

INTRODUCTION

This is the Commission's tenth year examining U.S.-China relations. During this time the United States has welcomed China's peaceful rise with the belief that by engaging China it would be encouraged to open up to the United States and the world, both economically and diplomatically, that it would expand freedom and human rights, and that it would become a responsible global stakeholder. For the last ten years the Commission has documented Chinese export subsidies; weapons proliferation; cyber attacks; non-compliance with World Trade Organization (WTO) obligations; forced technology transfers; military modernization; resource acquisition strategies; expansion of Chinese foreign policy interests; the Chinese military threat to Taiwan; espionage; and information control, among other issues. While China has taken some steps to engage the international community, by and large the Communist Party of China (CCP) has continued to steer policy in its own narrow self-interest at home and abroad, often without regard for international rules and norms. As a result, worldwide concern about China is growing as more people see the implications of the rise of a powerful authoritarian state.

In 2011, China assumed a more assertive role on the global stage. China's new posture was reflected in an aggressive trade agenda, a push for a larger role in international institutions, and provocative moves in the South and East China Seas. These actions were both a reflection and a consequence of China's growing economic prominence and resource needs, as well as China's view that the United States is in decline while China is ascendant. Chinese policies have had an impact on the United States, ranging from a negative effect on the U.S. economy to increased pressure from some parts of the international community for the United States to ensure the security of the global commons.

Last year, the Commission highlighted China's backsliding from market reforms in favor of an increased role of the state in the economy. In contrast to the general trend of economic liberalization over the last three decades, last year's pattern of increased state dominance continued in 2011. China subsidizes its state-owned enterprises to the detriment of both private Chinese firms and international competitors. Nevertheless, Chinese leaders acknowledge the economy must be moved away from its investment-led, export-driven growth model toward one more dependent on domestic consumption.

Even when China makes a commitment to economic reform, the government reverts to its historical pattern of inadequate implementation. President Hu Jintao and other Chinese officials responded to western pressure in January 2011, promising to ease a policy of discriminating against foreign companies in government

procurement decisions; however, real change remains elusive, particularly among the provincial and local governments.

In March 2011, China approved its 12th Five-Year Plan (2011–2015), which calls for the transformation of the Chinese economy into a high-technology and innovation-oriented juggernaut. The plan identifies seven strategic emerging industries in which the Chinese hope to become world leaders. While the desire to move up the manufacturing value chain is a common goal among nations, the web of Chinese industrial policies used to achieve this objective has often had a detrimental impact on U.S. interests and is often inconsistent with China's obligations under the WTO. Practices such as forced technology transfer and the creation of joint venture companies as a condition to obtaining access to the Chinese market; the adoption of unique, Chinese-specific standards for high-tech equipment; and extensive intellectual property rights violations are among the faulty policies designed to help China achieve its goal of becoming a high-tech leader.

China's military modernization, combined with the unclear nature of Beijing's views of what constitutes an attack and the People's Liberation Army's military doctrine that emphasizes striking first in a conflict, increases the possibility for inadvertent conflict in the region. China's massive military modernization includes the sea test of its first aircraft carrier, the introduction of a fifth-generation stealth fighter, and the further development of already sophisticated cyber warfare and counterspace capabilities. Designed to defeat a technologically superior opponent, China's military strategy emphasizes striking first and controlling the nation's periphery in the event of a conflict. While the exact pace and scale of China's military modernization effort and the intentions behind it remain opaque to the outside world, it is clear that China is acquiring specific means intended to counter U.S. military capabilities and exploit U.S. weaknesses.

While China has taken an externally assertive posture, it faces many internal challenges. The CCP relies on economic growth, combined with strict authoritarian rule, to maintain control over a factious and geographically vast nation. Sharp increases in consumer prices, a pivotal factor in the early days of the student protests in Tiananmen Square in 1989, are once again a problem for the Chinese economy. While the party is particularly concerned about inflation, it also struggles to respond to other causes of protest such as corruption, pollution, and income inequality. The CCP faces the dilemma that the very authoritarian measures it uses to assert control of the Chinese people result in abuse, corruption, and policies that increase popular dissatisfaction. In turn, China's domestic instability may be fueling its external assertiveness if Chinese leaders bend to or encourage nationalist sentiment.

Secretary of State Hillary Rodham Clinton observed that China represents one of the most challenging and consequential bilateral relationships the United States has had to manage. While promoting messages of reassurance to the international community, China focuses on pursuing its own narrow interests. Despite the threatening and unpredictable conduct of North Korea, the CCP appears to have calculated that its interests are better served by the support of the regime than by its removal. Likewise, China's

relationship with Iran undermines international efforts to curtail Iran's pursuit of weapons of mass destruction and support of international terrorism.

Despite the improvement in economic and diplomatic relations across the Taiwan Strait, China deploys some 1,200 short-range ballistic missiles against the island. In response to the U.S. sale to Taiwan of a new \$5.8 billion package of upgrades to its aging fleet of F-16 fighter jets, China indicated that it may suspend a series of military-to-military engagements. To the consternation of its neighbors, China asserts its expansive territorial claims in the South and East China Seas. China is increasingly capable of pursuing its own interests at the expense of regional, perhaps even global, stability.

China's opaque intentions complicate our understanding and response to its rise as a world power. China's stated desire to maintain stable and peaceful international relationships conflicts with such actions as harassing vessels operating in international waters off the Chinese coast, aggressively pressing unrecognized territorial claims in the East and South China Seas, and supporting North Korea in the aftermath of unprovoked acts of aggression against South Korea. In fact, the People's Republic of China's official messages may be a cover for China's actual foreign policy goals. In addition, internal power struggles among Chinese foreign policy-makers make it difficult to understand the decision-making process in China, increasing the chance of miscalculating China's foreign policy.

The next few years will illustrate how China wishes to embrace the international order and the manner in which it will use its increasing power. China is faced with a choice. It can either join the community of nations in the existing international order based on the rule of law, or it can aggressively assert its own interests without regard for the concerns of other states and face growing opposition from the global community. The latter is not in anyone's interest. By welcoming China into the WTO and other international bodies, the U.S. government has demonstrated that it wants the Chinese government to be a responsible international stakeholder; however, until China more fully complies with international norms, the United States must be more forceful in asserting its own national interests. Insisting on reciprocity in our economic relationship and respect for international laws and norms in our geostrategic relationship is a start. This would not only benefit U.S. citizens but also demonstrate to the world that the United States is still the standard-bearer for stability and rule of law. We are in a global competition with China, and U.S. policies should flow from this premise. The United States should insist on reciprocity and mutual benefit as guiding principles of the U.S.-China relationship. It is clear that China will pursue its own narrow goals unless international pressure is brought to bear to modify any objectionable behavior.

While effectively responding to China is not an easy task, the Commission's 2011 Report is an outline that we believe will be helpful to Congress in addressing China's rise. The Commission recommends that Congress, through legislation, require the president to assign the National Security Council to conduct an agency-

wide comprehensive review of U.S. economic and security policies toward China to determine the need for changes to address the increasingly complicated and serious challenges posed by China to U.S. international and domestic interests. Such a review should be examined and debated as appropriate by Congressional committees.