, the progress we make will eventually alleviate future geopolitical conflicts driven by competition for scarce energy resources and help the global community mitigate the extent and impacts of global warming.

The threat of climate change

While China and the United States are at different stages in fighting conventional pollution, the challenge of addressing climate change looms large in both countries. The United States and China are the two largest emitters of greenhouse gases in the world, producing approximately 40 percent of global greenhouse gas emissions. U.S. emissions are historically the highest in the world and have steadily risen over the last 15 years. China's emissions, however, are growing more quickly and have now overtaken those of the United States, several years earlier than expected, with an estimated increase in emissions of 9 percent between 2005 and 2006. The sharp increases in China's emissions, which were 14 percent higher than the U.S. emissions in 2007, accounted for two-thirds of the growth in global greenhouse gas emissions in that year, according to the Netherlands Environmental Assessment Agency.¹⁰

Neither of the two countries is now committed to emission reduction targets. As a developing country, China is not subject to greenhouse gas emission limits under the Kyoto Protocol; the United States chose not to ratify the protocol, in part because of

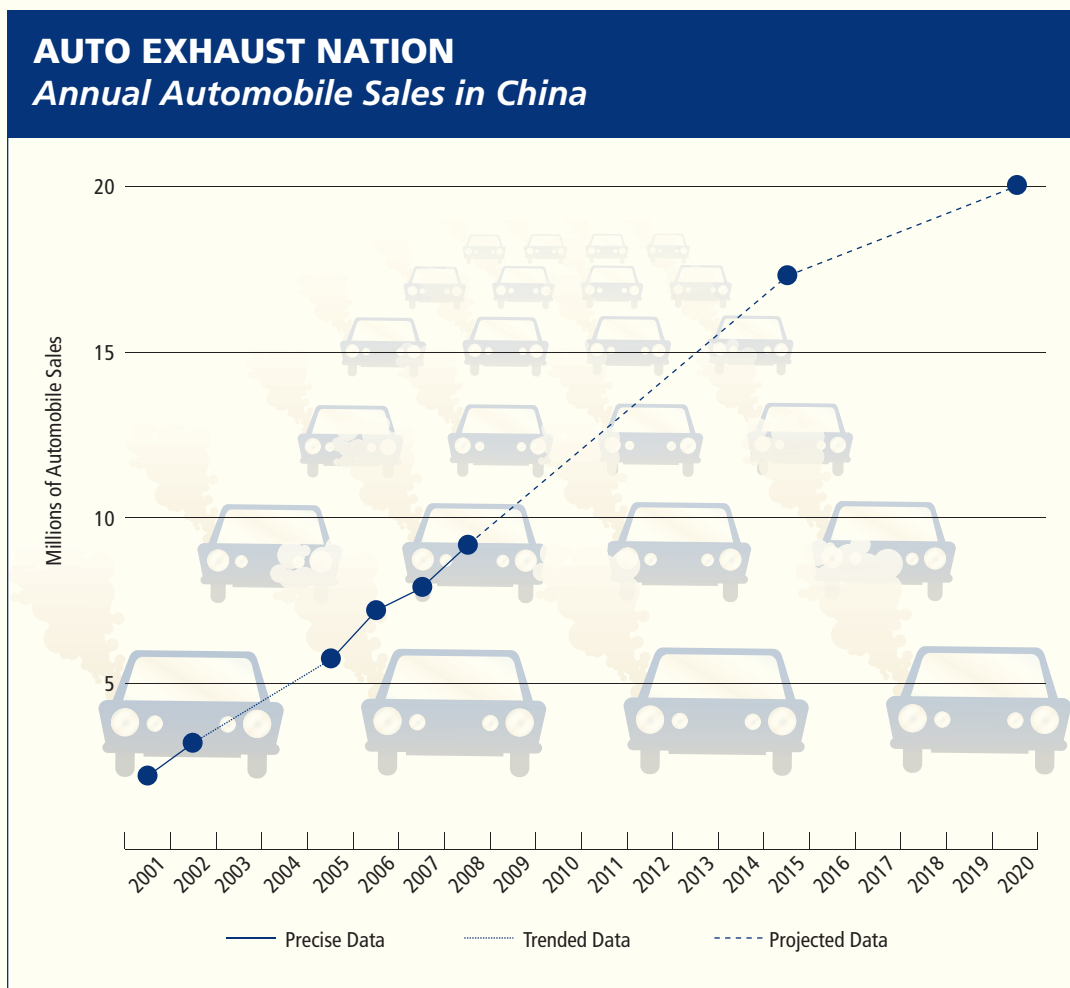
concern that developing nations were not bound by targets and timetables for greenhouse gas reductions.

China relies on coal for more than two-thirds of its energy needs, including 80 percent of its electricity. Currently, China has more coal plants than the United States and India combined, and is adding to this generation capacity at the rate of one plant every 7 to 10 days. Although low in comparison with developed countries, car ownership in China is increasing rapidly, quadrupling over the last decade. The number of cars in China is projected to rise to 55 million vehicles by the end of the decade. In parallel, demand for oil, China's

second-largest source of energy, doubled over the last decade, and experts agree that the country's oil demand will continue to grow rapidly through 2020.¹¹ Chinese state media reported that in 2007, 46 percent of China's crude oil consumption was met by imports.¹² Access to imported oil will be increasingly important in meeting China's growing demand for gasoline and diesel fuel.

China's energy policy initiatives

Energy efficiency is an increasingly important priority of the Chinese government, which is aware of the economic and security risks from the country's appetite



Sources: 2001-2002: BBC. January 31, 2003. <http://news.bbc.co.uk/2/hi/business/2712015.stm>
 2005-2006: U.S. Department of Energy. http://www1.eere.energy.gov/vehiclesandfuels/facts/printable_versions/2008_fotw500.html
 2007-2008, 2015: Automotive Resources Asia Limited. http://www.auto-resources-asia.com/view_asia.php
 2020: The Globe and Mail (Canada)

for fossil fuels. The government's 11th Five Year Plan sets a target of reducing energy intensity (the ratio of energy consumed to economic output) by 20 percent between 2005 and 2010, mostly by targeting the most energy-intensive industries. China has also adopted vehicle fuel-efficiency standards that will reach a fleet-wide average of 36.7 miles per gallon by 2008, a level that will not be required under U.S. Corporate Average Fuel Economy, or CAFE, standards until 2022. The government is also setting targets for increasing nuclear power and non-hydroelectric renewable energy. The goal is to increase renewable energy sources to 15 percent by 2020, and to quadruple nuclear capacity.

Nonetheless, China's high rate of economic growth coupled with the continuing dominance of fossil fuels, such as coal, in energy-

intensive industries means that greenhouse gas emissions are certain to continue rising for the foreseeable future—even with improvements in energy efficiency and greater deployment of non-emitting energy sources. The net result is that greenhouse emissions could well double by 2020, even though government policies will reduce that increase below business-as-usual levels.

China's leadership places a higher priority on addressing conventional pollution, which has more immediate and obvious economic, public health, and political consequences than climate change. Yet China is also experiencing sea-level rise, drought, typhoons, and desertification resulting from rising temperatures and changes in weather patterns.¹³ If trends continue, China will experience a wide-ranging number of secondary problems: agricultural and live-



A loading point for coal barges on the Yangtze River. Source: Flickr/Rose Davies

stock instability; higher numbers of insects; frequent heat waves; and rapidly spreading ailments such as cardiovascular disease, malaria, dengue fever, and heat stroke. These problems may lead to the mass migration of people, strains on state resources, and increased pressure on the government to respond to environmental degradation and natural disasters.

Although growing recognition of these threats may over time increase China's willingness to tackle climate change, China now lacks the infrastructure and capacity to implement greenhouse gas emission reduction targets or a carbon cap-and-trade program. Emissions-tracking is virtually nonexistent, and enforcement of environmental requirements is poor at best. One serious problem is the lack of centralized control of the energy sector; construction of new power plants is in the hands of regional authorities, who are under pressure to meet immediate energy needs and often have cozy relationships with industrial interests and local power brokers.

Furthermore, the Chinese have many environmental laws on the books, but the lack of meaningful enforcement and monitoring of environmental conditions, coupled with the decentralization of decision making and the absence of effective non-governmental organizations to challenge government policies, means that the actual level of protection is at best uneven, and at worst nonexistent. The Chinese government has repeatedly included environmental targets in its Five-Year Plans, yet many of these targets have been missed.

International climate negotiations

Without the full engagement of both countries, any global plan to reduce greenhouse gas emissions and stabilize atmospheric con-

centrations at levels that prevent the most severe effects of global warming will be futile. Both the United States and China have to date resisted participation in international efforts to curb emissions. The negotiating positions of the two nations reflect a variety of political and economic considerations, but a major factor has been mutual mistrust and a reluctance to step forward without reciprocal action by the other country. For years, China and the United States have pointed fingers at one another, blaming the other country for climate change and demanding its commitment first before signing on to any global plan.

Bridging the gap between the differing needs and perceptions of developed and developing countries is the central challenge in the international negotiations to develop a post-2012 successor to the Kyoto Protocol. As a member of the G-77, the bloc of developing nations within the United Nations, China argues that while its annual greenhouse gas emissions may now be higher than U.S. emissions, a more meaningful yardstick for apportioning responsibility is cumulative emissions over the past century.

Using this metric, the United States and other developed nations have accounted for substantially more tons of greenhouse gases and enjoyed much larger economic benefits from the burning of fossil fuels than China, which is still a relatively poor country that has not reached its economic potential. The Chinese, Indians, and other developing countries thus maintain that "equity" requires that the developed countries—whose emissions remain substantially higher on a per capita basis—shoulder a larger burden for controlling greenhouse gas emissions than advancing economies who have not yet enjoyed all the fruits of economic success.

These arguments have in the past met with resistance in the United States, where loss

of manufacturing jobs and a rising trade deficit have raised concerns about the economic challenge posed by China, and fueled anxiety about the economic consequences of letting developing countries “off the hook” for their rising greenhouse gas emissions. Fears of competition from China have long been a factor in U.S. climate policy. The absence of developing nation commitments was a major motivation behind Senate opposition to the Kyoto Protocol in 1997, and one reason why the Bush administration also resisted entering the treaty.

As the U.S. economy slows, concerns about losing economic ground to China under a global climate treaty are intensifying. Recent U.S. legislative proposals to combat climate change reflect a strong “international competitiveness” agenda, supported by a cross-section of groups, including labor unions, certain traditional energy-intensive industries (steel, aluminum, glass, paper, and chemicals), and members of Congress of both parties from manufacturing states. Their collective concern: Climate change legislation will increase energy costs in the United States while developing countries, such as China, are spared these higher energy costs, thus providing domestic manufacturing industries in China with a huge competitive advantage.

To address these concerns, pending climate change bills in Congress include border tax adjustment mechanisms that would increase the costs of certain products imported from countries that do not have greenhouse gas emission management programs “comparable” to any U.S. program. The key unanswered question, then, in the post-Kyoto climate negotiations conducted under the auspices of the United Nations, is how to frame an international agreement that protects the economic interests of the United States and other developed coun-

tries but recognizes the different capabilities and needs of the major developing economies and, above all, is effective in spurring deep reductions in global emissions.

An important milestone was achieved in the so-called Bali Action Plan, agreed to in late 2007, under which China and other developing countries dropped their insistence on being exempt from climate change obligations and agreed to take actions that are “measurable, reportable and verifiable.” Although Beijing has not yet shown its hand, many observers believe that, at a minimum, China will agree to make binding commitments to reduce energy intensity, implement efficiency standards, increase renewable energy, and estimate the impact of these various policies on greenhouse gas emissions. It is considered less likely that Beijing will commit to near-term targets or timetables for in fact reducing emissions, both because they would threaten continued economic growth and because the implementation tools do not exist.

How to craft a framework that accommodates these realities but moves China and other developing economies toward stopping and reversing emissions growth on a reasonable timetable will be the central challenge for climate change negotiators as they work toward an agreement that is politically viable yet effective in protecting against the harmful consequences of global warming.

In addition, the United States and China will need to grapple with the diplomatic fallout from China’s aggressive efforts to secure access to energy resources outside its borders.

China has forged friendships with brutal regimes, including Burma and Sudan, as it seeks to access energy supplies not already tapped by the United States and other oil-importing nations. China’s shielding of Iran on the UN Security Council and its



China's emissions accounted for two-thirds of the growth in global greenhouse gas emissions in 2007. Source: Flickr

“no questions asked” policy toward despotic and criminal regimes in Africa are only a few examples of where China’s energy needs and U.S. foreign policy find themselves at cross-purposes.

China’s leadership recognizes that their country’s foreign relations are deeply affected and sometimes jeopardized by its aggressive energy agenda. In fact, Chinese President Hu Jintao’s new energy policy announcement in 2007 stressed openness to international cooperation, in part in recognition of these issues.

As the world’s largest energy importers, the United States and China must cooperate more effectively in increasing global energy supplies, reducing energy demand, and enhancing market transparency and stability. This would reduce the incentive for China to secure access to scarce energy resources through support of repressive regimes. The political maelstrom in 2005 in the United

States over the aborted effort by Chinese state-owned China National Offshore Oil Corp. to buy Unocal Corp. based in California, however, makes this effort more complicated. It demonstrated to China the deep unease that exists in the United States about foreign ownership of strategic assets, notwithstanding the U.S.-Treasury led process to evaluate the national security concerns of all such transactions.

Without confidence that they can rely on global economic collaboration to provide them with their fair share of the world’s limited energy supplies, the Chinese will continue to purchase or control oil and gas assets wherever they can, even at the expense of their relationships with other energy consumers, including the United States. Both countries must strive for recognition that competition over increasingly scarce energy resources is a zero sum game that undermines world economic stability. Increased cooperation between the United

States and China on energy and climate can go a long way toward defusing this destructive competition.

A progressive way forward

The opportunity is ripe for the United States to broaden and deepen environmental and energy cooperation with China. A constructive dialogue on these issues can remove areas of friction that have impeded progress, encourage a greater convergence of interests, and add a positive dimension to the overall bilateral relationship. Most importantly, a working partnership between the United States and China, as the world's largest greenhouse gas emitters and energy consumers, can create the essential conditions for progress in reducing the dire risk of global warming.

The advantages to both countries of this partnership would be significant. China can secure the benefits of advanced U.S. technology and expertise in revamping its energy sector and building a modern environmental protection system. For the United States, creating new export markets for emerging energy technologies and services would further our own efforts to shift to a low-carbon economy, and create incentives for further energy innovation. With complementary approaches to climate change that meet each country's economic needs, the next president and China's leadership can reduce the trade frictions and competitiveness concerns that could otherwise be exacerbated by tensions over greenhouse gas reduction strategies.

U.S. overtures to China on environment and energy will inevitably take place within the larger context of domestic climate and energy legislation and the negotiation of a post-Kyoto international agreement on climate change. There will be many mul-

tilateral venues for engagement, including the U.N. climate negotiations, the "major emitters" dialogue commenced by the Bush administration and the Sino-U.S. Strategic Economic Dialogue initiated by Treasury Secretary Henry Paulson. All of these opportunities for engagement should be pursued, along with direct bilateral discussions at a high level between the two governments.

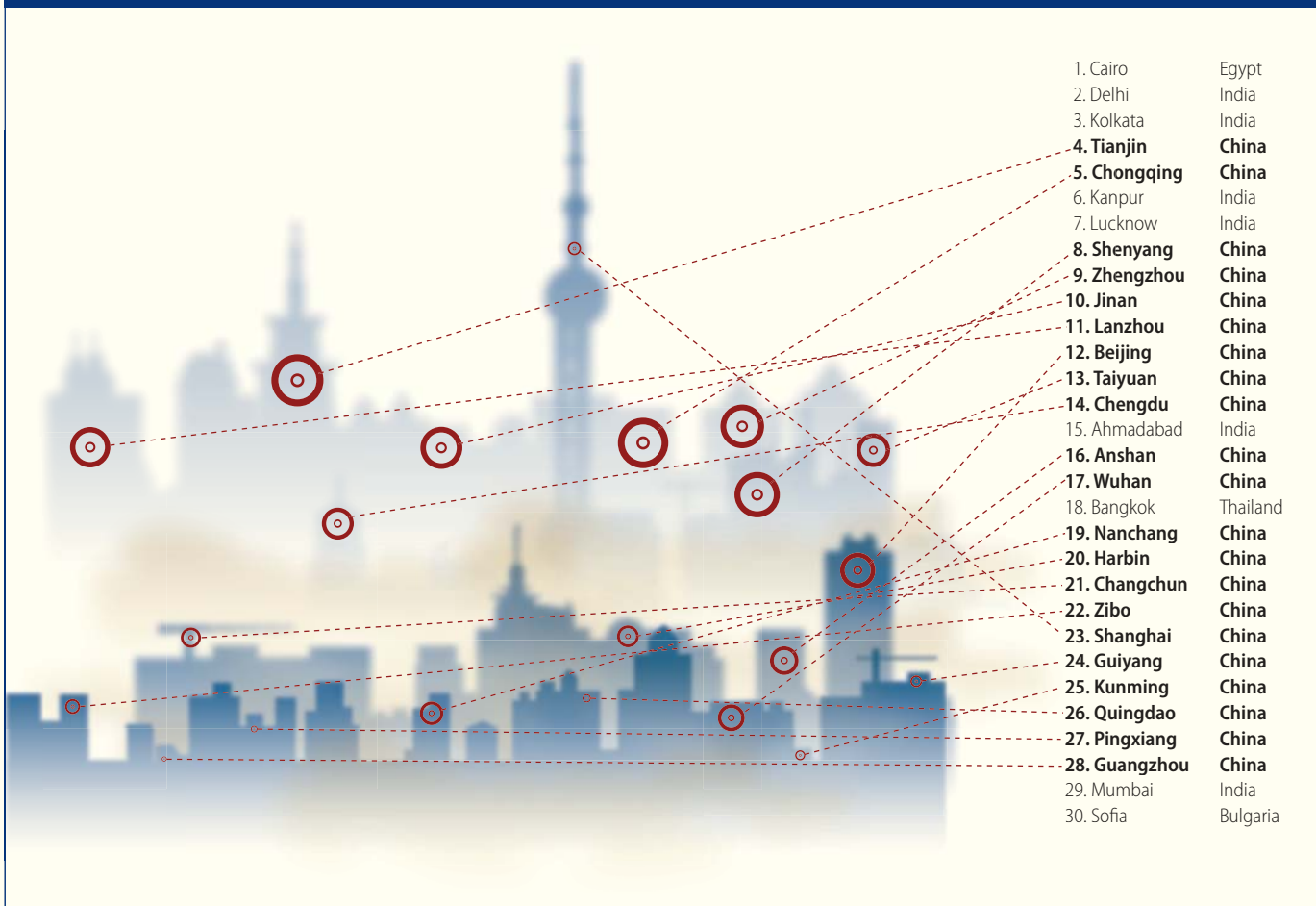
We recommend that the next administration proceed on two tracks. First, it should play a leadership role in the international climate negotiations, helping to define the roles and responsibilities of developing and developed countries in a positive way that overcomes long-standing animosities. Second, it should strengthen direct cooperation with China on a host of concrete energy and environmental issues where U.S. assistance can improve China's programs and the two countries can together advance the deployment of low-carbon technologies.

Early in the next administration, the new president should announce that the United States is committed to substantial, mandatory reductions in U.S. greenhouse gas emissions that are not conditioned on the actions of China or other countries. This will send the message that the United States is prepared to lead on climate change and recognizes that it has special responsibilities (along with other developed nations) to take action because of its historical role as the world's largest carbon emitter. The next administration should at the same time make clear that China and other developing countries likewise have responsibilities and must assume meaningful, binding commitments under a new international agreement.

The president should also stress that the United States will look after the interests of workers and industries who could be disadvantaged by this agreement if it leads

CHINA'S HIDDEN SKYLINES

Twenty-one of the thirty most polluted cities in the world are now in China



The World Bank's study of particulate matter found that 21 out of the 30 most air-polluted cities in the world are in China. Source: http://siteresources.worldbank.org/DATASTATISTICS/Resources/table3_13.pdf

to an unlevel economic playing field around the globe. These protections against unfair competition should be designed, however, to align incentives at home and abroad toward minimizing carbon emissions and recognize, to the maximum extent possible, the shared U.S.-China interest in maintaining the free flow of trade. The president should make clear that the scope and stringency of measures to protect at-risk workers and industries will depend on how far China is willing to go in reducing its carbon footprint and minimizing unequal cost burdens between developed and developing countries under the global agreement.

To create a level playing field for addressing climate change, the United States should propose a common set of actions that *all* major emitters would take to de-carbonize their economies and energy systems. These might include economy-wide targets for improving energy intensity, increasing renewable (and perhaps nuclear) power, raising fuel-efficiency standards for vehicles, and accelerating development and deployment of advanced technologies, such as carbon capture-and-storage technology for coal-fired power plants, plug-in hybrids to reduce petroleum emissions, and smart metering to promote efficient energy use.

Global carbon intensity and emission reduction standards for energy-intensive global manufacturing sectors could also be considered. A set of aggressive initiatives in these areas, with common goals for all participating countries, would demonstrate U.S. good faith in reducing its carbon footprint while building on the serious commitments China has already made toward improving energy efficiency and challenging it to do more.

The next administration should also press for commitments by China and other developing countries to goals for reducing and ultimately reversing emissions growth. These goals would initially aim to lower emissions below the levels expected in the absence of any action, although emissions would continue to grow in absolute terms. At a fixed date (such as 2025), China and other developing countries would then begin reducing emissions in absolute terms as part of a global effort to achieve an overall reduction of 50 percent below 1990 levels by 2050, the target recently agreed to by the G8 in Japan. These commitments would be coupled with binding targets for the United States and other developed countries that achieve absolute emission reductions by earlier dates.

This approach would arguably put the United States and China on the path of implementing comparable energy policy measures while accommodating the higher level of economic growth China needs to sustain as it continues to raise its standard of living. We can expect negotiating such a package will be challenging because of China's misgivings about adopting even nonbinding goals, and due to the risk of U.S. domestic political backlash against an agreement that is perceived as imposing unequal burdens on the two countries. Consultation with Congress from the start and throughout this process will be essential.

Second, the next administration should work directly with Beijing on mutually beneficial initiatives to improve environmental protection, stimulate deployment of clean-energy technologies, improve efficiency, and enhance China's technical and institutional capacity. This would complement the multilateral climate negotiations by opening additional lines of communication, building trust, and providing concrete benefits to both countries that can be leveraged across the entire bilateral relationship.

The United States should expand technical assistance to help China address the threat of traditional pollution of air, water, and waste. The United States has achieved considerable success in this arena. Our regulatory systems of permits, enforcement, standard-setting, and environmental monitoring are second to none, and could be emulated by China as it attempts to build a functioning and effective environmental protection system. The United States could help leverage the efforts of multinational companies with substantial China operations to institute environmental stewardship programs across their Chinese supply chains, building on the successful examples set by Wal-Mart Stores, Inc., Coca Cola Co., and others.¹⁴ China seems open to such joint efforts, having already consulted the U.S. Environmental Protection Agency and the state of California on how to implement environmental reforms.¹⁵

U.S. technical assistance would also be valuable in strengthening China's systems for monitoring energy use and efficiency gains, tracking greenhouse gas emissions, and verifying emission reductions, all of which will be essential over the long term for an effective program of greenhouse gas reductions. The United States and China could also undertake a program of cooperative research and development and demonstration projects to speed deploy-

ment of advanced energy technologies. U.S. technology vendors and innovators could participate in this program, and would have opportunities to develop markets for their products, assuming adequate intellectual property protections.

Possible candidate technologies would include carbon capture-and-storage systems for coal-fired power plants, use of biomass in power generation, cellulosic biofuels for transportation, advanced solar power, and smart metering and other energy conservation strategies. Another area would be advanced nuclear reactor technology and reprocessing of spent nuclear fuel. In several of these areas, bringing in Japan as an additional partner would expose both China and the United States to cutting-edge energy-saving methodologies, and would foster cooperation in a relationship that has been historically hostile.

As part of U.S. climate change legislation, the next president should support mechanisms to create project-based credit opportunities for U.S. companies, similar to the Clean Development Mechanism under the Kyoto Protocol. The Clean Development Mechanism allows signatory companies to earn emission credits by investing in emission reduction projects in developing countries that are “additional,” meaning they would not have been undertaken otherwise.

After a slow and troubled start, the CDM program has captured billions of dollars in investment, mainly in China. The United States has not directly benefited from the program because it is not a Kyoto signatory. Structuring such a program to maximize

investment opportunities for U.S. businesses while increasing the flow of capital and advanced technology to China should be a priority for bilateral discussions between the two countries as well as part of the post-Kyoto negotiations process. If this effort is to succeed, all parties will need to do a better job to assure that investments in developing countries achieve real emission reductions that would not otherwise occur.

The next president should also propose regular Chinese participation in the International Energy Agency.¹⁶ Chinese participation in the IEA in an appropriate fashion would be an important step in building ties between China and other large energy-consuming nations. In addition, there may be specific opportunities for U.S. industry participation in gas pipelines through Central Asia and similar ventures.

Prioritizing and emphasizing climate change and energy issues in high-level U.S.-China dialogues is key to progress in this area. The next administration should appoint and send special energy envoys to the Strategic Economic Dialogue with counterparts on the Chinese side, particularly now that the two countries this past summer agreed to a 10-year framework for these talks. The next president should also consider appointing a “wise-persons” group, headed by an energy/climate sherpa to develop specific policy recommendations. Depending on progress, the next administration should also consider holding an Energy and Environment Summit between the new president and Chinese President Hu Jintao to announce a set of new partnership initiatives between the two countries.



Workers assemble toys at the production line of Dongguan Da Lang Wealthwise Plastic Factory in Dongguan, China. Source: AP Photo

BALANCED AND SUSTAINABLE GLOBAL GROWTH

A progressive approach to U.S.-China economic relations begins with several goals. The two nations need to build a more equitable and mutually advantageous economic relationship. The United States needs to encourage China to be a more responsible international economic actor and to accelerate its market-based economic and labor market reforms. And the United States itself needs to take steps at home to improve its own economic and technological competitiveness, while raising income growth for low- and moderate-income earners and reducing our budget deficit so that our country can better compete in the global economy.

The ultimate measure of whether the next administration manages a successful economic relationship will be China becoming a more responsible stakeholder in addressing common global challenges such as energy security, climate change, and global economic imbalances while standards of living are rising for a greater number of Americans and Chinese. We can achieve this result only by employing the full range of domestic and foreign policy tools.

Trends in U.S.-China economic relations

U.S.-China economic relations are broad, deep, and growing rapidly. Our economies have reached unprecedented levels of interdependence. In 2007, U.S.-China trade crossed several key thresholds. China became America's second-largest goods trading partner (after Canada), the largest source of goods imports, and the third-largest source of goods exports.¹⁷ China is our fastest-growing export market, with U.S. exports to the country increasing over 200 percent since 2001 (when China joined the

World Trade Organization), growing at a rate approximately 10 times faster than to the rest of the world. This year, exports are on track to reach \$80 billion, a 23 percent increase from 2007, including computers, aircraft, and soybeans, among other goods.¹⁸

Nevertheless, we have a large trade deficit with China. In 2007, it was \$237 billion—the largest with a single country, just shy of a third of the overall trade deficit. One source of this deficit (some argue the largest) is increasing U.S. demand for goods from abroad brought on by low interest rates in the United States—which allowed consumers to refinance their homes and purchase on credit—as well as the federal government moving from a surplus to a deficit. The next president will face a growing federal deficit but also a slowing economy and rising interest rates that may put a brake on U.S. demand for some Chinese goods.

A number of other factors, however, contribute to the U.S.-China trade deficit, including the fact that many multinational companies from the United States, Japan, and other Asian countries have moved their final assembly of goods for eventual export to the United States to China from other Asian locations. The relocation of the supply chain to China has been particularly dramatic in consumer electronics, telecommunications, and information technology products. Goods that are assembled from imported parts and components account for about two-thirds of China's exports to the United States. The entire value of these exports is counted in the U.S. trade statistics with China, but this is misleading because the value-added in China is considerably smaller. The reality is that about two-thirds of the value of China's

exports to the United States originates outside of China, mainly in other Asian countries, including Japan.

As a result, as China's share of the U.S. trade deficit expanded, there was an offsetting decline in the share of the U.S. trade deficit originating in the rest of East Asia (South Korea, Taiwan, Hong Kong, Singapore, and Japan). Indeed, the whole of East Asia's nominal contribution to America's overall global deficit has not changed in the past 10 years, but China's share of the U.S. global deficit stood at 32 percent as of the end of 2007, up from 25 percent in 1998.

Another driver of the deteriorating deficit is China's rapid ascension up the productivity ladder. One study by the Center for American Progress found that the United States is losing ground on high-tech trade to a range of countries, led by China and Mexico.¹⁹ From 2002 to 2007, the U.S. high-tech trade deficit with China grew by 473 percent. Most of this growth has been the result of foreign direct investment, relocation of the supply chain to China, and intrafirm trade by multinationals.

This situation may now be changing as Beijing is increasingly using standards and technical regulations as competitive tools to favor domestic actors and homegrown technologies. The Chinese have developed a myriad of China-specific systems that veer significantly from international practice, especially in information and communications technologies, such as disc drives, telecommunications equipment, and optoelectronics, resulting in burdens on foreign companies doing business in China.

Another reason stems from within China itself. The high rate of personal savings in China and China's weak domestic consumption, which is among the lowest of any major economy in the world, contribute significantly to an imbalance of trade.²⁰

This trade imbalance between the two countries is also related directly to the value of China's currency, the yuan. To ensure that yuan appreciation against the dollar is limited, China "roundtrips" most of the dollars its exporters accumulate by financing roughly \$265 billion, or 36 percent of the U.S. global trade deficit (\$711 billion) through the purchase of U.S. financial assets such as U.S. Treasury securities and other public and private debt and equities.²¹ As of April 2008, China's treasury securities holdings were \$502 billion, accounting for some 19 percent of total foreign ownership of U.S. Treasury securities.²²

China, in effect, makes up for the dismal U.S. personal saving rate of 0.2 percent (in the first quarter of 2008)²³ by subsidizing our federal budget deficits and trade deficits so we can continue purchasing Chinese goods.²⁴ This has some substantial benefits to the U.S. economy, most notably in the form of lower inflation and lower interest rates, but they are not sustainable in the long run.

In 2005, under heavy U.S. pressure, the Chinese abandoned the yuan's fixed peg to the dollar, allowing its currency to float within a narrow 0.3 percent range against a basket of currencies of its major trading partners, but largely dominated by the U.S. dollar. Since then, the yuan has appreciated 17.5 percent against the dollar.²⁵ The annual pace of appreciation has accelerated to 6.5 percent in 2007 from 3.3 percent in 2006. It has already appreciated 6.5 percent against the dollar in 2008.

While this is a step in the right direction—and a welcome development for both countries—most economists believe that the yuan is still undervalued on a trade-weighted basis, and that China needs to move more rapidly to a market-determined exchange rate.²⁶ U.S. trade unions and manufacturers argue that the next adminis-

tration must “get tough” on China’s currency policies, but the Chinese leadership, for its own reasons, will resist all but the slow continued appreciation of their currency because of their own domestic economic concerns. Bridging this divide will be one of the toughest aspects of managing risk in Sino-U.S. relations, but making continued multilateral progress on currency will be essential to winning support for other aspects of this strategy.

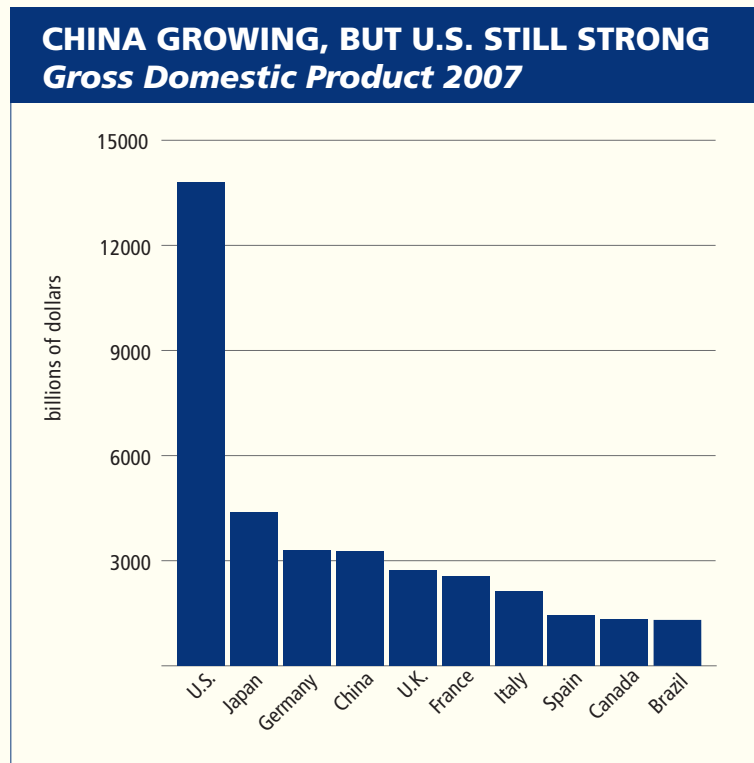
Understanding the effects of globalization and developing U.S.-China economic relations on American workers will also be critical to developing a successful approach. Many factors influence the overall number of manufacturing jobs in the United States. Increased trade with China is a relatively recent phenomenon, but the decline of manufacturing jobs in the United States is a decades-long phenomenon. As the trade deficit with China has increased, overall U.S. employment has also risen. The unemployment rate has held steady over this period also, until it began to climb in 2008 due to the current severe domestic economic slowdown.

Still, China’s labor costs are very low. A 2006 Bureau of Labor Statistics study found that in 2004, “the average hourly manufacturing compensation estimate for China in 2004 was \$0.67, about 3 percent of the average hourly compensation costs of production workers in the United States for the same year.”²⁷ This may be changing in China’s coastal regions, where labor costs are rising rapidly.

The next administration will need to push for greater access to China’s markets so that U.S. manufacturers and exporters reap the benefits of rising standards of living in China, and fortunately, the Chinese leadership recognizes the importance of fostering a larger middle class for their own economic

prosperity. The Chinese ruling party’s decision in December 2004 to take additional steps to move away from the country’s successful export-led growth strategy reflected the widely shared recognition that China’s economy needed to be more diversified—a realization that the leadership has since acted upon, with uneven success.

The Chinese economy continues to deliver record GDP growth each year, but the mix of growth from domestic demand, investment, and exports is becoming more



Source: World Bank “GDP 2007” (2008), available at <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf> (last accessed July 2008).

balanced. In January 2008, Chinese state media reported that “domestic consumption has replaced investment to become the biggest driver of economic growth for the first time in seven years.”²⁸ Moreover, in April 2008, Chinese consumer spending rose at an annual rate of 22 percent, the highest month-on-month increase in a decade²⁹

Yet China's current economic model still suffers from a number of weaknesses that will impede sustained, diversified growth over time. Continued overinvestment in some sectors of the economy, among them steel, automobile, cement, and aluminum production, decreases resource efficiency, impedes the growth of personal consumption, produces relatively modest job growth, and vastly increases energy consumption (and subsequently, pollution).³⁰ Overinvestment also creates the adverse effect of surplus production capacity, leading to a drop in prices and profits, and an increase in the number of non-performing loans. Lastly, China's excess reliance on exports has strengthened the hand of those arguing to erect trade barriers in many of the countries that import Chinese products.

Recognizing this, the Chinese government in 2007 announced another concerted push to shift its economy from an investment and export-led system to one driven by domestic consumption.³¹ Increasing household consumption, however, is difficult due to the high rates of savings that Chinese households accumulate for contingencies, such as health costs and unemployment. Increasing household spending will remain incredibly difficult so long as citizens do not have confidence in an adequate social safety net.

According to one study, only half the population is covered by basic health insurance in urban areas, and less than a fifth in rural areas. Unemployment coverage remains at only 14 percent of the Chinese population, while worker's compensation is at 11 percent.³² Additionally, China's pension system is woefully inadequate, covering only about 17 percent of those employed, plus 43.7 million retirees. The average pension plan provides for only 20 percent of average local wages.³³ Meanwhile, government expenditures on education amount to only 2 percent of GDP, leaving the rest of the financial burden to individual families to shoulder.³⁴

Beijing is trying to tackle these challenges. In its 11th Five Year Plan, covering the years 2006 through 2010, the communist leadership placed heavier emphasis on a "broad, human capabilities-based growth," rather than focusing on just GDP growth and state-directed investment in industry.³⁵ The plan's efforts to build a "harmonious society" (a euphemism for decreasing the urban-rural income gap that is a major source of societal inequality and grievances) calls for increased government spending on rural infrastructure and technology, improved rural public services, including nine-year compulsory education, and a revitalized cooperative health system. The plan also focuses on strengthening human resources, investing in people, developing environmentally sustainable practices, and diversifying capabilities. While the Chinese leadership's recognition of their own interest in broad-based prosperity is a welcomed advance, it is yet to be seen whether their plan will bring about the expansion of China's middle class that is in America's best interest as well.

A progressive way forward

The debate in the United States on our economic relationship with China, like much of our discussion of globalization, is increasingly stale. Recommendations tend to fall into two camps. There are those who argue that we will fuel a race to the bottom if American products and workers must compete with their counterparts in an economy with far lower wages, labor and social protections, and safety standards. Others argue that, on balance, trade and economic integration is beneficial to the overall economy and all who would argue otherwise are merely "protectionist." Their answer to the challenges of globalization is to create a renewed and modern social safety net at home.

Neither of these paths offers a compelling vision for American prosperity in a globalized economy. It is neither feasible nor economically advantageous for America to wait until living standards and social protections in developing economies mirror our own. American workers, despite recent setbacks, still enjoy one of the highest standards of living in the world. Too often, efforts to protect U.S. interests prevent progress for workers around the globe who may live on only dollars a day or struggle to even join the formal economy.

At the same time, we must begin to take seriously, not pay lip service to the severe economic dislocations that Americans are weathering from job loss and wage stagnation. Unemployment is often longer, and fewer workers are recovering their prior level of income. In addition, people have a growing fear that they will not leave their kids and future generations in better shape to compete and prosper in a globalized world.

The solutions we offer must not simply provide a social safety net for those who fall to global competition. We need a strategy for economic mobility and advancement for U.S. companies and their workers in a global economy. Our policies have to result in U.S. economic growth if we are to have the investment needed to sustain growth and opportunity, and growth has to be shared by the very workers who help to create it.

A progressive vision for the world economy recognizes that encouraging broad-based growth in other countries is not only morally right, but economically beneficial for America.³⁶ The more people in other countries, including China, who leave poverty behind and enter a secure middle class, the more they will create demand for their own country's products as well as American exports—creating a global economy in

which America is well suited to compete. While we must strengthen policies at home and enforce existing standards to better enable us to contend with this increased competition, it is equally important to take steps abroad to ensure expanded trade and investment with developing countries drive strong increases in their living standards and domestic consumption.

This in turn will stabilize global economic flows and generate additional demand for our own products and services to produce further improvements in our own living standards. U.S. policymakers should make clear to the Chinese that the United States and China share a deep and abiding interest in China's continued prosperity and the continued improvement of the standards of living for the Chinese people.

The key challenge, then, is ensuring that growth in China is widely shared and sustainable. With that context, we recommend that the next administration pursue a two-pronged approach to our economic relationship with China. First, sharpen our bilateral and multilateral economic dialogues with China for the purpose of encouraging China to become a full partner in addressing the challenges confronting the global economy—challenges including energy security, economic imbalances, and poverty alleviation. Second, create clear incentives for China to take action through the use of both bilateral and multilateral carrots and sticks. The United States should also adopt a domestic program to invest in innovation, enable businesses, and empower workers.

Bilateral and multilateral economic dialogue

The next administration should pursue a high-level economic dialogue with China (like the ongoing Strategic Economic Dia-

logue), to sharpen the focus on a number of areas including not just energy and climate but also enforcement of international trade and regulatory standards, institutional reforms including social safety nets and proper enforcement of labor standards, exchange rate policy, and compliance with

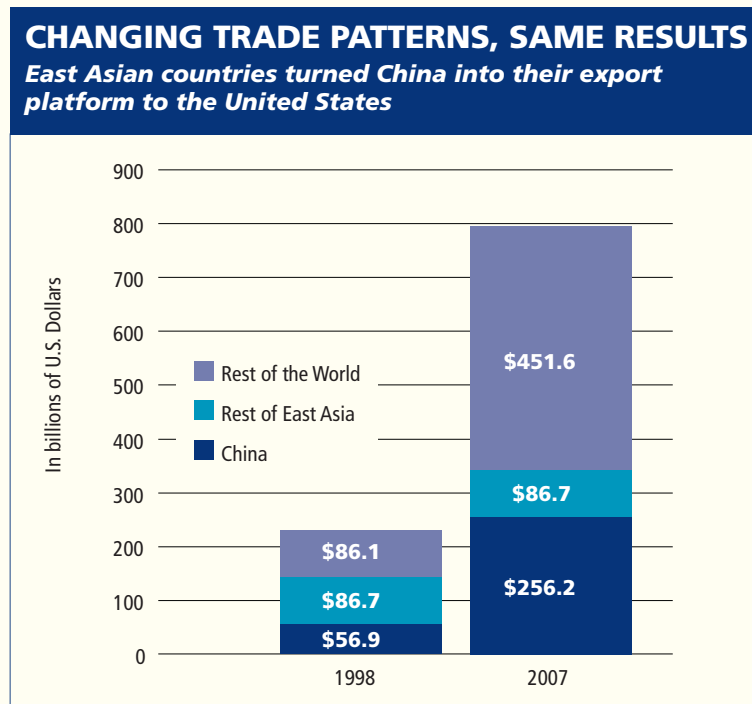
also be straightforward in the sense that we should make it known that we will not hesitate to exercise our legal and other sources of leverage to advance U.S. economic interests where cooperation is not forthcoming.

Stronger enforcement of trade rules

In particular, the next administration should push harder for China to enhance enforcement of its trade and regulatory standards, including intellectual property enforcement, technical standards, and consumer safety enforcement. China must more actively and effectively protect U.S. intellectual property. A recent study has estimated that over 40 percent of the U.S. economic growth in 2006 can be attributed to just the U.S. industries that rely on copyrights and patents. China's continued large-scale violation of intellectual property rights threatens the vitality of those critical industries.

Major improvements in China's protection of intellectual property—and improved market access for our intellectual property-based industries—would directly benefit one of America's most productive economic sectors, and the U.S. workers employed in those industries. On technical standards, the new administration should develop initiatives that encourage China to work through the international system for standards and to adopt global standards and transparent, non-discriminatory technical regulations. The United States has some responsibility here as well, since we have not adequately invested in customs enforcement and can cooperate with China in this area.

The failure of the Doha Round has many causes, not the least of which was Chinese reticence to assume a broader set of liberalization obligations, and specifically China's insistence, along with India, upon having



Source: U.S. Census Bureau, Foreign Trade Division, Data Dissemination Branch. <http://www.census.gov/foreign-trade/balance/index.html>

international rules on foreign aid. The aim should be to encourage China to assume a degree of responsibility for stewarding the world economy that is commensurate with its growing weight in it.

The negotiations should be conducted in a spirit of partnership and with a *positive sum game* sense of their possibility to produce a win-win outcome for the people of both countries. Indeed, China's leaders have already acknowledged that they need to address many of these issues more seriously if they are to satisfy rising domestic political expectations of wider social inclusion in the benefits of the country's newfound economic stature. Our tone, however, should

a tool to protect its agricultural markets against a surge of imports. Of course, the United States' offer on agriculture, deemed insufficient by many nations, would have required renegotiation of last year's popular, subsidy-rich U.S. farm bill, so there was no U.S. consensus on how to approach these negotiations either. In fact, a comprehensive round, based on a "single undertaking," which means that no agreement can be reached unless everything is agreed to, proved unworkable.

The focus of U.S. and Chinese engagement on trade may therefore turn to the rest of the Asian continent. China continues to drive the development of an exclusive Asian trading bloc, while the United States has deep concerns about its eroding position in Asian markets. Some of the more developed countries around the Pacific—Australia, Singapore, South Korea, and Japan—may have an interest in having a counterweight to China's increasing economic and political clout. And so, the United States should engage more vigorously by proposing an agreement among these nations featuring liberalization of services, high levels of intellectual property protection, as well as strong labor rights and environmental standards. This approach would reflect clear-eyed realism about how the United States can best manage the risk posed by China's economic rise, while continuing to give China an incentive to engage responsibly and constructively in a broader multilateral economic regime over time.

China should also be pressed to ensure the safety of its exports and provide support to strengthen enforcement of its regulations. The United States, too, needs to improve the capabilities of its own regulatory agencies as well as the enforcement mechanisms for testing products from overseas. We should broaden bilateral cooperation and regulation to ensure that Americans only purchase

safe products from China. Though the Chinese are the majority of the victims of unsafe Chinese products, scores of Americans are dead from tainted heparin, and even more American children have been exposed to unsafe levels of lead. Both countries must make consumer safety a top priority.

Faster progress toward market-determined exchange rates

China should be held accountable to the goal of making the yuan a fully convertible currency in the near future. Since the yuan is undervalued on a trade-weighted basis, this is primarily a multilateral issue. As we discuss further below, the International Monetary Fund should be encouraged by the United States and other nations to take a greater role in the surveillance of the global monetary system, and to help reduce the incentive for countries such as China to undervalue their exchange rates and accumulate large foreign exchange reserves.

The United States should work to increase the IMF's capacity to fulfill this responsibility and should also explore its options through the World Trade Organization, as is detailed later in this report. Resolving this issue through an international mechanism, such as the IMF, will mean avoiding the dangers that come with U.S. unilateral action on China's exchange rate, but the United States should continue to apply bilateral pressure as well.

Structural reforms to lessen reliance on exports for growth

The next administration should press China to implement a number of institutional reforms to expand purchasing power and reduce its unusually high domestic saving rate, thereby reducing its tendency to run

large current account surpluses. It is also important that the United States fix its fiscal policy at home—and no doubt the Chinese will remind us of this—by reducing U.S. debt and increasing transparency in the financial sector.

There are a host of other measures China must take to boost the standard of living and consumption power of its citizens. First, China needs to make more progress more quickly in establishing social safety nets and protection programs for workers, such as options for health care, long-term retirement savings, and disability insurance, as well as consumer protection, investor protection, and antitrust rules and regulations.

Second, working through the International Labor Organization we can also help China to improve labor standards for Chinese workers. For the ILO to be effective, the next administration needs to increase its leadership in and funding for the ILO. This will help to build the necessary institutions and track progress against the seven priorities agreed between China and the ILO, including promoting international labor standards, strengthening social protection, and improving labor dispute resolution. The Chinese government has indicated its view that reforms in this area are necessary.

There is, however, much more progress that needs to be made. The United States should work with the ILO to push for China to close the gaps in its implementation of the Decent Work Agenda in China, including commitments to freedom of association, the formation of independent labor unions, and genuine social dialogue. As part of its own commitment to a new social contract, the next U.S. administration will need to focus at home on income replacement for low- and moderate-income earners, health care reform, and increased workforce skills.

China also needs to strengthen the enabling environment for private-sector investment in small businesses, housing, and infrastructure. Because most Chinese are still rural poor, they need a pathway into the formal economy and onto a ladder of opportunity. A job-creation program for Chinese workers (as odd as that may sound for Americans) is an essential component of the agenda. Each of these systems will expand social inclusion in the benefits of China's rapid economic growth. It is crucial that these areas become central to the dialogue and that an understanding among Chinese and Americans is established that growth of China's middle class benefits both countries.

Making progress on these issues with China may run into some opposition from U.S. companies as well. Case in point: The National People's Congress enacted a new labor law in June 2007 that requires employers to provide written contracts to their workers, restricts the use of temporary laborers, and helps give more employees long-term job security. Some U.S. multinational companies lobbied against passage of this small but positive step for Chinese workers, arguing that the new rules were aimed at them rather than Chinese employers.³⁷ The next administration must work closely with U.S. companies to help them understand the importance of progress in China on these issues to sustaining support for U.S. economic integration with China. U.S. companies must become a force for progress, not resistance to it.

Responsible foreign aid

The United States, in concert with others, should push China to make sure that its own economic and development policies in very poor countries help to create broadly shared growth. While some of China's aid to poor countries takes the form of infra-



Governor of the People's Bank of China, Zhou Xiaochuan speaks on a news conference during the Third China-US Strategic Economic Dialogue at Grand Epoch City in Xianghe, central China's Hubei province, southeast of Beijing, Wednesday, Dec. 12, 2007. Source: AP Photo

structure projects that create lasting benefits to the local population and contribute to growth, China rejects the shared objectives approach that the donor community has developed over decades to ensure that aid goes to the people who need it and does not simply line the pockets of corrupt dictators.

To facilitate more responsible development policies by China, the United States should develop a proposal to include regular Chinese participation in the industrialized democracies' Development Assistance Committee.³⁸ The Organization for Economic Cooperation and Development's DAC coordinates research efforts for member nations' international development aid programs, and examines how these programs can help developing countries participate more fully in the global economy to overcome poverty.

As both a developing country and a major bilateral aid donor, China's participation in these discussions could contribute to its developing of aid practices that are more focused on sustainable development.

U.S.-China policy incentives

To exert leverage on China, the next administration should utilize a mix of policy carrots and sticks. The next administration can invoke the following options to make our strategic economic dialogue more productive than it was under the Bush administration.

The next administration should make room for China to take a greater role in global economic governance as a natural by-product of it sharing responsibility for the

stewardship of the world economy through a greater degree of cooperation on climate change, exchange rate policy, enforcement of rules-based trade, structural reforms to promote external balance, and responsible foreign aid practices. This offer should contain two principal elements: potential formal membership in the Group of Eight nations, comprised of the United States, Russia, Japan, Germany, Great Britain, France, Italy, and Canada, and greater voting weight in the primary multilateral economic institutions.

The original purpose of this club of industrialized countries was to serve as a mechanism for stronger international economic policy coordination. G8 summit agendas, however, are now dominated by a wider range of non-economic issues. The next administration should consider preparing and publicly speaking about returning the G8 process to its original intended function—but allowing side sessions on foreign policy issues to continue—and expanding its membership so that it can serve this purpose effectively.

By limiting the formal scope of discussions to international economic cooperation and related aspects of global governance, there would be a clearer logic to inviting China, as well as Brazil, India, Mexico, and South Africa into the group as permanent members. Such an expanded and refocused Group of 13 would also provide an opportunity to fill one of the major gaps in global economic governance—the absence of integrated oversight of the major international economic institutions. The next administration should hold out the prospect of a formal expansion of the G8 as part of its positive vision for a fuller economic partnership with China.

The timing of its support for this wholesale inclusion of the five newly industrializing countries should be driven by the pace of China's progress on the areas discussed earlier, which will be the best indicator of China's readiness to assume its fair share of responsibility for tending to the health of the world economy. In parallel, the United States should hold out the prospect of meaningful reform in the governance of the IMF and World Bank. Since their inception, the IMF has been headed by a European and the World Bank by an American. This approach now seems dated, but reform and greater inclusion for China and other middle-income countries (commensurate with their growing global importance) should go hand in hand with greater responsibility.

Finally, the next administration should make a concerted effort to strengthen the resources and other capabilities of multilateral institutions that could mobilize to assist the Chinese government as it seeks to strengthen institutional capacity, regulatory enforcement, and safety net programs in the areas covered by our bilateral economic dialogue. These areas should include consumer safety standards, investor protections, health insurance, pension benefits, unemployment insurance, labor protections, environmental protections, anti-competitive practices, and technical standards enforcement.

On these topics, our bilateral discussions should mainly be concerned with mobilizing support and sharing experience. For this policy incentive to be made credible, however, the World Bank, regional multilateral development banks, the ILO, and bilateral aid agencies will need to be upgraded in important respects.³⁹

Policy disincentives

The IMF has been encouraged to take a greater role in the surveillance of the global monetary system and to help reduce the incentive for countries such as China to undervalue their exchange rates and accumulate large foreign exchange reserves. The United States should work to increase the IMF's capacity to fulfill this responsibility. Resolving this issue through a multilateral agency such as the IMF will mean avoiding the dangers that come with U.S. unilateral action on China's exchange rate, including financial retaliation and trade war, Chinese sales of U.S. financial assets and financial market instability, higher U.S. interest rates, and more imported inflationary pressure from higher prices of Chinese imports.

Another avenue is provided by the World Trade Organization, through which the United States can prosecute a case on the imbalanced currency rates, as well as intellectual property rights, labor standards, and market access. China is making some progress complying with WTO obligations, most notably by lowering average tariff rates to 9.9 percent in 2006 from 15.6 percent in 2001.⁴⁰ And the United States has initiated six cases against China in the WTO since 2001 and has won two so far. The next administration should use the WTO to enforce China's existing obligations and to persuade China to take on additional commitments.

The United States should not shy away from challenging China in WTO dispute settlement if China is not living up to its WTO obligations on intellectual property rights protection and enforcement, and it should strengthen bilateral efforts to secure better intellectual property protection. The United States should argue that

improved intellectual property protection is in China's interest as well. The innovative and creative sectors of China's economy would benefit from enhanced protection, as has been demonstrated by the experience in other economies in Asia.

The next president should enforce U.S. trade laws as well through the International Trade Commission, and strengthen this and other U.S. agencies tasked with enforcing trade laws. It should also increase the resources and focus of the Office of the U.S. Trade Representative on trade enforcement. Similarly, the next administration should press for greater U.S. access to China's markets, in financial services and other sectors, through the U.S.-China Joint Commission on Commerce and Trade, a government-to-government consultative mechanism that provides a forum to resolve trade concerns and promote bilateral commercial opportunities.

Investing in American innovation, enabling business, and empowering workers

In order for America to thrive in our economic relationship with China, we also have to reinvest in American ingenuity. Our economic agenda at home has to spur growth that creates good jobs through investment in innovation and the transformation to a low-carbon economy.⁴¹ We must invest in human capital and create a nimble, innovation workforce at every skill level. We must prepare all our workers for an economy that demands technological and problem-solving skills.⁴² Our focus on education must begin with early childhood learning, continue through primary and secondary education, include a focus on a revised vision of universal higher educa-



The next administration must work to promote U.S. businesses. Source: AP Photo

tion that provides credentials and skills of value to the student and the economy,⁴³ and sustain a commitment to a system of lifelong education that works for today's overstretched American families.⁴⁴

In striking the necessary balance between a cooperative and competitive trade relationship between the United States and China, the next administration must work to promote U.S. businesses. It can do this most effectively by expanding U.S. exports, especially from small- and medium-sized businesses. In May 2008, total U.S. exports rose to \$158 billion, the highest-ever monthly total. Exports in the first five months of the year rose 18 percent over the same period in 2007. Services now make up roughly 30 percent of total U.S. exports, and in recent months have reduced the overall trade deficit by over 17 percent.⁴⁵

Exports to China are primarily in goods, but there is huge potential for the expansion of services. For example, in the 2006-07 school year, nearly 68,000 Chinese

students studied at U.S. universities, a year-on-year increase of 8.2 percent.⁴⁶ In 2007, there were close to 550,000 visitors to the United States from China and Hong Kong, up 25 percent over a decade.⁴⁷

The next administration should encourage legislation such as the U.S.-China Competitiveness Agenda for 2007, which among other things aims to enhance U.S. competitiveness and help U.S. small- and medium-sized businesses access the China market. The next administration can also help by opening U.S. export-promotion centers, especially in smaller Chinese cities, and assisting states in opening export promotion offices in China.

The next administration should also explore options to streamline export controls, recognizing that national security must remain the highest priority for the United States but ensuring trade in legitimate, non-military products is allowed, including those goods on the restricted U.S. list but which are readily available to China from other

sources. More should also be done by the government agencies to promote American services to China, such as services to help China rein in environmental degradation and global warming.

We also need to empower workers with the public policy tools they need to become an even more flexible workforce, including universal health care, expanded unemployment benefits, and new jobs training programs, with a focus on the growth sectors of green jobs. We also must seek to restore economic mobility, including providing more effective and right-side up incentives for retirement savings,⁴⁸ perhaps beginning with a universal 401(k) retirement savings program, restored stability to the U.S. housing market, a progressive tax system that rewards work, and making it easier to join unions so that wages and benefits for workers throughout the economy are more likely to rise with productivity gains.⁴⁹

We also need to put ourselves back on a path of fiscal responsibility. Our massive import demand is correcting itself in the most painful way possible as the housing bust and associated slowdown leaves families unable to sustain prior levels of consumption. But over the long term, restoring fiscal responsibility will help to address the trade deficit. This will be uniquely challenging, however, because of the misplaced priorities of the last administration and the long-neglected but essential public and

private investments required to put us in a position to jump-start lagging productivity gains and resume long-term growth.

The next president and his administration can systematically reduce the nation's debt as a share of GDP, putting us on the right financial path so that we do not burden our children, are better prepared for the aging of the baby-boom generation, and help restore our balance of payments. After a short-term lull while the immediate consequences of the housing bust and recession are ameliorated, we must once again put ourselves on a declining debt-to-GDP ratio path last seen in the Clinton administration. This agenda can be achieved even while keeping government revenue as a percentage of GDP at levels last seen during the Clinton administration when the country experienced tremendous growth.⁵⁰

A U.S.-China policy paper is not the place to discuss the details of these and other progressive domestic programs that the next presidential administration should embrace, but it is important to draw the connections between these domestic policies and its China policy agenda. The next president's economic and national security teams must work together in concert to advance an agenda of economic renewal that is equal measures domestic revitalization and international economic policy so as to ensure America's ability to excel in the global economy.

DIPLOMACY IN ASIA: CHINA PLAYS THE GAME



MEMBERSHIPS IN MULTILATERAL ORGANIZATIONS IN ASIA

ASSOCIATION OF SOUTHEAST NATIONS (ASEAN)			
Brunei Darussalam	Laos	Singapore	Established in 1967, ASEAN tries to accelerate regional economic growth, social progress and cultural development and promote regional peace and stability.
Burma/Myanmar	Malaysia	Thailand	
Cambodia	Phillipines	Vietnam	
Indonesia			
ASEAN + 3			
Brunei Darussalam	Japan	Singapore	Cooperation began in 1997 between ASEAN and three regional powers; China, South Korea and Japan.
Burma/Myanmar	Laos	South Korea	
Cambodia	Malaysia	Thailand	
China	Phillipines	Vietnam	
Indonesia			
EAST ASIA SUMMIT			
Australia	Indonesia	Phillipines	Annual meetings led by ASEAN
Brunei Darussalam	Japan	Singapore	
Burma/Myanmar	Laos	South Korea	
Cambodia	Malaysia	Thailand	
China	New Zealand	Vietnam	
ASIA PACIFIC ECONOMIC COOPERATION (APEC)			
Australia	South Korea	Russia	Informally beginning in 1989, APEC focuses on its 'Three Pillars': trade and investment liberalization; business facilitation; and economic and technical cooperation among members.
Brunei Darussalam	Malaysia	Singapore	
Canada	Mexico	Thailand	
Chile	New Zealand	United States	
China	Papua New Guinea		
Indonesia	Peru	Vietnam	
Japan	Phillipines		
SHANGHAI COOPERATION ORGANIZATION (SCO)			
China	Kyrgyzstan	Tajikistan	Created in 2001, SCO is a permanent intergovernmental organization focused on increasing confidence and improving relations among the neighbors and making joint peace, security and stability efforts.
Kazakhstan	Russia	Uzbekistan	
ASIA EUROPE MEETING (ASEM)			
Brunei Darussalam	Indonesia	Singapore	Initiated in 1996, ASEM is an informal dialogue process aimed at strengthening the relationship and increasing understanding among the two regions.
Burma/Myanmar	Japan	South Korea	
Cambodia	Laos	Thailand	
China	Malaysia	Vietnam	
European Union	Phillipines		

ASIA-PACIFIC REGIONAL SECURITY

Relations with China are a crucial element of U.S. policy in Asia, but U.S. interests in the Asia-Pacific region are far broader. On a range of key political, economic, security, and diplomatic issues, constructive and collaborative U.S. relations with treaty allies Japan, South Korea, Thailand, the Philippines, and Australia, and the member nations of the Association of South East Asian Nations will be key to making progress. The rise of China complicates the challenge of U.S. policy in the region, but it also affords the United States a chance to reinvigorate relations with our long-standing partners there. Ultimately, getting China policy right will require that the United States get its strategy for Asia right.

China's economic, political, and security presence in the Asia-Pacific is growing. China today is the largest trading partner in the region and has undertaken a diplomatic "charm offensive" to court traditional U.S. allies, especially in Southeast Asia.⁵¹ China has also enhanced its military-to-military relations with India and its central Asian partners in the Shanghai Cooperation Organization.⁵² In an effort to reassure neighbors of its peaceful rise, and to prevent the emergence of an anti-China coalition, China has settled most of its land border disputes (though it still contests its littoral borders with almost all of its Pacific Ocean neighbors) and is a central player in all major multilateral organizations in the region, including the ASEAN Regional Forum, ASEAN Plus Three, and the Shanghai Cooperation Organization.

China's dual needs to develop new markets for its manufacturers and to meet its own increasing demand for raw materials, including soy, uranium, iron ore, and oil, has led it to aggressively woo neighboring

countries through promises of investment and cooperation. China's neighbors are equally eager to access the growing Chinese market, and to accept integrated aid packages that offer combinations of loans and aid to countries for access to raw materials and markets. Among the countries tapping China's aid largesse are Cambodia, Myanmar, Laos, and the Philippines.

Other recent trends have complicated Asian states' security and political calculus. A common perception in Asia is that U.S. attention to the region diminished during the Bush administration. In contrast to China, the United States during the Bush years increasingly disengaged from regional diplomacy and institution-building efforts. This pattern was reinforced by President Bush's cancellation of what was to have been the first U.S.-ASEAN Summit in the fall of 2007.

Meanwhile, the U.S. focus on terrorism, critical as it is, now dominates our relations with partners in Southeast Asia, at the cost of other considerations in the relationships such as trade. Furthermore, U.S. objectives and approaches on a range of issues have at times diverged from those of our regional partners. In North Korea, Japan and South Korea do not always see eye to eye with the approach pursued by the Bush administration to end Pyongyang's nuclear weapons program. And in Burma, differences in strategy and approach have too often needlessly separated the United States from its ASEAN partners.

All this disengagement and disagreement creates an impression that the issues of concern to regional states are on the backburner of U.S. policymaking. In the aftermath of the Cold War and especially

since 9/11, Asian policymakers, once so used to the interest and involvement of the United States, now wonder when this strategic drift will end.

A rising China may look to change the regional balance of power, but it has clear interests in regional stability as well, and it neither wants nor has the ability to push the United States out of East Asia. In fact, China recognizes that the United States is critical to the stability of the East Asian region. The United States for over 50 years has underpinned the security of East Asia, and it continues today to provide the immense and far-reaching security umbrella under which countries in the region have prospered. No country in the region, including authoritarian-leaning countries in Southeast Asia, wants to endure the instability that would occur if U.S. leadership were to atrophy.

Try as China might to alter the strategic reality with its soft power, the rise of China creates anxiety in the region that only the United States can allay. Our military and political commitments to allies ensure territorial sovereignty, prevent arms races in the region, and act as a calming influence in the tense Sino-Japanese relationship. The United States plays multifaceted and substantial roles in the region that cannot be filled by any other state. And while China may become the number one trader of goods in East Asia, the U.S. market and American innovations also continue to drive Asian economies.

Moreover, the United States has key strategic interests in the region. Most of our major supply chains run through the Asia-Pacific region. The United States has a big stake, too, in regional non-proliferation and in the health of the region's financial markets and economies, its environment and its people.

The U.S.-Japan alliance remains vital—it is

where U.S. interests in the region start. The alliance has been a bedrock of U.S. foreign policy over the last 60 years, and relations with Japan are stronger than they have been in a long time. Efforts to lessen the impact of the U.S. military footprint in Japan over the past few years have helped to alleviate tensions that have sometimes characterized the U.S. military presence in Japan. Additionally, recent U.S. base realignments have increased interoperability between our militaries, contributing to more effective alliance operations in the region.

Japan continues to contribute humanitarian, financial, and behind-the-frontlines support in Iraq, Pakistan, and Afghanistan. It also cooperates with the United States on a host of foreign-policy challenges, including North Korea and Iran. The gradual expansion of the alliance beyond Asia is allowing Japan to take on greater responsibility in the region and beyond. As a number of U.S. and Japanese security, political, and economic interests in the region are aligned, including managing a rising China, the U.S.-Japanese alliance must receive top priority in any U.S. Asia policy.

The U.S.-South Korea relationship is more fluid. South Korea's strengthening democratic traditions over the past two decades have at times strained bilateral relations amid disagreements over trade and differing views on the best approaches to North Korea. Nonetheless, a positive U.S.-South Korea relationship, forged in blood during the Korean War, remains of paramount strategic importance to both nations. The recent election of the president Lee Myun-bak, who has advocated improved U.S.-South Korea relations, as well as progress on such issues as the realignment of U.S. bases in South Korea—giving Seoul greater say in its defenses—have helped to start to get the relationship back on track.

The United States and South Korea share a number of permanent economic and security interests, but the United States must enhance this relationship. Consistently communicating to South Korea that it is and will remain a vital ally and friend, and regularizing high-level contact between our countries will be key to maintaining good relations. South Korea is the United States' seventh-largest trade partner, and there are several key trade issues that remain to be resolved between our nations, including beef and other agricultural and manufacturing market access issues in the flawed U.S.-South Korea Free Trade Agreement presented by the Bush administration to Congress in 2008. These are issues that can best be addressed and resolved within the context of a strategically vital partnership.

In Southeast Asia, the United States also boasts longstanding allies and partnerships that demand renewed attention. Our relationships with the countries of the region are complex and multifaceted, encompassing a myriad of political, economic, and security concerns. The combination of new external players, such as China but also India —and changing patterns in the distribution and diffusion of power within the region have had a marked effect on Southeast Asia's politics and economics. In some ways, the region's power dynamics are better understood through the lens of competing markets, pools of capital, workforces (with different sets of comparative advantages), and infrastructures rather than traditional nation-state definitions of power centered on military and political measures. With different centers of power emerging than the nation-state, the real locus of destabilizing competition may be more in rising economies than rising militaries.

The impact of China's rise, in both multilateral and bilateral terms, is less clear but potentially more profound, offering new

challenges to the political, cultural and economic dominance the United States enjoyed in Southeast Asia during the Cold War and immediate post-Cold War periods. At the same time, ASEAN, which has been playing the role of a neutral hub for regional multilateral diplomacy, is reinventing itself to cope with new regional challenges with the formulation of a new ASEAN charter, as well as regional institution-building efforts such as the East Asian Summit, which to date has simply left the United States out. As Southeast Asia moves toward increasing regionalism, whatever the pace, U.S. policymakers must consider appropriate initiatives and responses to meet this new opportunity.

A progressive way forward

The Bush administration's misplaced priorities, most drastically, the war in Iraq, turned U.S. attention away from the Asia-Pacific region at precisely the moment when China's rise and growing regionalism have combined to shift power distribution in East Asia, risking a long-term erosion of U.S. standing and interests in the Asia-Pacific region. But the next administration can reinvigorate sound regional policies. Under the leadership of the next president, the United States can signal that we are committed to improving, strengthening, and advancing our long-standing partnership with the region.

The next administration should seek an opportunity early in the term to signal anew the enduring nature of a robust U.S. security commitment to the region and U.S. intention to engage diplomatically with consistency and at the highest levels, including with such regional forums as ASEAN and the East Asian Summit. But revitalizing American alliances in the region will also be critical to promoting and maintaining a ro-



Wearing traditional "ao dai," leaders of the Asia Pacific Economic Cooperation (APEC) summit pose for a group photo in Hanoi, Vietnam. Source: AP Photo

bust stable balance of power in the region. This task will start for the next president with an effort to reinvigorate and deepen our bilateral partnerships.

We have no more important relationship in Asia than with Japan, and the U.S.-Japan alliance must be broadened and deepened as well as transformed to be truly global in nature. Our alliance with South Korea will require serious attention in the coming years in the wake of the massive South Korean protests against imported U.S. beef, the likely demise in Congress of the long-negotiated U.S.-South Korea Free Trade Agreement, and of course the always problematic issue of North Korea.

The next administration should revive the U.S.-Japan-South Korea Trilateral Coordination and Oversight Group. The TCOG process between the United States, Japan, and South Korea provides a unique oppor-

tunity for the three allies to work together to address the most pressing security issues in the region, including the future of the Korean peninsula and North Korea's nuclear program. The TCOG process would enable the three allies to better coordinate their positions and would complement the current Six-Party approach to Pyongyang, a diplomatic effort involving all the major powers in North Asia. This process can be further institutionalized and utilized as a means to keep open collaboration between our three countries on a host of developing traditional and non-traditional security issues in the region, including the rise of China.

Because these bilateral alliances do not exist in a vacuum, the next administration should seek to initiate track-one trilateral dialogues between the United States, China, and Japan on complementary U.S., Chinese, and Japanese interest and concerns. Equilibrium in the trilateral relationship is key to main-

taining stability in East Asia. The dialogues can focus on a number of traditional and non-traditional interests, ranging from non-proliferation to trade. As discussed earlier, cooperation on clean energy technology could serve as a model of cooperation, with benefits that might flow to other problematic sets of issues.

Pragmatism and the effective pursuit of our own national security interests points to the advantages of working with China on shared regional interests. The ongoing Six-Party talks over North Korea provided a valuable opportunity for China to assume a position of cooperative leadership and demonstrated that China can be a constructive player in resolving some of the most pressing concerns in the region.

More than once, China helped to bring North Korea back to the negotiating table after talks stalled. The denuclearization of the Korean Peninsula will require careful, hardnosed, and patient direct diplomacy, and China's continued engagement will be critical as the United States, along with our allies in the region, works to assure the complete and verifiable elimination of North Korea's nuclear weapons program.

Likewise, the United States should work with China, in coordination with Japan and South Korea, and in consultation with Russia, to develop a permanent institution dealing with security issues in Northeast Asia. This could be the Northeast Asian Peace and Security Mechanism included as a Phase Three issue on the Six-Party Process (should those talks meet with success), or it could be an alternative mechanism with five members, should that prove necessary. Beyond the immediate issue of North Korea's nuclear program, there are a host of serious security problems in the region, including a lack of strategic transparency

and confidence and a number of unresolved territorial disputes that will require ongoing discussions and cooperative problem-solving.

This Northeast Asian security mechanism can also provide a venue for the United States to build on recent positive trend lines in China's own non-proliferation behavior. China's approach to global non-proliferation has come a long way since the 1980s, when China openly flouted mainstream non-proliferation and arms control norm and regularly sold weapons to countries such as Iran, Pakistan, Saudi Arabia, and Syria.⁵³

Although it can bring significant capabilities to bear, the traditional U.S. hub-and-spokes approach to the region is not ideal for meeting the challenges of the new and non-traditional security agenda, which includes pandemics, natural disasters, and counter-insurgency, all of which will require multilateral cooperation. China should be encouraged to join alongside reinvigorated U.S. engagement and leadership of functionally oriented multilateral problem-solving mechanisms in the region, using existing architecture where appropriate, to address climate change, the threat of pandemic diseases, and other new and non-traditional security threats like transnational crime.

The United States must recommit itself to friends in Southeast Asia and develop deeper relationships with other nations there. This means that the next administration must expand our relationships to include more than the single-minded focus on terrorism that has skewed our relations with partners in Southeast Asia. It requires a higher regional IQ and enhanced understanding of the changing needs in this rapidly integrating and dynamic region. The next administration can initiate discussions with partners on creating a forward-leaning,



Delegates meet in Singapore at the 15th ASEAN Regional Forum Retreat on July 24, 2008. Source: AP Photo

non-traditional security agenda, including responding to natural disasters. U.S. leadership in response to the 2004 tsunami proved to be a signal moment for the United States in the region in recent years, and working with the states of the region to develop appropriate regional capacities may have both a functional utility and political benefits.

Engaging in the multilateral institutions in Asia can be an effective way to stay attuned to the dynamic trends there. China already is an active participant in the multilateral institutions in the region, which should be welcomed and encouraged by the United States as it embeds China into mechanisms that secure peace and prosperity in the region. But this should be matched by America's own willingness to play a constructive part in Asia's new diplomatic and economic architecture, which will assist in advancing America's standing.

Many of the goals for which Asia's multilateral institutions strive—transparency, security, and greater economic interaction—coincide with U.S. interests, and should be pursued. They can work together in a mutu-

ally enforcing way to ameliorate tensions, and they are more likely to succeed if the United States participates.

The next administration should focus on increasing U.S. engagement, attendance, and participation in regional and multilateral institution meetings in East and Southeast Asia. Importantly, just showing up at the regional meetings can go a long way in signaling America's commitment to the region, strengthening the institutions, and shoring up support among our friends and allies.

Attending the ASEAN Regional Forum and Shangri-La Dialogue, an annual meeting of Defense Ministers, affords the United States opportunities to collaborate with other countries on the economic and security benefits of working with China, as well as communicate shared concerns about China's rise. Participation in many of these forums, including the East Asian Summit, requires that the United States sign the ASEAN Treaty of Amity and Cooperation, which the United States should do.⁵⁴ We can not afford to be "absent at the creation" of new East Asian institutional architecture.



Military delegates arrive for the opening ceremony of the National People's Congress at Beijing's Great Hall of the People Wednesday March 5, 2008. China's military spending this year will jump by 17.6 percent compared with 2007, the latest in a string of double-digit defense increases. Source: AP Photo

MILITARY MODERNIZATION

Beginning in the mid-1990s, China accelerated its conventional military modernization efforts, and the Chinese military budget has now been growing at double-digit rates for over a decade.⁵⁵ China's official military budget is \$46 billion, although analysts estimate that the actual figure is between \$85 billion and \$125 billion when off-budget spending is taken into account. China's military modernization efforts have focused on renovating all dimensions of its capabilities including doctrine, force structure, and training and exercise. China is building a modern military to allow it to fight short-duration, high-intensity conflicts around its periphery and potentially beyond.

China has also developed military and defense relationships with an increasing number of countries around the world, claiming military-to-military relationships with more than 150 nations, including the United States and Japan.⁵⁶ It has conducted joint exercises with Shanghai Cooperation Organization countries in Central Asia, held joint exercises with the Indian Navy, and participated in a Pakistan-hosted multinational naval exercise.⁵⁷ In 2005 and 2007, China held large-scale joint exercises with Russia's military. Although these tentative steps are a far cry from development of a robust overseas port or basing structure, they could be indicative of embryonic efforts and merit close scrutiny.

According to the Department of Defense, China is focusing its modernization in a number of areas, including limited force projection, anti-access and area denial capabilities (capabilities aimed at either preventing an adversary from entering or

occupying a certain location or area, or greatly complicating their ability to operate there), information technology, space, and missiles. In recent years, China has acquired 12 new nuclear or diesel-powered attack submarines, launched new classes of surface combatant ships, is acquiring an aircraft carrier, and introduced several new or upgraded combat aircraft.

The People's Liberation Army also has placed significant emphasis on developing the capacity to interdict or attack military forces in the western Pacific theatre from a long distance. In January 2007, the PLA successfully tested a direct-ascent anti-satellite weapon. The PLA has also continued to augment its modern strike capabilities, modernizing and expanding what is already the most active ballistic missile program in the world. According to the U.S. Department of Defense, around 1,000 short-range ballistic missiles are deployed opposite Taiwan, and China is also modernizing its longer-range—including strategic nuclear—missile inventories.

Although China publicly reveals very little about its military strategy or planning doctrine, Taiwan, internal security, China's growing regional interests, and the U.S. military presence in the Western Pacific all figure in China's military modernization objectives.⁵⁸ Most analysts believe that much of China's military modernization program is intended to deter Taiwan's independence, which has always been one of China's top priorities, but China may soon have other security ambitions as well. A significant portion of the PLA's modernization, including its defense acquisition strategy, enhancement of precision strike

capabilities, realignment of force structure, and its operational training, are aimed at prosecuting a Taiwan contingency (specifically a military response to a formal declaration of independence from Taiwan), and U.S. involvement in such a contingency.

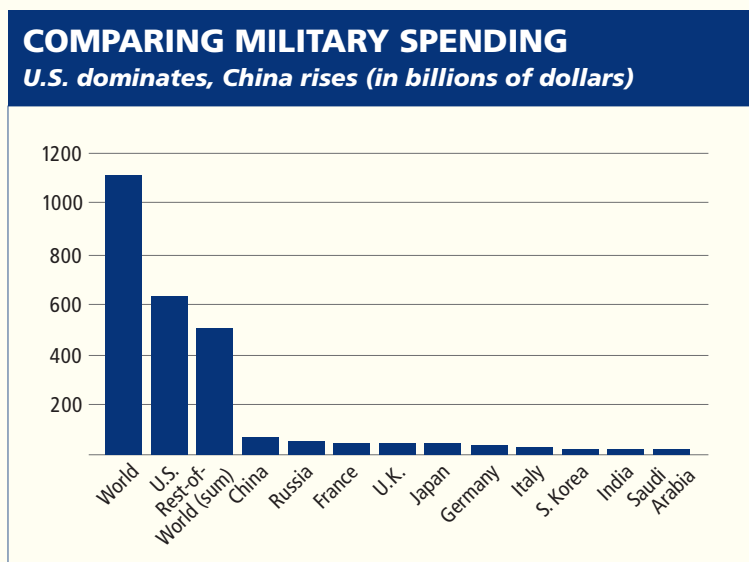
While the next administration must remain vigilant, it is important not to overstate the threat of the Chinese military build-up. China still suffers from very serious weaknesses in its military, including many obsolete weapon systems, a lack of effective joint command and control and operational capability, a lack of battle experience, and not a single working aircraft carrier or military base outside of China.

These conditions make China's rise particularly susceptible to miscalculation and misperception. Keeping a close eye on these issues will require ample resources, better intelligence and information sharing within the U.S. government, and a strong contingent of analysts equipped with the necessary skills and abilities to analyze the complicated web of circumstances around China's military development.

A progressive way forward

While the United States must monitor the strategic capabilities of China's military closely, U.S. policy should be oriented toward ensuring that China's pursuit of national security does not destabilize the region. Signaling that the United States will continue to be the primary provider of regional security is the best way to do so. As mentioned in the previous section, the next administration should convey the message that the United States will remain engaged in East Asia for the long haul to guarantee peace, deter aggression, and encourage peaceful resolutions to disputes, while emphasizing the cooperative and mutually respectful relationship the United States has with China on these issues.

The next administration should also maintain a robust military presence in the region that adapts to the developments of China's military modernization. To do this, the United States will need greater insight into China's military programs and a commitment to bolstering our military, specifically its abilities to adapt to China's military modernization capabilities and to respond, as necessary, to all contingencies. The next president should task the Department of Defense with conducting a rigorous, in-depth assessment of the ability of current and programmed U.S. forces to fulfill our security commitments in the Western Pa-



Source: Global Security.org "Worldwide Military Expenditures" (2008), available at <http://www.globalsecurity.org/military/world/spending.htm>

The conditions surrounding China's rise—opaque military spending and strategy, delicate military balances in the Asia-Pacific, regional tensions, and the Taiwan contingency must be closely watched, including a focus on the metrics that allow us to judge and evaluate China's military power and its intentions. China's increased defense spending tells us little in itself; a deeper appreciation of weapons systems and capabilities is more critical.



Dozen of warships of the South China Sea Fleet were deployed in the competitive training to improve combat capability of the fleet, Xinhua said. Source: AP Photo

cific in the face of the military capabilities China possesses or is likely to acquire over the next decade and then develop a long-term defense program, as well as a strategy for U.S. basing and posture in the Western Pacific that ensures the ability of our armed forces to maintain a stabilizing influence in the region.

Following the release of the Defense Department's assessment, and in light of the toll Iraq has taken on the US military, the president should task the department to make specific recommendations for investment, acquisitions, and procurements in East Asia. A specific area for improvement should include ensuring our forces' survivability in the face of growing Chinese "anti-access" threats and enhanced abilities to obstruct entry into strategic areas.

A progressive policy should also aim for greater transparency, trust, and confidence between the U.S. and Chinese militaries. Collaborating with China's military on a number of shared national security inter-

ests in the region can increase understanding and reduce chances for miscalculation. Progress in this area has been difficult and inordinately slow, but it is worth pursuing. The next president should intensify the strategic nuclear dialogue and deepen the high-level strategic dialogue on regional security issues. The aim of these discussions should be to articulate what minimum levels of defense are necessary for both countries to maintain security, as well as to understand better the intentions of each nation's nuclear and defense posture.

Increasing military-to-military contact and confidence and security-building measures provide a not insignificant avenue for communication and transparency. The United States can invite China to observe U.S. exercises in Asia (based on reciprocal U.S. observation of Chinese exercises), continue naval port calls in China (with reciprocal calls to the United States), and increase the contact between U.S. and Chinese military officers, especially in joint education and training programs.

Solid alliances in the region will be critical to safeguarding against potential aggression by China. The United States should work with allies in the region to increase joint military capacity, as well as to join in appropriate efforts to seek increased transparency from China regarding its military build-up. This will serve the purposes of diminishing the possibility for miscalculation and allaying regional concerns about China's military intentions.

Robust transparency, confidence and security-building measures with China may also provide the opportunity for creative bridging toward greater region-wide to strategic cooperation through the development of joint capacity to address humanitarian operations or natural-disaster response. As demonstrated by the *U.S.N.S. Mercy's* operations in the aftermath of Indonesia's tsunami, such missions afford an opportunity to advance U.S. cooperation with militaries in both Northeast and Southeast Asia, while enhancing America's image in the region and building stronger military ties.

The next administration should seek to develop modalities for joint U.S. and Chinese cooperation in humanitarian missions (as well as Chinese integration into multilateral mechanisms including Japan, Australia, and India), with a goal of creating a permanent Trans-Pacific disaster and humanitarian response and relief institution.

Importantly, the next administration should be careful to make sure that U.S. "risk management" and cooperation with regional

partners does not appear to be aimed at encircling and containing China. While we need to be prepared for contingencies, we must also ensure that our policy does not give China reason to adopt a more assertive military stance—creating in China the very enemy we do not seek. Striking the right balance is critical.

A critical test of China's willingness to cooperate in developing and maintaining this balance lies in another area of potential shared security interest: Space. The next president should initiate treaty discussions regarding the weaponization and militarization of space. The United States lost a critical window of opportunity to lock China into a treaty regarding the weaponization of space earlier in the decade, before China developed and tested the more robust capabilities it now possesses. But an opportunity still exists to develop a treaty-based approach that will protect the civilian and scientific assets in space and potentially forestall a dangerous space arms race.

In the long run, candid dialogue with China, increased transparency, and efforts to draw it into regional and global efforts toward peace and security is the best way to ensure a benign and peaceful China in the future. Together, the United States and its allies can work toward cooperative solutions, while recognizing and prudently preparing for uncertainties. To do so means that the United States must place a high priority on maintaining its relations and communications with allies in East Asia.



Taiwan is the most sensitive issue in the U.S.-China relationship. Source: Flickr/davidreid.

STABILITY IN THE TAIWAN STRAIT

Taiwan is the most sensitive issue in the U.S.-China relationship. Despite recent improvements in tone and tenor, this remains an issue that could trigger greater tension and confrontation between China and the United States. The ultimate objective of the United States is the peaceful resolution of the cross-Strait issue.

Taiwan holds strong symbolic value to both China and the United States, and both countries have a significant stake in the final resolution of the island's status. The United States has maintained a durable and productive relationship with Taiwan for over 50 years, cooperating on issues ranging from trade and security to health and education. Taiwan's successful and peaceful transition into a prosperous and stable democracy in East Asia, as well as its thriving market economy and position as a strong U.S. partner, imbue Taiwan with importance to American progressive interests. Taiwan's strong democratic credentials are an accomplishment to be recognized and preserved. For many American policymakers, Taiwan is also inextricably linked to U.S. credibility in the region and beyond.

Taiwan remains an issue of existential importance to China's leadership, who see reunification as a key milestone in closing the books on China's "century of humiliation" and fully marking the re-emergence of China as a great power on the world stage under the current leadership. China's leaders view Taiwan as a matter left over from the unfinished Chinese civil war that speaks directly to the issue of national unity. Increasingly, China's growing nationalist movement sees Taiwan in these terms, too. As such, the Chinese view the Taiwan issue as a domestic conflict that outside powers, including the United States, should stay out of.

Although China currently maintains a long-term orientation on this issue and values stable cross-Strait relations, it is also important to note in this context that the new generation of leadership of the Chinese Communist Party, with only attenuated connections and roots to the revolutionary legitimacy of previous generations, may find itself more reliant than previous generations of Chinese leadership on appeals to nationalism to reinforce its legitimacy.

A progressive way forward

In developing policies toward Taiwan, it is important that the next administration keep the long view and preserve peace in the Strait through maintaining the broad strategy that the United States has taken over the past three decades—neither supporting Taiwan independence nor allowing China to use military force to threaten the island. Three elements constitute the bedrock of the U.S.-PRC-Taiwan relationship and have worked effectively to maintain peace in the Taiwan Strait for several decades:

- The Taiwan Relations Act
- The Three Communiqués
- The "One China" policy

These agreements (see Box, page 64, for more details) serve as important guideposts for U.S. policy on Taiwan, delineating core principles in this complicated relationship. The next president should maintain the assurances and warnings of these principles, which offer a common language for Beijing and Washington and Taipei to address these issues, as an important starting point for any efforts to address cross-Strait issues.

Three elements that preserves cross-Taiwan Strait peace and prosperity

- The Taiwan Relations Act, passed by Congress on March 29, 1979, established a new relationship with Taiwan following U.S. recognition of the People's Republic of China and de-recognition of the Republic of China based in Taipei. The Act authorizes quasi-diplomatic relations with the Republic of China government through de facto, though not de jure, embassies in the two capitals and upholds all international obligations previously made between the ROC and United States prior to 1979 (except the Mutual Defense Treaty between the United States and the Republic of China, which was allowed to expire in 1980). The Act also allows the United States to continue to sell defensive arms to Taiwan, which we have done without interruption since de-recognition, and commits the United States to "consider any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to the United States."
- The Three Communiqués are a collection of three joint statements made by the governments of the United States and the Peoples Republic of China. The first communiqué (February 28, 1972) opened the door for contact and exchanges between the United States and the PRC, and created a framework for strategic cooperation against the Soviet Union. The second communiqué (January 1, 1979) established diplomatic relations at the ambassadorial level. And the third communiqué (August 17, 1982) assured the PRC that the United States would gradually reduce its sale of arms to Taiwan based on our expectation of peaceful resolution of PRC-Taiwan differences and relaxed tensions. The 1982 Reagan Codicil, however, conversely committed the United States to maintain a balance of power in the Taiwan Strait.
- Under the "One China Policy," the United States recognizes that there is only one Chinese state in the world, and recognized the People's Republic of China as the government of that state in 1979. In international organizations for which statehood is required, Washington supports Beijing as the occupant of China's seat and only supports Taipei's "having a voice." Concerning Taiwan's relationship to China, the United States "acknowledges the Chinese position that Taiwan is part of China" but maintains an "abiding interest" that any resolution of the Taiwan Strait issue be peaceful, without coercion, and acceptable to the people of Taiwan. The United States "does not support" Taiwan independence.

The next president must reinforce this set of assurances and warnings with appropriate actions. In accordance with the Taiwan Relations Act, the United States should respond to appropriate Taiwanese requests for military equipment that are essential for its defense. The next administration should also focus on strengthening passive defenses at U.S. bases in the Asia-Pacific and improving abilities to reduce the impact of Chinese anti-access capabilities, and to counter Chinese attacks on U.S. information and communications capabilities.⁵⁹

The next administration should make clear that these capabilities are not intended to threaten China, but rather to maintain the U.S. commitment to a peaceful resolution of the cross-Strait issue consistent with the “One China” policy, three communiqués, and Taiwan Relations Act.

Maintaining cross-Strait stability requires careful risk management and balance in U.S. policy toward both sides. Dangers will remain in the foreseeable future, but the presidential election of Ma Ying-jeou in March 2008, combined with the next U.S. presidential election, and China’s continued need for regional stability together offer a unique opportunity to reduce cross-Strait tensions. The expansion of economic and human ties across the Taiwan Strait and other efforts to reduce tensions taken by China’s President Hu and Taiwan’s President Ma is especially important after the past several years, in which tensions between Beijing and Taipei, on one hand, and Washington and Taipei, on the other, threatened to undermine security and stability across the Strait.



Taipei, Taiwan. Source: Flickr/daymin

The administration should make clear that U.S. interests are enhanced, not damaged, by cross-Strait rapprochement. The next president should encourage Beijing and Taipei to continue building commercial, cultural, economic, and other ties that can lead to reduced tensions and stabilized cross-Strait relations. Although sequencing the signaling and actions between Taiwan, China, and the United States will remain an ongoing challenge, President Ma's "three no's" policy—no unification, no independence, no use of force—offers a potentially cooperative construct for managing relations. Direct commercial flights between Taiwan and several Chinese cities are a very positive early sign of a more cooperative approach to the relationship.

In addition, the next administration will need to develop appropriate modalities to open up channels of communication between Washington and Taipei, allow-

ing for greater communication on a range of political, economic, and security issues in order to begin repairing the damage between Washington and Taipei over the past few years.

Lastly, the next administration should support Taiwan's international space by encouraging China and the international community to allow Taiwan to assume greater, though informal, roles in global organizations. As the severe acute respiratory syndrome, or SARS epidemic of 2003 demonstrated, excluding Taiwanese participation in issues with multilateral dimensions is to the detriment of all parties. Keeping Taiwan out of the global outbreak alert and response system of the World Health Organization created a serious vulnerability for the region, one that East Asia and the world might not be so lucky as to escape with only minor loss of life next time.



Human rights and pro-democracy activists demonstrate outside the venues for the Olympic equestrian competition in suburban Sha Tin district, Hong Kong Friday, Aug. 8, 2008. Source: AP Photos

GOVERNANCE AND INDIVIDUAL RIGHTS

Human rights and democracy have been among the most contentious issues between the United States and China. China has made considerable progress when it comes to individuals' economic and social freedoms, but there remain many more areas of concern and specific steps that the government must take to improve human rights. Tens of thousands of political prisoners remain imprisoned without due process. The death penalty is applied voraciously, more than in any other country in the world, sometimes for relatively petty crimes. Labor rights are not adequately enforced. And those who criticize the government are often treated harshly.⁶⁰

Progress toward political pluralism in China is as incomplete as it is episodic. Official Chinese Communist Party documents announce the benefits of democracy, yet local electoral reform on the ground seemed stalled, and organized or high profile political dissent is not tolerated. Promises to extend direct elections beyond the village levels have not been met, and there is a clear crackdown on the judicial sector, especially on lawyers who take on politically sensitive cases.

China's poor record and treatment of religious and ethnic minorities has clearly worsened. Authorities have increased repression and tightened controls on expression of ethnic and cultural identity in the so-called "autonomous" regions, including the Xinjiang Uighur Autonomous Region and Tibet. The failure of China's policies on discrimination, labor, and religious tolerance in these regions were direct causes of the March 2008 Tibet riots. Despite China's adoption of Regulations on Religious Affairs in 2005 (ostensibly intended to provide protections for religious free-

doms), officials continue to make decisions inconsistent with genuine rights of religious freedom, including arbitrary detentions and arrests, closure of religious sites, censorship of publications, forced re-education, and restrictions on freedom of movement and religious practices.⁶¹

On the international stage, for its own economic and political reasons, China has supported, protected, and provided arms to a rogue's gallery of horrible regimes, including in Sudan, Myanmar, and Zimbabwe. Beijing's interest in extracting resources from these countries (where sanctions have prevented Western companies from locking up supplies) is a major motivator in many cases, as is its desire not to set any international precedents for intervention in a domestic conflict that could be used to limit its own freedom of action when it comes to Taiwan.

China's leadership (and many of its citizens) point to the importance of economic growth, which indeed has lifted hundreds of millions of people out of poverty and is not inconsequential to the advancement of human rights. Several decades of steady economic reform has also exposed the Chinese to unprecedented flows of information through the Internet, films, and other forms of media, and fostered legal reform as a means to secure economic gains. Case in point is the new 2007 law that explicitly protects property rights in China.

But economic growth will not *by itself* bring about civil, economic, labor, cultural, and political rights. Studies have shown that countries that transition to democracies when they are wealthier have a better track record of *sustaining* democracy, but many other factors are needed to bring about the

change in the first place, including vibrant internal political movements, enlightened reformers in leadership, and consistent advocacy for democratic values from the international community.⁶²

Past U.S. efforts to advance human rights interests in China have not been highly successful. A historical review shows that a number of factors complicate advancing human rights in China, including inadequate policy alignment between departments of the U.S. government, competing interests such as economic relations and security, and lack of political will and leadership to prioritize human rights. U.S. leverage on this issue diminished sharply because of the Bush administration's policies on human rights.

There is no easy answer when it comes to this set of issues. Quiet diplomacy has its place, but it will be insufficient. Overheated rhetoric will likely be ineffective or counterproductive. Yet offering support to the growing breadth and diversity of human rights champions within China, including Chinese civil-society actors, its increasingly active local press, and Chinese human rights lawyers, is also essential to remain true to our nation's values.

Political and social change in China will largely need to come from within, but the United States has a role to play. The United States can influence developments in China but not force or direct them. To bring about the realization of economic, social, and cultural rights, as well as civil and political rights in China, our approach needs to be subtle and sophisticated.

A progressive way forward

Success in this arena will ultimately be measured by the promotion of the full range of values that constitute a good society—

transparency, justice, and the realization of economic, social, religious, and cultural rights. The fundamental question for the next administration is how to engage China *effectively* to create a more open, equitable, and pluralistic order. A hallmark of progressive thought is pragmatism, and empty rhetoric that sacrifices real gains in advancing human rights and political pluralism in China is a political temptation that the next administration must resist in favor of fostering real and effective change over time.

The principal point of leverage for political change is China's desire to be treated as a respected member of the international community. What is required is a persistent but respectful witnessing to the *universality* of human rights values. The affirmation must be made that these are not just American interpretations of rights, or Western, but global affirmations made manifest in the international human rights regime. Ultimately, the only way for China to be a highly respected global player is to recognize those universal values and abide by them.

In the area of human rights, nothing is more crucial than working multilaterally. The next administration should make common cause with our democratic friends and partners, as well as non-government organizations, whenever possible, in critiques and programs related to China's liberalization. China may claim that it is resistant to international criticism and entreaties, but there is sufficient evidence that is simply not the case.

The Chinese leadership reacted to the March 2008 protests in Tibet with brutality, for example, but following widespread international condemnation Beijing scheduled another round in the ongoing dialogue between envoys of the Dalai Lama and representatives of China's leadership. These talks have yet to lead to measures to resolve differences between the Chinese



Poverty remains prevalent despite economic growth in China. Source: Flickr/sheilaz413.

government and the Dalai Lama, but tangible steps toward resolving the genuine and deep-rooted discontent of the Tibetan people and leading to genuine autonomy for Tibet should be publicly supported by the next president and his administration, drawing upon global support in the process.

Similarly, threats to boycott or disrupt the Olympics over of China's relations with Sudan led China's leaders to moderate their course. The Chinese appointed a special envoy to address Darfur and authorized a U.N. resolution to deploy a hybrid U.N.-African Union force into Sudan, a change from China's previous position of abstention. Though reversible, these are small steps in the right direction.

Then there was the massive earthquake in Sichuan province in May, which prompted Chinese authorities to slightly loosen their usually tight media controls to cope with the country's overwhelming public response to the temblor. They followed up with a crackdown on parents who protested the

shoddy construction of so many school buildings that collapsed and crushed their children, but the brief interlude of fairly free media coverage points to the success that local and overseas media pressure can have on China's leadership.

With these lessons in mind, the next administration should work with and through mechanisms that bring together international opinion to pressure China on human rights. The next administration, for example, could press for implementation of human rights treaty recommendations that result from multilateral reviews of China's human rights records, such as recommendations that grow from the Berne Process, a multilateral mechanism that coordinates different countries' efforts toward human rights in China.

The administration should also enhance bilateral U.S.-China and EU-China human rights dialogue, in particular to encourage ratification of the International Covenant on Civil and Political Rights. China's imple-

mentation of WTO obligations demonstrates its ability to be an active participant in international forums. The next president should push for similarly progressive developments on a multilateral basis in the human-rights arena. The United States should work with the International Labor Organization to push for the implementation of China's obligations as a founding member of the ILO.

To the extent that the United States can encourage other nations and groups of nations to reinforce concerns about China's human rights practices, the more impact those representations will have. The little-noticed decision by one African nation after another to turn China's arms-bearing shipments for Zimbabwe away at their ports in early 2008 was both embarrassing for the Chinese and, more importantly, taught them that it is not just the "usual suspects" who care about certain human rights issues.

Working multilaterally will mean more than collaborating with partners to pressure China. The United States must strengthen the regimes and protocols that protect and defend human rights around the world, and then seek to embed China in these regimes. The United Nations Human Rights Council, international organizations such as Amnesty International, and other institutions that promote the realization of economic, political, religious, and social rights must be empowered as instruments through which the world can hold China accountable for its treatment of citizens. U.S. participation and support of these regimes will go a long way in bolstering their effectiveness.

The United States should join, and thereby strengthen, the UN Human Rights Council, and then use that forum to bring greater scrutiny to China's human rights record. China does not want to be singled out in the international system, and the UN Hu-

man Rights Council can provide a forum for the kind of multilateral scrutiny and pressure that can work to hold China to the international agreements on human rights that it has signed, such as the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Social, Economic, and Cultural Rights.

The best hope for progress in furthering citizens' rights in China is likely to be in those areas that Chinese officials themselves have targeted for reform. They include environmental justice, worker safety, labor rights, consumer protection, and health. Genuine reform in these areas will make a meaningful and tangible difference in the lives of ordinary Chinese. The next administration should focus on areas where U.S. and Chinese priorities align, and where both the United States and China can agree to some extent on the need for reform. These issue areas can become centerpieces of bilateral dialogues, such as the recently resumed U.S.-China human rights dialogue, and other multilateral efforts.

Another avenue for promoting human rights and political pluralism in China can be found in the promotion of civil society in China. Working with international non-governmental organizations and related organizations on the ground in China can build the capacity and foundation for meaningful change in China. While we must take care that U.S. support does not undermine the ability of Chinese civil society organizations to grow and organize on their own, mobilization and exercise of rights in one area, such as the environmental movement, has a high likelihood of spillover into other issue areas.

Similarly, the United States should support Chinese and American non-governmental entities—not just pressure groups but aca-

demic institutions, judicial bodies, associations of scientist and journalists, computer experts—all of whom seek either to build relations with Chinese citizens and/or supply Chinese reformers with the tools to bring about internal change in China. The next administration in particular should support rule-of-law programs, such as the training of Chinese judges and lawyers in best practices. These programs, coupled with the promotion of civil society in China, can go a long way in bringing about the structural and political reforms necessary to build a truly independent judiciary and government that is subject to its own laws.

The United States should speak out publicly and privately about China's policies of restricting freedom of the press and political and religious freedoms, as well as other human rights violations in which China consistently engages. Included in the messaging should be the fact that support for responsible dissent is in China's national interests, as is living up to its own declared legal standards on human rights, which are robust. Continued bilateral pressure is key in signaling that the next administration is committed to advancing human rights as an essential component of the U.S.-China relationship and all the United States' relationships around the world.

The United States can take a number of immediately actionable steps toward progress on China's human rights. The president can and should encourage U.S. corporations to be responsible citizens in China by seeking to protect their own workers against government harassment and resisting the temptation to "enable" government repression. Above all, U.S. companies must abide by international standards of corporate and social responsibility

Lastly, the United States must live up to its own human rights principles. The next administration must work to re-establish U.S. moral authority and leadership in the world, which has always been one of the strongest and most efficacious tools in the American foreign policy toolbox. Leading by example is a powerful avenue America can take. Without American leadership and authority, convincing China to change will be met with immediate charges of hypocrisy.

The next president must reaffirm clearly and publicly America's commitment to human rights. Closing the Guantanamo Bay detention center would be a positive first step. But his administration must go further to strengthen America's human rights record and recommit the United States to help those in China who seek to create a more liberal society.

CONCLUSION

We cannot go on as we have with China, responding to crises and letting opportunities slip by. China is too important and consequential across too many dimensions of American life to let the relationship drift. We squander U.S. leverage when we do not prioritize our interests. Now is the time to forge a new kind of relationship with China—more pragmatic, more cooperative, and ultimately more effective. That is the approach that will ultimately best serve the interests of the American people—on climate change, economic growth, regional stability, and global human rights.

The United States cannot determine China's future; that task belongs to the Chinese people. Rather, U.S. policy should be aimed at encouraging China to join the international mechanisms that secure global peace and prosperity. U.S. policymakers should engage China with the overarching objective of solving shared problems and

peacefully integrating the country into the international order. In the process, China will be embedded in the web of norms and responsibilities that come with being an active participant in the world stage.

Our differences with China will continue and some will be profound. Yet modern international relations need not be a zero-sum game. While we have no illusions about the challenges of managing China's rise, or the uncertainties of China's future, our two nations are inextricably linked, and, at this hinge point in China's rise we have an historic opportunity to advance our own interests without cost to the other. Beginning a new era in Sino-U.S. relations with a common purpose to combat climate change and boost global energy security is the right place to start. From there, the leaders of both nations and their citizens may well discover many mutual benefits in other arenas critical to peace and prosperity in the 21st century.

ENDNOTES

- 1 This calculation uses market exchange rates and GDP data from the International Monetary Fund.
- 2 “China Says 2007 GDP Growth 11.4 Percent,” Associated Press, January 23, 2008.
- 3 “China-EU trade - background note,” EU Business, June 12, 2007, available at <http://www.eubusiness.com/Trade/china-eu> (last accessed July 2008).
- 4 World Bank, “Country Brief: China,” available at <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CHINAEXTN/0,,menuPK:318960~pagePK:141132~piPK:141107~theSitePK:318950,00.html> (last accessed February 2008).
- 5 “The World’s 50 Most Innovative Companies Interactive Scoreboard,” *Business Week*, available at http://bwnt.businessweek.com/interactive_reports/most_innovative/index.asp (last accessed July 2008).
- 6 This number reflects the original findings by the World Bank in 2007. The figure was later changed after Chinese officials requested that the World Bank reduce the number out of concern that it would provoke “social unrest.” Richard McGregor, “750,000 a Year Killed by Chinese Pollution,” *Financial Times*, July 2, 2007, available at <http://www.ft.com/cms/s/0/8f40e248-28c7-11dc-af78-000b5df10621.html> (last accessed July 2008).
- 7 World Bank, “China Quick Facts” (2008), available at <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CHINAEXTN/0,,contentMDK:20680895~pagePK:1497618~piPK:217854~theSitePK:318950,00.html> (last accessed July 2008).
- 8 Elizabeth Economy, “The Great Leap Backward?” *Foreign Affairs* 86 (5) (July/August 2007), available at <http://www.foreignaffairs.org/2007/5.html>.
- 9 “China strives to handle mass incidents,” *Xinhua News*, available at http://www.chinadaily.com.cn/china/2006-12/09/content_754796.htm (last accessed July 2008).
- 10 Netherlands Environmental Assessment Agency, “Global CO2 emissions: increase continued in 2007” (2008), available at <http://www.mnp.nl/en/publications/2008/GlobalCO2emissionsthrough2007.html> (last accessed July 2008).
- 11 Erica Downs, “The Brookings Foreign Policy Studies Energy Security Series: China” (Washington: The Brookings Institutions, 2006).
- 12 “China’s oil output, consumption both hit record high in 2007,” *Xinhua News*, January 31, 2008, available at http://news.xinhuanet.com/english/2008-01/31/content_7534497.htm (last accessed July 2008).
- 13 National Development and Reform Commission (PRC), “China’s National Climate Change Programme,” (2007), available at http://www.pewclimate.org/policy_center/international_policy/china.cfm (last accessed July 2008).
- 14 Economy, “The Great Leap Backward?”
- 15 U.S. Environmental Protection Agency, “U.S. and China Reaffirm Commitment on Environmental Cooperation,” Press release (November 8, 2005), available at <http://yosemite.epa.gov/opa/admpress.nsf/a4a961970f783d3a85257359003d480d/059b23cb24e839a5852570b30069853d!OpenDocument>
- 16 China is not a formal member of the Organization for Economic Cooperation and Development, which makes it ineligible for formal membership in the IEA. However, the IEA already has a considerable number of outreach programs geared toward China and has already collaborated with China on relevant issues. OECD ministers have recognized that Chinese participation in discussions is important in effectively dealing with issues related to the world’s top bilateral donors.
- 17 Wayne M. Morrison, “China-U.S. Trade Issues” (Washington: Congressional Research Services, October 3, 2007).
- 18 Art Pine, “The \$80 Billion Market,” *The National Journal.com*, June 23, 2008, available at http://www.nationaljournal.com/congressdaily/cwa_20080623_5733.php (last accessed July 2008).
- 19 Christian E. Weller and Holly Wheeler, “Our Nation’s Surprising Technology Trade Deficit,” (Washington: Center for American Progress, 2008).
- 20 Nicholas R. Lardy, “China: Toward a Consumption-Driven Growth Path,” (Washington: Institute for International Economics, 2006).
- 21 Robert E. Scott, “U.S. trade imbalance improves for first time since 2001” (Washington: Economic Policy Institute, 2008), available at http://www.epi.org/content.cfm/indicators_intlpict_20080215 (last accessed March 2008).
- 22 U.S. Department of Treasury, “Major Foreign Holders of Treasury Securities,” available at <http://www.treas.gov/tic/mfh.txt> (last accessed July 2008).
- 23 Bureau of Economic Analysis, “Gross Domestic Product: First Quarter 2008 (Advance) (2008) ,available at <http://www.bea.gov/newsreleases/national/gdp/2008/gdp108a.htm> (last accessed July 2008).
- 24 Bureau of Economic Analysis, “Personal Incomes and Outlays,” (2008), available at <http://www.bea.gov/newsreleases/national/pi/pinewsrelease.htm> (last accessed March 2008).
- 25 Federal Reserve Board, “China – Soft Exchange Rate,” (2008) available at http://www.federalreserve.gov/releases/h10/Hist/dat00_ch.txt (last accessed July 2008)

- 26 The most convincing evidence of an undervalued yuan on a trade-weighted basis is the fact that during the last five years China has gone from a balanced current account position to a current account surplus of 11 to 12 percent of GDP. It also has the largest holdings of FX reserves in the world—in excess of \$1.6 trillion and rising at a pace of more than \$400 billion a year.
- 27 Erin Lett and Judith Banister, “Labor costs of manufacturing employees in China: An update to 2003-04” (Washington: Bureau of Labor Statistics, 2006).
- 28 “Domestic consumption drives GDP for 1st time,” *Xinhua News*, January 31, 2008, available at http://news.xinhuanet.com/english/2008-01/31/content_7530491.htm (last accessed July 2008).
- 29 Daniel Ikenson, “Trade, They SED,” *National Review Online*, June 8, 2008, available at <http://article.nationalreview.com/?q=NWRjMGY4NDYwMjVhODY2ZGQ3NmU4NGU5OWYxNGE3Nzg=> (last accessed July 2008).
- 30 Nicholas R Lardy, “China: Rebalancing Economic Growth.” In *The China Balance Sheet in 2007 and Beyond* (Washington: Center for Strategic and International Studies and the Peterson Institute for International Economics, 2007).
- 31 Hu Jintao, “Full text of Hu Jintao’s report at 17th Party Congress,” available at http://news.xinhuanet.com/english/2007-10/24/content_6938749.htm (last accessed July 2008).
- 32 Lardy, “China: Rebalancing Economic Growth.”
- 33 Ibid.
- 34 Ibid.
- 35 Barry Naughton, “The New Common Economic Program: China’s Eleventh Five Year Plan and What It Means,” *China Leadership Monitor* 16, available at <http://www.hoover.org/publications/clm/issues/2898936.html> (last accessed July 2008).
- 36 For more, see Richard Samans and Jonathan Jacoby, “Virtuous Circle: Strengthening Broad-Based Global Progress in Living Standards,” (Washington: Center for American Progress, 2007).
- 37 See Joseph Kahn and David Barboza, “China Passes a Sweeping Labor Law,” *New York Times*, June 30, 2007, available at <http://www.nytimes.com/2007/06/30/business/worldbusiness/30chlabor.html?partner=rssnyt&emc=rss> (last accessed July 2008).
- 38 As with the IEA, China is ineligible for formal membership because it is not a member of the OECD. However, it could have an informal role as a participant in discussions, summits, and dialogues.
- 39 See Jacoby and Samans, “Virtuous Circle”.
- 40 Wayne M. Morrison, “China-U.S. Trade Issues,” (Washington: Congressional Research Services, July 11, 2007).
- 41 Thomas Kalil and John S. Irons, “A National Innovation Agenda: Progressive Policies for Economic Growth and Opportunity through Science and Technology” (Washington: Center for American Progress, 2007); John Podesta, Todd Stearn, and Kit Batten, “Capturing the Energy Opportunity: Creating a Low-Carbon Economy” (Washington: Center for American Progress, 2007).
- 42 Thomas Kalil and John S. Irons, “A National Innovation Agenda: Progressive Policies for Economic Growth and Opportunity through Science and Technology” (Washington: Center for American Progress, 2007)
- 43 Paul Osterman, “College for All? The Labor Market for College-Educated Workers” (Washington: Center for American Progress, 2008).
- 44 Brian Bosworth, “Lifelong Learning: New Strategies for the Education of Working Adults” (Washington: Center for American Progress, 2007).
- 45 Bureau of Economic Analysis, “BEA International Economic Accounts” (June 27, 2008), available at <http://www.bea.gov/international/index.htm#trade> (last accessed July 2008).
- 46 Institute of International Education, “Open Doors 2007 Fast Facts,” (2008), available at http://www.opendoors.iienetwork.org/file_depot/0-10000000/0-10000/3390/folder/58653/Fast+Facts+2007+Final.pdf (last accessed July 2008).
- 47 Office of Travel and Tourism Industries, “Monthly Tourism Statistics,” (2008), available at <http://tinet.ita.doc.gov/research/monthly/arrivals/index.html> (last accessed July 2008).
- 48 See Gene Sperling, “A Progressive Framework for Social Security Reform” (Washington: Center for American Progress, 2005).
- 49 See David Madland, John Podesta, and Sarah Rosen Wartell, “Progressive Growth: Transforming America’s Economy through Clean Energy, Innovation, and Opportunity,” (Washington: Center for American Progress, 2007).
- 50 See John S. Irons and David Madland, “Responsible Investment: A Budget and Fiscal Policy Plan for Progressive Growth,” (Washington: Center for American Progress, 2008).
- 51 Josh Kurlantzick, *Charm Offensive: How China’s Soft Power Is Transforming the World* (New Haven: Yale University Press, 2007).
- 52 David Shambaugh, “China’s Military Modernization: Making Steady and Surprising Progress.” In Ashley J. Tellis and Michael Wills, eds., *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty* (Seattle: National Bureau of Asian Research, 2005).
- 53 Bates Gill, *Rising Star: China’s New Security Diplomacy* (Washington, DC: Brookings Institution Press, 2007).

- 54 Dennis C. Blair, Carla A. Hills, and Frank Samson Januzzi, *U.S.-China Relations: An Affirmative Agenda, A Responsible Course Task Force Report* No. 59, (New York: Council on Foreign Relations, 2007).
- 55 Office of the Secretary of Defense, *Military Power of the People's Republic of China: Annual Report to Congress 2008*, (Washington, DC: Department of Defense, 2008).
- 56 Gill, *Rising Star: China's New Security Diplomacy*.
- 57 Ibid.
- 58 David Shambaugh, "China's Military Modernization: Making Steady and Surprising Progress." In Ashley J. Tellis and Michael Wills, eds., *Strategic Asia 2005-06: Military Modernization in and Era of Uncertainty* (Seattle: National Bureau of Asian Research, 2005).
- 59 For these recommendations and others, see Roger Cliff, et al., *Entering the Dragon's Lair* (Santa Monica: The RAND Corporation, 2006), pp. 95-109.
- 60 U.S. Department of State, "Country Reports on Human Rights Practices – 2007: China" (Washington, DC, 2008).
- 61 Ibid.
- 62 See Charles Boix and Susan Stokes, "Endogenous Democratization," *World Politics* 55 (4) (July 2003): 517-49.

AN UNSUSTAINABLE ENVIRONMENT ENDNOTES

- 1 Elizabeth Economy, "The Great Leap Backward?" *Foreign Affairs*, September/October 2007.
- 2 "China report warns of agriculture problems from climate change," Associated Press, January 3, 2007.
- 3 Ibid.
- 4 Ibid.
- 5 International Organization for Migration, "Migration and Climate Change" (2008).
- 6 Joseph Kahn and Jim Yardley, "As China Roars, Pollution Reaches Deadly Extremes," *The New York Times*, August 25, 2007, available at <http://www.nytimes.com/2007/08/26/world/asia/26china.html>.
- 7 Ibid.
- 8 This number reflects the original findings by the World Bank in 2007. The figure was later changed after Chinese officials requested that the World Bank reduce the number out of concern that it would provoke "social unrest." Richard McGregor, "750,000 a Year Killed by Chinese Pollution," *Financial Times*, July 2, 2007.
- 9 Mo Liu, "Lung cancer cases could hit 1m," *China Daily*, January 4, 2007.
- 10 Elizabeth Economy, "China vs. Earth," *The Nation*, April 19, 2007.
- 11 The Center for Health and the Global Environment at Harvard Medical School, "Climate Change Futures: Health, Ecological and Economic Dimensions" (2006).
- 12 Linden Ellis, "Desertification and Environmental Health Trends in China: A China Environment Health Project Research Brief" (Washington: Woodrow Wilson International Center for Scholars, 2007).
- 13 Robert McLeman and Barry Smit, "Commentary No. 86: Climate Change, Migration and Security" (Ontario, Canada: Canadian Security Intelligence Service, 2004).
- 14 Howard W. French, "Big, Gritty Chongqing, City of 12 Million, Is China's Model for Future," *The New York Times*, June 1, 2007.
- 15 Jonathan Watts, "China blames growing social unrest on anger over pollution," *The Guardian*, July 6, 2007.
- 16 Elizabeth Economy. "The Great Leap Backward?"
- 17 "Environment Chief Vows to Add Muscle," available at http://www.china.org.cn/environment/news/2008-03/25/content_13513150.htm (last accessed July 9, 2008).

ACKNOWLEDGEMENTS

The writing process for this report drew on the exceptional work of the Center's many policy shops, as well as the invaluable and relentless support of our meeting participants and reviewers. Robert Sussman, Senior Fellow at the Center and a veteran of the energy and environmental policy fields, was instrumental in drafting the report's lead chapter on Climate Change and Energy. Other members of the Center's energy team, including Peter Ogden and Kit Batten also lent the report their time, expertise and, yes, energy.

Under the leadership of the Executive Vice President at the Center, Sarah Wartell, the Center's economic team, including Jonathan Jacoby, David Madland, Richard Samans, Will Straw, Dan Tarullo, Laura Tyson, and Christian Weller, offered their expertise and ideas in shaping the chapter on Balanced and Sustainable Global Growth. And Bill Schulz, a Senior Fellow at the Center, contributed significantly to our chapter on governance and individual rights.

This report could not have been written without the sustained assistance of China experts Liz Economy, Bates Gill, Harry Harding, and Evan Medeiros, who were present from the genesis to the conclusion of this report, and went above and beyond

in their contributions. They provided intellectual leadership, numerous rounds of meticulous edits and comments, and long hours of their personal time to the project. While we are deeply indebted to them, it is important to note that they do not necessarily agree with all the content of the report—the views, findings, and recommendations here are the responsibility of the authors and the Center for American Progress.

We would also like to thank the Center for American Progress and our colleagues for their support, contribution, and endless patience. John Podesta, Sarah Wartell, Melody Barnes, Bob Boorstin, Peter Rundlet, and Rudy deLeon provided leadership and support from the very beginning of this project. The national security team was a vital part of this entire project, from participating in meetings to discussing ideas and helping with research. Ed Paisley's never-ending patience, helpful insights, and infinite talent make him one of the best. Thank you to Ed and his diligent editorial team, including Shannon Ryan, Lauren Ferguson, and Annie Schutte.

We were helped by the excellent research support of Michael Zhang, Justin Slaughter, Tony Wilson, Chris Sedgwick, Bryan Thomas, and John Gans.

ABOUT THE AUTHORS

Nina Hachigian is a Senior Vice President and Director for the California office at American Progress. Based in Los Angeles, she is the co-author of *The Next American Century: How the U.S. Can Thrive as Other Powers Rise* (Simon & Schuster, 2008). She focuses on great power relationships and U.S. foreign policy. Earlier, Hachigian was a Senior Political Scientist at RAND Corporation and, for four years, the director of the RAND Center for Asia Pacific Policy. Before RAND, she had an international affairs fellowship from the Council on Foreign Relations during which she researched the Internet in China. From 1998 to 1999, Hachigian was on the staff of the National Security Council in the White House, serving as special assistant to Jim Steinberg, the Deputy National Security Advisor, and National Security Advisor Samuel R. Berger.

Michael Schiffer is a program officer in Policy Analysis and Dialogue at the Stanley Foundation, where he is responsible for the foundation's Asia programs and a range of other US national and global security issues. He is also a Center for Asia and Pacific Studies Fellow at the University of Iowa. Before joining the foundation, he was a Council on Foreign Relations International Affairs Fellow at the National Institute of Defense Studies in Japan. From 1995 to 2004, Schiffer worked on the staff of Sen. Dianne Feinstein (D-CA), where he was her national security adviser and legislative director. Prior to that, he was director of International Security Programs at New York University's Center for War, Peace, and the News Media, and also managed a bed and breakfast inn in Hawaii.

Winnie Chen is a Research Associate for the National Security and International Policy Team at the Center for American Progress, where she supports the Senior Vice President for NSIP. She also works on the Sustainable Security Project and issues related to U.S.-China policy. Chen received her master's degree with honors from the Security Studies Program in Georgetown University's School of Foreign Service. She graduated *magna cum laude* from Georgetown with a bachelor's degree in English and Government. Prior to joining American Progress, Chen interned with the Congressional and Public Affairs Department in the Millennium Challenge Corporation and at the Henry L. Stimson Center, where she focused on East Asian regional security issues. She has also served as a litigation paralegal in the law offices of Winston & Strawn, LLP.

Center for American Progress



ABOUT THE CENTER FOR AMERICAN PROGRESS

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is “of the people, by the people, and for the people.”

**Center for American Progress
1333 H Street, NW, 10th Floor
Washington, DC 20005
Tel: 202.682.1611 • Fax: 202.682.1867
www.americanprogress.org**