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US Election Note: China Policy after 2012

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Introduction

China has long been considered a 'black box' for the United States. Relations between the two countries have been characterized by strategic mistrust and uncertainty. From the American side, China's rise is both an opportunity and a threat. Policy-making in Washington is complicated by the lack of clarity over the balance of power between China's civilian government and its military, and their respective interests and objectives. This has led to the prevailing US policy of engaging and hedging. From the Chinese perspective there is also uncertainty regarding America's intent and whether it is really trying to hedge or contain.

While we are focused on the November elections in the US, Chinese politics are also in a state of flux, with an anticipated retirement of seven of the nine members of the Standing Committee of the Politburo of the Communist Party at the end of this year. Recent political turbulence around the purging of Politburo member and Chongqing party boss, Bo Xilai, in early April has increased sensitivity to additional internal or external political pressure.

In the context of the current US-Chinese relationship, this paper lays out the likely China policy of either a second-term Barack Obama administration or an incoming Mitt Romney* administration, and the international implications of these two alternatives.

Background

Economic interdependency

China is the largest holder of US securities, making it sensitive to weaknesses in the dollar (although China has started to diversify its holdings). China and the United States are each other's second-largest trading partners. The significant bilateral trade imbalance between them, although decreasing, is a source of tension in the United States, as is the perceived, albeit diminishing, undervaluation of the renminbi.

Concerns are rising in the American business community. Increasingly, China (albeit not necessarily its government agencies) has been accused of many incidents of hacking and espionage against America's companies and public sector. Intellectual property rights (IPR) are often ignored. At the same time, Chinese investments in sensitive US industries continue to be of concern (e.g. in oil and high technology).

Rising military capabilities

With the exception of 2006, Chinese defence spending has increased by double digits every year since 1989 according to official figures (although most analysts estimate spending to be notably higher). China's focus on building naval offshore capacity, allowing it to operate well beyond its borders, suggests a desire to extend its reach. Its investment in offensive weapons, not least those targeting Taiwan, is also of particular concern to the United States (as well as to other countries in the region).

In addition to its growing military investment, the apparent division between China's generals and civilian government also raises concerns regarding who has ultimate authority and whether the military might take actions contrary to bilateral agreements between the United States and the Chinese government. The weak links between the military and likely Chinese future leaders after

* While Ron Paul and Newt Gingrich are still candidates for the Republican nomination, it is sufficiently unlikely that either will become the Republican nominee for them not to be included in this analysis.

the 18th Communist Party Congress later this year have increased concerns in the United States about what kind of player the Chinese military might be in the future, and whether it might be more aggressive.

The United States has tried to improve its understanding of China and to encourage greater transparency on the Chinese side, not least in military matters. During the February visit to America of Vice President Xi Jinping, Washington proposed stronger military-to-military engagement, but China is thus far unwilling to engage in substantive talks. Ambiguity provides it with a deeper buffer zone in which uncertainty regarding Chinese 'red lines' makes America hesitant to act.

Geopolitical competition

There are concerns on both sides regarding potentially conflicting geopolitical and, in particular, regional interests. China senses that the United States might be pursuing a strategy of containment, while from the American perspective China is implementing an Anti-Access and Area Denial (A2/AD) regional policy against the United States. Flash-points could arise over territorial or other disputes in the region between China and American friends and allies, in particular over Taiwan where the United States is committed to preventing unilateral efforts to alter the status quo.

International norms and soft power

There is a strong US perception that China, despite being a member of a number of international regimes including the World Trade Organization, G20 and UN Security Council, resists or disputes international norms. The difference in priorities and values plays out in areas such as human rights (domestically in general and with regard to Tibet) and sovereignty. China has focused in recent years on expanding its soft power through the creation of Confucius Institutes around the world, but so far its ideology has not proved itself globally attractive. In other soft-power arenas such as education and the media, China still lags considerably behind the United States and other Western nations.

Policy positions

A second Obama term

The Obama administration has maintained President George W Bush's second-term strategy of 'hedging and engagement' with emphasis on the latter. The current administration has worked with China on a broad range of issues, engaging in numerous dialogues from the Strategic and Economic Dialogue to more recently expanding the conversation on issues from Asia-Pacific cooperation to humanitarian assistance and disaster response. A second term is likely to maintain the emphasis on engagement, focusing on areas of collaboration rather than those of concern, ranging from the economic to the environmental.

Notwithstanding the broader perception, particularly in China, that America's Asia policy (and in particular the recent 'pivot') is directly focused on China, in fact China policy will continue to be only an element of the broader Asia policy in the United States and be addressed in this wider context. While the 'pivot' to Asia will continue, efforts to ensure it is not perceived as directed against China will be maintained.

There are two areas where more attention is likely in the coming years. The first relates to China's engagement in international regimes, not least the WTO and G20. Given Obama's more multilateral stance than his predecessor's, it is likely that his administration will continue to try to engage the Chinese government in these arenas, where possible cultivating their support for broad

international norms on issues such as North Korea, Burma/Myanmar and Syria. The Obama team is also likely to continue encouraging other partners, particularly in Europe, to expand their perspectives on China, taking into consideration broader strategic and security issues rather than focusing almost exclusively on commercial engagement.

The second area is in cyber and space security. Secretary of State Hillary Clinton has recently expressed American willingness to engage more actively in building an international code of conduct for outer space. The administration is also likely to work with other interested countries to engage the Chinese government on standards to limit the hacking and espionage emanating from China.

A Romney presidency

Governor Romney's campaign rhetoric on China has focused largely on economic issues, with less attention devoted to the military, geopolitical or soft power of China except in the context of his broader vision of the world and the United States. Given his focus and experience on economic and trade issues (broadly defined), as president his China priorities are likely to remain in these areas. However, the breadth of the interactions and interests between the two countries will inevitably lead to a broader policy platform that includes the other diverse elements of the bilateral relationship.

Romney has stated he will label China a 'currency manipulator' on his first day as president. This is largely a rhetorical tool as it requires only the launch of negotiations with China. While China is likely to react to this political statement, such a designation will have only limited practical impact. The long-term extensive interactions of many in Romney's foreign-policy team with Chinese officials mean that the blowback will be managed to ensure no permanent or significant impact to the bilateral relationship.

While it has not been a central part of his campaign to date, Romney's private-sector background is likely to make him more sensitive to the hacking, IPR and espionage concerns of many in the US business community. Working towards a more level playing field for foreign companies in China, and supporting US competitive advantage, will be a high priority for his administration. Romney has stated that he will ensure that China stands by the same values and norms as other countries, particularly in the economic and trade sphere.

In the security and geopolitical arena, Romney has called for a more active or assertive American security and foreign policy posture, with increased funding for the military. If implemented, this could have significant repercussions on the bilateral relationship. There has been little mention by Romney of such potential flash-points as Taiwan.

Finally, Romney has suggested that he would focus more attention on China's actions in international institutions and its support for international norms, particularly in human rights. Given his strong religious background, this is likely to be an issue of particular personal concern, but it is unclear whether it would manifest itself as a priority for him in this relationship.

International implications

China's trajectory and its level of engagement with the international community are of global concern. They will be significantly affected by its relationship with the United States: cooperation is likely to lead to a more positive Chinese role, while competition would result in Chinese intransigence and have implications for progress on global issues from the environment to space and cyber security as well as issues arising in the UN Security Council, to trade and development. It would also put nations that are dependent on both the United States and China for economic and/or security reasons in a difficult position as they try to balance the two. Making room for China's growth and participation will be important.

Two factors make managing this rise particularly difficult. The first is the lack of transparency in China mentioned earlier: inadequate understanding of Chinese interests and concerns can lead to misunderstandings and potential conflicts. The second relates to the tension between showing consideration for China's interests and appearing, in Chinese eyes, to be weak.

For these reasons, it will be vital that any American administration makes every effort to engage in an open and transparent dialogue with the Chinese and ensure that US intentions are clear. Ensuring such clarity and deliberation could do much to maintain relations on a positive trajectory or, at a minimum, ensure that they do not spiral out of control. In this respect, the continuity of a second Obama administration that pursues a similar posture would be helpful, particularly as China goes through its own political transition.

Placing priority, and potentially raising tensions, in the economic area, as Romney might do, could have two principal worldwide impacts. First, it could result in retaliatory actions by China in the economic sphere, such as reversing its current relatively cooperative attitude by stopping currency flexibility, freezing progress on further international integration in the financial arena, or raising trade barriers or tariffs. Second, it could motivate China to continue to reduce its interdependence with the United States, investing more in Europe and other regions, and embracing more closely the commercial relationships that form the basis of its engagement with many European countries.

Alternatively, finding ways to cooperate with China could induce it to accelerate the pace of liberalization of its capital account, allowing greater flexibility of the renminbi's exchange rate as well as deeper reforms in its domestic financial sector. The likely consequence would be increasing capital outflow from China to invest in the rest of the world, but more profoundly, greater opportunities and easier market accessibility for international capital to invest inside the Chinese market.

While a downturn in US-Chinese relations could have an economic impact on other Asia-Pacific countries, these would also be concerned about the security implications. Rising tensions between the two countries makes balancing between them harder. If the United States were perceived to be the instigator of such elevated tensions, a pull-back from America could occur in the region (a reverse of what has happened in recent years following China's aggressive posturing).

A more 'assertive' US military posture, as called for by Romney, is likely to heighten Chinese fears of US 'containment', and bolster the position of the hawks in the Chinese civilian and military establishment who support further increases in military spending, possibly starting a regional arms race.

Both Romney and Obama are likely to continue the rebalancing of America's strategic focus towards Asia. This does not necessarily indicate a distancing from Europe. However, the level of US forces in Europe is likely to be affected more by Obama's intended defence cuts in a second term than they would be under Romney, given the latter's intention to maintain or even increase defence spending.

Both potential administrations are likely to pay more attention in the coming years to the increasing concerns regarding security in the cyber and space domain. These will be difficult fields in which to engage China, and both administrations are likely to bring in other partners through multilateral institutions. Addressing these new areas of potential tension is vital not just for the United States and China but also for the broader international community.

About the Author

Xenia Dormandy is a Senior Fellow at Chatham House, and runs the Project on the United States' changing role in the world. She was previously the Executive Director of the PeaceNexus Foundation, which she launched in 2009. From 2005 to 2009, she was the Director of the Project on India and the Subcontinent and the Executive Director for Research at the Kennedy School's Belfer Center, Harvard University, as well as being a member of the Center's board.

Her previous positions include Director for South Asia at the US National Security Council (NSC), and a number of positions at the Department of State including in the Bureau of South Asia, the Homeland Security Group and the Bureau of Nonproliferation. Shortly after 9/11, she was detailed to the Office of the Vice President to help launch the Office of Homeland Security Affairs. Earlier in her career she worked in the non-profit and private sectors in California, Israel and the West Bank, and the United Kingdom, and for UNICEF in New York. She has a BA from Oxford University and a Master's in Public Policy from the Kennedy School of Government.

She is the author of numerous articles and op-eds in publications such as *The Washington Quarterly*, *The Washington Post*, *Boston Globe*, *Christian Science Monitor* and *International Herald Tribune*, and she has been interviewed on radio and television for such programmes as the BBC World, NPR, CSPAN, CNN, Fox News, Al Jazeera and the Jim Lehrer News Hour.

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