A Way Ahead with China

Steering the Right Course with the Middle Kingdom

Recommendations from the Miller Center of Public Affairs Roundtable
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Miller Center of Public Affairs

University of Virginia
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The Faulkner House,
Miller Center of Public Affairs,
University of Virginia
China is now the world’s second largest economy and enjoys an increasingly wealthy and educated population of 1.3 billion. Its rising influence prompts varied reactions in America. Some are quick to encourage a strong embrace of China’s emergence on the world stage; others wish to cast it as the villain in a recreated Cold War dynamic. The U.S. and Chinese governments only resumed diplomatic relations 30 years ago, and both countries have worked to further that relationship since, although not without strains and challenges.

There are certainly issues on which the U.S. and China hold widely disparate views, but increasingly the two nations have made progress together on many fronts. Today, the changing and evolving U.S./China relationship demands a practical strategy. There must be careful consideration of what both nations seek to gain from this relationship, and of how the relationship itself affects the balance of nations worldwide.

Both the U.S. and China can benefit from closer ties and increasing trust.

In connection with Chinese President Hu Jintao’s state visit to the U.S. in January 2011, the Miller Center organized a three day roundtable in our Washington office for discussion among leaders from various stakeholder groups. The roundtable formulated a practical set of recommendations to improve and strengthen the relationship of the world’s two leading powers. Admiral Joseph W. Prueher—the Miller Center’s Schlesinger Professor and the former U.S. Ambassador to China from 1999 to 2001—convened the participants and led the discussion. Admiral Prueher’s experience at the highest levels, in diplomacy and the military, provide crucial insight into China. The roundtable he assembled included leaders from the academy, government, military, and business.
This report results from the roundtable’s work. It outlines a path ahead for a relationship which now is of such fundamental importance to the prosperity of the entire world. The insights captured here will offer lasting value in discussions and decision-making concerning the future of the U.S. and China and their strategic ties.

Gerald L. Baliles  
Director, Miller Center of Public Affairs, University of Virginia  
Governor, Commonwealth of Virginia (1986–1990)
There are essential differences between China and the United States in their social systems and foreign policies. However, the two sides agreed that countries...should conduct their relations on the principles of respect for the sovereignty and territorial integrity of all states, non-aggression against other states, non-interference in the internal affairs of other states, equality and mutual benefit, and peaceful coexistence.

—Joint Communiqué of the United States of America and The People’s Republic of China February 28, 1972 on the occasion of Nixon’s visit to China

These events are the final result of long and serious negotiations begun by President Nixon in 1972, and continued under the leadership of President Ford. The results bear witness to the steady, determined, bipartisan effort of our own country to build a world in which peace will be the goal and the responsibility of all nations.

The normalization of relations between the United States and China has no other purpose than this: the advancement of peace. It is in this spirit, at this season of peace, that I take special pride in sharing this good news with you tonight.

—Speech by President Carter on the establishment of diplomatic relations with China, December 15, 1978
EXECUTIVE SUMMARY
EXECUTIVE SUMMARY

Nearly forty years ago, President Nixon’s visit to China—the first by a United States President while in office—marked a period of renewed interest in normalized relations with China following an extended period of rancor between the two countries. President Nixon stated in remarks during that visit:

“We, of course, are under no illusions that 20 years of hostility between the People’s Republic of China and the United States of America are going to be swept away by one week of talks that we will have there. But…the American people are a great people. The Chinese people are a great people. The fact that they are separated by a vast ocean and great differences in philosophy should not prevent them from finding common ground. As we look to the future, we must recognize that the Government of the People’s Republic of China and the Government of the United States have had great differences. We will have differences in the future. But what we must do is to find a way to see that we can have differences without being enemies in war. If we can make progress toward that goal on this trip, the world will be a much safer world and the chance particularly for all of those young children over there to grow up in a world of peace will be infinitely greater.”

Nixon’s conciliatory sentiment and his recognition of the significant differences and hurdles that the U.S. and China faced have been seen in the courses followed by both countries and their governments since that visit. Continued normalization—and a deepening and further intertwining of U.S./China relations—has been the goal of the seven presidential administrations and four decades that have ensued. The diplomatic relationship has been formalized and further solidified through negotiations, strategic communiqués, and additional symbolic actions. However, opportunities for cooperation and collaboration could extend further.
Independently, both the U.S. and China have undergone periods of massive change, progress and development to become the world’s first and second strongest economies, respectively. Despite the relatively robust state of these individual societies and their mutual diplomatic bonds, these decades have also been marked by periods of great stress. Beyond isolated and identifiable instances of diplomatic tension—such as the Taiwan Strait Crisis or the Hainan incident—there is a fundamental difference in worldview and political philosophy that also underpins the diplomatic relationship, frequently serves as a point of contention, and possibly plants lingering seeds of distrust.

Experts and diplomats from both countries seem to think that the U.S./Chinese relationship is sustainable and the challenges navigable. Outlined below are the major recommendations proposed by Admiral Prueher and his roundtable participants for continuing to steer a good course with China.
These recommendations would serve to continue building U.S./China relations based on the following qualities:

- Stability
- Predictability
- Understanding of similarities and differences
- Candor and, ideally, trust
- Balanced political, economic and trade, military and cultural aspects
- Strong communication links

They would ensure that the interests of both countries are met and their ideals and steering philosophies remain intact.

**Recommendations**

1. **The United States must get its own house in order.** Excessive debts and deficits in the United States budget undermine our credibility and stability on the international stage, and they hinder our ability to take on other wide-ranging issues, most notably with China.

2. **We should take a fresh look at Taiwan.** The United States takes a somewhat protectionist stance with Taiwan historically. However, Taiwan is now an economically successful democratic institution that is slowly tending towards greater alignment with the Mainland. Our involvement with Taiwan is a frequent point of contention with the Chinese, particularly in respect to arms sales, and one that should be re-examined. The complex relationship is political and should be re-examined outside of a military context.

3. **The U.S. and China should conduct negotiations as equals.** Both countries are major sovereign players on the world stage. Both should come to the table with an attitude of collaboration, instead of an adversarial one based around counter demands and ultimatums. A solution-based attitude of respect and deference—instead of acrimony—should be adopted in these discussions.

4. **Create structured communications.** China and the U.S.—both on a government and citizen level—should be able to interact with one another. Our U.S. schools should work to improve language skills in Mandarin to match Chinese efforts and foster greater cultural
understanding and exchange. More structured diplomatic and quasi-official dialogues should be promoted.

5. **Build habits of cooperation to promote understanding.** China should not be viewed as a Communist “other” in the minds of the American people. A relationship built on that mischaracterization—and one that does not recognize the pragmatism and strength of China’s society as uniquely “Chinese”—will not build bridges of trust built on common interests. Instead, discussion with the Chinese must be viewed in light of common problems and opportunities to benefit not only U.S. and China, but also our neighbors.

6. **Encourage greater economic Integration.** As our countries become increasingly economically dependent, our national interests also begin to align more fully. We must be vigilant that increasing investments comport with the WTO standards to which we adhere. Although foreign direct investment (FDI) serves our economic interests by returning capital and operating revenues to the United States, that FDI must include a mutually updated system of trade.

The relationship with China is ever-changing and evolving, but the U.S. desire for diplomacy, collaboration and continued friendship is evident still in President Obama’s welcoming remarks to President Hu Jintao, on the occasion of his state visit to Washington earlier this year. President Obama remarked:

“We can learn from our people. Chinese and American students and educators, business people, tourists, researchers and scientists, including Chinese Americans who are here today—they work together and make progress together every single day. They know that even as our nations compete in some areas, we can cooperate in so many others, in a spirit of mutual respect, for our mutual benefit…. There are still great possibilities for cooperation between our countries. President Hu, members of the Chinese delegation, let us seize these possibilities together.”

By steering the correct course, there are many possibilities—military, economic, cultural, diplomatic—that can be seized.
We can’t predict with certainty what the future will bring, but we can be certain about the issues that will define our times. And we also know this: The relationship between the United States and China will shape the 21st century, which makes it as important as any bilateral relationship in the world. That really must underpin our partnership. That is the responsibility that together we bear.

As we look to the future, we can learn from our past—for history shows us that both our nations benefit from engagement that is grounded in mutual interest and mutual respect.

**STEERING the RIGHT COURSE with the MIDDLE KINGDOM**

**Introduction**

Wars and revolutions in the Middle East now make the rest of the world seem quiet and easy to cope with, but ten years ago the collision between a Chinese F-7 fighter and a U.S. Navy EP-3 aircraft off Hainan Island highlighted the difficulties of the proper management of the U.S./China relations. Since that time our relationship has become even more complex and important. Since our futures will be contingent upon one another, we need an appropriate strategy of interaction.

In 2012 the fifth generation of People’s Republic of China top leadership will assume office. The PRC has gone through years of great tribulations, and is in the process of both exercising and returning to great power status in the world. The United States is also adjusting to China’s rise to world power. Arguably, the U.S. relationship with China is the largest and most critical one for us to get right. This immense, multifaceted relationship encompassing political, economic, cultural, and military aspects is generally stable. The relationship has the potential to be much better, not only for China and the U.S., but for a world that can only benefit from a more stable, more predictable and more positive future.

Nearly 40 years since Richard Nixon’s historic visit to China, we have been through periods of great stress, of which the Hainan incident ten years ago was one of the most spectacular. It was not on the scale of the Korean War or even Tiananmen Square of course, but it had the seeds of a major bilateral flap. The strain of this event on a less than robust U.S./China relationship was rapidly evident and obvious. And yet, the aftershock of the event quickly subsided and was absorbed—not forgotten, but absorbed—in the importance of the relationship.

Despite a bilateral climate that regularly yielded hot words from both sides of the Pacific, events, forces, and people were in place to put this potentially
incendiary event in perspective such that the increasingly important U.S./China relationship could continue without excessive perturbation. We all learned some good lessons.

But here we are, 10 years hence, with a different China, a different U.S., and a different global balance. What have we learned that remains useful? What are the keys to this U.S./China negotiation? How can we think about this with fresh eyes and move ahead in a constructive way to the benefit of both China and the U.S., as well as to benefit our global neighbors?

**Think: “Protracted Negotiation”**

One fruitful answer is to view the U.S./China relationship as a protracted negotiation, not a static circumstance, but rather a process. “Protracted” we understand. The complexity of our interactions, even when we generally agree

_Nearly 40 years since Richard Nixon’s historic visit to China, we have been through periods of great stress._
The Hainan Incident

On April 1, 2001, a United States reconnaissance jet conducting what the U.S. military referred to as “a routine surveillance mission in international airspace” near the island of Hainan was intercepted by Chinese fighter jets, and collided mid-air with one of the jets. The collision killed the Chinese pilot; the crew of 24 Americans in the EP-3 survived after making an unauthorized emergency landing on the island. Deeming the incident a violation of and infringement of their economic zone, the Chinese government refused to release the American crew for eleven days. Both the Chinese and the U.S. disputed who was at fault for the accident. The U.S. claimed that the Chinese pilot approached the EP-3 too closely and bumped its wing; Chinese sources, based on the account of the pilot’s wing man, contend that the large surveillance plane “veered at a wide angle towards the Chinese” and collided that way. U.S. diplomats were sent to visit with the crew and negotiate their release on April 3. Tense negotiations continued over the course of eight days, with the Chinese government making repeated requests for an apology and the U.S. warning that delays in returning the crew could potentially strain or damage diplomatic relations. United States Ambassador to China Admiral Joseph W. Prueher sent a letter written to convey regret over the missing PLA plane and pilot without assuming guilt for the incident on April 11, 2001. Chinese Foreign Minister Tang Jiaxuan accepted the letter, and the crew was allowed to leave. The Chinese government would not allow the plane to be flown from Hainan, but it was disassembled and eventually returned to the United States. As part of negotiations, the two countries held a meeting later that month to discuss ways to prevent similar incidents in the future.
on the elements of an issue take a long time. Think about China’s joining the
WTO, for example—or about a mutual goal of a non-nuclear Korean peninsula.

The “negotiation” part of the phrase is more useful. Negotiation connotes
a process in which both parties listen to the other and seek an outcome both
parties can accept. Negotiation connotes having clarified our own “want to
haves” and “need to haves” as well as understanding, though not necessarily agreeing with similar
desires of the counterpart. Negotiation connotes a commitment to two-way discussion with
ground rules that apply to both sides. Negotiation connotes good communication, understanding,
and usually a modicum of trust. Negotiation connotes knowing well one’s own as well as one’s
counterpart’s points of leverage.

And lastly thinking in terms of a “protracted negotiation” connotes getting
results that attract both parties to return for the next issue that is certain to
arise. We will be negotiating with each other over the long term, and concerning
problems that we anticipate and some that are surprises to both sides.

The fly in the ointment of “protracted negotiation” is that officials of the U.S.
and China, at least in public, usually do not speak candidly to each other but
rather to their domestic audience. It is sometimes said that the Chinese and
United States governments conduct their business with their backs facing each
other, each delivering their words to their internal constituencies rather than
to the other government.

What would an ideal U.S./China relationship look like?

Clearly we recognize that one cannot view the U.S./China ability to work
well together in isolation; nonetheless, a well functioning bilateral process
can add a great deal to global stability—and certainly to our two nations.
An ideal relationship would have the following characteristics:

- **Stability**: The U.S. and China must become a dependable, reliable,
  and steady presence for each other.

- **Predictability and, Ideally, Trust**: The U.S./China relationship will
  benefit greatly from more consistent, reliable responses on both sides.
  These predictable actions have the effect, over time, of increasing trust.
- **Strong Communication Links**: The relationship would benefit from personal contact among leaders at the highest level, and from improved inter and intra country communication. We also advocate a Track Two component, in which knowledgeable and well-connected unofficial observers exchange tentative and candid views about emerging and long-term issues in a way that officials cannot.

- **Common Understanding of Similarities and Differences**: Both sides should come to an objective understanding of the positions held by the other; this does not mean accepting the interpretation of the other side of the situation, but investing the time and effort to come to a thoughtful, nuanced view of our similarities and differences.

- **Candor**: U.S. and Chinese leaders must practice speaking to each other in direct terms, both in off-the-record conversations and in public to facilitate greater trust.

- **Mutual Respect**: Both nations deserve respect, and also grapple with challenges. We can question each other’s actions, but we must do it with our well-developed understanding of each other’s issues.

- **Balance**: We must work to keep all of the elements of the relationship in balance: political, economic and trade, military and cultural.

To approach this ideal, and we can, one must recognize some differences that are not likely to change soon, if at all.

- The U.S. is founded on a sense of universal values, such as rule of law, individual freedoms, democracy, free speech and political and religious freedoms. We are less bound by a sense of place and ethnicity. Plus we tend to seek to export our values.

- Many Chinese describe their pride in their civilization and incredible progress, a sense of place, a faith in relationships over laws, and a lack of dissatisfaction with the Communist Party (as opposed to communist ideology) so long as it delivers improved living conditions. Many also seek a uniquely Chinese path, whether that is Chairman Mao looking for a Chinese path to communism, or President Hu Jintao looking for a Chinese path to development and great power status.

The net of these differences is that many Chinese and U.S. citizens will be warm friends with shared personal values and aims, but our nations’ relationship will need to accommodate some fundamental differences—and we can do this.
Where do we stand now?

Where the United States Stands. The U.S. has enjoyed a primacy in world affairs for 75 plus years owing to the extremely robust economy, enviable growth of living standards, unparalleled (but usually restrained) military dominance and a workable balance between government and private enterprise. Strong evidence exists that we as a nation lost a “lean and hungry” economic outlook and replaced it with a prolonged proclivity to spend more than we earn. As our nation faces the inevitable fiscal result of these practices in terms of large deficits and national debt, we must deal with these shortcomings both to reduce national spending as well as reorder priorities and costs of our national defense and entitlements such as public pensions, health care, and education. This sense of not being able to do all that we want to do at the scale we want to do it forces us to focus on actions we need to take. We have long been accustomed to viewing our democracy and economic model as the right pattern of most nations, and our economic engine has sputtered infrequently. Conflicting concerns over the urgencies of recovery and the long-term need for balance shape our current domestic agenda.

The facts are that our economy remains the world’s largest and is extremely resilient. Our global companies compete worldwide at the highest levels. Our living standard is among the world’s highest, with one of the highest per capita incomes for a large nation. We should see the revolutions sweeping the globe, as well as the rising living standard in many nations as they approach our own, not as a diminution of the U.S., but rather as an endorsement of the impact our nation has been able to have for a prolonged period.

Where China Stands. China, for her part, has made galloping economic strides since 1978. China’s history is one of culture, power, creativity, and entrepreneurial spirit which last blossomed in world prominence before Columbus even discovered the New World, centuries before the United States was “conceived in liberty.” After the mid 1400’s, China’s isolationism brought on a weakening that eventually led to the period of concessions whereby other nations, including the U.S., made use of portions of China’s national territory.
To grossly truncate history, this period culminated with the 1937 Japanese invasion that ceased only at the end of WWII. Subsequent to that were internal struggles and very hard times during which Communist forces under Mao Zedong drove Chiang Kai Shek’s Nationalist forces to Taiwan. U.S. support for non-Communist China and Chiang Kai Shek created the “Taiwan Issue” to be discussed later. Further severe internal upheaval ensued (including the Cultural Revolution and Great Leap Forward) with a shift in 1978 away from Marxist-Leninist ideology and a command economy to capital creation (as Deng Xiaoping is reputed to have said, “To get rich is glorious”) resulting in China’s subsuming all else to economic growth. The legitimacy of the Communist Party hinges on the continued successful delivery of the economic progress.

So today, China’s economy, having grown dependent on near infinite cheap labor, is a juggernaut export based economy that has also created many offsetting challenges. The labor force is reaching its limits, and therefore is reaching for higher wages. For the first time in its long history, China expects to have a majority urban population in the next five years. These burgeoning cities are hard to govern, and will change the economic and political dynamic within the country. Their environment could become a limiting factor in their progress: nearly all Chinese cities face severe water shortages and serious water pollution, and industrial air pollution has become a significant health hazard. China is the world’s number one energy consumer and emitter of industrial carbon dioxide pollution, and pollution abatement cannot keep pace with growth. Local corruption and the need for political reforms also loom as threats to the regime, with some predicting that the growing economy and increasing wealth may lead to democratization of the government. Already, there have been some moves toward rule of law, local level elections, and increasing debate and opposition on issues. And incidentally they hold $1.16 trillion of U.S. debt, 2.6 trillion of foreign exchange reserves, and have grown at around 9% GDP/year for over 30 years. China’s debt holdings are only part of its dependence on the current, U.S.-centered, world order.

Although Chinese remain optimistic about the challenges they face, they recognize that their future is going to be challenging. The Chinese both...
1996 Taiwan Strait Crisis

In 1996, increasing tensions between China and Taiwan in the Taiwan Strait—a 111 mile wide sea lane between China and Taiwan that serves as a major shipping route—culminated with the dispatch of U.S. ships and aircraft to monitor the area. The Chinese militaries had been conducting missile tests in those waters, which the Taiwanese government had interpreted as aggressive actions. In the lead-up to those missile tests, diplomatic relationships between the three countries had been strained by a number of events. First, the United States allowed Taiwanese President Lee Teng-Hui to attend his Cornell University reunion, which China opposed because they wanted to diplomatically isolate Taiwan and its leaders. Initially, Secretary of State Warren Christopher had declined Lee’s request to enter the country, but when the issue caught the attention of pro-Taiwan supporters and media, Congress ended up voting to allow his visit. The decision angered the Chinese government, and they responded by conducting missile tests, and ammunition and naval exercises in an area close to a Taiwanese held island and major sea ports. The tests also interrupted trade and air travel in the region. In response, President Clinton sent the Nimitz and another carrier battle group to international waters near Taiwan as a signal to China that the U.S. would protect Taiwan, as part of its agreement in the Taiwan Relations Act. Under that act, the U.S. position is that the issue of reunification be handled by the Chinese people on both sides of the strait, as long as it is resolved peacefully. In response, the Chinese President warned against the United States taking a more aggressive action by traveling into the Taiwan Strait. The U.S. Navy did not enter that strait, and as a result, diplomatic relations between the three countries resumed largely intact.
acknowledge that they don’t know where their growth is going, and are steadfast in their belief that in the end, this progress is good.

In sum, China is trying to sustain a rate of growth, while we are trying to sustain the established strengths of our economic and political system. Tensions mount when the Chinese perceive the U.S. as opposing its growth—containing China. And we become anxious as the relative distance between our economies diminishes. But in fact China does not grow at our expense, and the U.S. is not an obstacle to its growth. China’s sustainability and our own depend far more on meeting domestic challenges than on external problems. China’s sustained growth may tend to close the U.S./China economic gap but it benefits us as well. And a crisis in the United States would be the most serious hazard for China’s prospects.

Setting up a Protracted Negotiation

If a “protracted negotiation,” as we lay out above, is the right way to go on a U.S./China relationship, it is important that both parties understand each others’ want-to-haves and need-to-haves from such a negotiation. Both nations need a stable, predictable Asia-Pacific region. Both nations need each other economically. Yet, for the foreseeable future, both China and the United States can move forward without concessions from each other. There aren’t any imperative “need to haves” in the current situation on either side, only “want to haves.” However, the lack of a substantive negotiation will make for dramatically sub-optimal and increasingly adversarial future. We can do better than this.

China’s “wants” include:

- The United States to stop selling arms to Taiwan and to promote the peaceful unification of Taiwan and China
- The United States to stop recognizing the Dalai Lama
- The United States to continue open markets for their growing economy
- The United States to relax technology transfer controls
- A global acknowledgement of the PRC role and status among nations
- More Chinese investment in the United States
Not be “contained”: reduced surveillance of their activities, such as halting reconnaissance activities near China or limiting deployments and alliance activities that are targeted at China

- Limits on U.S. ballistic missile defense and a seat at the table for nuclear arms discussions

- Restoration of a non-nuclear Korean peninsula

U.S. “wants” include:

- Engagement with China in a nuclear dialogue
- Peaceful resolution of the Taiwan issue
- Restoration of a non-nuclear Korean peninsula
- Foreign direct investment (FDI) in U.S. companies by non-state-owned enterprises and greater opportunity for U.S. FDI in China
- Increased U.S. exports to China through an appreciation of the Yuan
- Substantive military dialogue and interaction to prevent miscalculation and avert crises
- Greater recognition of political and religious freedoms within China
- Greater cooperation on global issues such as counterterrorism and environmental pollution.

**Recommendations**

So what are the steps that the U.S. should take to pursue this more productive U.S./China relationship by 2020?

**The United States Must Get Its Own House In Order.** Foremost, we believe that the U.S. needs to get its fiscal house in order. We will not solve our debt/deficit issues by 2020, but the U.S. urgently needs to put in place corrective actions. Macro economic guru Dick McCormack wrote: “If we fix our macro economic problems, all our other difficulties will be manageable.” A sure way for a group discussing U.S./China issues to lose credibility is to pontificate on the U.S. economy. True. But we agree with Mr. McCormack.

U.S. debt/deficit problems heavily erode our credibility and ability to take on other pressing issues, particularly with China. It is important that we take
We Should Take a Fresh Look at Taiwan. A peaceful resolution of the long standing Taiwan issue, acceptable on both sides of the strait would indeed be a boon to stability in East Asia, as well as to U.S./China relations. It is also an issue where progress can be made. Taiwan has over time and with our encouragement become an economically successful democratic polity. Unfortunately, U.S. arms sales to Taiwan are part of a vicious circle, leading to the Taiwan issue that is clearly political, and increasingly economic, being always discussed in military terms. The solution to the Taiwan issue is not a military one, so we should discuss it in the layers of economy, politics, and culture.

Paraphrasing Einstein, “Simplify all things…but not too much.” Let us thus try to describe the vicious circle of Taiwan arms sales. Politically, the President of the Taiwan people, now the extremely capable Ma Ying-jeou, in order to get elected, must satisfy a large segment of his Taiwanese constituency by asking the U.S. to approve annual arm sales to Taiwan. The U.S. Administration, for domestic political reasons, must offer arms to Taiwan (The large difference between what is approved and what is actually transferred is another subject). Mainland Chinese (PRC) leaders, to reconcile increasingly pluralistic domestic pressures, are obliged to protest the interferences of these arms sales in “internal Chinese affairs.” Further, the PLA feels obliged, and has been tasked, to show it can deal militarily with Taiwan. A manifestation of this is demonstrated in the large military build-up in Fukian province. A manifestation is that this is happening despite an environment of increasing cross-Strait economic activities, contact, and tourism. The goal enunciated in the Taiwan Relations Act—“to preserve and promote extensive, close, and friendly commercial, cultural, and other relations between the people of the United States and the people on Taiwan, as well as the people on the China mainland and all other peoples of the Western Pacific area”—needs to be re-thought by all sides in a context broader than military.

Taiwan has over time and without encouragement become an economically successful democratic polity.
Of course, something as sensitive as Taiwan policy should be changed only with great deliberation. There are some in Washington and Beijing who talk quietly of a new Taiwan Relations Act or 4th Joint Communiqué, but our recommendation is that (1) dialogue on the U.S.-China-Taiwan triangle be elevated from a mostly military to a politico-economic dialogue and (2) that serious, official (perhaps stemming from a Track Two, or non-government effort) steps be taken to break the vicious circle described above. In our view the easiest, most statesmanlike, step could be made by the PRC but this paper is about what the U.S. can do. There is no better time to act than while relations are working well and both the U.S. and China need to expend energies on other topics.

Create Structured Communications. This recommendation is two fold.

- Enhance programs for language skills in U.S. schools. At the present over 300 million Chinese speak English and have some knowledge of U.S. history. They also have large contingents that speak Arabic, Spanish, and Russian; the implication is that they intend to be abroad in the world. Mandarin needs to be a prominent second language within the United States, and exchange programs should be encouraged. In addition to the study of the language, we must foster a broader understanding of China, either through tourism or through study as a part of our general knowledge of the contemporary world.

- The Strategic Economic Dialogue (SED) and Defense Consultative Talks (DCT’s) are important improvements to the bilateral communications. Formalized interactions incorporating the whole of government should be fostered and at least on an annual basis. Additionally, quasi-official dialogues at several levels should be promoted, diplomatic, commercial, military, energy, etc. These regular communications should have both official and off-the-record discourses.

Build Habits of Cooperation to Promote Understanding. During the January State Visit, President Hu Jintao referred to his view of China as “Democratic, Law Abiding, Socialist.” It is accurate for Americans to view and interpret China as “Chinese” rather than as “Communist,” as they are
pragmatically, rather than philosophically, driven. This transition will be accomplished by practicing habits of cooperation and building greater trust and understanding.

China and the U.S. are both sovereign states of great import. Constructive negotiation is not a delivery of a list of requirements or ultimatums (that method is, however, sometimes a tactic). The other party needs to be treated with respect. U.S. negotiators and envoys are often asked by their Chinese counterparts, “How would you discuss this issue with the British?” It’s not a bad question, and one that highlights the issue of trust and partnership well. Such a discussion, with a long-term and respected ally like the British, is focused on problem solving, where motives are presumed to be aligned.

Our sense of understanding and friendship with European countries is often credited to common cultural elements, but it’s also because we have accomplished large things in partnership. There are opportunities to accomplish great things in cooperation with the Chinese where our interests are closely aligned: alternative energy, clean coal, civilian nuclear technology, dams, language training.

There are many opportunities to practice these habits especially among the nontraditional security issues that join us: disaster preparedness and response, anti-piracy, SLOC protection, the Coast Guard, the Horn of Africa, and Malacca Straits.

We should also promote opportunities where there is an exchange of people and ideas between lower-level entities in our countries. This could be through military service academy exchanges, cultural exchanges, farming and agriculture. University exchanges are an area where these interactions are thriving and successful.

There are many areas ripe for greater collaboration. China seems to share our vision of economic progress through exchange, and is committed to relations that are not zero-sum, but win-win. Negotiation with China is not as difficult when we have common interests. But we have to be skilled negotiators. This means being ready to trade on the hard points, and anticipate that Chinese negotiators will not do favors.
Encourage Greater Economic Integration. Acknowledge growing economic interdependence with China. Such interdependence will tend to align our national interest and decrease frequency of miscalculations, as well as increase the need for negotiations. Increasing Chinese Foreign Direct Investment (FDI) in U.S. industry returns capital and operating revenues to the U.S. to continue our own development and job creation. According to the Bureau of Economic Analysis, China’s FDI in the United States in 2008 was only three percent of Belgium’s. Included in the due diligence of accepting such FDI must be a mutually updated system of trade as well as dealing only with Chinese companies whose market reforms comport with WTO standards.

Conclusions

The world has changed a lot in the past 10 years, and the pace of that change in the next 10 years promises no deceleration. A subtle result of this ongoing transition is the shrinking expectation of the power any single nation has to control world affairs. America has a growing appreciation of our ability to lead through our relationships and partnerships with others rather than through overt demonstrations of power. The two most powerful nations to emerge from this transformation are the United States and China, and our economic, political, military, and trade relations will impact most other nations in the world, so it is important to get the relationship right.

Our future together should be seen as a protracted negotiation between respected parties, if not partners, in each case. Foremost action for the United States is to get in place a fiscal housecleaning. Strides forward in the U.S./China relationship can be accelerated by a fresh look at solving the Taiwan issue. Accomplishing these improvements through regular, respectful negotiations will yield great benefits.

Endnotes

2. CNN-China 2050.
The wide-ranging talks that I have held with Chairman Mao and with Vice Premier Teng have been friendly, candid, substantial, and constructive. We discussed our differences, which are natural in a relationship between two countries whose ideologies, societies, and circumstances diverge. But we also confirmed that we have important points in common.

We reviewed our bilateral relationship. The visit confirmed that although our relations are not yet normalized, they are good. They will be gradually improved because we both believe that a strengthening of our ties benefits our two peoples. I am confident that through our mutual efforts we can continue to build a relationship which advances the national interests of the United States and the People’s Republic of China.

—Toasts of the President Ford and Vice Premier Teng of the People’s Republic of China at a Banquet in Peking Honoring the Vice Premier, December 4, 1975
APPENDICES
SESSION SUMMARY

What do we want?

January 20, 2:30–5:00 p.m.

The purpose of these sessions is to engage in a candid discussion that is intellectually honest regarding U.S./China relations. The ideal relationship between China and the United States has three characteristics: stable; predictable; and characterized by mutual assurance in both political and economic affairs. The goal of the roundtable is to come out of the discussion with eight actionable items that encourage stability and predictability. These are a function of reassurance and help promote a mutually functional relationship.

How do we define what the ideal might be in terms of a relationship with China? There is also a need to determine the sticking points on both sides and then use that information for negotiation. The United States wants to be assured that one side is not trying to compromise the other at any given time. It is in the interest of the U.S. to have a transparent dynamic relationship that contributes positively to our economic dimension.

The United States would like a more tightly economically interdependent relationship with China. As economic integration increases, so does the cost of conflict. This will provide reassurance on both sides and promotes peace in the Asia Pacific region and beyond. In essence, the U.S. would like China to be a junior partner in international affairs and to assume some ownership in the system. China asserts a 200 nautical mile zone of exclusive economic access. The United States wants unfettered access to this area with regards to security through the Asia Pacific, but we also want the Chinese military to take on some of the burden of protection in the area and possibly the world.

The U.S. wants a China that shares its vision of economic progress through exchange; not a zero sum relationship. They want market access and national treatment for the U.S. and other foreign companies. There is room for expansion both ways and possibly even free trade between nations, but before that can happen, some other pieces must be in place.
Politically, the U.S. would like a government in China that reflects democratic principles, but a complete democracy is not necessarily the best model for the Chinese at this point in time. Even a superficial step in the direction towards democracy would help change the dialogue. For example, an increased emphasis on the rule of law and humane governance would change the game.

In addition to more open negotiations and a share in the burden of protection, the United States would like to see a peaceful resolution to the Taiwan issue and increased trade and job creation between Taiwan and China. There needs to be more civil nuclear cooperation and governance interaction regarding energy and weapons systems as well as cooperation in regards to environmental issues such as carbon dioxide, natural gas, and coal emissions.
China currently constitutes ten percent of the world’s Gross Domestic Product and boasts the second largest economy in the world. Its GDP will surpass the United States in the next decade, but both countries are internationally influential and therefore the relationship is important to the world order. The U.S./China relationship is the largest bilateral relationship in the world, but it is not necessarily the United States’ most important relationship. The high end consumer goods industry does as much business in China as any other country in the world.

In the case of China, capitalism cannot be mistaken for democracy, and therefore the economics of the U.S. and China are currently on a collision course. It is difficult and expensive to operate a foreign company in China at this point in time, mostly due to the dominance of Chinese state-owned-enterprises (SOE). There is a ten percent increase in taxes for foreign companies over national companies, and the Chinese government has been known to manipulate the market in order to create its own national champions. There are protectionist policies in place to promote national businesses over foreign businesses, but any rules that might be in place are not coherent, nor are they stable. There are two subsets of rules in China: rules that are acknowledged but not enforced and there are rules that are made up as one goes along, but often ignored by Chinese SOEs. This creates natural and unnatural advantages for Chinese companies to the disadvantage of other companies. This environment makes it incredibly difficult for a foreign company to protect themselves, which is compounded by the fact that there is forced technology transfer if creating a joint Chinese venture.

Despite the huge disadvantages placed on foreign companies, Chinese businesses still require the innovative direction of U.S. manufacturing companies in order to continue to grow economically. The United States creates an enormous amount of jobs in China which helps keep the current political regime in power. Over the past decade, the Chinese have bought a large portion of the U.S. debt while at the same time the United States
States' share of world exports has dropped. This represents a strategic concern for America, despite the fact that the likelihood of them using this leverage against the U.S. is remote and almost inconceivable.

There is often the assumption by the U.S. that there is a certain uniformity of Chinese policy broadly speaking, but it is a disparate and chaotic place, on the verge of major migratory tectonic shifts within its borders. There are 700 million people moving from the countryside into the huge metropoles that Chinese cities have become. This major migration will not work absent major Chinese policy change because the cities have expanded faster than Chinese institutions can control. There are more people unemployed in China alone than the entire population of the United States; there is a huge aging population and there is an enormous amount of young men who are not able to choose a female life partner. The country has one billion people who are not enjoying the benefits of the economy and there is no structure in place to accommodate them.

It will be difficult to achieve a stable and predictable relationship at this point because there is an element of misunderstanding and distrust between
China and the U.S. China does not believe in the Washington consensus, and a democratic government in China is not likely to promote U.S.-friendly causes. Their current government is somewhat responding to what their people need and want, despite the fact that their leaders are not elected. China, however, is not institutionally stable and lacks the ability to reassure its own people. The government is studying single party governments very closely and is driven more pragmatically at this point, although there appears to be no master plan for the future of China.

The United States has many military interests in the Asia Pacific region, including several bases, but access to the Chinese military zone is currently blocked to everyone. In order to gain unfettered access to it, the U.S. needs to emphasize the difference between access to- and control of- that area. As the Chinese military grows in size and capability, there comes increased responsibility in the burden of protection and therefore increased assurance. At this point in time, there seems to be a deterrent relationship based on both sides building forces leading to a de facto arms race. Due to the communist government of China, the U.S. has mistakenly treated their relationship with the Chinese as they did their relationship with Soviet communists and this has damaged the security relationship between the two countries.
If you look at the total power in the world as a pie, the trend shows that the size of the “pie” is growing. Therefore, the U.S. will eventually be less dominant in that sphere as nations like China grow in influence. In order to compensate for this change in the world order, the U.S. must help to build a cooperative relationship and move away from its sense of dominance. The policy of the U.S. up to this point has been to appear dominant at any cost, but that philosophy needs to reflect the changing world order.

The U.S. keeps trying to fit China into an architecture that doesn’t account for some adjustment in how the U.S. sees its own role. There needs to be recognition that things have changed and that the presumptions of the post-Second World War system no longer apply in full with regards to China. The relationship must change because it is ultimately unsustainable at the current rate and the U.S. has a lot at risk if the Chinese economy fails. In order to increase China’s international profile as a world power, the United States could support China’s broader participation in world organizations such as the World Health Organization. This would also increase the Chinese burden of protection in the world.

One of the core issues in the way of a strong relationship between China and the United States is human rights, but human rights and the economy are not necessarily linked. Therefore, in order to move forward, the U.S. might need to recognize that the human rights issue might be deferred or slowed until the economic issues have been set. U.S. administrations historically attempted to manage the legal and political issues regarding human rights in China instead of simply addressing the relationship between the countries as a whole. This compartmentalizing of the problems compounds the issues domestically and abroad. However, there is some work that can be done with regards to political issues: the U.S. could amend some of its conflicting legislation with regards to China to make it more coherent.

The fact remains that China needs stability in order to grow economically, as does the United States and the rest of the world. The Chinese also need
the United States to help shape the international and regional environment to promote stability. The Chinese are pushing for a different monetary system where the dollar does not reign; however, the strength of the dollar is one of the United States’ most important long term interests. In order to prove to China the weight of the United States economy, there are several steps that the U.S. can take. First, it can begin to do more business with international counterweights to China such as India and Indonesia. The U.S. is also strongly investing in Brazil and Mexico, so these coordinated efforts with friends of the United States would make a huge statement to China.

Going through some trials and tribulations as countries together builds bonds between nations, China can begin with a peaceful resolution to the Taiwan issue as a bond-building exercise. In order for this to occur, for example, the U.S. government could make the decision that arms sales are no longer needed, and in exchange ask that the Chinese remove the missiles aimed at Taiwan. The United States would also like to begin a nuclear dialogue and recognition in the assistance of non-proliferation agreements. The resolution of this ongoing conflict could signal a new beginning for an open dialogue with China.
There are many cultural actionable items that both China and the U.S. can use to open a dialogue between the nations. The U.S. could increase strategic language scholarships for U.S. students and increased Chinese language training in the U.S. There could be military service academy exchanges, which are currently banned under U.S. policy. Chinese and American militaries and police could run search and rescue exercises for disaster relief and humanitarian assistance. Both nations could host athletic team exchanges and tournaments as well as dance troupes and symphonies. Although the U.S. and Chinese governments might not necessarily get along, the fact is that the Chinese and the American people do get along and with increased cultural exchanges comes mutual respect and more dialogue between governments.

With regards to the markets, the U.S. would like China to buy more U.S. manufactured goods and respect intellectual property rights. The Chinese have tendencies to ignore tariff barriers in order to bolster domestic industry and to seek an unfair advantage in a way that disrupts global growth long term. It is also in the interest of the U.S. to have China acknowledge the Global Commons; the public spaces that the global economy and the global discourse is now dependent upon. If China simply changed their tax laws for both corporations and individuals and made it easier and cheaper to invest in Chinese industry, then it would be able to increase foreign investment and it would also keep the best and the brightest from all over the world within its borders.

There is an immediate need for better crisis management in China. At this point, there is not a distinct chain of command in China for U.S. counterparts in times of an emergency. In fact there are systemic disconnects in the integration of economic and political issues at senior levels in China. The U.S. often ends up going through the Chinese embassy in order to get in touch with someone in the government. The bureaucracy of Chinese government is vague and complicated and makes it difficult on a diplomatic level to coordinate efforts. The Chinese government needs to be more transparent in their processes and intentions, which will lead to more substantive exchanges.

The question remains: will the U.S. be able to continue to dictate the terms? Or will the U.S. have to alter the way in which we work with China? In order to trend towards a solution, the U.S. must first tackle its own fiscal house. This means reducing debts and deficits without collapsing the fragile world economy or descending into a deeper recession.
Biographies of Participants

The Miller Center is grateful for those that participated in the roundtable. The conversation was lively, and reached general agreement, but not on every point contained in this report.

Admiral Joseph W. Prueher, Roundtable Chair, is the Miller Center’s James R. Schlesinger Distinguished Professor. He is also a consulting professor at Stanford University’s Institute of International Studies, and Senior Advisor on U.S./China security matters for the Preventive Defense Project, a research collaboration between Stanford and Harvard University’s Kennedy School of Government. Admiral Prueher served as Ambassador to the People’s Republic of China for Presidents Clinton and George W. Bush from 1999 to 2001, after completing a 35-year career in the U.S. Navy. His last post was Commander-in-Chief of the U.S. Pacific Command, the world’s largest military command, comprised of more than 300,000 people. A 1964 graduate of the U.S. Naval Academy, Admiral Prueher earned his master’s degree in international relations from George Washington University and graduated from the Naval War College.

David L. Cunningham, Jr. is President of the Asia Pacific Region of FedEx Express, where he is responsible for developing and executing all corporate strategies and operations for the region that includes the North Pacific operations based in Tokyo; the China operations based in Shanghai and the South Pacific operations based in Singapore. He assumed his current position in November 1999 after serving as regional vice president. Mr. Cunningham joined FedEx in 1982 and has held management positions in operations and finance including Managing Director of Worldwide Financial Planning in the United States and Chief Financial Officer and Vice President of Finance for Asia Pacific. He is a member of the U.S. Association of South East Asian Nations (US-ASEAN) Business Council, the
National Center for Asia Pacific Economic Cooperation (APEC), the Pacific Economic Cooperation Council, the Pacific Basin Economic Council and the U.S./China Business Council. In addition he serves on the board of governors of the American Chamber of Commerce in Hong Kong. He earned his bachelor’s and master’s degrees from the University of Memphis.

**Michael Ducker** is Chief Operating Officer for FedEx Express and President of its International Division. In these roles he leads all customer-facing aspects of the company’s U.S. operations and sets the strategic direction for its international business, spanning more than 220 countries and territories. He also oversees the company’s efforts to open markets, improve customs procedures, and support international economic policy reforms around the world. During his FedEx career, he worked eight years in the Asia Pacific region, including four years in Hong Kong as president of the FedEx Express Asia Pacific region. He also led the South East Asia
and Middle East regions from Singapore, and served as vice president of Southern Europe, based in Milan, Italy. He applies his extensive global management experience outside of FedEx as well, serving as chairman of the International Policy Committee, executive board member of the U.S. Chamber of Commerce, and board member of the Coalition of Service Industries and Junior Achievement Worldwide. Mr. Ducker earned his business degree from the Kellogg School of Management at Northwestern University and Hong Kong University of Science and Technology.

Charles Freeman, III holds the Freeman Chair in China Studies at the Center for Strategic and International Studies. He concentrates on the political economy of China and other parts of East Asia and on U.S./China relations, particularly trade and economic relations. A second-generation “China hand,” he has lived and worked between Asia and the United States for his entire life. During his government career, he served as Assistant
U.S. Trade Representative for China Affairs, where he was the United States’ chief China trade negotiator and played a primary role in shaping overall trade policy with respect to China, Taiwan, Hong Kong, Macao, and Mongolia. In that capacity, he also oversaw U.S. efforts to integrate China into the global trading architecture of the World Trade Organization. Previously, he was legislative counsel for international affairs in the Senate. Outside of government, as a lawyer and business adviser, he has counseled corporations and financial institutions on strategic planning, government relations, market access, mergers and acquisitions, corporate communication, and political and economic risk management in China. He currently is a Senior Adviser to McLarty Associates and serves on the boards of directors of the National Committee of U.S./China Relations and the Harding Loevner emerging market fund group. Dr. Freeman earned his J.D. from Boston University School of Law, and his bachelor’s degree in Asian Studies from Tufts University, concentrating in economics. He has studied Chinese economic policymaking at Fudan University in Shanghai and Mandarin Chinese at the Taipei Language Institute, where he received highest honors in language fluency exams.

Admiral Timothy J. Keating retired in December 2009 after serving for three years as the Commander, United States Pacific Command. His area of responsibility included over 3.4 billion people and half the surface of the earth. Prior to his tour at Pacific Command, Admiral Keating was Commander of the United States Northern Command, responsible for protecting the United States homeland and providing support to federal, state and local officials in time of crisis. Simultaneously, he was Commander of the North American Aerospace Defense Command, providing aerospace warning, air sovereignty and defense for the United States and Canada. Previous tours include service as the Director of the Joint Staff in the Pentagon, command of the United States Fifth Fleet and all naval forces in the United States Central Command headquartered in the Kingdom of Bahrain, Deputy Chief of Naval Operations (Plans, Policy and Operations) in the Pentagon, command of the USS Kitty Hawk Battle Group stationed in Yokosuka, Japan, and Deputy Director for Operations (Current Operations) on the Joint Staff in the Pentagon. Admiral Keating is a graduate of the United States Naval Academy.
David Michael Lampton is Dean of Faculty at the School of Advanced International Studies (SAIS), and Professor of Chinese Studies at Johns Hopkins University. A specialist in Chinese domestic politics and foreign policy, his articles have appeared in numerous major publications. In addition to his academic post, Mr. Lampton is also Senior International Advisor on China for Akin Gump, and a member of both the Executive Committee of the National Committee on U.S./China Relations as well as the Council on Foreign Relations; he served as the National Committee’s President from 1988 to 1997. Mr. Lampton received his doctorate from Stanford University as well as an honorary doctorate from the Russian Academy of Sciences’ Institute of Far Eastern Studies. He served in the enlisted and commissioned officer ranks of the U.S. Army Reserve.

James Shinn is National Intelligence Officer for East Asia at the CIA and a Visiting Professor at Georgetown, where he teaches courses on technology and foreign policy. His research focuses on the effect of private sector high technology on foreign policy outcomes, particularly information technology and recombinant DNA techniques; East Asian political economy; and global corporate governance. After serving in the East Asian Bureau of the State Department he spent fifteen years in Silicon Valley, first at Advanced Micro Devices and then at Dialogic, a software firm, which he co-founded. Dialogic is now a division of Intel. Dr. Shinn was the Senior Fellow for Asia at the Council on Foreign Relations in the mid-1990’s and then returned to academia. He earned his bachelor’s and doctoral degrees from Princeton University and a business degree from Harvard University.

Taylor Reveley is the Associate Director of the Miller Center. He has served as the coordinating attorney for the Center’s National War Powers Commission, co-chaired by Secretaries of State James Baker and Warren Christopher. Mr. Reveley previously was an attorney with Hunton & Williams. His national corporate practice focused on mergers and acquisitions, corporate governance, nonprofit organizations, and higher education. He earned his bachelor’s degree from Princeton University, a masters in divinity from Union Theological Seminary, and his law degree from the University of Virginia School of Law.
Heather Mullins Crislip is the Miller Center’s Special Assistant for Policy Programs. She also served as the Staff Director of the David R. Goode National Transportation Conference at the Miller Center. She previously served as Chief of Staff to the Chancellor at the University of Hawaii, where she oversaw all external and government relations and stewarded the university through several large institutional reorganizations. Ms. Crislip also worked on a major reform of the financing of the K-12 system as Chief of Staff to the Chair of the Senate Education Committee in the Hawaii State Legislature. Before moving to Hawaii, she was a Policy Assistant to the Mayor of New Haven, Connecticut, and Director of the regional Welfare to Work center during the implementation of welfare reform and the Workforce Investment Act. She earned her bachelor’s degree from Mary Washington College and a law degree from the University of Connecticut.
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Michael Ducker, Chief Operating Officer for FedEx Express and President of its International Division
Charles Freeman, III, Freeman Chair in China Studies, Center for Strategic and International Studies
David M. Finkelstein, Vice President, CNA & Director, CNA China Studies
Harry Harding, Dean, Frank Batten Sr. School of Leadership and Public Policy, University of Virginia
Admiral Timothy J. Keating (USN, ret.) former Commander, United States Pacific Command
David Michael Lampton, Dean of Faculty, School of Advanced International Studies, Johns Hopkins University
James Shinn, Lecturer, School of Engineering and Applied Sciences, Princeton University
Brantly Womack, Professor of Politics, University of Virginia

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