



## **Let Sober Realism Guide U.S.-China Relations in 2008**

by Brad Glosserman and Bonnie Glaser

There is no simple description for the U.S.-China relationship. The two countries are bound together by a thick web of interactions that is growing denser on every level. That is to be expected of two countries with global interests and influence. But strains in bilateral relations are likely to grow in 2008. It is more important than ever that the two countries set realistic expectations for each other and their relationship, and focus on overcoming the mistrust and suspicion that is growing in parallel with increasing interdependence.

Numbers tell the tale of U.S.-China economic interdependence. Two-way trade is projected to hit \$390 billion in 2007. As of the end of September 2007, China reported that it held reserves totaling a mind-warping \$1.43 trillion, of which U.S. T-Bills amounted to \$396.7 billion, and cumulative U.S. investment in China reached \$54 billion, through the end of 2005. A shared desire for peace and stability in East Asia provides ample incentive to work together to solve the North Korea nuclear problem and to ensure that tensions in the Taiwan Strait do not get out of hand. The two countries' economies need stable supplies of energy: that provides a foundation for cooperation when dealing with Iran and the Persian Gulf region. Their reliance on trade is a reason to cooperate to keep sea lines of communication open.

Increasing interaction also triggers friction and mistrust. Unfortunately, both seemed to be mounting. The Chinese government's refusal to allow the *USS Kitty Hawk* to enter Hong Kong for a scheduled Thanksgiving port call raised hackles; revelations that two minesweepers had been compelled to risk refueling at sea during a storm because China denied access to Hong Kong's port generated widespread complaints about China's failure to observe basic maritime courtesies. As after the January 2007 antisatellite weapon test, confusion surrounding Beijing's motives and the lack of communication within the Chinese bureaucracy have increased concern about miscommunication in a crisis.

Both the Joint Commission on Commerce and Trade (JCCT) and the Strategic Economic Dialogue (SED) convened in December: each yielded some results, but U.S. participants have complained of a failure to follow through on previous commitments in the JCCT and the SED has produced less than promised despite the high-profile lineup of Cabinet officials. Officials in both countries warn of protectionist pressures in the other.

Worse, 2008 promises to be a trying year. The U.S. is descending into a presidential campaign during which all facets of U.S. relations with China will come under intense scrutiny. There will be a temptation to make China a foreign

policy issue or a scapegoat for problems in economic and security policy. Chinese emotions will be reaching a peak during the summer Beijing Olympics. The outpouring of pride and nationalism could surge in any direction: if problems arise, relations with the U.S. could become a focus.

Elections in Taiwan could magnify tensions. There is great concern in Beijing that Taiwan will cross Chinese redlines – either inadvertently or deliberately – during the runup to the Olympics, forcing a hard response from China. Equally worrisome is the prospect of Chinese leaders overreacting to a Taiwanese action, fearing their legitimacy will be undermined if their response is too soft.

In this hothouse environment, we have several suggestions for both China and the U.S.

First, both governments should dampen expectations of the other. Problems in the bilateral relationship are complex and multifaceted. There are no easy solutions. The extraordinary diversity of each country means that negotiations on nagging concerns involve a wide range of interests; coordinating them will take time and will be a cumbersome process. China in particular remains a developing country with a myriad of domestic problems, ranging from income disparities, pollution, resource shortages and rising expectations among the population. Responding to all problems is complicated by the bureaucracy's limits: the central government's ability to enforce its mandates has been weakened by decentralization and economic liberalization. Americans need to understand that China is not the sole cause of their job losses or the only source of unsafe products. And there should be greater appreciation of the benefits that we accrue from our economic and trade relationship with China – low inflation, inexpensive goods, and a source of funding for over \$1 trillion of U.S. debt.

Second, the two governments must insulate the military to military relationship from the ups and downs of politics. In Sept., China canceled all bilateral mil-mil exchanges for October – a total of eight – likely in protest for U.S. notification to Congress of arms sales to Taiwan. When the Bush administration proceeded with another notification to Congress of arms sales in November (following granting of the Congressional Gold Medal to the Dalai Lama), the Chinese apparently decided to temporarily deny U.S. ships access to Hong Kong harbor. Such actions take a toll on the bilateral relationship but they will not convince the U.S. to rethink its policy of selling arms to Taiwan, which is required by U.S. law and serves U.S. interests in preserving peace and stability in the Taiwan Strait.

After the contretemps over the *Kitty Hawk* incident, the two countries agreed to look forward, not back. Getting beyond this controversy is apparently deemed the best option by both sides. While this episode should not undermine

cooperation between the two countries in other spheres, failing to address the many worrisome issues raised by this incident ensures that strategic mistrust will continue to fester in the bilateral relationship. Mistrust and a lack of transparency lead to a reliance on worst-case assumptions and deepen downward trends in the relationship. Our militaries and our security planners need to engage in frank and detailed discussions about strategic intentions. This includes a dialogue on strategic nuclear issues that U.S. and Chinese presidents agreed upon in April 2006, but has yet to get underway due at an official level to Chinese hesitation. (The authors are both involved with track-two efforts to fill this void.)

A third imperative is seizing opportunities to cooperate and build trust and mutual confidence. As large trading economies with global contacts and contracts, the list of shared interests is long. Washington and Beijing should take every chance to work together on those issues, from energy security to trade security to product safety, pushing the Doha trade talks and the post-Kyoto Protocol climate negotiations. The recent Bali talks made plain the critical role the two countries play and demonstrated that progress begins when the U.S and China engage and press for positive results.

A caveat is critical here. While U.S.-China cooperation is essential, it cannot look like those two governments are creating a condominium that excludes other governments. Our chief concern is Japan. Japanese insecurities are growing for a number of reasons, one of which is fear of being bypassed as the U.S. and China work together. Trilateral cooperation is therefore vital to allay Japanese fears of being ignored, as well as to involve a key player that can contribute greatly to the resolution of regional and global problems. Beijing should not be under the illusion that working with the U.S. or trilateral cooperation will dilute the U.S.-Japan alliance.

The U.S.-China relationship is, like any relationship among large countries, complex. Observers see in it what they choose to see. Optimists focus on the two countries' growing shared interests and the framework for dialogue and problem solving that has emerged in recent years; pessimists concentrate on the uncertainties that loom large in the relationship and the all but inevitable clash between the prevailing superpower and the rising challenger.

Washington and Beijing should continue to work together where their interests overlap – building habits of cooperation that will better position the two countries to manage friction whenever and wherever it emerges. A successful relationship will require ongoing frank dialogue and greater transparency about both countries' strategic intentions. Appropriate expectations are vital. Sober realism, then, must be the constant in U.S.-China relations. For better or for worse, 2008 will provide ample opportunities to measure the gap between expectations and reality.

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