
Introduction

China is not a superpower, nor will it ever seek to be one. If one day China should change its color and turn into a superpower, if it too should play the tyrant in the world, and everywhere subject others to its bullying, aggression and exploitation, the people of the world should . . . expose it, oppose it and work together with the Chinese people to overthrow it.

—Deng Xiaoping, speech at the UN General Assembly, April 1974

Twenty-five years ago, in the early years of China's opening, the cultural, economic, and political gulf between China and the United States was vast. If you were one of the foreigners living in Beijing at the time—one of the lucky 1,200—that gulf could produce its share of quirks. A night out could mean a trip to the “Disco” at Ethnicities Hotel on the western side of Tiananmen Square, where one drank warm beer and watched a handful of local Chinese—typically children of high-ranking officials from the leadership compound at Zhongnanhai—shimmy across the dance floor to “Rudolph the Red-Nosed Reindeer,” “Jingle Bells,” and (endlessly) “Fernando” by the Swedish group ABBA. Any effort at communication between foreigners and Chinese was quickly rebuffed by conspicuous, leisure-suited representatives of the Public Security Bureau. The city's streets were deserted after 7 p.m. or so, and one could zoom across town at the end of an evening in a matter of minutes to one's heavily guarded foreigners-only compound to call it a day.

That Beijing is long gone now. The city's art and music scenes are vibrant and sophisticated, although one still encounters quirks now and again. Foreigners and Chinese congregate and connect without fear of official molestation. That same trip across town at any time of day or night will take nearly an hour given the traffic in Beijing (1,100 new cars are introduced into the city every day).

China has changed much in the last 25 to 30 years, and not just for foreigners living there (now numbering 150,000 in Beijing alone). Chinese citizens increasingly work where they want, live where they want, travel where they want, and interact *how* they want in ways unimaginable

30 years ago. Their lives are also more complicated than they were back then, changed by an economy that has grown 13 times since it began to open up in 1978 and a government that has scrambled to keep political pace with the dramatic social changes that have accompanied the economic development.

American China watchers have the somewhat annoying competitive habit of comparing their first China experiences. Those who lay claim to the early 1970s have special bragging rights. The more recent one's first trip to China, the less intimate is one's relationship with China. This is a somewhat foolish hierarchy. But in many ways, like carbon dating, the date one first experienced China says a lot about one's perceptions not only of China's rise as a global power but also about the appropriate American response to that rise. The earlier the experience, the more likely one is to focus not on shortcomings in China's development but on how far China has come. The more recent one's China experience, the more likely one is focused on where China needs yet to go or, more pointedly, the more one takes for granted China's status as competitor to US interests. Ultimately, any American who has sought to understand China has encountered a country of serious contradictions. A precise definition of China's challenges and opportunities (despite the promise of this book) is impossible because China is so dynamic. This inability to define the challenges and opportunities is unfortunate, because China is front and center of any US administration's leading foreign policy considerations.

China presents difficult strategic questions for the United States and its global leadership. Will China fit into the current and long-standing international architecture designed in the postwar era by the United States? Is a new global system needed that will incorporate China more fully? Must China itself be a key architect of such a system? How should we define the nature of the "China challenge," and how does it balance against the opportunities presented by the nation's rise? These questions define the key challenges that increasingly characterize US-China relations.

As the 21st century unfolds, the stakes have never been higher nor the need greater for getting US policy toward China right. Yet there is often more heat than light in the US debate about China. To address this pivotal issue, the Center for Strategic and International Studies (CSIS) and the Peterson Institute for International Economics launched a joint multiyear project, the China Balance Sheet Project, that brings together leading experts to examine the key questions, uncover the pertinent facts, and analyze the dynamics underpinning China's domestic transformation and emergence as an international power—as well as its implications for the United States and the world.

China: The Balance Sheet—What the World Needs to Know Now about the Emerging Superpower, the project's initial publication, addressed the critical questions of whether China is facing continued growth or economic downturn, political democratization or disorder or continued authoritar-

ian rule, and whether the emerging superpower presents an economic opportunity or threat, a security partner or rival. In so doing, the book provides policymakers, students, and the interested public alike with comprehensive, authoritative, and accessible analysis in order to begin an informed debate about the challenge of a rising China.

In *China: The Balance Sheet* the authors and their institutions sought to lay out a number of issues presented by China's rise. Part of the motivation of that book was to counter fears about China with facts about China. Too little is known about China's impact on US global interests, and that book attempted to provide context for the debate about China—to both allay fears and dispel sanguinity about the China phenomenon.

This book attempts to take the concept of *China: The Balance Sheet* a step further, to more pointedly focus on the implications of China's rise and dig deeper into the impact of that rise on US interests and policy assumptions. Our motivations here are to sharpen understanding of China's domestic and international considerations as a means of directing a response to that rise.

US policy toward China, after all, has been fundamentally consistent for the last 30 years or so (and is one of the few US policies for which this is true). This has not been a foolish consistency by any means, but the China of today is not the China of 30 years ago. At a minimum, a reexamination of US approaches to China given the dramatic change in circumstances is warranted. Part of this need is driven because China's rise has had a transformative impact not just on its own people but also on the entire global context. In 1978 Deng Xiaoping exhorted China to throw off the chains of its planned economy and become a modern, developed country. The United States and other Western powers made the bold decision to welcome China to develop within the US-led global economic and security architecture. It worked. In 1978, with a quarter of the world's population, China represented less than 0.5 percent of total global economic output. Thirty years later, China accounts for between 7 and 10 percent, depending on the methodology one uses. In the process, it has gained economic, political, and military clout that stands in sometimes sharp contrast to that of the United States and the architecture that provided the incubator to China's rise. The Washington Consensus, the ten-point strategy for economic and political development that has formed the cornerstone of US-led multilateral institutions since the end the World War II, is now confronted by a striking alternative model in China.

In the authors' view, a static response to such a dynamic change in circumstances would be unwise. In accounting terms, a balance sheet is a snapshot of assets and liabilities at any given time, a somewhat static view. In *China: The Balance Sheet*, we attempted to provide such a snapshot of China's rise. In this book, we attempt to capture the dynamism of China in something more akin, in accounting terms, to an income statement. One goal of this book is primarily to articulate a need to rethink the

tools we use to deal with the challenges and opportunities of China's rise. We offer some alternative policy formulations herein to stimulate debate.

China and the United States have bridged significant differences in the last 30 years. The two countries have built a record of cooperation and engagement of which both governments can be proud. There is no reason why the United States cannot continue to work with China and welcome it into the global community in which the United States has been the dominant player. Understanding the challenges and weighing the opportunities to best manage that process would be a wise exercise. We hope that this book will help in that exercise.

Reader's Guide to the Book

Chapter 1, "China's Challenge to the Global Economic Order," discusses China's rise to the status of a global economic superpower and its impact on the institutions and norms of the global economic system. The chapter concludes that China's rise could pose a threat to the United States and world stability simply by virtue of its economic weight but also because it is challenging some of the key rules and conventions on which the postwar regime has been based. However, there is opportunity for a constructive realignment of global economic leadership that incorporates China in the top tier of that reordered regime. In response to China's rise, the United States should develop a much closer "G-2" relationship with China, through which the two coordinate their approaches and attempt to steer the global governance process on a number of key issues, perhaps starting with global warming and sovereign wealth funds but extending to more traditional trade, monetary, energy, and foreign assistance issues as well. The United States and China should start holding annual, or even semiannual, summit meetings to both implement and symbolize this new relationship.

Chapter 2, "China Debates Its Future," examines the dynamic intellectual debate in China that now swirls around the most fundamental political, economic, and foreign policy questions confronting the country. The answers and policies that flow from this debate will help shape China's future, impact US-China relations, and influence the world at large. While the unprecedented level of more open and public debate is an encouraging sign, calls for a return to traditional Communist Party tenets on the political front and more forceful assertion of narrowly defined Chinese national interests are worrisome. The chapter suggests that the United States make a concerted effort to monitor these debates in order to formulate informed and effective policy responses.

Chapter 3, "Democracy with Chinese Characteristics? Political Reform and the Future of the Chinese Communist Party," examines the Party's plan to implement "democracy with Chinese characteristics." The chapter concludes that China's political reform is likely to traverse the same grad-

ual development path as economic reform and can be characterized as “instrumental, incremental, and idiosyncratic.” Despite challenges, not least of which is bridging the gap between the rhetoric and reality of promised political reform, the Party is far from being on the brink of collapse and more likely to remain in power for the foreseeable future. While attempts to export “Western” democracy to China are likely to fall on deaf ears, the chapter suggests that the United States can apply selective pressure on China when the Party fails to live up to its own promises and violates the political and legal reforms it has put in place. A “track two” dialogue among Chinese and American academic and nongovernmental institutions to discuss the merits and demerits of liberal, East Asian, and even Chinese-style democracy should be encouraged.

Chapter 4, “Center-Local Relations: Hu’s in Charge Here?” discusses how central policies are often not implemented properly or at all by local governments and the implications of this for social stability, environmental and health issues, US-China relations, and the Chinese public’s perceptions of the central government’s legitimacy. The chapter concludes that although Chinese leaders have taken steps to correct the problem, the implementation of central laws at the local level may continue to be a significant challenge for Chinese leaders in the future. The chapter recommends that the United States work to build interest coalitions in China that include officials at the local level, as well as encourage visiting US officials, politicians, and business groups to visit provincial capitals and establish working relationships with local-level officials.

Chapter 5, “Corruption in China: Crisis or Constant?” evaluates the current level of corruption in China, investigates the causes, types, and perpetrators of corruption—including incidents that involve government officials such as the buying and selling of offices and the “criminalization” of the state—and looks at the resulting impact on the stability of the Chinese Communist Party. The chapter’s main conclusion is that corruption has remained at approximately the same level since 2000 and that as yet it has neither undercut growth nor significantly undermined the Party, though the Party’s response to corruption will be crucial to its future. The chapter suggests that the United States should continue aiding China with the construction of its legal system and implementation of the rule of law.

Chapter 6, “Sustaining Economic Growth in China,” discusses how China has been making efforts to shift its source of economic growth from investment and export-led development to domestic consumption, the benefits of which would include more rapid job creation, reduction in the increase of energy consumption and environmental degradation, more equal distribution of income, and a reduction in the country’s excessive trade surpluses, as well as continuation of strong economic growth. However, the chapter concludes that the rebalancing process has been more difficult than expected and that China’s current economic growth may be more unbalanced than it was in 2004, due to a number of factors. The chap-

ter suggests that the Chinese government step up policy action in the fiscal, financial, pricing, and exchange rate domains, all of which are characterized by mispricing of key elements of the economy (energy, interest rates, and the exchange rate). Failure to do so may lead to more moderate growth rates than in previous years, continued upward pressure on global oil and commodity prices, continued trade tensions with other countries, and further increases in China's energy use and carbon emissions.

Chapter 7, "Energy Implications of China's Growth," explores the ties between macroeconomic trends and energy outcomes. It describes how aspects of China's current development model—most notably its energy-intensive heavy industry and investment-led growth—have contributed to serious energy and environmental problems, as well as less optimal growth and employment outcomes, for both China and the international community. The chapter notes that while Chinese leaders are becoming more aware of the problem and what is needed to fix it, notably a broad rebalancing program with structural and institutional reforms, they have been slow to make the necessary policy changes. The United States can leverage change in China by improving the sustainability of its own energy profile and should work with China on climate change through a multilateral climate framework.

Chapter 8, "Why Does the United States Care about Taiwan?" addresses the relationship between Taiwan and the United States—noted as the most sensitive issue in US-China relations—and focuses on a number of reasons for US interest in Taiwan, including maintaining credibility with allies, a desire to protect a democratic system, and strong trade ties with the island. The chapter also notes the limits on US support of Taiwan. Though US political and military support for Taiwan has grown increasingly complicated, the original reasons for supporting Taiwan remain valid and important to US interests. To maintain peace across the Taiwan Strait and honor the commitment to Taiwan, the chapter suggests that the United States take a number of steps, including insisting that Taiwan coordinate any moves toward sovereignty with Washington, engaging more directly with Taiwanese officials, supporting Taiwan's membership in appropriate international organizations that do not require statehood, and being prepared militarily to defend Taiwan in a crisis.

Chapter 9, "China's Military Modernization," discusses China's recent military modernization, noting that the People's Liberation Army (PLA) has made substantial strides in improving its operational and institutional capacities through the development, acquisition, and fielding of new weapons systems; institutional and systemic reforms; and development of new war-fighting doctrines. The chapter concludes that even if the modernization of the PLA is for strictly peaceful purposes, a more capable PLA has the potential to significantly alter the strategic balance in Asia and will have a noteworthy impact on Asian countries as well as the United States. The chapter recommends that the United States should respond in several

ways: The United States should (1) modernize its own forces; (2) reach out to the PLA; (3) continue to maintain a presence in Asia; and (4) make an effort to conduct military diplomacy and operational cooperation in Asia.

Chapter 10, "China and the World," discusses China's emerging role in the global system, its relationships with a number of important countries, the role of soft power in its foreign policy, and the goals and principles underlying its foreign policy. The chapter concludes that China's increasing engagement with the world is not a disturbing development, but rather an expected and welcome one, as China will be an invaluable help in addressing a wide range of global problems. The chapter recommends that in response to China's rise, the United States should take several steps, including refraining from exaggerating the threat from China, maintaining its alliance system in East Asia, and renewing its attention to the developing world.