



# China briefing

Domestic, Diplomatic and Security Issues at the beginning of the Beijing Olympics



**W**hile in Beijing a couple of years ago, I was struck by how difficult it was, despite the plethora of daily news sources we now have access to, to get a clear yet concise sense of the massive changes that have taken place within China. At International Affairs Forum, we strive to present the views of a wide range of commentators. And with our China Report we are pleased also to present a wide range of subjects—from cybersecurity to urbanization—to help give a more rounded picture of China eight years into the "Asian century."

Confucius said we should study the past if we are to define the future. I hope that through this third special publication, to which our generous contributors have offered their balanced, sometimes surprising, and always interesting insights, that we have made at least a small contribution to helping our readers to do so.

I'd also like to offer special thanks to assistant editor Leigh Marshall and our designer Cristoph Mark. And to help us fulfill another part of our mission, which is to facilitate the exchange of ideas, we'd also like to encourage readers to post their comments and responses at the following: <http://www.ia-forum.org/content/pdflinkfeedback.cfm?pdfid=4>

Jason Miks, MANAGING EDITOR, INTERNATIONAL AFFAIRS FORUM

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[www.par-avion-design.com](http://www.par-avion-design.com)  
[cristophm@par-avion-design.com](mailto:cristophm@par-avion-design.com)



# China at home

Environment Human Rights Democratization Economy

# China and the Urbanism of Ambition

By Thomas J. Campanella

**I**t is no secret that China is the most rapidly urbanizing nation in the world, with an urban population that may well reach one billion within a generation. Over the past 25 years, surging economic growth has propelled a construction boom unlike anything the world has ever seen, radically transforming both city and countryside in its wake. China's ambition to be a major player on the global stage is written on the skylines of every major city. This is a nation on the rise, and it is building for the record books. China's construction industry, with a workforce equal to the population of California, has been erecting billions of square feet of housing and office space every year. In Shanghai alone more than 900 million square feet of commercial office space was added to the city between 1990 and 2004—the equivalent in floor area of 138 Pentagons or 334 Empire State Buildings. There was not a single skyscraper in Shanghai in the late 1970s; today the city has more high-rise office towers than New York. By some estimates, another 430 billion square feet of new construction, including some 50,000 skyscrapers, will go up across the People's Republic by 2025—and that does not include the massive rebuilding necessary in Sichuan Province as a result of the May 2008 earthquake.<sup>1</sup>

Building on such an epic scale has also meant unprecedented destruction, for as the old Stalinist maxim puts it, "You can't make an omelet without breaking eggs." In its headlong rush toward an affluent, modern future, China has broken countless eggs—obliterating a priceless built heritage, leveling more old

neighborhoods and displacing more people than any nation in the peacetime history of the world. Nearly all of Beijing's centuries-old cityscape has been bulldozed in recent years, despite legal protections and the brave resistance of residents and the nascent Chinese preservation movement. Redevelopment in Shanghai has been equally catastrophic, forcing the relocation of tens of thousands of families. China's cities are also rapidly sprawling across the landscape, churning precious farmland into highway-laced landscapes of superblock housing estates and gated single-family subdivisions. As early as 1995, the built-up area of Shanghai (including the city proper and its inner suburbs) covered nine times the land area it did just a decade earlier—jumping from 90 to 790 square miles. There is a Chinese expression for this—*tan da bing*—which literally means "to bake a big pancake." Pancaking in the Pearl River Delta has been even more extensive, and LANDSAT images of Chongqing taken over the last two decades reveal a process of urban expansion more reminiscent of a supernova than anything from the kitchen.

In terms of form and settlement density, Chinese suburbs are very different from those in the United States. While single-family "villa" subdivisions much like the typical American gated community have become popular in recent years among the most affluent, more common are mid- to high-rise superblock suburban housing estates, the most exclusive of which are gated and offer a great range of lifestyle services and amenities. Because these suburban estates are so dense,

<sup>1</sup> McKinsey Global Institute, "Preparing for China's Urban Billion" (March 2008)

<sup>2</sup> Between 1978 and 1995, approximately 11 million acres (17,375 square miles) of cultivated land in China were lost to development; another 17 million acres (26,562 square miles) vanished between then and 2004. See Jonathan Watts, "China's farmers cannot feed hungry cities," *Guardian Unlimited* (26 August, 2004). Also see Ding Shangri and Gerrit Knaap, "Urban Land Policy Reform in China," *Land Lines* (Lincoln Institute of Land Policy) 15:2 (April, 2003).

<sup>3</sup> Watts, *Guardian Unlimited* (26 August, 2004).

<sup>4</sup> "China stands as world's 2nd largest auto market," *People's Daily* (13 January, 2006).

they are much more land efficient than the typical large-lot American suburban development. But China's relatively small land area and immense population demands greater efficiencies still. Suburban housing estates are being built at a rate of 10 to 15 a day across China, which has resulted in a staggering loss of arable land in recent years—especially in the booming coastal provinces. Between about 1980 and 2004 urban sprawl in China consumed some 44,000 square miles of agricultural land—equal in area to most of New England.<sup>2</sup> Due to such losses, the People's Republic is no longer self-sufficient in agricultural production; for the first time in its history, China has become a net importer of food, and is even now scouting for leasable farmland in Africa and Latin America.<sup>3</sup>

Sprawl is also resulting in a population increasingly reliant on motor vehicles for getting about. During the Mao years, most housing was provided in situ by one's danwei or work-unit; few people needed to commute to work, and streets and roads were typically empty. But with the economic reforms of the 1980s the old live-work model was largely abandoned; workers were encouraged to find their own housing, and the economics of the housing market often meant settling for accommodations well out on the urban fringe (others, displaced by redevelopment of old neighborhoods, were more or less forced out). The new separation of workplace and residence has meant an exponential increase in traffic, straining public transit systems and encouraging those who can afford it to buy a car. This helps explain why China has become the fastest growing automobile market in the world, with a domestic motor vehicle market that has surpassed Japan's and is second in size only to that of the United States.<sup>4</sup> With all these cars on the suburban fringe have also come a range of artifacts—shopping malls, big-box retail stores, drive-thru fast-food restaurants, even drive-in cinemas—long associated with the suburban, motorist landscape of the United States.



*Thomas J. Campanella is associate professor of urban design and planning at the University of North Carolina at Chapel Hill and a visiting professor at the Harvard University Graduate School of Design. He is the author of "The Concrete Dragon: China's Urban Revolution and What It Means for the World" (Princeton Press, 2008).*

China's drive, energy and ambition —its hunger to be powerful and prosperous, a player on the global stage—is more than a little reminiscent of America in its youth.



Clearly, the unprecedented speed and scale of urbanization in China challenges many of our ideals and expectations about cities and what makes them work. American urbanists, especially, often find that the benchmarks used to measure and make sense of cities suddenly seem obsolete. The story of the West End in Boston is a case in point. An aging and congested but vibrant urban neighborhood, the West End was condemned a slum and bulldozed in the late 1950s as a model urban renewal project. The community's destruction became the subject of several landmark studies, and is still regarded the sine qua non example of the kind of authoritarian "big planning" that Jane Jacobs would soon rail against in "Death and Life of Great American

Cities." There is not an urban planning student in America who hasn't heard of the West End and its demise. The West End was one of a hundreds of urban renewal projects that, by 1970, had displaced an estimated one million people in cities across the United States. A staggering legacy, but one that pales quickly in comparison to urban-redevelopment losses in China. In Shanghai in the 1990s alone, more families were displaced by urban redevelopment projects than by 30 years of urban renewal in the entire United States. And similar displacements have occurred in Beijing, Guangzhou, Nanjing and Tianjin. How useful, in other words, is the West End as a tool in assessing the impacts of urban renewal in China?

The scale of building in China also humbles our perennial American preoccupation with bigness. Americans have long taken it for granted that the United States would always have the largest, fastest, greatest, tallest, broadest and most expensive of all things. And indeed, America was long the land of bigness and ambition. We were a nation bred on Daniel Burnham's mythic exhortation to "make no little plans." We invented the skyscraper and built the tallest buildings in the world; we erected the biggest dams and laid out the most extensive highway system in the world. We even put a man on the Moon. But China is fast removing us from this mighty perch. China is now home to some of the world's tallest skyscrapers and biggest shopping malls; the longest bridges and largest airport; the most expansive theme parks and gated communities and even the world's largest skateboard park. Three Gorges Dam is 16 times the volume of beloved Hoover Dam. And by 2020 China's national network of expressways will overtake the American interstate system to become the most extensive human construction on earth. Even Robert Moses, long the arch-demon of American urban ambition, would scarcely budge the needle of a Chinese urban Richter scale. Moses, for all his ruthlessness, constructed 415 miles of highway in the metropolitan New York region in his entire master-builder career. Shanghai built well over three times that in just the 1990s.

There is, nonetheless, a bewitching consonance between the American urban experience and the transfiguration of China's cities today. China's drive, energy and ambition—its hunger to be powerful and prosperous, a player on the global stage—is more than a little reminiscent of America in its youth. Henry James' descriptions of lower Manhattan in 1904—of the "multitudinous sky-scrappers standing up to the view, from the water, like extravagant pins in a cushion already overplanted"—could well describe Shanghai's Pudong district today. Americans gazed in wonder once at miniature metropolises like Norman Bel Geddes' "Futurama" exhibit at the 1939 New York World's Fair, just as Chinese today pore over spectacular models of the Shanghai- or Beijing-to-be. We wrote poems once to our bridges and roads. But today we are older and wiser, more responsible, more aware of the problems of planning for cars rather than human beings.

A new emphasis on sustainability impels us to rethink the way we build. In short, our values have changed. But with wisdom has also come timidity. We are a suburban nation in tweedy middle age, cautious and conservative, no longer smitten with audacity. Our architecture is retrospective, measured and sane; our new towns are modeled on the old. We envy China because we see in its spectacular rise traces of what we once were—brash, reckless, hungry to make a new world.

# The Two Faces of Chinese Nationalism

By Maria Hsia Chang

**O**n May 12, 2008, China's Sichuan province was struck by a massive 7.9 earthquake. In the aftermath, Chinese people rallied together in an unprecedented show of national solidarity and fellowship. Many volunteered to excavate victims still buried in the rubble; others donated money to help survivors; still others offered to adopt the children whom the quake had made orphans. A week after the disaster on May 19 at 2:28 p.m., people all across China mourned in silence for three minutes. All of which led outside observers to remark that we might be witnessing the beginning of a genuine civil society in China. As longtime Sinologist Ross Terrill put it, "A new China could be glimpsed after the earthquake."

But a month before the quake, the world had seen an uglier face of Chinese nationalism. As human rights protesters dogged the Beijing Olympics' torch relay around the world, Chinese convulsed in collective outrage against international criticisms of their government's violent crackdown in Tibet and support of the genocidal regime in Sudan. In online forums and chat rooms, Chinese youth blasted their leaders in Beijing for not being tougher against the Tibetan "separatists." Some 20 million signed an online petition calling for a boycott against Western businesses, such as the American chains McDonald's and Kentucky Fried Chicken. Chinese ire especially targeted the French retailer Carrefour—protests and demonstrations in front of its outlets in Wuhan drew thousands.

Chinese nationalist anger even spread to college campuses in the United States. At the University of Southern California, Chinese students harassed a visiting Tibetan monk. At the University of Washington, hundreds protested outside during a speech by the Tibetan spiritual leader-in-exile, the Dalai Lama. At Duke University, a Chinese student who had tried to mediate between pro-China and pro-Tibet protesters was branded a traitor by her compatriots. Her photo was posted on the Internet, together with her contact information and her parents' address in China.

These incidents are a reminder of Chinese nationalism's volatile mix of prickly pride and smoldering resentment. The same nationalism exploded into anti-Japan riots across China in 2005, against Japanese school textbooks that minimized Imperial Japan's World War II atrocities. The visiting Japanese national soccer team was brutally attacked; Japanese missions and businesses were trashed. The same Chinese nationalism also burst into violent anti-American protests in 1999 after NATO's accidental bombing of China's embassy in Belgrade, Yugoslavia. And when the United States was attacked by Islamic terrorists on September 11, 2001, some Chinese exulted over America's pain. One student told pollsters that "When the planes crashed into the World Trade Center, I really felt very delighted."

Nationalism may be defined as the sentiments of affinity and love for one's national group. China's thorny nationalism was birthed out of the turmoil of what Chinese still call their "hundred years of humiliation." That century

began with Great Britain's trouncing of Imperial China in the Opium War (1840-42), which opened the floodgates to more defeats, unequal treaties, economic turmoil, territorial losses, a massive rebellion, dynastic collapse, revolution, warlords, Japan's colonization and invasion, and a ruinous civil war from which the Communist Party emerged as victor in 1949.

Unlike organic nations that are formed naturally over time, the Chinese nation is a product of the Chinese people's experience of being abused and humiliated by outside groups. Their shared suffering at the hands of common enemies transformed Chinese from being "a tray of loose sand" into a nation. In effect, Chinese nationalism from its very beginning has been reactive and xenophobic.

After its bloody suppression of the pro-democracy movement in 1989, the Chinese government initiated a patriotic education campaign, using nationalism to shore up its legitimacy. School textbooks focus on China's past humiliations, while the state media, such as the People's Daily, highlight contemporary China's perceived mistreatment at the hands of the United States and other powers. As Hong Kong legislator Christine Loh observed, "If you don't bear a grudge against China's historical oppressors, then you don't ai guo (love your country) enough."

Unlike organic nations that are formed naturally over time, the Chinese nation is a product of the Chinese people's experience of being abused and humiliated by outside groups. Their shared suffering at the hands of common enemies transformed Chinese from being "a tray of loose sand" into a nation.

At the same time as it encourages reactive nationalism, the Chinese government also fears that runaway nationalist passions may harm the economy by alienating foreign investors or, worse yet, mutate into unrest and insurrection against Beijing. Thus far, Beijing has been able to douse the fire of populist nationalism when it became excessive. As an example, in 2005, although Beijing initially had stoked popular anti-Japan resentments, but it later brought out riot-control police to restore order in the cities.

Today, on the eve of the opening of the Olympics in Beijing, the true face of Chinese nationalism remains an open question. Is it the peaceable face of herbivorous nationalism, wherein love of one's own nation does not require hating others, or is Chinese nationalism carnivorous, wherein love of one's own is intertwined with hatred and aggression towards other groups?

Whatever precedents there are in history are not encouraging. Recall that the nationalisms of both Nazi Germany and Imperial Japan were of the reactive carnivorous variety. Both saw themselves as having been victimized by others; both turned to grandiose dreams of empire in compensation; and in both cases, voices of reason and moderation were silenced by authoritarian governments.

As China takes its place as a newly arrived member among the world's great powers, which face of nationalism it wears carries serious implications for regional peace and security. So long as Chinese continue to overreact to international criticisms with hypersensitivity and rage, the world has reason to be wary. For the mark of a truly great power is the ability to undertake critical self-examination and to admit to flaws and mistakes when warranted.

# China Shows Promise in Tackling Environmental Challenges

Interview with Karen Baragona, WWF

**Q:** **IA Forum: What are WWF's biggest concerns in terms of environmental problems related to China?**

**A:** **Karen Baragona:** I think they could be divided into two parts. One is what is happening domestically in China, where there are threats to biodiversity, wildlife and its habitats. The place we're most heavily focused with that is in the Yangtze River basin. Then there is also the issue of China's economic growth and consumption of natural resources and how that plays out in places in other parts of the world, such as Africa, Southeast Asia and Latin America, because of this issue of China sourcing raw materials for manufacturing from these places. I think it's important to point out right away, though, that the demand for those natural resources from China is driven not just by China's own domestic consumption, but in large part by consumption in the West.

**You mention the Yangtze River basin—what's happening there?**

One of our iconic programs has been protecting the giant panda and its habitat. And we also do a considerable amount of freshwater conservation work, focused in part on restoring wetlands. Also, in the upper parts of the Yangtze we're working on restoring forests—always working with the Chinese government, helping the Chinese government implement its own conservation policies and giving some technical support.

**How seriously do you feel the**

**Chinese government is taking these environmental threats?**

The Chinese government is taking these problems quite seriously, and there are a lot of reasons for that. One is the widespread recognition that environmental degradation impedes economic growth. There are also a number of human health problems that arise because of not just pollution, but because of losses of forests and the loss of natural services that ecosystems provide, such as flood control. So I think the Chinese government is definitely taking these matters seriously. And when we talk about the external impact of China's growth, the Chinese government is also taking these concerns seriously, partly because they affect China's international reputation.

**Are there any particular success stories you'd point to?**

One example is in Sichuan Province, Shaanxi Province and Gansu Province, the three provinces where giant pandas are still found, where we've worked with the provincial governments to enlarge existing reserves, and establish new reserves that protect more than three quarters of the giant panda's habitat. Another more recent development is that the Ministry of Environmental Protection, which until March of this year was called the State Environmental Protection Administration, was elevated to full ministry status. This is very significant because it gives this government body a great deal more power and influence. And so the Ministry has approached WWF about working together with Chinese banks to develop

green lending policies, which would mean creating guidelines that would help the banks lend to projects that are ecologically sensitive, and refuse to lend to projects that are not.

**How would you rate the general awareness of environmental issues in China, and is there any kind of environmental movement?**

There certainly is an environmental movement, and I think it's important to keep in mind that environmental protection is not an event, it's a process. If you compare it to the way things were in the United States when the environmental movement just began to take hold, I think you can see that these things play out over decades, not days or weeks or months. The first environmental legislation was passed in the United State in the early 1970s, and four decades later I'm not sure anybody would say that we've got it right yet. So it's important to keep things in context.

But there's definitely a burgeoning environmental movement in China. Part of that again is over human health concerns—people are breathing dirty air, they are using dirty water, they have been affected by floods that many believe were caused by cutting down forests upstream. So at the grassroots

level, where people are affected directly by these conservation and environment problems, there is definitely a growing recognition of the need to solve those problems, and increasing pressure on the government to do something. There are a number of Chinese NGOs that have sprung up in the last maybe five years that are addressing some of the local conservation and environmental concerns, and then there are a number of international NGOs, including WWF. And WWF has grown since I started 12 years ago, from about 20 or 25 people mostly working in Beijing to more than 100, with 10 offices across China. So I think all those are indicators of an environmental movement that is growing and picking up steam.

**How optimistic are you overall about future environmental efforts in China?**

I am optimistic. I went to China for the first time in 1989, right after college. I lived there for a couple of years. And at that time, China was of course not as developed, so wasn't as polluted and didn't face as many of these severe economic challenges as it does now. But at the same time, the political will to take on environmental challenges was not very well developed. However, over the last two decades during which I have been working with China,

*Karen Baragona is WWF-U.S.'s Director for China Markets and Policy. In this role, she leads WWF-U.S.'s involvement in the China SHIFT Network Initiative, with an emphasis on policy influence, corporate engagement, and relations with financial institutions. She previously led WWF-U.S.'s conservation program in China's Yangtze River Basin and was co-editor of the book "Giant Pandas: Biology And Conservation" (UC Press, 2004). She has also served as a science advisor to the Giant Panda Species Survival Plan of the American Zoo and Aquarium Association and ran WWF-U.S.'s program to curtail the use of endangered species in Traditional Chinese Medicine.*



I have seen an incredible increase in not just the government's will to take the challenges on, but also in the wherewithal to do something about it.

In typical fashion as I guess we've seen around the world, a country often develops first, and makes a mess of its own environment – all the Western countries have done it. And then the environmental problems become too big to ignore, and then we see an increase in the government's will to do something about it, as well as society's demand that something be done. I have really seen during my time with WWF a remarkable revolution in the Chinese government's willingness to respond and capacity to respond.

It used to be, when we started working in China, we were often looked to as a source of funding for the government. But the amount of money that an NGO can offer is now dwarfed by the money the Chinese government can apply, and our role has become much more the role of a technical adviser. And these days we're seeing the level of sophistication, as well as the financial wherewithal, as being leaps and bounds beyond what it was even just a few years ago.

# Should the International Community Do More to Support Democracy in China?

By Daniel A. Bell

**T**he answer, in brief, is “no”. But I’m not necessarily against the promotion of democracy in other countries. John Stuart Mill has argued that democracy must come from within, it should not be imposed from outside. That’s not my view: there have been successful cases of democratization that were at least partly driven by outside forces, such as Germany and Japan after World War II. Today, I think the international community should do more to promote democracy in Burma. Why Burma, and not China? I think there are several reasons. It’s always a danger to theorize on the basis of two examples, but I think the cases of China and Burma can shed light on the more general conditions that need to be in place before outsiders should argue for democracy abroad.

Let me first clarify some key terms. By “democracy”, I mean free and fair competitive elections at the national level. By “promotion”, I mean moral criticism of the non-democratic status quo: foreign critics that rely on persuasion to argue for democracy. I take it for granted that foreign powers should not use such coercive means as military invasion and economic sanctions to promote democracy in China. Few would advocate such means now. But it’s much more controversial to argue that foreign critics should not even try to argue in favor of political democracy in China, and that’s what I’ll try to do here.

Here are the conditions that, in my view, would justify foreign (moral) intervention on behalf of democracy promotion. These conditions apply in the case of Burma, but not China.

## **THE TARGET COUNTRY MUST BE LED BY AN “OUTLAW” REGIME.**

I take the term “outlaw” from John Rawls’ last work, the Law of Peoples. Basically, it refers to a regime that tyrannizes over its own people: the rulers rule in their own interest and they systematically violate basic human rights in order to do so. In the case of Burma (and Zimbabwe), it’s clear that the regime is truly awful and violates basic human rights, including the right to food and basic means of subsistence. The reaction of the Burmese regime to the deadly cyclone—closing off the country rather than welcoming outside aid—shows that it cares more about its own power than the welfare of its people.

The Chinese government is far from perfect, but it has lifted hundreds of millions out of poverty over the past three decades and it opened the country to outside aid in response to the Sichuan earthquake. Yes, it violates some human rights, but overall it may not be so bad compared to countries at similar levels of economic development, and the Chinese government leaders cannot be compared in terms of “badness” to the thugs that run Burma.

## **OUTSIDERS CAN CONFIDENTLY PREDICT THAT THE RULERS WOULD LOSE DEMOCRATIC ELECTIONS.**

In the case of Burma, we know that the rulers would lose general elections. They tried to have elections in 1990 and were badly defeated by the opposition. In the case of China,

we're not so sure. The Chinese Communist Party might well win elections if they were held today. No doubt opposition forces would gain some seats and the policies of the CCP would come under more direct attack, which might help to explain why the CCP doesn't want to have elections now. But there is substantial support for the CCP even among independent intellectuals—in private conversation with Chinese academics, I've met very few who say they hope the CCP will lose power in the next decade or so. Capitalists in China also seem to support the Communists and would likely provide support and funding for the CCP if there were elections in the country.

**THERE IS AN OBVIOUS POLITICAL ALTERNATIVE.**

In the case of Burma, Aung San Suu Kyi is a revered political figure who is widely supported in society at large. Her party, the National League for Democracy, won 392 out of 492 seats in the 1990 parliamentary elections and they could take power if the ruling junta were thrown out of power (or if it was willing to respect the results of general elections). In China, who would take power? In the country itself, the government nips in the bud any organized challenges to its power. Abroad, there is no obvious leader among the dissident groups who seem quite organized and often fight among themselves. In private

conversation, not many Chinese intellectuals express support for such groups.

This is not to deny that opposition forces could potentially pose a serious challenge to CCP if they were allowed to organize in China. Perhaps they would be led by an inspiring leader who could galvanize the bulk of voters to his or her side. But this is pure speculation, unlike Burma where it's the reality.

**REGIME CHANGE WOULD IMPROVE THE PEOPLE'S WELL-BEING.**

In relatively poor countries, it's not just communists who say that the government's priority should be to alleviate poverty. It's a common view, and, to my mind, the right view. Burma is dreadfully poor, and 800 million or so Chinese people remain poor. Whatever its motivation, the policies of the Burmese government (like in Zimbabwe) have impoverished its people and there is no reason to believe it will do better in the foreseeable future. We can safely assume that a different, democratically-elected government would improve the Burmese people's material well-being. It couldn't do much worse.

In China, by contrast, the government has been praised by outside forces such as the



*Daniel A. Bell is professor of political theory at Tsinghua University, Beijing. His latest book is "China's New Confucianism: Politics and Everyday Life in a Changing Society" (Princeton University Press, 2008).*

World Bank for its efforts at dealing with poverty. Its main source of legitimacy, arguably, is its capacity to improve the economy in ways that benefit the people. Perhaps a more democratic government that is accountable to the people might do even better—but such arguments are empirically complex and far more controversial than in the case of Burma.

**THE TRANSITION OF DEMOCRACY  
WON'T BE BAD FOR FOREIGNERS.**

Democracies, even those that work well, tend to focus on the interests of citizens and neglect the interests of foreigners. It's fine for democratically elected politicians to decide in favor of their country's interests: that's what they are supposed to do. In small or medium-sized countries like Burma, we don't have to worry. But political leaders in a big country like China, where decisions affect the rest of the world, need to consider the interests of the rest of the world when they make decisions. Global warming is an obvious example: political leaders chosen by poor farmers who understandably worry first and foremost about short-term economic development in their districts are not likely to enact laws that limit greenhouse gases.

Thus, we have reason to hope for a political

model that works better than Western-style democracy in the case of China. For example, Confucian-inspired intellectuals like Jiang Qing argue for meritocratically-selected houses of government that are attempts to balance and constrain democratically elected houses of government so that political decisions are informed by a more global outlook. Such proposals might be a long way from the political reality, but we have reason to hope that they can eventually succeed. In Burma, it seems sufficient to strive for democracy because whatever happens in Burma won't have a substantial impact on the rest of the world.

My conclusion is that foreigners should not argue for Western-style democracy in China. It might take an unusual degree of openness to accept this argument—a willingness to contemplate the possibility of modifying one's own moral standpoint in a modern world where rule by the people in the form of one person one vote has become the most sacred of political values—but that's the way to go, I'd argue.

# Pitfalls to China's Development

By James A. Dorn, CATO INSTITUTE

**A**fter 30 years of economic liberalization and rapid growth, China is now the world's third largest trading nation and fourth largest economy. In a new study for the Carnegie Endowment for International Peace, Albert Keidel, a former U.S. Treasury official, predicts that by 2035 China will be the world's largest economy and by 2050 grow to twice the size of the U.S. economy.

In "China's Economic Rise: Fact and Fiction," Keidel dispels myths about China's rise and presents a strong case for continued growth. He also makes a persuasive case for a policy of engagement and downplays the need for a sharp appreciation of the yuan.

Keidel concludes, "Beijing now seems likely to overcome potential stumbling blocks such as economic instability, pollution, inequality, corruption, and a slow pace of political reform" to become the world's largest economy. I generally agree with his analysis, but with several caveats.

First, it's very difficult to predict the path of an economy over the long term, as many unforeseen problems can arise—including policy reversals or natural disasters. Just look at Argentina, which was one of the world's richest countries in the early 20th century, but by the end of that century was one of the least economically free countries and no longer wealthy. What mainly will determine the path of China's development is whether Beijing follows policies that support, rather than destroy, economic freedom.

One of China's biggest challenges is to tame inflation while letting markets set energy prices at levels reflecting global demand and supply. Controlling inflation, however, requires a more independent monetary policy and a faster nominal appreciation of the yuan—both of which may be politically difficult.

Second, I think Keidel places too much faith in China's current system of market socialism and its repressed capital markets, arguing that "China's financial system, rather than a liability, is on the whole a source of confidence in optimistic growth scenarios." That positive assessment neglects the problem of "forced saving" and accepts the dubious idea that planners somehow know better than free-market participants how best to allocate capital.

China has generated high savings rates and allocated substantial funds toward infrastructure investment, but investment decisions are often politicized and personal freedom violated in the process of "development." Moreover, as the late British economist Peter Bauer liked to note, "It is more meaningful to say that capital is created in the process of development, rather than that development is a function of capital."

China could conserve scarce capital by attracting foreign funds to finance infrastructure, as the U. S. did during its early development. A move toward free capital markets would help China close the gap between domestic saving and investment, and thus help normalize the balance of payments.

It is not in China's interest, as a capital poor nation, to be a net capital exporter—accu-

mulating \$1.8 trillion of foreign exchange reserves, with a large portion invested in U.S. government debt, including now questionable Fannie Mae and Freddie Mac securities.

China's capital markets cannot be world-class until financial repression is ended and capital freedom—along with widespread private property rights and the rule of law—instigated. Interest rate and capital controls, a pegged exchange rate, lack of private investment alternatives, interference with the free flow of information, poor accounting practices, and a still sizeable government presence in allocating investment funds (with consequent corruption) mean that China has a long way to go before it matches the transparency and efficiency of Hong Kong.

On a brighter note, much has been done to reform the banking system since 2000, and to create a market-based exchange rate regime since July 2005. Likewise, Beijing is gradually liberalizing capital controls and interest rates. Thus, financial repression could disappear in 10–20 years, and Shanghai could become the world's leading financial center.

Third, Keidel's forecasts depend on benign assumptions about inflation in both the U.S. and China. But those assumptions are suspect



in a world of government fiat monies and discretionary central banks, with politicians still believing that a little inflation is the price for growth.

In truth, even mild inflation of 2–3 percent per year can erode the value of money in a relatively short time—and inflation is now accelerating in both the U.S. and China. More important, most economists now recognize that there is no long-run trade-off between inflation and unemployment—a little more inflation does not lead to a permanent lowering of the rate of unemployment. In fact, there appears to be a positive relation between inflation and unemployment, as the stagflation of the 1970s demonstrated. Inflation also leads to a loss of economic freedom when price controls are imposed and credit is rationed.

Inflation is not due to increases in the relative prices of energy and food, but to excessive growth of domestic money and credit relative to real output. In China's case, inflation is driven, in part, by an undervalued yuan, which the People's Bank of China pegs by printing domestic currency to buy up dollars and other foreign currencies stemming from China's large current account surplus and from capital inflows. Domestic demand for credit, especially by state-owned enterprises, to spur investment puts further pressure on the PBC. Many economists now predict that China's inflation rate will exceed the official target of 4.8 percent for 2008 by at least 2 percentage points.

One of China's biggest challenges is to tame inflation while letting markets set energy prices at levels reflecting global demand and supply. Controlling inflation, however, requires a more

independent monetary policy and a faster nominal appreciation of the yuan—both of which may be politically difficult.

A slowdown in the U.S., if prolonged, and further turmoil in U.S. financial markets, would dampen demand for Chinese goods and slow China's growth. In turn, China needs to work off excess capacity and slow the growth of money and credit to achieve price stability and enhance prospects for long-run development.

Finally, the path of China's development will depend as much on politics as on economic reasoning. I agree with Keidel on the importance of U.S.-China engagement as a crucial factor in preserving and fostering world economic harmony and development. A move toward protectionism would be a disaster for all concerned and lower the wealth of nations—perhaps much more so for China than Keidel assumes.

If reformers let markets grow—and accept the notion of “spontaneous order”—eventually market liberalism would replace market socialism. The Chinese people would then experience real development, in the sense of a wider range of choices.

Increasing individual choice, however, requires political reform, which would endanger the Chinese Communist Party's monopoly on power. How that dilemma is resolved will be an important determinant of China's future. My hope is that the goal of “peaceful development” will prevail, and that by 2035, China will not only be the world's largest economy but also among the freest.

# When Will China Democratize?

By Wenfang Tang, UNIVERSITY OF PITTSBURGH

**F**or many people in the West, the democratization of China is a long-awaited hope. This is not so much because China, with the world's largest population, represents the largest potential market for the democratic system. Rather, China stands out in the world political landscape as the last major non-western authoritarian regime that has proven so far to be able to survive without free elections.

To prove that no regime can survive long without democracy is politically important to western civilization, which links its own dominance and political survival with its adherence to democracy. One condition for any significant change in China is popular dissatisfaction with the current communist government. Indeed there are signs of such dissatisfaction, caused by the rising income gap between the rich and the poor and the deteriorating social safety net, by corrupt local officials who looked the other way as developers built standard schools that collapsed during the recent earthquakes, by rising inflation and unemployment in the cities, by ethnic unrest in Tibet and the Muslim region of Xinjiang, by the sub-human work conditions of more than 100 million migrant workers, and by the polluted rivers and lakes that are poisoning villagers on a daily basis.

Yet public opinion polls conducted in China by independent western researchers have repeatedly shown high levels of popular satisfaction with the improvement of living standards overall, and support for

the communist government. Although resentment is high against corrupt local officials, support for the central government and for China's current single party political system is even higher.

If a miracle happened tomorrow to somehow bring the vote to China, the communist party would probably win a competitive election. In any case, the lack of bottom up demand for change is one reason the Party has remained in power thus far.

So, will China ever democratize? Well, in many ways that process has already begun, although of course it isn't called democracy per se and change has not come as a result of opposition parties. The changes are more inherent to the system as it currently exists.

More than in any other time of the history of the communist regime since 1949, decision making is more transparent, leadership transition is more predictable, information is more available, rule by law is replacing rule by the Party, the public is more critical and public opinion does influence many areas of public policy making. Village council elections have become more competitive and the communist party candidates are by no means guaranteed to win. Although elections at the national level are still not truly competitive, nonetheless multi-candidacy, secret ballots, and term limits are becoming standard practices.

It is difficult to imagine that the communist party doesn't feel secure, given its popularity in Chinese society.

Although resentment is high against corrupt local officials, support for the central government and for China's current single party political system is even higher. If a miracle happened tomorrow to somehow bring the vote to China, the communist party would probably win a competitive election.

But there are plenty of other reasons for China's leaders to feel insecure about the international environment around its perimeter. The more than 70,000 U.S. troops stationed in Japan and South Korea are still watching every move China makes. The increasing U.S. military presence in Central Asia is making China uneasy. Taiwan's quiet but persistent push for self-identity is forcing China to put aside its hope for immediate reunification and to deal with Taiwan as an equal partner, rather than a renegade province.

Its neighbors such as India, Vietnam and Mongolia are suspicious of China's growing economic strength. Separatists in Tibet and Xinjiang, the two largest regions that together comprise more than 30% of Chinese territory, are waiting for any sign

of political instability in Beijing in order to break away.

Some western leaders see these insecurities as opportunities to democratize China. They adopt the strategy of funding political dissidents, ethnic separatist movements, underground religious organizations and other human rights activists as ways to bring down the communist regime. But bringing down the communist party would not necessarily lead to peace and stability. Indeed, doing so may trigger a global chain reaction if China's economy is interrupted, and thereby create a wave of ultra-nationalism, aggressive foreign policy toward its neighbors, and even nuclear arms proliferation. Further, the collapse of the communist regime may not guarantee democracy, as none of the current



*Wenfang Tang is Professor of Political Science at the University of Pittsburgh. His research focuses on the role of public opinion and mass political behavior in social and political change in China. He can be reached at [tang@pitt.edu](mailto:tang@pitt.edu).*

dissident groups can replace or compete with the communist party and govern China in a sustainable democratic way. Past events have proven that the strategy of supporting dissidents is often counterproductive. Consider the case of American support for Iraqi dissident Ahmed Chalabi, someone who proved to have irrelevant intelligence, and who was totally unable to gain a foothold in the political scene of post-Saddam Iraq. In the case of China, supporting dissident groups may only bring more repression of ethnic minorities, religious freedom, freedom of speech, and sometimes even more consolidation within the communist party due to external threat.

Similarly, boycotting the Beijing Olympics is counterproductive. It serves the purpose of humiliating the Chinese Communist Party (CCP) and damaging its public image with the limited strings that western leaders can pull. But a boycott won't create too much damage to the Party's domestic image. The history of Western colonial subjugation of China in the 19th century is widely taught in schools as a humiliation. The Chinese public would perceive an Olympic boycott as a similar attempt. Indeed a boycott would serve to consolidate the CCP's ability to rally more domestic popular support and create further suspicion of western leaders'

intentions. In short, boycotting the Beijing Olympics by western leaders would postpone China's democratization by another 5-10 years if not more.

Democracy needs to arrive in China, but more importantly, it also needs to stay. Free elections can arrive overnight, but sustaining a democracy requires a well-developed civil society at the grass-roots level that will take years to build. Village council elections have to move into the cities. Legislators at the national level will have to be directly elected by popular vote. Human rights will have to be protected through an independent and transparent legal system. The media will have to learn—and be fully allowed—to play a supervising role. Alternative political parties representing diverse social interests will have to develop in order to compete with the communist party.

In 1989, the Chinese government used force to suppress the Tiananmen protests that could have turned China into a democracy. The crackdown suggested that the communist party will use force when it feels threatened, rather than compromise or surrender. An insecure CCP will not be willing to democratize. On the other hand, feeling more security from both external and internal political threats will give the CCP more time to focus on internal political reform.



## China abroad

United States India Japan Taiwan

# Bush China Policy a Successful Balancing Act

Interview with Scott Kennedy

**Q:** **IA Forum: How would you describe Sino-U.S. relations under the Bush Administration?**

**A:** **Scott Kennedy:** I think they're generally cooperative and constructive, particularly since late summer 2001. The relationship got off to a bad start with the EP3 [spy plane] incident. When the problems with that were identified, in the summer of 2001 the Bush Administration realized that a confrontational relationship with China was not in the U.S.'s best interest and so they started to change. That sentiment was magnified with 9/11, and so the problems we had with China were put on the back burner and the much larger problems the U.S. faced took center stage. Gradually, over time, the two sides developed a pretty good working relationship. Right now U.S. policy toward China under the Bush administration has to be one of its most obvious successes, which I think distinguishes it from U.S. foreign policy generally during this period.

**Bush changed the language of the relationship between the U.S. and China from strategic partner to strategic competitor. Rhetoric aside, how much of a shift has there been in substance from the Clinton administration, and which administration do you think struck a better balance?**

I know when President Clinton was trying to improve relations with China in his second term—the first term was really difficult because of tensions related to having

conditioned MFN and the Cross Straits conflict that emerged following Lee Tenghui's 1995 visit to Cornell—he emphasized establishing China as a strategic partner with the U.S. He didn't say the two countries had become strategic partners - that was still just a goal - but, nevertheless, there was that language, and the Chinese are very sensitive to language and how things are framed.

Bush, during his first presidential campaign, said we are not strategic partners; we are strategic competitors, which misstates what Clinton described as the status quo of the relationship. My sense is that going into his presidency President Bush thought he could take a somewhat tougher line with China, and when it didn't work out, he reverted to essentially a Clinton-style China policy, which is very similar to that of George H.W. Bush's policy, which is very similar to Reagan's, Carter's, back to Nixon's. They basically all have reverted to the mean over the course of their presidencies. What's really different between Bush and Clinton is the extent to which there have been such significant changes to U.S. foreign policy and also in China's standing in the world. Those broader dynamics have an effect on the relationship as much as anything.

Even though from the perspective of the China desk in the State Department and the North American Affairs Bureau within the Ministry of Foreign Affairs there has not been a whole lot of change, the two countries' global foreign policies have shifted enough that that's not really the only important

measure anymore of how to come up with a yardstick for saying whether U.S. foreign policy towards China or China's policy towards the U.S. is successful.

**The U.S. government has come in for criticism from both the right and left for taking too soft an approach with China over issues such as Taiwan and human rights abuses. What do you make of these criticisms?**

I think each one is actually a little different. On Taiwan, the U.S. has handled things relatively well. The measure for policy towards Taiwan at its heart is: has there been a conflict, or is a conflict likely to occur soon? And the U.S. vital national interest is in preventing a conflict that would require U.S. forces to intervene and would change the foundation of the U.S.'s relationship with China and China's relationship with others in the region. So to the extent that we are able to prevent a crisis and instill some sense of stability between the two sides, I think that's a good measure and I think so far we've been able to achieve that. The U.S. basically looks like it leans towards one side or the other when the other party looks like it's trying to change the status quo. And so in the late 1990s it looked like China was ratcheting up the pressure through its

exercises, so the U.S. looked like it was leaning towards Taiwan for a while. And then Taiwan started talking about having special state to state relations with China. Lee Teng-hui revealed more about his own sense of Taiwan's evolving place in the world, but then the U.S. issued the Three No's, and it looked like it was leaning more towards China.

In the very beginning of the Bush Administration, the U.S. announced plans for weapons sales towards Taiwan, but when the Chen Shui-bian administration started walking away from its commitments to not make independence a hallmark of its foreign policy, the U.S. started putting pressure in the other direction. So the U.S. leans back and forth, and I think that's what it's supposed to do to maintain a sense of balance and stability. And the election of Ma Ying-jeou has shown that it hasn't been changes in U.S. foreign policy that have been critical, it's the changes in Taiwan's domestic politics that are so important. And so the election of Ma has had an immediate positive effect on cross-strait relations. On Taiwan one can't really find too much at fault with the U.S.—maybe at the margins—but overall I think it's really positive. On human rights—again, this is really tough because the U.S. by the nature of its political system and the overall goals of its foreign



*Scott Kennedy is an associate professor and director of the Research Center for Chinese Politics & Business at Indiana University. He is author of "The Business of Lobbying in China" (Harvard University Press, 2005) and editor of "China Cross Talk: The American Debate over China Policy since Normalization" (2005). He is currently writing a book about China's growing role in global economic governance.*

policy places human rights and the dignity of human life quite high—dealing with China is difficult because we have such varied and multiple interests with China given her size and international position. Pushing China to change its human rights policy is extremely difficult. You can achieve marginal successes, but achieving fundamental changes is something that, if pursued aggressively, puts you at loggerheads with the other elements of your foreign policy with China that are very important and that probably shouldn't be sacrificed at the alter of human rights. So I think American presidents have this impetus to regularly raise human rights issues but they consistently fall short of their mark, understandably, because of the multiple goals that have to be achieved.

I can understand the disappointment that human rights groups have with American foreign policy towards China, but I can also appreciate the difficulties any administration has in trying to balance the multiple goals. The other problem with our human rights policies towards China is that U.S. foreign policy has lost some credibility on this issue because of how we've prosecuted the wars in Afghanistan and Iraq. So it makes it much harder for us to take a tough line on the human rights practices of other countries. When the U.S. says that it can't repatriate the Uighurs who are held in Guantanamo Bay because it fears the type of treatment they may receive back in China, everyone has to raise an eyebrow because it's been demonstrated how the U.S. treats its own prisoners. I think the U.S. is at a very low point in its ability to carry out an effective human rights policy.

### **What did you make of calls to boycott the Beijing Olympics?**

The calls for a boycott were originally in reaction to China's policy towards Darfur and then more recently towards the protests in and around Tibet. People were raising the idea of boycotting the Games as a whole and that didn't receive any positive attention so activists began raising the idea of boycotting just the opening ceremony as a fallback position. Then they realized that for the Chinese the Olympics is a sort of "coming out party," that they want the Games to provide a sign of China's growing reputation and acceptance internationally so boycotting the opening ceremony would be that type of signal.

I think the campaign to have this occur hasn't been carried out in a very consistent manner. There was no unanimity or consensus among activists that this would be the place where the global community should take a stand. So when this call reached its height in March around the Tibet protests, it didn't carry a lot of power or force behind it. You saw short-term political reactions in some capitals in Europe and by the Democratic political candidates in the U.S., but it really didn't have a strong force behind it. So I'm not surprised it didn't get a lot of support by the U.S. and others, and frankly—I know President Bush is saying he's just going as a sports enthusiast and it doesn't signal anything when obviously it signals much more than that—I think given the overall situation, attending the opening ceremony isn't necessarily saying to China "we think your human rights policies are totally fine and perfect." Having China host the Games, and having everyone there, brings

a spotlight on China that is both good and bad. It shows the progress China's made over the last 30 years and it also shows the places it hasn't achieved success and in fact still has very serious problems, by measure of both its international partners and segments of China's own population. Personally, I didn't think a boycott would be a wise decision. Attending fully in the Olympics doesn't necessarily suggest condoning all of the Chinese policies.

**The New Republic editorialized recently that U.S. presidents tend to talk tough before taking office and then back pedal. Is this a fair assessment?**

Yes, the New Republic is right on the money. I think it's entirely accurate; every candidate going back 20 or 30 years has done so on one issue or another. This time it's on economic issues for the most part because of the decline in the U.S. economy and the sense that China's winning unfairly in some areas. There's been some discussion of security issues by Senator McCain. But it's my feeling that once a candidate takes office their overall posture towards China evolves in a less aggressive direction.

The New Republic's editorial suggests this is a bad thing—that if we talk tough towards China we should stay tough. But I personally think this is a welcome adjustment. The reason candidates talk tough during their campaigns is they are trying to win votes. Particularly they're looking for votes from several labor constituencies in the Midwest, such as in Pennsylvania, Michigan, Ohio—places whose economies aren't doing very well and where it is relatively easy to criticize China and our other trading partners

for engaging in unfair trade practices that then explain those economic problems. Whether or not the Chinese are engaging in unfair trade practices is another issue, but it does not entirely explain the economic situations in those states or the positions of the candidates. I think the fact that China is one of the last remaining Communist countries in the world also makes it easier. It also has a growing military and therefore, again, there are no points to be lost in taking a harsh position against China in a political campaign. I think once candidates get in office their perspective changes a lot. First because they don't need to win those votes anymore and they can think from a more balanced perspective where they have a variety of interests and policies to pursue. For example, trying to resolve the North Korea problem, as well as dealing with global proliferation issues, the environment, etc. The perspective of a president is different than a candidate.

The other reason that presidents shift is that those that do come into office and try to take a more aggressive approach fail. When President Clinton was elected he initially conditioned MFN, seeking Chinese concessions on human rights. He got very limited, token concessions from the Chinese who told him, essentially, we're not going to do anything else—we're going to call your bluff. They called his bluff and he had to back down. During the opening months of the current Bush administration the same type of thing occurred. We tried to be tough with China in response to the EP3 crisis, and people realized that a whole lot of issues that needed to be addressed might not be addressed if that approach were continued. And then 9/11 came along and that reinforced the idea that if we're really going to try to

achieve larger goals in U.S. foreign policy, following the strategy of the campaign isn't the right way to go. So the New Republic is correct; I just think the conclusion they draw is probably the opposite of what I would draw.

**You wrote a book, “China Cross Talk,” looking at the U.S. debate over China policy. Do you think the debate taking place in the U.S. over China is a healthy/constructive one?**

One thing that's important to recognize is that there is a public debate. The Chinese have internal debates about their own foreign policy, but they tend to be hidden and not in the open. And when you do see open disagreements about foreign policy, they tend to be reflected in protests in the streets, whether it's Chinese nationalist protesting about Japan or Taiwan. And one of the great things about our country, and democracies in general, is we have these open debates consistently where sides that have very different starting points and goals openly engage each other. And this has really been a hallmark of how U.S. policy towards China has been developed. There is this vigorous debate over time. One of the things I find troubling about the debate in the U.S., though, is that our basic goals with regard to China and our expectations of what we want to achieve with them has basically remained unchanged. We want a China that is open, peaceful, transparent and cooperative. These are laudatory goals, but they tend to have been the same in the 1970s as they are now; the call for China to be a responsible stakeholder is essentially a rewording of the same goals enunciated by President Carter when relations were formally established in the late 1970s. The idea of

China being a responsible stakeholder from a U.S. perspective is that China cooperates with the U.S. on the range of issues that affect the relationship and behave in a way that the U.S. finds acceptable. That is a somewhat different perspective from saying China is an international power in the global community, it has interests which are similar to ours, which diverge from ours, and we hope to engage it on a range of issues like we engage any other major power in the world today.

So the U.S. policy and the paradigm in which it occurs is about trying to change China, and that's not the nature of the way we talk about policies toward Japan, the European Union, or others. And I think this to some extent reflects the fact that China is still led by the Communist Party, and it also reflects our approach towards China since the mid 19th century—we have thought of China as a place that needs to evolve and adapt to the modern world. And we haven't updated our framework. It's the same feeling we have towards a lot of the developing world. And I find that element of the American debate frustrating because it's repetitive and it doesn't go away.

Perhaps we are moving towards a time when China is becoming a much more important force economically and becoming much more engaged politically in global affairs (in resolving the North Korea crisis, in other security areas, in climate change, and in the WTO). So if China becomes a more important voice in these various forums, perhaps we will talk less about needing to see change in China and more about dealing with China in a more mature fashion. I'm not sure exactly at what point that will occur, but I hope it arrives sooner rather than later.

# Sino-Indian Moves on the Asian Chessboard

By Dr. Anupam Srivastava

**C**hina displaced the United States to become the largest trading partner of India during 2007-08. During the same twelve month period, the Sino-Indian border—the longest disputed boundary in the world (2,520 miles)—witnessed nearly a hundred incidents of incursions and tense stand-offs. These co-evolving economic and security trajectories are a microcosm of a complex chess game being played out between Asia's second and third largest economies that will have an increasingly significant impact on not just their dyadic relationship but also on the wider Asia-Pacific region and beyond.

## **THE LONG SHADOW OF SECURITY DISCORD**

Sino-Indian relationship over the past sixty years has traversed the entire spectrum. The initial phase of camaraderie during the 1950s as they spearheaded South-South cooperation and the Non-Aligned Movement, was rudely jolted by a brief but intense border war in 1962 that China won decisively. This was followed by China's first nuclear test of 1964, India's second war with Pakistan in 1965, and the start of Sino-Pakistani cooperation. The Sino-Indian discord became part of an enlarged strategic landscape when in early 1971 India signed a 20-year Treaty of Peace and Friendship with the Soviet Union—with whom China had a bitter falling out in the previous decade, ending with a border conflict along the Usuri River. In December 1971, India and Pakistan fought an intense war that led to the loss of the entire territory of East Pakistan (which became a new country, Bangladesh). The new regime in Pakistan

began its covert nuclear weapons program in 1972, followed by India conducting its first nuclear tests in 1974, the imposition of US non-proliferation related sanctions on India, and the deepening of defense cooperation between China and Pakistan on one hand, and between the Soviet Union and India on the other.

## **POST-COLD WAR REALIGNMENTS**

Sino-Indian ties remained in deep freeze until the Indian Prime Minister Rajiv Gandhi's Beijing visit in 1988 that began a process of pragmatic re-adjustment on both sides. The end of the Cold War provided both sides the added space and need to recalibrate their policies toward each other, and embed these policies within their respective evolving approach toward the wider Asia-Pacific region.

On the security front, this "re-adjustment" led to India and China signing the Peace and Tranquility Agreement in September 1993, which created the mechanism to resolve the boundary dispute. It should be noted that India's borders were drawn by British imperial administrators in 1913, and China rejects this "MacMohan Line" (although it accepts that line as its frontier with Myanmar, which was then part of the British India). Following the Sino-Indian border war of 1962, the "Line of Actual Control" (LAC) designates the current border between the two sides. In November 1996, Beijing and New Delhi also created the India-China Diplomatic and Military Expert Group to clarify respective positions regarding the LAC and to implement confidence building measures, including regular communications

## Chinese statements and scholarship reflect Beijing's growing concern over India's "Look East" policy, especially ties with Southeast Asia – traditionally China's sphere of influence.

between their Directorate Generals of Military Operations and relevant field offices. Thirteen rounds of bilateral talks have led to India recognizing Tibet as an inalienable part of China, and China tacitly accepting Sikkim as a part of India, but significant challenges remain all along the rest of the border.

The decision by both countries to improve ties was even more readily discernible on the economic front. Bilateral trade, which was a dismal \$330 million (i.e. \$0.33 billion) in 1989, has grown at an astounding compounded annual growth rate of about 40% to reach \$38.2 billion by March 2008 (and expected to cross \$65 billion by 2010). Beyond trade, wider commercial ties have blossomed, with a range of Chinese and Indian companies setting up joint ventures or production centers in each other's territories, and concomitant expansion of investment and sourcing of materials and manpower.

Both governments have facilitated this growth in diverse ways—permitting additional air-traffic across several cities, sharply lowering tariffs on goods and services, reduction in non-tariff barriers, simplified visa regimes, and even the opening of mountain passes

along the Indian northeast for a few months each summer to allow direct land trade with populations in China's southwestern provinces. India's early support for China's entry into the WTO further galvanized cooperation, and both sides are now exploring a free trade area, joint protocol on IPR protection, and participation in sub-regional multilateral initiatives including BIMST-EC, India's membership in ASEAN+3+1 and ARF, observer status in the Shanghai Cooperation Organization (Central Asia), and China's observer status in the South Asian Association for Regional Cooperation.

### **GROWING TRENDS IN SINO-INDIAN TIES**

At first blush, the above developments portend a steady improvement in bilateral ties. But a closer look at the underlying dynamic provides a far more complex and somber picture.

In the economic arena, trade ties will intensify, but signs of tension and competition are becoming more visible. The trade profile of recent years underlines the risk, from Delhi's perspective, that India might become a supplier of raw materials and semi-finished goods to the Chinese manufacturing sector. This challenge has been compounded by

*Anupam Srivastava is the Director of the Asia Program at the Center for International Trade and Security (CITS), University of Georgia (UGA), and a senior member of multiple CITS projects that provide training on export control and technology security to government and corporate officials in China, India, and several countries in the Asia Pacific, Europe and South America. Dr. Srivastava has participated in numerous international academic and policy meetings on U.S.-Asian economic and security affairs, published widely in books, policy journals and newspapers, and appears regularly on BBC, CNN, CNBC Asia and Voice of America's radio and TV programs.*



the decision of India's IT majors to ramp up their training and production operations in China, which could directly aid China's ability to overcome the head-start enjoyed by India in value-added services such as ITES (information technology enabled services), BPO (business process outsourcing) and KPO (knowledge process outsourcing).

While the above signify areas where Indian companies must improve their cost and price competitiveness, a growing number of disputes in the WTO over pricing, quality, market access and government support of private companies in China suggest that market forces are not freely operating in the Sino-Indian trade arena. Long-term, preferential access to foreign sources of oil and natural gas is another area of future competition. Chinese companies have been far more successful in securing exploration and refining rights in Central Asia, Africa and Latin America, with Beijing providing counter-guarantees that allow its private companies to offer bids far lower than those of private companies from India and indeed others.

India is also concerned with China's rapid expansion of ties within South Asia—traditionally India's sphere of influence. This includes a dramatic rise in trade as well as Chinese companies acquiring local companies in Nepal and Bangladesh and winning rights for oil exploration in Sri Lanka, in addition to deepening China's multi-faceted cooperation with Pakistan. On the other hand, Chinese statements and scholarship reflect Beijing's growing concern over India's "Look East" policy, especially ties with Southeast Asia—traditionally China's sphere of influence. This includes rapidly growing Indian trade ties, laying underwater fiber optic cable connecting India to Southeast Asia,

and India exploring free trade agreements with Singapore and Thailand, among others.

In the security arena too, many mixed signals are becoming visible. Beijing appears concerned with India's growing naval activities in its eastern sector. Thus, under Operation Milan, Indian naval ships make port calls annually at select ports in Southeast Asia and Japan. Although Indian ships included port calls at Shanghai in 2006-07, Beijing remains wary of growing Indian naval cooperation in Southeast Asia, especially with Vietnam. This concern led to an official protest from Beijing when earlier this year India participated in a major naval exercise with the United States, Australia and Japan, interpreted by some Chinese analysts as an attempt at "strategic encirclement" of China.

Beijing is equally opposed to India's ballistic missile defense cooperation with the United States, which it warns might force China to reposition additional missiles on targets in India, leading India to expand its missile arsenal that in turn will force Pakistan to follow suit, further upsetting the force balance in the region.

Beijing's contention is not without merit, but the problem in such dyadic and triadic relationships is how to separate cause from effect, or action from reaction. Thus, India had cited China as the most proximate reason for conducting its nuclear tests in 1998, and has justified its recent military production and acquisitions to a double-digit growth in China's military budget over the last two decades. Similarly, India's recent long-range missile tests and beefing up of its submarine capability is rooted in Indian concerns over Beijing's expansion of its blue-water offensive capabilities and its recent successful test of anti-satellite weapons.

### **THROUGH THE LOOKING GLASS**

China and India are expected to steadily expand and diversify their economic relations, and settle disputes within established mechanisms—bilateral or within the auspices of the WTO. This is because sustained economic development is a crucial developmental imperative for both sides, and neither side can afford to ignore the vast market potential that the other represents. And while economic “hedging” has not yet become a strategic consideration for either side, expanded cooperation benefits both sides. On a more strategic level, China and India—respectively the world’s fourth and eighth largest economies, and the second and sixth largest consumers of energy—will coordinate their policies more closely as they work with G-8 countries, and lead the developing countries on a range of agricultural and environmental negotiations in Asian and global forums.

On the security front, China and India will continue their military modernization over the next decade, fielding more potent defensive and offensive platforms. Both sides will increasingly participate in a range of cooperative activities across the Asia-Pacific, especially counter-terrorism, anti-piracy, and protecting the sea lanes of communication. At the same time, both are likely to pursue expanded security ties with key powers—including Russia, Japan, Australia, South Korea and smaller powers in Southeast Asia and Central Asia. China is likely to expand its patron-like cooperation with Pakistan, while keeping a wary eye on radical Islam affecting domestic stability in its provinces with sizeable Muslim populations (especially Xinjiang but also Shandong, Hebei and Yunnan).

Finally, the United States will remain the most critical extra-regional variable in the evolving Sino-Indian relations. Beijing is well aware of the invaluable role that Washington can play in helping India rise above the “confines” of its South Asian moorings and improve its standing in the international system. The proposed civil nuclear cooperation agreement is a vital step in this direction. If successful, it will permit India access to a much-needed foreign supply of uranium and participation by key members of the Nuclear Suppliers Group in India’s IAEA-safeguarded civilian nuclear complex. Furthermore, the deal will facilitate India’s access to advanced dual-use items and technologies, and preserve its de facto status as a nuclear weapons state while remaining outside of the NPT framework.

In recent weeks, Beijing has indicated that it will not be the lone member opposing the nuclear deal at the NSG or lobby for a similar deal for Pakistan. But this conciliatory approach is not likely to modify China’s “iron fist in velvet glove” approach to the boundary dispute with India or in leveraging its superior situation in the economic arena.

In sum, China and India will continue to expand economic cooperation while competition in the security arena will remain and even intensify in select areas. The biggest challenge for each side will be to accommodate the growing scope and operations of the other in the sub-regional and wider Asian landscape. Given that nearly 40% of the global population resides in China and India, it is incumbent upon their leadership to avoid the above fault-lines and ensure outcomes that maintain peace, prosperity and strategic stability of the Asia-Pacific and beyond.

# The Past is Not Always Prologue

By Paul D. Scott

**A**lmost thirty years ago, Akira Iriye constructed a series of dyads that framed Sino-Japanese relations. These pairings were: “commonality and disparity, interdependence and autonomy, mutual respect and suspicion, attraction and repulsion, and admiration and condescension.” All of these factors remain alive and unwell today as relations between the two nations, although formally normalized in the 1970s, have remained anything but completely normal.

The trajectory of both nations in the aftermath of World War II has been strikingly dissimilar. The People’s Republic of China up until the 1990s was convulsive in every decade. Japan, on the other hand, had arrived at a formula for economic success just at the time that China was in the midst of post-Great Leap Forward failures and famine. We can now see that the recent rise of China is part of an organic process that was inevitable only in hindsight. China’s rise does not however equate into an absolute fall for Japan. The relationship will have to be worked out in new terms with a new generation of leadership. This dimension of uncertainty is difficult to factor into the bi-lateral relationship.

Relations between Japan and China are better today than under the Junichiro Koizumi era, whose tenure in office witnessed an uncanny ability for him to shoot himself in the foot and then when he saw movement fire again. Yasukuni was an irritable omikoshi (a Shinto portable shrine) that Koizumi could hoist on his shoulders at will to satisfy Japan’s domestic

nationalists and right wing. Fortunately Prime Minister Abe and Fukuda have recognized that this issue needs to stay on the ground and out of sight. China immediately warmed to a Japanese leadership that was less hard. The lesson here is plain—the bi-lateral relationship between Japan and China needs countless acts of confidence and trust building.

At this point in time both the Chinese and the Japanese recognize a need to cooperate on a variety of issues but are acutely aware that neither side wants to appear to be in desperate need. Progress in relations is certain, but at the same time the old unresolved traps remain open and dangerous. Japan is definitely a leader in Asia but has few if any followers, while China, especially in the post-Deng period, is exhibiting a renewed Middle Kingdom syndrome which makes former tributary states as well as those who refuse to kowtow wary. All of this implies that the shape of East Asia, three generations after the end of the Second World War, is still far from completion. East Asia is nowhere near turning itself into an economic, political, and military union. Japan has not fully reconciled with its neighbors, the U.S.–Japan military alliance is in place and is viewed as directed against China. Finally, and perhaps most importantly, Europe could finally be peaceful and stable only when Germany was united, prosperous, and democratic. For East Asia, a democratic China is decades away and forcing unity and acceptance within an immense geography is a fixed revolutionary agenda item that has yet to be discussed. This means that Chinese–Japanese relations can progress only within limited parameters.

The skill and will of both China and Japan in resolving the past, dealing with the present and setting charts for the future is daunting.

From a realist perspective it would be easy for any analyst to construct a list of push-pull factors shaping bi-lateral relations. Push would refer to those forces that compel towards cooperation and harmonization; pull are those that lead to dissociation and discord. There are enough unresolved issues and historical-psychological baggage between the two countries to fill an Airbus 380. Japan has core value fears over China's unrelenting double digit defense spending, its ability to successfully test its ASAT capability, and its building of a blue-water navy. These moves by China almost require Japan to counter both the real and perceived threat. Re-thinking and then re-writing Article 9 as well as expanding Japan's force potential into the Indian Ocean and beyond are being undertaken. That Washington views China with ill ease adds to the negative equation.

The skill and will of both China and Japan in resolving the past, dealing with the present and setting charts for the future is daunting. What is lacking in Sino-Japanese relations is positive dialogue. Those at Japan's Ministry of Foreign Affairs as well as the Prime Minister's Office speak in a coded haiku. Instead of always being reactive to the distant past, Japan could create confidence by openly talking about the new triad of power: trade, aid, and

*Paul D. Scott is currently Professor of Modern Chinese and Japanese History and Politics in the Asian Studies Program, Kansai Gaidai University. He serves on the Steering Committee of the Alliance for Reform and Democracy in Asia (ARDA). Paul has been an election observer in Malaysia, Cambodia, and Pakistan and headed the Singapore Election Study Mission. In August 2008 he was a speaker at the International Conference on Global Support for Democratization in China and Asia. His latest book is "Peace Democracy Development," co-authored with Johan Galtung.*



investment. The total amount of yen loans and investment in China since 1990 is close to 70 billion U.S. dollars. This has benefited both countries and needs to be talked about. Also, students account for the lion's share of foreign enrollments at Japanese universities. While conditions are not always ideal and instructional levels need to be sharpened, this pool of talent will certainly form a techno-managerial synergy well into the future. The benefits of a shared kanji culture cannot be underestimated.

China for its part still demonstrates an inability to deal with dissent and criticism. Any analyst could have predicted that Tibet would be an issue at the Beijing Olympics. Why this was not dealt with in a more positive and constructive manner is disturbing. Was the leadership actually believing its own propaganda?

The Tibet case, as well as issues ranging from history textbooks, the Senkaku (Diaoyutai) Islands, food safety and environmental issues, beg for transparency and mediation but there is no one or no governmental organizations that can play this role. This means that Japan and China will work out their relationship on a piecemeal basis with no comprehensive settlement remotely possible. Private diplomacy, NGO forums, local initiatives, as well as the central government will all play roles. No grand orchestration is possible or even desired. Sino-Japanese relations can thus be summed up as beneficial complementarily on a variety of issues, while at the same time the points of divergence are both threatening and destabilizing. The jockeying for the pole position in East Asia remains the enduring story of the 19th and 20th centuries. It would be best when both sides realize that there can be no absolute winner in this type of race.

# Russia and China Play 'Soft-Ball' in Central Asia

By Nicklas Norling

The selection of Kazakhstan and China as the destinations for Russian President Dmitri Medvedev's first foreign visits in late May 2008 carried much symbolism. Kazakhstan is currently standing at the cusp of becoming a strong independent actor despite its deeply intertwined economic, infrastructural, and ethnic relations with Russia. The perception in Moscow that Kazakhstan, as with Ukraine, forms part of its sense of domestic self is well entrenched and counter-measures have been employed to prevent them from falling out of Russia's orbit. In difference to the hard-ball played with Ukraine, however, a softer tone has been employed towards Kazakhstan. This is not least because the main actor pulling Kazakhstan out of its dependence on Russia is not the West but China—Russia's main strategic partner today. A similar tolerance towards China's emergence in Central Asia could also be seen in its engagements with Turkmenistan. Are China and Russia in the process of reaching a *modus vivendi* in Central Asia?

Both China and Russia have since the early 2000s pursued much more assertive approaches towards the Central Asian republics (Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, and Tajikistan) but they have simultaneously managed to avoid any major clashes in the region. With the partial exception of the contested sale of PetroKazakhstan in 2005 there have been few public disagreements between China and Russia over their conflicting interests in Central Asia. The argument that Central Asia

is the theater where Sino-Russian relations are most likely to unravel has thus so far proved incorrect. The question today is how far-reaching China's presence in the region could be before Moscow's responds with hard-ball rather than "soft-ball."

China also seems to be pushing the limits of these parameters. The cautious approach to the Central Asian republics that the Chinese initially demonstrated in the early 1990s has now given way for an approach with fewer concerns about offending Moscow. This also pertains to the geopolitically charged energy sector and means of energy transportation. For example, while Chinese Premier Li Peng was quick to underscore in 1994 on his Central Asian tour that any Turkmenistan-China pipeline by necessity would include a branch line to Russia, few similar concerns were expressed in the negotiations on the same pipeline in 2007. Instead, the Chinese took few precautions when it finalized the negotiations on the pipeline in conjunction with, and only a few days, after the 2007 SCO summit. Moreover, only eight days after Medvedev accomplished his recent second tour of Eurasia in early July this year—this time visiting the three energy-rich states of Azerbaijan, Kazakhstan, and Turkmenistan—China held the official inauguration of the Kazakh branch of the Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline in Almaty.

The energy sector is also where both states' interests diverge most, both in Central Asia as well as bilaterally. Access to Central Asian

gas and oil is an important strategic interest for both China and Russia; China needs to diversify energy supplies and sustain a rapidly growing energy deficit while Russia depends on cheap Central Asian energy to meet an increasing domestic demand and to re-export gas to Europe. Kazakhstan is predicted to have some 40 billion barrels of oil reserves and 3 trillion cubic meters of natural gas while Turkmenistan gas reserves is estimated to reach 3 trillion cubic meters and 2-6 billion barrels of oil. Geographical proximity to these resources also makes them attractive to Moscow and Beijing.

Considering the zero-sum nature of the competition for Central Asia's energy resources and Moscow's previous record in using its Soviet-era pipeline system as a leverage in its foreign policy it is puzzling why this tool has not been employed to a greater extent in Central Asia; particularly as a response to these states growing orientations to China as well as the West. In fact, Central Asia has in the 2000s escaped relatively unaffected by Moscow's infamous energy cut-offs and other forceful practises commonly employed. In contrast, Moscow has offered to double the price it pays for Central Asian gas by 2009 to counter the increasing competition from China and Europe over Central Asian gas

supplies. Although Moscow certainly will pass this extra cost on to its European customers it is nonetheless using softer and more market-oriented means than usual.

The "soft-ball" that China and Russia are playing in the Central Asian region today is a consequence of a number of converging interests and complementary activities. These trace both to their shared history and on-and-off relationships with the region, the weakness of Russia's policies in Central Asia in the 1990s, and last but not least the emergence of more independent foreign policies of the Central Asian states. These factors combined have led to a Russian tolerance of a substantive Chinese presence in Central Asia as long as Beijing refrains from crossing some evident red-lines, particularly a domination over Kazakhstan's affairs.

It is also becoming increasingly evident that Russia is unable to provide the Central Asian states with the size of investments and markets that these states need today and China appears as the most favorable regional competitor from Moscow's point of view. This thinking was prevalent already during Gorbachov's glasnost when some limited trade and investments were allowed between northwest China and Soviet Central Asia to sustain the regional economy.



*Nicklas Norling is a researcher at the Central Asia-Caucasus Institute and Silk Road Studies Program and Assistant Editor of the China and Eurasia Forum Quarterly ([www.chinaeurasia.org](http://www.chinaeurasia.org)).*

The disinterest Russia demonstrated towards Central Asia during the Yeltsin-era in the 1990s also opened the doors for a substantial Chinese entry into the region; when Putin strived to reassert control over its near abroad, he was faced with a Chinese “fait accompli” – a non-reversible Chinese presence.

Moreover, neither Moscow nor China will likely let the diverging interests over energy in the Central Asian region jeopardize the overall strategic partnership signed between them. This “mutual self-help relationship” and balance to U.S. unipolarity, which has been useful in such cases as the status of Kosovo, Taiwan, and Chechnya, is clearly too important to sacrifice for diverging interests in the energy sector. The nature of Sino-Russian relations in Central Asia is therefore probably as dependent on events outside that space as it is on events inside it.

Finally, China’s engagement with Central Asian energy is clearly preferable to a Western extraction of resources in the region, which unavoidably will lead to demands on political and democratic developments. By striving for a condominium in Central Asia, China and Russia are able to balance the U.S. regional presence and perpetuate the current leaders in power and thereby preserve status quo;

China’s engagement with Kazakhstan is not as provocative in the eyes of the Kremlin as Ukraine’s western tilt.

There are thus many factors speaking in favor of an affirmative answer to whether a Sino-Russian modus vivendi in Central Asia is in the making. Yet it is equally clear that Russia is trying to set some limits to the Chinese domination in the region. Medvedev’s first head of state visit to Kazakhstan should therefore be interpreted in Astana as both a warning-signal and an indication of the value Russia assigns to it as a strategic partner. Should Kazakhstan pursue a too abrupt shift towards the West, for example by transforming its NATO Individual Partnership Action Plan (IPAP) to membership, Russia’s approach towards the region is guaranteed to change in both tone and content. The message to China is similar. The strategic partnership between Russia and China remains the most important for Russia’s purposes but it would be an unacceptable scenario if the Chinese attempt to dominate Kazakhstan and its natural resources. Until then, however, Russia and China will continue to play “soft-ball” in the region while the Central Asian states will play these two actors against each other and cautiously enhance their ties with the West.

# Status Quo Key to Peaceful China–Taiwan Relations

Interview with Suisheng Zhao

**Q:** **IA Forum: How has election of Taiwanese President Ma Ying-jeou earlier this year affected Taiwan-China relations?**

**A:** **Suisheng Zhao:** It's had a very positive effect on the relationship because Ma Ying-jeou has not tried to push for independence. I think Ma will try to maintain the status quo. His "three no's" policy of no independence, no unification, no use of force has, I think, been well received by the Chinese government, and his policies of pushing cross-Straits economic changes has also been received very well. In fact, after he took over, he got direct flights between the two countries started, and he has also opened up Taiwan to Chinese tourists. Ma's administration also looks like it will be more predictable than the previous DPP administration was. And although he still has a lot of problems ahead with China, I think overall his election has had a very positive impact.

Having said that, I'd also like to say that there are still some issues of concern for him, for example, his push for democracy. China is not quite sure how to deal with this and the democracy issue has been a concern for China. So Ma's push for democracy is an uncertain factor in the relationship. Another factor is Ma's own governance style, which is not very assertive. Although he has been elected as a KMT president, the basic state of Taiwanese society has not changed, and there is still about 40 percent of the Taiwanese population will not support him - there is still a market for the pro-independence forces. So it is not quite certain how he will deal with this issue, which affects cross-Straits relations.

**Taiwan is in what could be described as a state of limbo—it's not independent, but not really properly controlled by China either. How long do you think this can go on?**

I think it will continue for the foreseeable future. Taiwan has never been under the PRC's jurisdiction for sure, and the Taiwanese identity has developed over the last half century. Taiwan has a totally different political system from China, and Taiwan's economy is much more developed than mainland China's. And that long separation and all those differences mean it is not possible for Taiwanese to accept unification with China in the foreseeable future.

However, it is also difficult for Taiwan to become independent in the foreseeable future. And now that China is rising as a great power, and now it has seen fundamental change - both economically and politically - and also because of the increasing exchanges between Taiwan and China, these new developments have made Taiwan's independence seem less and less likely in the near future. In that case, no unification, no independence—the status quo—and peaceful coexistence is the only way to maintain this relationship, at least for quite a while.

**Do you think China is at some point going to press for unification, by force if necessary?**

I think China will eventually push for unification, but that is an eventual scenario, and there is no way to know when that would

take place. The Chinese leadership now is very pragmatic in terms of calculating whether there are any benefits of pushing for unification at this time. In my view, the result of this calculation is clear—that pushing for early unification would only hurt Chinese national interests, because it would hurt China’s economic interests and political image internationally. It is not realistic for China at this time to swallow Taiwan into a unified China, so I don’t think they will take concrete action to reach that goal for quite a while. They are even changing their rhetoric, and talking about common development instead of unification. So in this case, use of force would be a last resort.

**Is there much public support in China for unification?**

There is public support because unification with Taiwan touches a very deep feeling of

Chinese nationalism. Taiwan was separated from China during the war with Japan, so it is part of the national humiliation and so the territorial integrity is very important to the nationalist potential for the Chinese government. And the communist government in the post-Cold War world bases its legitimacy on economic performance, nationalism and being the defender of Chinese national interests. It has used these to support its legitimacy, and the Chinese people support and have complied with the communist regime, partly because of their expectations of the Chinese government to fulfill its nationalist promise, which is to guard China’s national interests and national pride. So there is strong support among Chinese people to have Taiwan returned to the so-called motherland, eventually.

*Suisheng Zhao is Professor and Executive Director of the Center for China-U.S. Cooperation at Joseph Korbel School of International Studies, University of Denver and the editor of the Journal of Contemporary China. He is the author and editor of nine books, including “A Nation-State by Construction: Dynamics of Modern Chinese Nationalism” and “China-U.S. Relations Transformed: Perspectives and Strategic Interactions.”*





# China on guard

Military modernization Space Cybersecurity

# Military Modernization

## Geographically Limited, But Intense

Interview with Toshi Yoshihara

**Q:** **IA Forum: In March China announced plans to boost its defense budget by 17.6% this year, which followed a 17.8% increase for 2007. What is this money being spent on?**

**A:** **Toshi Yoshihara:** China's defense budget is probably one of the most enigmatic subjects in the West because of its lack of transparency. The amount that China actually spends is highly disputed in the policy community here in the United States and the estimates vary by significant margins depending on who you talk to. One of the most difficult aspects of evaluating China's defense budget is that there are so-called extra budgetary categories. For example, some of their modernization programs, particularly their acquisitions from foreign suppliers, are not included as part of their official budget, so most people suspect that the official estimates that the Chinese provide understate the amount they actually spend on the military.

The Chinese like to claim that most of the increases are designed to take care of personnel, both in terms of the cost of reducing personnel and of financing the existing force. The Chinese claim that most of the budget increases have been off-set by those types of costs. They assert that the double digit increases in their budget over the past decade have been off-set by these other costs, and so they declare reassuringly that the international community ought not to worry.

But I would argue that given the types of platforms we have been seeing coming online, it seems clear that those increases have in fact substantially benefitted the modernization

programs of the People's Liberation Army. In particular, I think they are focused on four types of programs. One is their navy. We're seeing all kinds of surface combatants and submarines that are being deployed at a rapid clip—in fact far more rapidly than the West had predicted. They are also focusing on modernizing their air force, and this combination suggests the Chinese have transitioned from a coastal defensive posture toward one that is more oriented toward power projection using naval and air power. In these areas I think the Chinese have been modernizing along more conventional lines.

But then there are asymmetric capabilities that the Chinese have also been spending their budget on. One is their missile program, particularly their ballistic missiles, which they are building at a very rapid pace. Apparently they have now over a thousand short to medium range ballistic missiles along the Chinese coast. The second program would be cyber warfare, an area that is shrouded in secrecy. But clearly the Chinese are looking at cyber capabilities as another counter to Western conventional military superiority. I should also mention that as a subset of the missile area, there are the emerging space weapons. If we look at their growing anti-satellite weapons program, showcased in the January 2007 test when they shot down an aging satellite, this suggests that the Chinese are focused on missile programs that are designed to attack America's command and control systems. So I think that even though the Chinese military budget is highly disputed, the consensus is that the Chinese tend to understate their military spending and we are

seeing a qualitative change in China's force structure that suggests there is a lot being spent on modernizing their military.

**You mentioned China's budget is enigmatic, and it is frequently criticized by the U.S. for its lack of transparency. Is this criticism fair?**

I do feel that the criticism is fair. If you look at their defense white paper - the latest one was released in December 2006 and as it's a biannual publication we're expecting one at the end of this year—usually the breakdown of their budget has gotten clearer and more specific over time. But it is still in very broad, sweeping categorizations that make it difficult for the West to assess where they are spending and on what. So I think it is fair for the West to criticize the Chinese for lacking transparency, although I feel they are doing a lot better than compared with even a few years ago.

**Are these double digit budget increases going to allow China to challenge the U.S. military's dominance in the foreseeable future?**

I think the Chinese policymakers and top leadership recognize that China cannot compete against the United States on a one-to-one or on a symmetrical basis for the

foreseeable future. China's military plan is really looking out to, say, midcentury and beyond in terms of China becoming not a global, but a regional military power. So I think the Chinese have a fairly realistic idea of where they stand globally as a military power. But I think what is rapidly changing is not at the global or even at the regional level, but closer to home, along China's littoral environment. The areas within the so-called first island chain that stretches from Japan down to Taiwan and then down through the Philippines are where dramatic changes are occurring. That island chain basically encompasses very critical bodies of water that transport China's trade and energy, and those waters include the Bohai Sea, the East China Sea, the Yellow Sea, the Taiwan Strait down all the way to the South China Sea. This is the area in which the military balance is shifting in China's favor.

Chinese naval forces and air forces are really designed to serve as tools for access or area denial, designed to make it much more difficult for the U.S. military to intervene along China's littoral environment. If you look at their missile programs, the short to medium range ones are designed to target the U.S. surface fleet operating near China's coast. All of these platforms are designed, for the present at least, to deter U.S. intervention in a Taiwan



*Toshi Yoshihara is associate professor in the Strategy and Policy Department at the U.S. Naval War College in Newport, Rhode Island. Previously, he served as a visiting professor at the U.S. Air War College in Montgomery, Alabama. He is co-author of "Chinese Naval Strategy in the Twenty-First Century: The Turn to Mahan."*

Straits crisis. I think this force posture finds its roots in the 1996 Taiwan Straits, when the Chinese leadership did not know where the U.S. carriers were when President Bill Clinton deployed two of them to the Taiwan Straits to monitor the crisis. And so that was a stimulus to the Chinese to make sure that did not happen again. The Chinese were determined to give an American president pause if he were ever to be confronted with that kind of situation in the future. And so I think in that sense, in a more limited sense - we're not talking about a titanic struggle comparable to that between Japan and the United States in World War II- this is going to be much more geographically confined, but nonetheless a fairly intensive build up on the part of the Chinese to deter U.S. intervention.

**Does this build up rely largely on imported technology or is China also effective in developing its own defense systems?**

I think the Chinese have historically been very good at pursuing parallel tracks, both in terms of importation of foreign technologies and in terms of reverse engineering those foreign technologies to produce indigenous programs. And I think the pattern continues in which they will buy foreign platforms, especially from Russia in the past decade, and then integrate those technologies with their own indigenous ones. If you look at their most recent conventional attack submarines, I think what we're seeing is the Chinese producing their own versions and then integrating the best and most useful aspects of Russian technology into their own. The latest classes of submarines are essentially hybrid submarines that use their

own and foreign technologies. The hope is that the Chinese one day will be able to completely produce these platforms on their own. We're seeing this both in terms of their submarines fleet, their surface fleet, and their air forces.

**Do you get the sense that there is widespread public support for China's defense build up?**

The Chinese military is viewed with great pride. If you think back to the 50th anniversary of the founding of the People's Republic in 1999, an inordinate amount was spent on displaying the country's military power in the parade in October 1999, which showcased, for example, their strategic forces. So I think the Chinese government has been very adept at tapping into Chinese nationalism and the passions of the people to support these military programs. I've been to bookstores in Beijing where there are entire sections or floors in multistory bookstores that are stacked with books relating to the Chinese military or the military at large. And I know in my own work, and in the work of my colleagues at the Naval War College, we have been inundated with Chinese open sources on China's military and foreign military, suggesting there is a great deal of intellectual ferment and curiosity about the military. And if you think about the angry and indignant Chinese responses to the Tibetan crisis and to the disrupted torch relay to the Olympics at home and abroad, the Chinese are animated by this powerful nationalism, which would suggest there is a great deal of support for China's resurgence both politically and militarily to what they consider to be its rightful place in the international system.

# Beyond the Hype: China in Space

By Eric Hagt

China has moved into the first tier of space-faring powers. China's manned space program, along with the recent anti-satellite test of January 2007 have assured that status. But while impressive, focusing on these climactic events runs the risk of both exaggerating China's threat to U.S. power in space as well as missing the real challenge that China's ambitions in space truly represent.

In space, China challenges the U.S. in two critical ways: one is the prestige of being the front-runner in space, with all the technological advantages that entails; the second is a military threat. China's civilian programs including the piloted space project, the lunar program, a space station and a number of exploratory projects to Mars and beyond represent the former and the ASAT the latter. Many believe China's manned space and lunar programs reveal China's determination to beat the United States (back) to the moon. While the ASAT test is seen as the assassin's mace, holding at risk America's vulnerable assets in space. China does pose a challenge to other global space powers, but neither of these areas is likely to be it.

When taken in historical context, China's piloted space program is far more plodding when compared to both the American Apollo and the Soviet Soyuz programs. U.S. and Soviet astronauts were in space within 6 years of the start of their programs and in the U.S. case, a man was on the moon in 8 years. By contrast, China only accomplished the first feat within 13 of the official launch of

its manned space effort (an earlier program was cancelled early for lack of progress). This October, 16 years into the program, the Chinese will still be going to low earth orbit, with no definite plans to put a man on the moon. The technological accomplishments of the missions are still remarkable—proceeding without an “Apollo 1” disaster—but China's manned space program, while ambitious, should be understood as cautious, phased and incremental.

The ASAT test was a showy, provocative demonstration of fire-power but the threat it represents to U.S. assets in orbit has been exaggerated. Weapons experts conclude China would need several more such tests to acquire a reliable hit-to-kill anti-satellite capability. Even assuming competence in ASAT wherewithal, U.S. satellite redundancy and current defensive countermeasures—both passive and active—would far outmatch China in a conflict. Naturally, this situation is constantly in a state of flux, and China is thought to be working on other ASAT measures, but the resources it is dedicating to that effort as well as their ultimate effectiveness are far less sure. The debris created by this test is another issue. As a single incident, it was an irresponsible act, increasing the risk for many satellites in LEO, but the debris threat is not military in nature and it ultimately harms China itself just as much as any other space-faring nation.

Both these phenomena are important, but exaggerating the threat and the challenge they represent risks obscuring other areas where

China's program is also making rapid progress, and which could have far more transformative implications over the long term, both strategically and commercially.

China's satellite technology and applications industry is one of those areas. China has launched a dozen satellites since early 2007, exhibiting impressive advances. First, is the program's breadth with satellites in all main categories, including remote sensing, navigation/positioning, communications and space science. Their sophistication is also growing. The recently launched Fengyun-3 meteorological satellite can "sound" the atmosphere on a par with advanced U.S. and EU sats. The Ziyuan-2 gives China a better than 2 meter optical resolution and the Yaogan series has synthetic aperture radar—a technology that provides all-time, all-weather observation and reconnaissance. China has also launched powerful communications payloads such as data relay satellites, the Tianlian-1, or the Zhongxing-22A, that provide real time, secure and reliable coverage. Lastly, China has achieved a substantial degree of miniaturization in satellite technology, exemplified by the recent launch of both a nanosatellite (25 kg) and a picosat (3 kg).

Most of these satellites are nominally for

commercial and civilian purposes but have obvious dual-use potential, affording a consequential degree of battlefield awareness and even power enhancement capabilities. China is growing in its ability to position, navigate visualize, track and monitor land, air and sea environments, particularly on a regional basis. These developments probably have more military significance than one successful but inconclusive ASAT test in terms of its effectiveness against the U.S. military dominance, particularly for the Asian regional theater.

Even more mundane but perhaps most revolutionary to China's space industry is the trend of 'marketization' that is increasingly gaining momentum. Space is a costly business and China has profoundly realized that market forces are the only sustainable way to make its space program thrive. China is currently instituting bold initiatives to push the space industry into the domestic stock market, thus tapping a huge potential of private and state-owned investment capital (and in some limited cases, foreign capital). The process however, is a double-edged sword for China since it demands greater information from a previously secretive, military dominated state-owned defense system. Ironically, then, indigenous 'marketization', rather than outside

*Eric Hagt is the director of the China Program at the World Security Institute in Washington, D.C., and chief editor of China Security. His primary research includes traditional and non-traditional security issues in China with an emphasis on space, the defense-industry, the energy security and crisis management.*



pressure, is the principle driving force behind increasing transparency of the space program. In addition, greater investment in civilian and commercial space assets will make conflict in space more unattractive to China and highly detrimental to itself. In the long run, China's space program could prove more of a challenge if the Chinese go to the stock market than if they send a man to the moon.

These trends, perhaps more than media-typed events of the piloted program and the ASAT test, also underscore the real challenge that China's space efforts present to the space powers of the world, particularly the United States. China plans to be a great power in space, not by way of an ideological or military competition (as characterized by the Apollo and Soyuz programs), but by building a vibrant civilian and commercial space industry. Through a novel mixture of government planning and market forces, it may just succeed. China is in the business of space for the long haul and is doing so by successfully aligning space with its core national goals, including economic development, building a science and technology industrial base, as well as a robust national defense. This will be a slow, gradual process, devoid of drama and largely behind the scenes. Something to ponder as the adrenaline surges with the Shenzhou VII blastoff this October.

# Chinese Curiosity Complicates Understanding of Cybersecurity Threat

Interview with Marcus Sachs

**Q:** **IA Forum: Britain's MI5 last year warned about the threat of cyberattacks from China. Is China a particular hotbed of activity?**

**A:** **Marcus Sachs:** China is the center of a lot of change affecting their entire lifestyle and economy - it's all happening faster there than it is any place else around the world. There are a lot of people in China that are very curious about the rest of the planet, and because of the effects of cyberspace, for the first time in recent history they are able to reach out and explore with ease what is beyond their borders.

So there's the natural curiosity effect of your average Chinese citizen, presumably with the ability to see what is beyond his or her borders other than just watching it on TV, who wants to go and explore. Then when you multiply that desire by the number of Chinese citizens who have Internet access, just the fact that they are curious is going to make it look like there's a lot of activity coming from China. Finally, you mix that with two other factors—first the government/military side, and I'll get to that in a moment, and second—the purely academic nature of exploration, and you get the appearance of a big increase in activity that might be considered to be hostile.

The Asian cultures are very scholarly, and going to school and getting well educated is something that many Asians accomplish. So there is a natural tendency for Chinese students to do a lot of research well beyond what is expected of them in their colleges and universities. When you have an Internet that

allows global exploration, naturally there is going to be a lot of curiosity well beyond the borders of China.

A lot of Chinese students go to other countries to study, and bring with them that sense of curiosity. With a connected world it's easy to sit at the University of Texas or University of California or wherever you are - and now you're connected to a local network that is filled with research data—and of course you're bound to want to send that data to your home country for others to research, or for your own personal information, or perhaps even to sell it to those willing to pay a price for it. By the way, that phenomenon has been recognized for quite a while, with people noticing that there was a large amount of data coming out of the United States and other Western universities going back to China.

The other piece of it of course is government and military. The Chinese government or military years ago published a document that very clearly outlined their doctrine and strategy on how they would act in a future world that is information-based, an information operations strategy. They were very clear that they saw themselves being dominant in the information world and cyber space in the decades to come—that this was an area they would use their intellectual capabilities to gain control of. So there were no surprises there - they were very open about it. It is a very clear doctrine, and no one should be surprised about the number of probes, requests, even malicious software, and what we would categorize as

attacks that are increasing year over year coming out of China.

**Is any threat likely to be coming from a coordinated campaign or individuals?**

This is the big question - whether the Chinese government is directly targeting government systems in other countries. This is something only the Chinese government would know for sure and everything else is just based on speculation and observation. Is there activity coming from IP addresses that are controlled by the Chinese government? Yes. Is there activity that is coming from IP addresses that are in businesses? Yes. Is there activity coming from other countries around the world? Of course. So attribution becomes really hard, because even though an IP address may be in Beijing, that doesn't necessarily mean that it is a Chinese citizen or military or government official sitting behind that keyboard. It could be a redirected keyboard - they have the same problem we do here with bots and malware. In fact their problem is amplified more than it is here in the United States. We've had in this country a long history of awareness of computer security. The idea of using antivirus software started in the mid-1990s and most everybody today, including your average home user, understands the need to keep your

computers up-to-date and to use antivirus software. Unfortunately, even in spite of that a lot of people here get infected.

But in China, many computer users and the software they are using are not kept up-to-date and unfortunately a lot of computers there are running pirated software—whether it's the operating system or the applications—and it's hard to keep pirated software up-to-date, especially when the updating services are checking whether you have legitimate copies. In many cases if you don't have a registered copy, it won't let you update it, as a kind of punishment. Well that sure does a lot of good, because now you have computers that aren't updated, and they're the first ones that are vulnerable to different kinds of malicious code attacks. So I would argue, and many would support the assertion, that there are a larger proportion of computers in China that are unprotected or infected with malicious software than there are in the United States and Europe, just because of that pirated software. So, because of the large number of infected machines, they're more likely to come under the control in the global sense of the criminal botnet community. Therefore more spam attacks as well as what would appear to be targeted espionage attacks would appear to come from China because that's where you have a lot of infected computers.



*Marcus Sachs is the director of the all-volunteer SANS Internet Storm Center and is a former White House cyber security official. Currently employed by Verizon, he is pursuing a PhD in Public Policy and is actively involved in public/private partnerships that support national security policy relating to cyber security.*

To add to this problem we know that every country on the planet that has a modern form of government and military is interested in what everybody else is up to. Espionage and spying are as old as we've had nations, so there's no reason why we should not have expected espionage to make the leap into cyberspace, which it has. Nobody should be surprised that any country that is connected to the Internet is going to use that potential means to collect information about their adversaries. So nobody should be surprised that China is using the Internet as a means of collecting information, just like we should not be surprised if Canada does it, or Germany or the United States or the U.K. or anybody else. In fact, if they're not doing it they're nuts.

There is a lot of hype about the Chinese threat, and I don't want to minimize it - there clearly is a threat from our perspective. But I would guarantee if you were in China and asked the same question of somebody who is in a position as I am here in the United States, and asked if the United States is a threat, I can guarantee they would say "of course." So a lot of this is perspective. The Internet is the great equalizer, and now we have all of mankind linked together in this instantaneous communications realm. Our generation is the first one to experience that. But we don't have any rules, we don't know how to do diplomacy in a highly connected world, we don't know quite how to get along with each other, though we're getting better. We're just like when civilization first started using ships and realized 'hey, there's another tribe on the other side of the ocean.' This is a time that will go down in the history books.

### **How big a threat is cyberterrorism for governments today?**

"Cyberterrorism" came of age in the late 1990s as we became more connected, and particularly after Sept. 11, 2001 that term became very popular. Unfortunately terrorism is terrorism. It doesn't matter what word you put in front of it, it's still terrorism. It is a bit unfortunate that we have this term cyberterrorism, because we certainly don't say suicide bomb terrorism or airplane hijacking terrorism—we call everything else terrorism, so why do we put the word cyber in front of it, other than to draw attention to something some people feel isn't getting enough attention?

Others would say what we're talking about are terrorist groups terrorizing people using the Internet. I was part of that community that thought what was going to happen after Sept. 11 was that the next attack was going to come via the Internet, that they would cause disruptions in the gas and oil or transportation systems or others that are highly dependent on the computer networks. But in fact what we discovered upon reflection is that the terrorists would prefer to use the Internet the same way you and I are using it—as a means of communications.

I don't believe a terrorist group is going to terrorize the Internet—that makes no sense, because that messes up the best form of communication the terrorists have ever had, which is to talk amongst themselves nearly instantaneously and anonymously. To conduct an attack via the Internet, well that makes

sense. But historically most terrorist groups tend to want to make attacks very visible, very shocking, and going through a network to make a generator stop doesn't have quite the same effect as blowing up a truck in front of a bank. Terrorists understand the effect of mass media. So what I'm getting at is that the words cyber and terrorism made some sense six or eight years ago, but don't today—it doesn't ring true. Little kids out there defacing web sites, or even criminal groups stealing your credit card details, that's not cyberterrorism, that's cybercrime and criminal activity is the predominant thing we see online today. That's not including espionage, which I already talked about. But cyberterrorism is a poor choice of words - it's more criminal in nature. Terrorists might support a physical attack by using cyberspace, for example if there was another Sept. 11 style attack you could support that by disabling first responder communications so you add to the confusion, and then you're using cyber space as a multiplier. That makes sense, and I think that is a more probable use of the Internet by a terrorist group.

### **How have the threats from cyberspace evolved?**

With cyber threats, there have been, more or less, three waves. There was the beginning of what today we call the public Internet, roughly about 1992, when the government sponsored research networks—the NSFNET and the ARPANET—were opened up and allowed to connect with private networks. If you use that as a starting point, the only types of attacks we saw early in the life of the Internet were mostly adolescent type things—little bits of viruses, worms, Web

site defacements. All of those were criminal in nature by today's standards, but we didn't have laws on the books at the time to make it criminal. For example, there was the I LOVE YOU virus written by a guy in the Philippines. They arrested him, but they quickly had to let him go because the Philippines had no law on the books making what he did illegal. So there was a period of about 10 years when what today would be considered a cybercrime was seen as a nuisance, but not criminal. But by the late 1990s, and as we get into the Sept. 11 timeframe, the big focus for many governments was not so much the adolescent threat, but could terrorists use this new phenomenon—and some people were even talking about cyber conflict—could this be the dominant force coming into the 20th century? We could consider concerns of terrorism and military cyber conflict the second wave of threats, following behind the adolescent activity of the 1990s.

What we missed, and we realize this phenomenon now, was the rise of true cybercrime—the third wave—and that took a big turn in about the late 2003 timeframe. If you look back, that is when the phishing attacks begin to rise above the noise level - credit card manipulation, other forms of identity theft. And while they'd been around for a while, 2004 was the year the worm attacks mostly disappeared. For many years it was very noisy and it seemed like a month didn't go by when there wasn't some kind of worm activity on the Internet, for example Code Red in 2001. So the Internet was getting very noisy with all the worm activity. But Blaster was the last big one, and that was in August 2003. Since then there have been a few

smaller attacks, but most of the worm writing community has gone toward developing tools that work very quietly and supporting the criminal world. So since 2003 there has been a huge rise in cybercrime, and it continues to get worse each year.

By the way, the use of the word cyber and crime together is not too different from use of the word cyber and terrorism, because it is still crime—it is unauthorized access, it is theft of information, it is trespass—and so to call it cyber crime plays well in the headlines, but it is still crime. I think it is a fascination right now because the Internet has happened so quickly, and as societies we tend to search for ways to describe what goes on around us, and the best thing we can do is look over our shoulders for analogies from the physical world we are familiar with.

So cyber terrorism, cyber espionage—those are things governments need to worry about. Individuals need to be worrying about cyber crime and to be taking the kinds of precautions you take in the real world—you lock your windows, lock your doors, you teach your children not to leave their bike out in the yard at night. All the things you do to prevent crime in the physical world is the kind of mindset you need to adopt in cyberspace.