

**JOINT FORCES STAFF COLLEGE
JOINT ADVANCED WARFIGHTING SCHOOL**

TO LOSE CHINA'S SUPPORT IS TO LOSE SUPERPOWER STATUS

by

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A paper submitted to the Faculty of the Joint Advanced Warfighting School in partial satisfaction of the requirements of a Master of Science Degree in Joint Campaign Planning and Strategy. The contents of this paper reflect my own personal views and are not necessarily endorsed by the Joint Forces Staff College or the Department of Defense.

This paper is entirely my own work except where documented in footnotes/endnotes.

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The United States has been the worlds leading superpower since the end of World War II. However, if history tells us anything, it surely tells us that superpowers, whether a superpower in the true sense of the word, a hegemonic power, imperial dynasty, or even an empire, do not last forever. Many journals often tout China as the next likely superpower. The United States has the largest and most technologically powerful economy in the world. However, the United States is also \$12.25 trillion dollars in debt with China being the largest foreign holder of this debt. Additionally, the trade balance, or rather the trade imbalance, between the United States and China is very telling. While the United States receives 16.9% of its imports from China, Chinain turnonly imports 5.6% of its imports from the United States. Given Americas significant debt and trade imbalance with China, the U.S. must maintain good relations with China in order to retain its superpower status. As a communist country, China may never fit the mold to become a full ally with the United States, assisting all NATO countries in spreading democracy around the world. However, the United States must accept the fact that China does possess vital resources and capabilities that would be extremely helpful in assisting to solve world crisis. While the U.S. continues to fight a War on Terror, with no end in sight, and while continuing to honor its commitments to allied nations around the world for various reasons to include domestic, humanitarian, and military operations other than war, it is critical to gain (additional) support from countries able to assist. And China, with its vast economic resources, is a country able to assistthus affording the United States a better opportunity to remain a superpower.

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The United States has been the world's leading superpower since the end of World War II. However, if history tells us anything, it surely tells us that superpowers, whether a superpower in the true sense of the word, a hegemonic power, imperial dynasty, or even an empire, do not last forever. Many journals often tout China as the next likely superpower. The United States has the largest and most technologically powerful economy in the world. However, the United States is also \$12.25 trillion dollars in debt with China being the largest foreign holder of this debt. Additionally, the trade balance, or rather the trade imbalance, between the United States and China is very telling. While the United States receives 16.9% of its imports from China, China—in turn—only imports 5.6% of its imports from the United States. Given America's significant debt and trade imbalance with China, the U.S. must maintain good relations with China in order to retain its superpower status. As a communist country, China may never fit the mold to become a full ally with the United States, assisting all NATO countries in spreading democracy around the world. However, the United States must accept the fact that China does possess vital resources and capabilities that would be extremely helpful in assisting to solve world crisis. While the U.S. continues to fight a War on Terror, with no end in sight, and while continuing to honor its commitments to allied nations around the world for various reasons to include domestic, humanitarian, and military operations other than war, it is critical to gain (additional) support from countries able to assist. And China, with its vast economic resources, is a country able to assist—thus affording the United States a better opportunity to remain a superpower.

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Chapter 1: INTRODUCTION

This could be the Asian century. And for the United States, that could be a challenge. American defense and intelligence planners, looking 15 to 25 years ahead, see a rapidly growing Asia flexing its economic, military, and diplomatic muscle. Relations between the U.S. and several nations in Asia could become seriously strained. China, booming in both low-tech and high-tech manufacturing, will be at the heart of Asia's future.¹

Excerpt from the Christian Science Monitor, Author unknown

“The United States has the largest and most technologically powerful economy in the world, with a per capita gross domestic product (GDP) of \$48,000 which ranks as the 10th largest per capita GDP in the world.”² However, the United States is also \$12.25 trillion dollars in debt according to the Central Intelligence Agency (CIA) World Factbook. China is the largest foreign holder of United States debt. “Measured on a purchasing power parity (PPP) basis that adjusts for price differences, China in 2008 stood as the second-largest economy in the world after the United States, although in per capita terms the country is still lower middle-income.”³ Additionally, among all our import partners, the United States imports 16.9% from China, which is more than the United States imports from any other country; while China in-turn only imports 5.6% from the United States.⁴

¹ Selection from The Early Bird, Author Unknown, “U.S. Military Tries To Plan For Rise Of Asia,” *Christian Science Monitor*, April 04, 2001.

² CIA World Factbook, United States Economy, <https://www.cia.gov/library/publications/the-world-factbook/geos/us.html>, (accessed September 7, 2009).

³ Ibid.

⁴ Ibid.

Because of the economic dynamic, the thesis of this paper is, maintaining good relations⁵ with China allows the United States to remain a superpower. This paper will explore how the United States developed into a superpower and how China's support to the United States, or lack thereof, has a direct impact on the U.S. remaining a superpower. According to Alice Lyman Miller, Professor of National Security Affairs at the Naval Postgraduate School, "the basic components of superpower stature may be measured along four axes of power: military, economic, political, and cultural."⁶ These basic components of superpower stature, as described by Miller, will be used to explore and defend this thesis.

Although the United States is currently experiencing financial crisis and believed to be in a recession, experts predict that the current economic meltdown will not upset America's global dominance. Niall Ferguson, a historian who writes for *The Harvard Business Review*, says "the current recession has altered the international economic order. Because the world has become more dangerous as well as poorer, everyone looks to the United States to continue acting as a global policeman – and the greenback is still the world's currency of choice."⁷ This quote is essentially saying that the United States is not alone in its current economic strife and that much of the rest of the world is also experiencing economic or social turmoil. Therefore, the U.S. appears on track to maintain dominance in the world economy and other components of superpower stature.

⁵ For purposes of this thesis, the phrase "maintaining good relations" refers to good relations with regard to the instruments of national power: diplomatic, informational, military and economic, with particular emphasis on the economic arm of national power.

⁶ Lyman Miller, "China an Emerging Superpower?" *Stanford Journal of International Relations*, http://www.stanford.edu/group/sjir/6.1.03_miller.html, (accessed September 26, 2009).

⁷ Niall Ferguson, "The Descent of Finance," *Harvard Business Review*, July-August 2009 Edition, <http://hbr.org/2009/07/executive-summaries/ar/1>, (accessed September 26, 2009).

The term “dominance” does not imply the United States’ and China’s militaries must clash in battle where the United States wins a decisive war over China. There are numerous courses of action to accomplish this objective of maintaining dominance in the world economy and other components of superpower stature. Sun Tzu, the well-known Chinese theorist of military strategy (or a collection of individuals all collaborating together under the same pen name of Sun Tzu) believed that victory can be attained long before military action and also that military action is not necessary to win. Sun Tzu stated, in The Art of War, that “generally in war the best policy is to take a state intact; to ruin it is inferior to this. For to win one hundred victories in one hundred battles is not the acme to skill. To subdue the enemy without fighting is the acme of skill.”⁸ Mao Tse-tung stated “if historical experience teaches us anything about revolutionary guerrilla war, it is that military measures alone will not suffice.”⁹ Therefore, without the use of military action, or at least regarding military action as a last resort, there are a number of other methods to explore in regard to the United States’ relationship with China and the United States’ desire to remain a superpower. Most importantly, understanding China’s cultural differences will allow the United States to maintain OODA loop advantage to make the best possible decisions faster, regarding our diplomatic, informational, military and economic relations. As a matter of reference, OODA loop is a phrase coined by Colonel John R. Boyd, USAF (Retired), which stands for “Observe-Orient-Decide-Act-Cycle,” more commonly known as the OODA loop. The OODA loop has been used to describe “the very human process of decision-making and can run the gamut from business negotiations to combat. Operating at a tempo faster than an adversary makes

⁸ *Sun Tzu The Art of War*, Translated by Samuel Griffith. New York: Oxford University Press, 1971, 77.

⁹ Mao Tse-tung, *On Guerrilla Warfare*, Champaign, IL: University of Illinois Press, 2000, 34.

one appear ambiguous (unpredictable) thereby generating confusion and disorder for ones adversary, giving you the advantage.”¹⁰ Before examining the various components of superpower stature, it will be helpful to first understand the events that propelled the United States to becoming the world’s leading superpower.

¹⁰ Jeffery L. Cowan, *“From Air Force Fighter Pilot to Marine Corps Warfighting: Colonel John Boyd, His Theories on War, and their Unexpected Legacy,”* Quantico, VA: USMC Command and Staff College, 2000, 5 and 13.

Chapter 2: BECOMING A SUPERPOWER

There is no doubt that America is a superpower of the world and we cannot ignore them.¹

Akbar Hashemi Rafsanjani, former President of Iran

The United States has been the world's leading superpower since the end of World War II. Immediately after the war, the United States shared this title with the British Empire and the Soviet Union. However, after the British Empire began decolonizing its territories and after the Soviet Union lost the Cold War, the United States was left as the world's only superpower. Outside the British Isles, the United Kingdom still controls 14 territories called the British Overseas Territories. All others began receiving their independence following World War II. The United Kingdom's more notable efforts of decolonization, whether voluntary or not, included the granting of independence to Rhodesia and Vanuatu in 1980 and British Honduras in 1981. In 1982, the British Parliament passed the 1982 Canada Act which ended dependence of Canada on the United Kingdom, by a process known as patriation. In 1986, both Australia and New Zealand passed similar patriation acts to sever British linkage and become independent countries as well. In 1984, the Sino-British Joint Declaration authorized Hong Kong, Britain's last major overseas territory, to become a Special Administrative Region of the People's Republic of China (PRC). Hong Kong was ceded to Britain in the 1842 Treaty of Nanking and actually acquired, by Britain, in a 99 year lease in 1898 which expired in 1997. "The handover ceremony in 1997 marked for many, including

¹ Selection from The New York Times, Author Unknown, "Rafsanjani Urges U.S. to Begin Thaw in Ties," <http://regimechangeiran.blogspot.com/2005/05/rafsanjani-urges-us-to-begin-thaw-in.html> (accessed September 26, 2009).

Charles, Prince of Wales who was in attendance, ‘the end of (an) Empire’”² This process by the United Kingdom of granting independence to so many of its territories, left the Soviet Union and the United States as the only two remaining superpowers.

Following World War II, the United States and the Soviet Union entered the Cold War. Although there was never a direct military engagement between the two countries, they did, experience geopolitical tensions and ideological confrontations as well as more direct political, military, and economic competition. This competition consisted of: “military coalition buildups, strategic conventional force deployments, a nuclear arms race, espionage, proxy wars, propaganda, and technological competition, e.g. the Space Race.”³ In the mid 1980s, the Russian economy was stagnant and not doing very well due to poor foreign currency earnings and a slide in oil prices. As a result, Mikhail Gorbachev attempted to revive the Soviet economy by redirecting the country’s resources away from costly Cold War military commitments to other areas within its civilian sector in hopes of increasing foreign investment. Military concessions included scaling back the arms race and their political concessions included the Soviets adopting a more free press system and more transparency within their government. These concessions ultimately led to both the Soviet Republics declaring their autonomy from Moscow and to increased talks and negotiations between the Soviet Union and the United States. In 1987, President Ronald Reagan and Mikhail Gorbachev signed the Intermediate-Range Nuclear Forces Treaty governing nuclear armed and various other types of missiles. In 1989, Gorbachev and President H. W. Bush signed the START I arms control treaty.

² Wikipedia, “British Empire,” http://en.wikipedia.org/wiki/British_Empire, (accessed September 26, 2009).

³ Wikipedia, “Cold War,” http://en.wikipedia.org/wiki/Cold_War, (accessed September 26, 2009).

Gorbachev, with no longer a need for the Cold War, agreed to the reunification of Germany and allowed the Berlin Wall to come down. “On December 3, 1989, Gorbachev and Reagan’s successor, George H. W. Bush, had declared the Cold War over at the Malta Summit; a year later, the two former rivals were partners in the Gulf War against longtime Soviet ally Iraq.”⁴ As a result of the Cold War ending, the USSR dissolved and Russia dramatically decreased its military spending, “but the adjustment was wrenching, as the military-industrial sector had previously employed one of every five Soviet adults and its dismantling left millions throughout the former Soviet Union unemployed...the post-Cold War world is widely considered as unipolar, with the United States the sole remaining superpower.”⁵

According to the aforementioned Professor Miller, a superpower is described as "a country that has the capacity to project dominating power and influence anywhere in the world, and sometimes, in more than one region of the globe at a time, and so may plausibly attain the status of global hegemony.”⁶ If history tells us anything, it surely tells us that superpowers, whether a superpower in the true sense of the word as defined by Professor Miller, or a hegemony, imperial dynasty, or even empires do not last forever. All former dynasties and empires have come and gone. From the first recorded empires of the Akkadian Empire of Sargon the Great in 24th century BC, to the more popular Holy Roman Empire from the 8th to the 19th century, even through to the more current and first ever British superpower just prior to the United States and the Soviet

⁴ Ibid.

⁵ Ibid.

⁶ Alice Lyman Miller, “China an Emerging Superpower?” *Stanford Journal of International Relations*, Winter 2005 issue. She is a professor of National Security Affairs at the Naval Postgraduate School.

Union as superpowers, have all come and gone. Therefore, it should be expected that the United States too shall eventually relinquish its title of superpower. Many journals often tout China as the next likely superpower.

Chapter 3: ECONOMIC INSTRUMENT OF NATIONAL POWER

Measured on a purchasing power parity (PPP) basis that adjusts for price differences, China in 2008 stood as the second-largest economy in the world after the United States...and is the largest foreign holder of U.S. debt.¹

CIA World Factbook

Of Professor Alice Miller's four basic components of superpower stature, cited earlier—diplomatic, informational, military and economic—the economic arm is the most important with regard to this thesis that maintaining good relations with China allows the United States to remain a superpower. Therefore, that instrument of national power, or “component of superpower stature” as Miller calls it, will be discussed first. “The economic instruments of national power include trade agreements, foreign aid, the money supply, taxes, government expenditures, and subsidies.”² These points, especially the money supply and government expenditures, link the United States and China together as inseparable economic partners who share a unique quid-pro-quo relationship and depend heavily on one another for their economic position in the world.

Savings Rate and Foreign Exchange Reserves (FER):

With the United States needing to fund a huge deficit to support its recession-hit economy, Chinese government advisers have made bolder calls for Beijing to lock in better terms...a sign of China flexing its muscles in the U.S. debt market.³

¹ CIA World Factbook, United States Economy, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>, (accessed September 15, 2009)

² Henry Bartlett, Paul Holman, Jr., and Timothy E. Somes, *The Art of Strategy and Force Planning*, 4th ed. Newport, RI: Naval War College Press, 2004, 20.

Larry Kudlow, MoneyNews.com

Because of its low savings rate, “the United States borrows to finance the federal budget deficit and its capital needs in order to enjoy healthy economic growth. It therefore depends on countries with high savings rates, such as China, to invest some of its capital in the United States.”⁴

Although the United States has the largest economy in the world, it also has a huge federal deficit and therefore relies on countries with high savings rates, such as China, to invest its foreign capital in U.S. Treasury securities to allow the United States to continue promoting growth and to finance its federal budget deficit. China has recently risen from fifth largest to primary as the world’s largest foreign holder of U.S. Treasuries:

China has become the world’s largest and fastest growing holder of foreign exchange reserves (FER). China has invested a large share of its FER in U.S. securities, which, as of June 2008, totaled \$1.2 trillion, making China the second largest foreign holder of U.S. securities (after Japan). But, as of May 2009, China’s Treasury securities holdings were \$802 billion, accounting for 24.3% of total foreign ownership of U.S. Treasury securities, making it the largest foreign holder of U.S. Treasuries (it replaced Japan as the largest foreign holder in September 2008).⁵

Over the past several months China has been the largest foreign purchaser of U.S. debt. This is evidenced by China overtaking Japan, as the primary holder of U.S. debt, from the short time period of June 2008 to May 2009. Additionally, this trend of China investing significantly in U.S. debt will only increase in the near future because of the

³ Larry Kudlow, “China Turning its Back, At last, On Long Bond,” *MoneyNews.com*, May 19, 2009, http://moneynews.newsmax.com/headlines/foreign_exchange_reserves/2009/05/19/215789.html, (accessed September 15, 2009).

⁴ CRS Report for Congress RL 34314, *China’s Holdings of U.S. Securities: Implications for the U.S. Economy* by Wayne M. Morrison and Marc Labonte, 1.

⁵ *Ibid.*, ii.

stimulus plan and other government initiatives. The new American stimulus plan to rescue failing mortgage companies, auto industries and the housing market by purchasing their troubled assets will cost the United States billions of dollars, which will require huge amounts of government borrowing from countries like China.

**Table 1⁶: China's Foreign Exchange Reserves:
2001 - June 2009**

Year	Measured in Billions of U.S. Dollars	As a % of Chinese GDP
2001	215.6	16.3
2002	291.1	20.0
2003	403.3	24.6
2004	609.9	31.6
2005	818.9	36.5
2006	1,068.5	40.2
2007	1,528.2	45.2
2008	1,946.0	45.0
June 2009	2,131.6	N/A

As indicated in Table 1, China's foreign exchange reserves have increased sharply in recent years, both in absolute terms and as a percent of gross domestic product (GDP). Since 2001, China has experienced a \$1,916 billion dollar increase (and a 28.7% GDP increase) of foreign exchange reserves, up from \$215.6 billion in 2001 to \$2,131.6 billion in June 2009. Multiple searches and queries on the CIA World Factbook website of various major countries' foreign exchange reserves, the dollar amounts, and GDP

⁶ Ibid., 2.

percentage increases shown for China in the above table prove to be record setting and far higher than other countries commonly referred to as world powers.

The use of foreign exchange reserves became popular after the decline of the gold standard, which the United States stopped using in the early 1970s. They are liquid assets such as gold, or the U.S. Dollar for countries other than the United States, or the Euro for other than a European country. These funds are held by a central bank or government of a country. InvestorWords.com describes Foreign Exchange Reserves as “deposits of a foreign currency held by a central bank. Holding the currencies of other countries as assets allow governments to keep their currencies stable and reduce the effect of economic shocks.”⁷

A listing of the world’s top five holders of foreign exchange reserves, as of June 2009, is shown in Table 2.

Table 2⁸: Top 5 Holders of Foreign Exchange Reserves and Changes to Holdings From 2006 – June 2009

Country	2006	2007	2008	June 2009
	(in \$ Billions)			
China	1,068.5	1,528.2	1,946.0	2,131.6
Japan	879.7	948.4	1,003.3	988.5
Russian Federation	295.3	386.2	406.2	365.4
Taiwan	266.1	270.0	291.7	317.6
India	170.2	266.6	246.6	251.5

⁷ InvestorWords.com, “foreign exchange reserve”, www.investorwords.com, (accessed September 10, 2009).

⁸ CRS Report, *China’s Holdings of U.S. Securities*, 3.

This table clearly shows that China outpaces all other countries in the world as the largest foreign exchange reserve holder. As of June 2009, China not only more than doubled the amount of the second largest holder, Japan, with \$988.5 billion to China's \$2,131.6 billion; but, the table also shows that China's holdings exceeded those of Japan, Russia, Taiwan, and India all combined. These next four largest foreign exchange reserve holding countries have a combined total of \$1,923 billion, which is still \$208.6 billion less than that of China with a staggering \$2,131.6 in these types of holdings. This table also shows that China was the only country, of the top five holders, with the exception of Taiwan, that had successive increases of foreign exchange reserve holdings for every year shown in the table. Additionally, the year China showed the smallest increase, of \$185.6 billion, between the partial-year of 2008 and September June 2009, was still more than any full-year increase, of any other country.

It is important to note that these reports and tables cover data compiled as of June 2009. Preliminary reports that cover data compiled for the first quarter of 2010 are expected to show that China may finally begin making a shift in the investment of its foreign exchange reserves, which is an indication that China is reacting to concerns about continuing to finance U.S. debt. China is continuing to finance U.S. debt, but is expected to make a shift from long-term U.S. debt in favor of shorter maturities.

U.S. Securities and U.S. Treasury Security Holdings:

China bought more than \$4.6 billion worth of U.S. Treasury securities in February, despite fears that the United States' top foreign lender may be growing nervous about its massive holdings of U.S. government debt. I don't think there's any real evidence of a turn away from U.S. securities, certainly no evidence of a turn away from

Treasuries. There's no way China is going to dump U.S. securities...it's a symbiotic relationship; we need each other.⁹

David Lynch, USA Today

Before progressing further, it will be necessary to understand the definitions of debt, securities, and treasury securities. According to the U.S. Economy Guide

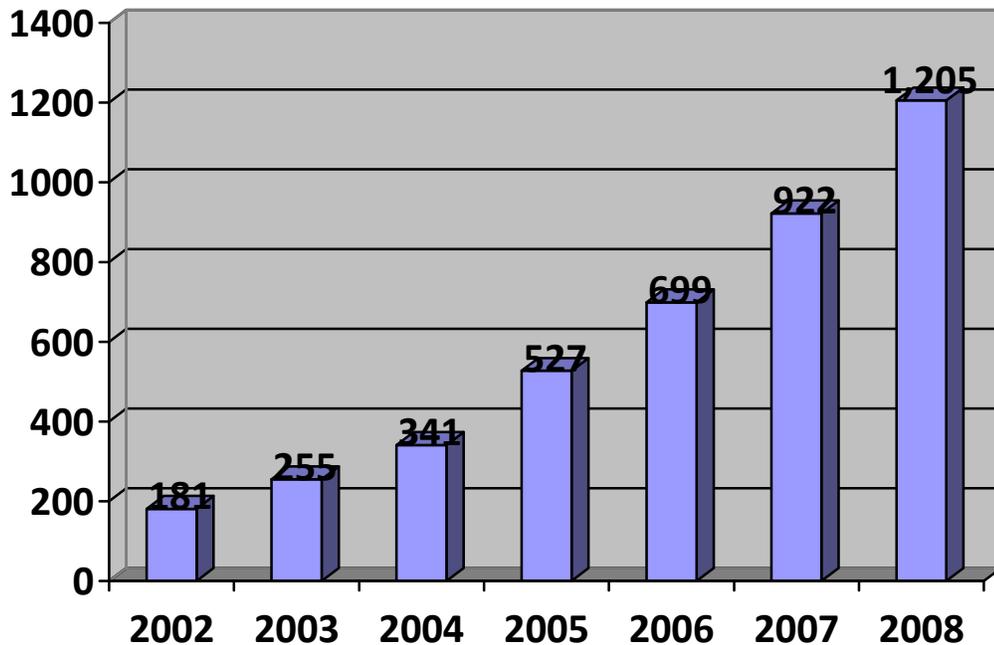
U.S. debt is the sum of all outstanding debt owed by the Federal Government. Over half is the public debt, which is owed to individuals, corporations and foreign governments, who have purchased treasury bills, notes and bonds. The rest is owed by the government to itself, and is held as Government Account securities. Most of this is owed to the Social Security and other trust funds, which have been running surpluses. The securities are a promise to repay these funds when the Baby Boomers retire over the next 20 years. Securities are any form of ownership that can be easily traded on a secondary market, such as stocks and bonds or even futures, contracts, options, or mutual funds. Treasury bills, notes and bonds are sold by the U.S. Treasury Department and are the safest investments in the world, since they are backed by the U.S. Government. If you hold onto them until term, you will get face value plus interest, no matter what you paid for them at auction. However, the minimum investment is \$10,000, placing them out of reach for many individual investors. The difference between Treasury Bills, Notes and Bonds are the length until maturity: bills are issued for terms less than a year; notes are issued in terms of 2, 3, 5, and 10 years; bonds are issued in terms of 30 years.¹⁰

Figure 1, which follows, shows China's Holdings of U.S. Securities from June 2002 – June 2008. This figure shows that China's holdings of U.S. securities were in excess of \$1,205 billion in June 2008. Reference the earlier comment on China's holdings—of U.S. securities increasing at a drastic rate—this figure shows that China's holdings increased by nearly seven times over the six-year period from 2002 to 2008,

⁹ David Lynch, "China buys less U.S. debt as reserve growth slows," *USA Today*, April 16, 2009.

¹⁰ Kimberly Amadea, "About.com," *U.S. Economy*, <http://useconomy.about.com/>, (accessed on September 15, 2009).

Figure 1¹¹: China's Holdings of U.S. Securities
(in \$ Billions)



from \$181 billion in the year 2002 to \$1,205 in the year 2008. This equates to nearly a 670 percent increase over a six-year time period. Additionally, this figure also shows that each year, China's holdings of U.S. securities are increasingly larger. For example, the first two years (2002 to 2003) show an increase of \$74 billion, but they progressively become larger and larger each year culminating with the last two years (2007 to 2008) showing an increase of \$283 billion.

A listing of the top three foreign holders of U.S. Securities as of June 2008 is shown in Table 3:

¹¹ CRS Report, *China's Holdings of U.S. Securities*, 4.

**Table 3¹²: Top 3 Foreign Holders of U.S. Securities as of
June 2008
(in \$ Billions)**

Type of Security	Total	LT Treasury	LT Gov't Agency	LT Corporate	Equities	Short Term
Japan	1,250	568	270	148	199	66
China	1,205	522	527	26	100	30
UK	864	45	26	394	376	24
World Total	10,324	2,210	1,464	2,820	2,969	861

Although this table shows Japan as the top foreign holder of U.S. Securities, it is important to note that this chart is as of June 2008, the month in which the U.S. Treasury Department produced the data. However, the U.S. Treasury Department estimates that “China is currently the top holder of U.S. securities and may have reached \$1.36 trillion or higher as of December 2008, and \$1.49 trillion as of June 2009.”¹³ It is interesting to note that Table 3 shows that although China’s investment in U.S. securities is very large, they have also practiced a very conservative and low-risk investment strategy. A majority of China’s \$1,205 billion were in long-term treasury securities and long-term government agency securities such as Sallie Mae, Fannie Mae, and Freddie Mac. A total of 87% of China’s \$1,205 billion dollar investment was held in these long term securities, while only 13%, or \$156 billion, was held in corporate debt, equities and short term U.S. securities. Not surprisingly, Japan’s distribution of holdings is very similar to that of China’s. The United Kingdom is the complete opposite with a majority of their

¹² Ibid., 5.

¹³ Ibid.

investment held in U.S. corporate debt and equities totaling 92%, and with only a small fraction of their investment, 8%, held in U.S. long-term treasury securities and U.S. long-term government agency securities.

United States Treasury securities are the main vehicle the U.S. government uses to finance the federal debt, which totaled \$11.1 trillion at the end of March 2009. Of this amount, 43% was held by U.S. government trust funds and 57% was privately held. In September 2008, China overtook Japan to become the largest foreign holder of U.S. Treasury securities (in December 1997, China was only the 7th largest holder).¹⁴

Table 4 shows China's year end holdings of U.S. Treasury securities from 2002 through May 2009:

Table 4¹⁵: China's Year-End Holdings of U.S. Treasury Securities: 2002 - May 2009
(in \$ Billions)

	2002	2003	2004	2005	2006	2007	2008	May 2009
China's Holdings	118.4	159.0	222.9	310.0	396.9	477.6	727.4	801.5
Holdings as a % of Total Foreign Holdings	9.6%	10.4%	12.1%	15.2%	18.9%	20.3%	23.6%	24.3%

This table highlights China's increasing amounts of year-end holdings of U.S. Treasury securities. From 2002 through May 2009, China has increased its holdings of U.S. Treasury securities from \$118.4 billion to \$801.5 billion, a net increase of \$683 billion in U.S. Treasury securities. Additionally, the table depicts a steady increase that gets higher

¹⁴ Ibid., 7.

¹⁵ Ibid., 8.

and higher each year with an increase of \$40.6 billion between years 2002 and 2003 to a staggering increase of \$249.8 between years 2007 and 2008. The second row of the table illustrates how China has more than doubled its U.S. Treasury securities, as a percentage of total foreign holdings, from only 9.6% in 2002 to 24.3% of its total foreign holdings as of May of 2009.

Table 5 illustrates the major foreign holders of U.S. Treasury securities as of May 2009 and how they have changed from the previous year.

**Table 5¹⁶: Major Foreign Holders of U.S. Treasury Securities
June 2008 - May 2009 (in \$ Billions)**

	June 2008	May 2009	Change in the Value of its Holdings from Jun 08-May 09(\$)	Holdings as a Share of Total Foreign Holdings as of May 09(%)
China	535.1	801.5	266.4	24.3
Japan	628.0	677.2	49.2	20.6
Caribbean	106.6	194.8	88.2	5.9
Oil Exporters	159.5	192.9	33.4	5.9
UK	55.0	163.8	108.8	5.0
Total Foreign Holdings	2,587.2	3,293.1	705.9	--

Note 1: Caribbean includes the Caribbean Banking Centers.

Note 2: Oil Exporters include all oil exporting countries.

This table lays out the growth of the major foreign holders of U.S. Treasury securities, from June 2008 through May 2009, in clear detail. China's holdings increased by 50% (or \$266.4 billion) in this one year alone, from \$535.1 billion in June 2008 to \$801.5

¹⁶ Ibid.

billion in May 2009, which far exceeds any other major foreign holder of U.S. Treasury Securities.

China's one year increase, of \$266.4 billion, is nearly the same as the next four largest foreign holders of U.S. Treasury securities combined: Japan, all the Caribbean Banking Centers, all foreign Oil Exporters including Ecuador, Venezuela, Kuwait, Saudi Arabia, among several other oil producing countries, as well as the United Kingdom, which all total \$279.6 billion in foreign holders of U.S. Treasury Securities.

Economic Boom or Bust for China's Future:

The only thing rising faster than China is the hype about China...China is the only country in history to have simultaneously achieved record economic growth and a record number of nonperforming bank loans...Someday soon, we will know whether such a flawed system can pass a stress test: a severe economic shock, political upheaval, a public health crisis or an ecological catastrophe. China may be rising, but no one really knows whether it can fly.¹⁷

Minxin Pei, San Francisco Chronicle

There is no doubt that China's economic success over the last couple decades has amazed investors and captivated the world. Western investors applaud China for its high savings rate, powerful work ethic, and the ability to have purchased huge amounts of United States debt. The business world applauds China for being the world's greatest manufacturer. China's internet is booming similar to the United States' dot-com boom in the early 90's. The larger banks, to include Bank of America and Citibank, are investing in China's smaller banks in expectation of future rewards. Also, new automobile factories are being built in China – even during the current failing auto market. “But

¹⁷ Minxin Pei, “The Dark Side of China's Dazzling Economic Boom,” *San Francisco Chronicle*, April 9, 2006.

beyond the new high-rises and churning factories lie rampant corruption, rising social injustice and an elite preoccupied with its own survival.”¹⁸ Craig Stephen recently penned a column in *The Wall Street Journal* titled “Shanghai growth glitters but lacks weight” that describes an artificial economic hype within China. He describes how during each visit to Shanghai, its futuristic skyline of the financial district appears more and more crowded with additional skyscrapers, subways, and buildings which can easily cause

...(the wrong impression, leaving) many visitors to depart Shanghai in a maximum bullish mode. But one thing that struck me driving past the impressive skyscrapers of Pudong was the muted neon. I had to ask my host whether they had turned all the lights on full, or if there was simply no one home. The Shanghai World financial Center is reportedly only 30% rented, while the nearby residential towers have even fewer signs of life or light in them. Beyond the rush to erect buildings and new infrastructure, is there a plan to sustain this growth?¹⁹

All the tables and figures shown in this chapter illustrate, in detail, how China has been massing a huge amount of holdings of United States assets, in the form of U.S. securities and U.S. Treasury securities over the last decade. Additionally, China has managed to accomplish this by using a conservative approach of investing in U.S. long-term securities vice its short-term securities. Much of “this accumulation is a result of U.S. borrowing (from China) to finance its large trade deficit with China (the gap between U.S. exports and Chinese imports).”²⁰ According to the CIA’s World Factbook, the United States exports only 5.6% to China, which ranks as the 3rd largest country the U.S. exports to, behind Canada with 20.1% and Mexico with 11.7%, and just above Japan

¹⁸ Ibid.

¹⁹ Craig Stephen, “Shanghai growth glitters but lacks weight,” *Wall Street Journal*, September 13, 2009.

²⁰ CRS Report, *China’s Holdings of U.S. Securities*, 9.

with 5.1%. The United States imports from China an incredible 16.9%, which ranks as the U.S. largest import partner with Canada as 2nd with 15.7%, Mexico 3rd with 10.1% and Japan 4th with 5.1%.²¹ Notice the export amounts for Canada, Mexico and Japan are very close in proximity to the import percentages that the United States imports from those same countries. China is the only country of the top four that has a drastically different import-export ratio where the United States receives 16.9% of its imports from China, but selling a mere 5.6%, to China, in return. These percentages highlight the large gap between the United States' exports to China compared to the imports, which contribute to the large trade deficit between the two countries. The current recession-like symptoms the United States is experiencing have caused many U.S. economists and politicians to worry that China (and many other foreign countries) will slow their investments in U.S. securities, which in turn would hurt, or slow, the U.S.' ability to fund its economic stimulus recovery plan and various other spending plans to promote growth. "Some Chinese government officials have called for replacing the dollar as the world's main foreign reserve currency."²² It would not be in China's economic interest to suddenly sell off its U.S. investment holdings. "Doing so could lead to financial losses for the Chinese government, and any shocks to the U.S. economy caused by this action could ultimately hurt China's economy as well."²³

Whether the United States and China like it or not, this quid pro quo economic relationship binds the two countries to form an unusual partnership where they both will continue to rely upon the other for some time to come:

²¹ CIA World Factbook, United States Economy.

²² CRS Report, *China's Holdings of U.S. Securities*, (inside-cover "Summary" page, not numbered).

²³ *Ibid.*, (inside-cover "Summary" page, not numbered).

The likelihood that China would suddenly reduce its holdings of U.S. securities is questionable because it is doubtful that doing so would be in China's economic interests for three reasons: 1.) A large sell-off of China's U.S. holdings would, in turn, decrease the value of China's remaining dollar-denominated assets. 2.) It would diminish U.S. demand for Chinese imports, adversely impacting China's economy, as China depends heavily on exports to the United States – nearly one quarter of Chinese exports went to the United States in 2008. 3.) Finally, any major action by the Chinese government that destabilized (or further destabilized) the U.S. economy (whether deliberate or not) could provoke protectionist sentiment in the United States against China.²⁴

There are strong arguments, on both sides, for and against China increasing its U.S. debt holdings in U.S. Treasury securities. The more China invests in U.S. debt holdings, the more successful the United States will be in funding its federal stimulus recovery plan and various other spending plans to revitalize the economy. “But others have expressed concern that becoming more reliant on Chinese purchases of U.S. debt would increase China's political leverage over the U.S. and make it more difficult for the U.S. to induce China to appreciate its currency more quickly and to make other needed reforms to its economy.”²⁵ Without China's investment in the U.S. debt, the United States would be forced to look elsewhere for the needed resources to fund its stimulus and recovery plans, thus supporting the thesis that maintaining good relations with China allows the United States to remain a superpower. Looking elsewhere would not be ideal because it is conceivable the United States would have to increase its interest rate to entice another country—thrusting the U.S. deeper in debt.

²⁴ Ibid, 11.

²⁵ Ibid, 12.

Chapter 4: DIPLOMATIC INSTRUMENT OF NATIONAL POWER

Ties between the U.S. and China will likely be by year's end the strongest since diplomatic relations between the two countries were reestablished three decades ago. I'm guessing that by the end of the year that the U.S. – China relationship is going to be sailing higher and will be more positive as a relationship than at any other time in the 30 years of our formal diplomatic relationship. That is my hunch.¹

Ambassador Jon Huntsman, U.S. Ambassador to China

If the United States is to maintain good relations with China to remain a superpower while also maintaining global dominance without war, then it must practice Sun Tzu's "Art of War" principles of winning its victories without engaging in battle. This will not be accomplished at the tactical and operational levels, but at the highest strategic levels under the diplomatic instrument of national power or, according to Professor Lyman Miller, the political component of superpower stature. The American Heritage dictionary defines diplomacy as "the skillful and tactful art or practice of conducting international relations, as in negotiating alliances, treaties, and agreements."² Diplomacy is often overlooked or overshadowed by more high-profile military and economic events that actually touch the lives of ordinary people. However, diplomacy is vitally important as these measures are often the initiatives made at the executive levels of government, and occasionally at lower levels, that set the stage for the remaining components of power. Alan Henrikson, of the Fletcher School of Law and Diplomacy, wrote in an article titled, "What Can Public Diplomacy Achieve?" that "diplomacy

¹ Jon Huntsman, "China, U.S. Ties 'Sailing Higher,'" *Bloomberg.com*, September 10, 2009, http://news.yahoo.com/s/bloomberg/200911/pl_bloomberg/a4uioxdof6gu_1, (accessed September 16, 2009).

² American Heritage Online Dictionary, *Keyword: Diplomacy*, (accessed September 7, 2009).

usually has been a support function or accessory service to major policy initiatives which have high political, economic, and even military components, but diplomacy is also the most important institution of our society of states.”³

Positive Cooperation:

China-U.S. relations got off to a good start and have maintained positive momentum since Obama took office. Presidents Hu Jintao and Obama have agreed to build a positive, cooperative and comprehensive relationship between the two countries in the 21st century. We have also established the mechanism of the China-U.S. Strategic and Economic Dialogues, and have witnessed strengthened cooperation in various sectors, including between our two parliaments.⁴

Wu Bangguo, Chairman, China’s National People’s Congress

The Obama Administration has advocated that they intend to seek “positive cooperation” with China to address the global economic crisis, among other issues. This approach has similar aims as the previous administration, who viewed China as a “responsible stakeholder,” but takes a less hard-line approach by placing a small amount of pressure on China to assist in solving world crisis:

Officials in the Obama Administration have highlighted the need for a positive, cooperative, and comprehensive relationship with China that can help the United States address an array of global challenges. Administration officials have not adopted the “responsible stakeholder” language that characterized recent U.S. China policy, but their overall approach appears compatible with that concept. Initial policy statements have focused on expanding U.S.-China cooperation, with particular emphasis on addressing the global economic crisis.⁵

³ Alan Henrikson, “What Can Public Diplomacy Achieve?” *The Fletcher School Tufts University*, <http://fletcher.tufts.edu/murrow/readings.html>, (accessed on October 1, 2009).

⁴ Wu Bangguo, Chairman of China’s People’s Congress, stated during a meeting with President Barack Obama at the White House on September 10, 2009, <http://www.china-embassy.org/eng/zt/t583650.htm>, (accessed on October 1, 2009).

China has proven itself to be a key player on the world stage. Their population alone is unmatched by any other country. Their recent economic success over the last decade and influence in the world economy, as shown in the previous chapter by their level of holdings in U.S. securities, also establishes them as a key player. The United States, in its efforts to support democracy throughout the world, has stretched itself very thin and has begun to show signs that “cooperation” from countries that have the required resources to assist is needed. Obviously, as a communist country, there is no expectation of China supporting and promoting democratic ideals throughout the world. However, cooperation can still be gained from China in many other areas to include stabilizing warring nations, climate change, disaster relief, just to name a few. The Obama Administration has made initial attempts to gain this cooperation from China.

Secretary of State Hillary Clinton, in her first major speech concerning China, just three weeks into the new administration, stressed the importance of cooperation with China to help solve global crises and challenges. Secretary Clinton highlighted the need for a positive, cooperative relationship with the People’s Republic of China (PRC) that could help the United States address an array of global challenges.⁶ Dismissing the view that a rising China must be an adversary, she argued that the United States and China can benefit from and contribute to each other’s successes and stressed the importance of working to build on areas of common concern and shared opportunities.⁷

⁵ Phillip C. Saunders, Strategic Forum, Institute for National Strategic Studies, National Defense University, No. 242, *Managing Strategic Competition with China*, 1.

⁶ Hillary Rodham Clinton, “*U.S.-Asia Relations: Indispensable to our Future*,” remarks at the Asia Society, New York City, February 13, 2009, www.state.gov/secretary/rm/2009a/02/117333.htm (accessed September 7, 2009).

⁷ Ibid.

These remarks by the current administration, only weeks after the election, show they were serious about “positive cooperation” with China and intended to steer away from the previous administration’s more hard-lined approach.

Political Status Of Taiwan:

Arguably the largest diplomatic difference between the United States and China is the controversy regarding the political status of Taiwan. The United States and the International Community view Taiwan as either an independent nation or an independent territory of the Republic of China (ROC). However, the People’s Republic of China (PRC) still regards Taiwan as one of its territories that should be governed by the PRC. This territorial dispute is very complicated because the ROC, which currently consists of Taiwan and a small group of other islands, controlled all of mainland China before losing the Chinese Civil War in the late 1940s. After losing the war, the government of the ROC relocated to the Taiwan capital where it is currently located. It has since lost its United Nations seat and was replaced at the United Nations by the PRC, who would presumably acknowledge control or representation of all of China by the PRC. However, the argument remains as to which territories make up all of China. While China is a Communist Socialist Republic, Taiwan, is a democracy, holding elections in the 1990s. Further complicating this political minefield: “with the election of the Kuomintang (KMT) back into executive power, the ROC government has changed its position back to the position (held before the Chinese Civil War) that ‘mainland China is also part of the territory of the ROC.’”⁸ Most independent nations and the International Community

⁸ Wikipedia, “People’s Republic of China,” http://en.wikipedia.org/wiki/People%27s_Republic_of_China, (accessed September 16, 2009).

who support Taiwan's independence also support the notion that mainland China is the legitimate government. They believe Taiwan is a territory of the ROC, not China. This argument is supported by the fact that Taiwan has never been under the control of the PRC. However, the International Community is unsure how to accept the ROC as a legitimate state since it not only lost its civil war, but no longer has a seat at the United Nations.

Competing Diplomatic Interests:

Peoples Republic of China (PRC) leaders remain committed to communist party rule and opposed to the emergence of multiparty democracy. The Chinese government continues to control the media, limit political speech, and suppress the emergency of any organized groups that might threaten its hold on power. Incremental political liberalization may occur over time, but U.S. policymakers must be prepared to deal with an authoritarian government in Beijing.⁹

Phillip Saunders, Institute for National Strategic Studies

Besides the external diplomatic controversies and differences between the United States and China, the U.S. also wrestles with its own internal diplomatic controversies that have a direct reflection on its external relationships. Although the United States President, Secretary of State, Deputy Secretary of State, and a host of others all support U.S.-China cooperation, it is obviously much easier said than done.

Consequently, many different actors (inside and outside the government) seek to influence U.S. policy toward China. The Department of the Treasury wants China to continue purchasing U.S. Government securities and to help address the global economic crisis. Some U.S. labor unions and businesses with Chinese competitors complain about the impact of PRC government subsidies and an undervalued Chinese currency on trade. The U.S. Trade Representative seeks expanded market access. The

⁹ Saunders, Strategic Forum, *Managing Strategic Competition with China*, 2.

Department of State seek to encourage Chinese cooperation on a range of political and security issues, while other offices issue reports that criticize Chinese human rights conditions and impose sanctions on Chinese companies for their proliferation behavior. Also, the Pentagon has responsibility for deterring potential aggressive Chinese actions and reassuring U.S. allies worried about a more capable Chinese military. At the same time, it conducts military-to-military exchanges with China and seeks to reduce mistrust, encourage security cooperation where interests overlap, and manage issues where the United States and China disagree.¹⁰

This mix of key players—U.S. Departments of State, Defense, Transportation, Treasury, both civil rights and human rights groups, and labor unions—all have a voice in U.S. government relations. Additionally, their varying and competing interests make forming a coherent, positive, productive and clear policy with China an extremely difficult challenge.

Still a Communist Dictatorship at the End of the Day:

...today we have a matter of extreme urgency to discuss. The People's Republic of China has within its borders nearly a billion people, or one-fifth of the world's population. This is a big burden for the people's government. Having children is not a question that we can afford to let each family decide for itself, it is a question that should be decided at the national level. China is a socialist country. This means that the interests of the individual must be subordinated to the interests of the state. Where there is conflict between the interests of the state and the interests of the individual, it must be resolved in favor of the state.¹¹

***Wang Zhen, Powerful military figure on China's Politburo
(and later the 4th Vice President of the People's Republic of China)***

Although China occasionally shows faint signs of appeasement and acquiescence, when pressured by civil rights groups, on their efforts to impose harsh controlling

¹⁰ Ibid.

¹¹ Steven W. Mosher, *A Mother's Ordeal: One Woman's fight Against China's One-child Policy*, New York: Harcourt Brace & Company, 1993, 212-213.

measures on its citizens, the United States must never lose sight that China is a communist nation under dictatorship rule. The preceding quote, that opens this chapter's subsection, by Vice President Wang Zhen, informs the people of China that a "1-child-law" would be initiated to curb China's population growth. VP Zhen explained this was in the best interest of the state and that individual rights were subordinate to states' rights. This quote is the perfect reminder that, at the end of the day, China is, after all, still a communist country.

Even though China is a major trading partner with the United States, anti-communist sentiment is still strong in the United States. As late as September 2009, President Barack Obama's appointed Special Advisor for Green Jobs ("Green Jobs Czar") Anthony Jones, an environmental advocate and civil rights activist and attorney, was forced to resign over communist innuendo. His resignation, as Green Jobs Czar, came after Republican congressional members and rightwing news commentators and journalists accused him of being a Communist.

Besides China's Communist rule, other areas of particular concern to the United States include China's censorship of political speech and human rights abuse. "Censorship of political speech and information is openly and routinely used to silence criticism of government and the ruling Chinese Communist Party. In particular, press control is notoriously tight: Reporters Without Borders considers the PRC one of the least free countries in the world for the press."¹² Allegations of human rights abuse, by China on its citizens, is often widely criticized by and reported by foreign governments, non-governmental organizations, and human rights groups alleging: "widespread civil rights

¹² Wikipedia, "People's Republic of China," http://en.wikipedia.org/wiki/People%27s_Republic_of_China, (accessed September 16, 2009).

violations including systematic use of lengthy detention without trial, forced confessions, torture, mistreatment of prisoners, and limited labor rights. China leads the world in capital punishment, accounting for roughly 90% of total executions in 2004.”¹³

Although the economic instrument of national power is the most important with regard to the United States and China’s relationship, diplomacy connects them all. The United States and China must not allow their diplomatic controversies and differences—to include Taiwan relations, human rights issues, and the others highlighted in this chapter—to hinder the forward diplomatic progress by the Obama Administration. The Administration has advocated that they intend to seek “positive cooperation” with China to address the global economic crisis, among other issues. Although it is not expected of China to support and promote democratic ideals throughout the world, improved diplomatic relations with China can gain their cooperation and assistance in solving the many global crises and challenges throughout the world.

¹³ Ibid.

Chapter 5: INFORMATION INSTRUMENT OF NATIONAL POWER

We place the stakes of winning a victory in the next century on digitization.¹

Togo West, Former U.S. Secretary of the Army

“The Department of Defense (DOD) views information itself as both a weapon and a target in warfare.”² “For military planners, the control of information is critical to military success, and communications networks and computers are of vital operational importance.”³ Information Operations (IO) is normally a center of gravity (COG) in most military missions because in today’s hi-tech world, good communication is essential to a successful operation. The Chinese readily admit that the United States has superior information capability. However, a Maoist mindset or a Sun Tsu theorist would say that one who possesses information superiority has the capability to “overcome the superior with the inferior.”

Space Capabilities:

Over the last decade, China has made a great deal of progress on development of its space capabilities, which for them translates directly to a more enhanced military capability. In China, their military has complete control of their space program, with no

¹ Major General Wang Pufeng, *The Challenge of Information Warfare*, edited by Michael Pillsburg, *Chinese Views of Future Warfare*, (NDU Press) eBooks, page 317, http://books.google.com/books?id=vVRRHKGJRDkC&pg=PA317&lpg=PA317&dq=togo+west+winning+in+the+next+century&source=bl&ots=fOgKNpLFF-&sig=ElcfB-r7WpWJI-zpqPR_uvAxOwM&hl=en&ei=5EISTM_eIYOglAev8uiLCA&sa=X&oi=book_result&ct=result&resnum=8&ved=0CCsQ6AEwBw#v=onepage&q=togo%20west%20winning%20in%20the%20next%20century&f=false, (accessed on September 17, 2009).

² CRS Report for Congress RL31787, 1.

³ *Ibid.*, i.

separate civilian space program as in the United States. “China’s space architecture contributes to its military’s command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) capability. This increased capability allows China to project its limited military power in the western and southern Pacific Ocean and to place U.S. forces at risk sooner in any conflict.”⁴

Cyber Capabilities:

China’s armed forces, the People’s Liberation Army, or PLA, traditionally have not had the capability to reach the United States with its current conventional assets. There is now talk of China possessing an upgraded intercontinental nuclear missile capable of striking Washington, D.C. This missile was displayed, in October 2009, during China’s largest military parade in a decade where they introduced new modernized military equipment in a show of strength to the Chinese people and to the world. However, the use of cyber assets, as weapons through computer network attacks, unlike their conventional military assets, have an unlimited range and allow China to attack the United States at will, as easy as pushing a keystroke on a computer.

China has been actively engaged in protracted cyber attacks on U.S. Government and private sector computer networks causing damage through the internet. Representative Jim Langevin, D-R.I., who chairs the Homeland Security panel’s Subcommittee on Cybersecurity said: “cyber attacks have caught Congress’s attention and our staff has examined a range of hacker networks, from criminal syndicates to nationally supported groups, and China has been a primary concern; the deepest

⁴ 2008 Report To Congress of the U.S.-China Economic and Security Review Commission, http://www.uscc.gov/annual_report/2008/annual_report_full_08.pdf, (accessed October 3, 2009), 9.

penetrations into U.S. systems have been traced back to sources within China.”⁵ The National Journal Magazine reports that

computer hackers in China, including those working on behalf of the Chinese government and military, have penetrated deeply into the information systems of U.S. companies and government agencies, stolen proprietary information from American executives in advance of their business meetings in China, and, in a few cases, gained access to electric power plants in the United States, possibly triggering two recent and widespread blackouts in Florida and the Northeast, according to U.S. government officials and computer-security experts.⁶

As the preceding quote by Tom Clancy, that starts this chapter’s subsection, states, “computers are the new superpower; those who control them control the world.” Maintaining good relations with China will not stop cyber attacks between the two countries. However, maintaining good relations will afford a better sharing of information than currently exists today, thus decreasing the need to violate one another’s information networks.

⁵ Shane Harris, “China’s Cyber-Militia,” *National Journal Magazine*, May 31, 2008, http://www.nationaljournal.com/njmagazine/cs_20080531_6948.php, (accessed on September 17, 2009).

⁶ Ibid.

Chapter 6: MILITARY INSTRUMENT OF NATIONAL POWER

We can be sure that there is an effort, by China, to keep America friendly and complacent. But there is also increasing realism in the Chinese reports about the continuing feasibility of this approach as China passes through different stages of modernization and development and starts to assume roles associated with great powers.¹

Jacqueline Newmyer, President, Long Term Strategy Group, LLC

The above quote reminds us that while the United States maintains good relations with China, in efforts to remain a superpower, the U.S. must also continue looking forward to keep the country safe. Economics and informational power are not the only areas for the United States to be concerned about with China. Besides rising from the number fifth ranked to the primary foreign country holder of United States securities and Treasury securities over the last eight years, exporting three times the amount of products to the United States than it imports from the U.S., and its informational advances, China has also made significant steps at growing its military. Prior to September 11, 2001, China was a major country on the United States' radar screen. The Christian Science Monitor reported, only five months prior to September 11, 2001, that "the Pentagon is reassessing the U.S. military's requirements for the next two decades in light of changes taking place in Asia and elsewhere."² However, after September 11, 2001, the United States' primary focus shifted towards "bringing those responsible for 9-11 to justice" and has since morphed or evolved into "rooting out terrorism." The United States has been

¹ Jacqueline Newmyer, President of Long Term Strategy Group, LLC, given during testimony before the U.S. China Commission hearing on April 30, 2009, <http://www.fpri.org/transcripts/testimony.20090430.newmyer.chinapropaganda.html>, (accessed on September 17, 2009).

² Selection from The Early Bird, Author Unknown, "U.S. Military Tries To Plan For Rise Of Asia," *Christian Science Monitor*, April 04, 2001.

consumed with accomplishing this mission through both military operations and political-diplomatic means, all in the Middle East to include Kuwait, Iraq, Iran, the Horn of Africa, Afghanistan, Pakistan, and several others throughout the Middle East for both combat and combat support operations. Since September 11, 2001, China has become a much stronger country. “Areas of particular U.S. concern in China’s military buildup include modernization of its nuclear arsenal and efforts to develop advanced space and counter-space, cyber warfare, and conventional force capabilities that may limit U.S. military access to the western Pacific.”³

United States Transformation:

The United States military, besides being consumed with military operations in support of the War on Terror, has also been fully engaged with transformation. This is essentially the process of transforming the military, both people and organizations, to be better prepared to fight on the new asymmetric battlefield. Deputy Defense Secretary Paul Wolfowitz, in June 2003, told a Naval War College graduating class “transformation means profound change...it means more than just leveraging technological advances and mechanical change...it requires a change in the way we think and the way we organize; it is properly described as a cultural change that will include jointness.”⁴ Secretary of Defense, Donald Rumsfeld, in his Transformation Planning Guidance of April 2003, states the following about transformation:

³ Strategic Forum, NDU, No. 242, *Managing Strategic Competition with China* by Saunders, 4.

⁴ Gerry Gilmore, “Transformation Means Profound Change’, Wolfowitz Tells NWC Grads,” *US Department of Defense News*, June 20, 2003, <http://www.defenselink.mil/news/newsarticle.aspx?id+28848>, (accessed on October 1, 2009).

September 11th taught us that the future holds many unknown dangers and that we fail to prepare for them at our own peril. Future threats may come from terrorists, but they also could be in the form of cyber-war, a traditional state-on-state conflict or something entirely different. As we prepare for the future, we must think differently and develop the kinds of forces and capabilities that can adapt quickly to new challenges and to unexpected circumstances. We must transform not only the capabilities at our disposal, but also the way we think, the way we train, the way we exercise and the way we fight. We must transform not only our armed forces, but also the Department that serves them by encouraging a culture of creativity and prudent risk-taking. We must promote an entrepreneurial approach to developing military capabilities, one that encourages people to be proactive, not reactive, and anticipates threats before they emerge.⁵

Prior to transformation, less than a decade ago, the United States military would not have been prepared for military conflict in China. Before transformation, the U.S. military was structured and equipped for war with the Soviet Union, during the “Cold War” years. During this time, the U.S. military was more “heavy” than “light” where the “American military bristled with 7,000 heavy Abrams tanks, 12 aircraft-carrier battle groups, and thousands of short range, high-performance fighter aircraft.”⁶ This type of force would not have been ideal to wage war in China, where the United States has few bases to project its heavy and short range forces and where the type of conflict would not be a major land war. An excerpt from the “Early Bird” in April 2001 reads:

Short range fighters aren’t very practical if one has no place to land them. And American air bases in Asia, unlike Europe, are few and far between. As a 1999 study headed by defense strategist Andrew Marshall concluded: ‘Planned tactical aircraft, such as the FA-18, F-22, and Joint Strike Fighter, are relatively short-range and would be of little use in most Asian scenarios considered.’ Meanwhile, the U.S. Army’s heavy tanks, which might have been a great advantage on the Northern European plain against

⁵ DOD Transformation Planning Guidance, April 2003, 1.

⁶ Selection from The Early Bird, “U.S. Military Tries To Plan For Rise Of Asia,” *Christian Science Monitor*.

the former USSR, would be out of place in Asia, where the U.S. is unlikely to be in a major land war. This is why some U.S. strategists – as well as President Bush – say it is time to rethink the role of the military before pouring billions into new weapons like the F-22 fighter, or aircraft carriers like the just-christened USS Ronald Reagan.⁷

China's Naval Expansion:

China's economic and political power is contingent upon access to and use of the sea, and that a strong navy is required to safeguard such access.⁸

Admiral Timothy Keating, Commander, U.S. Pacific Command

China's naval expansion is of considerable concern to the United States. Its actual vessels and naval assets are not the immediate concern; the immediate concern for the United States is the indirect and second order effects a more robust Chinese Navy as it relates to the security of the flow of oil to Asia and neighboring countries. The flow of oil from the Middle East to Asia currently travels by ship from the Persian Gulf through the Indian Ocean then through the South China Sea, then ultimately to its final destination country from the South China Sea. Currently, there are no countries in or near Asia, with strong enough naval forces, to protect this oil from pirates or any other dangers relating to the Middle Eastern unrest. Therefore, the United States currently provides the necessary protection to ensure this oil flows freely from the Persian Gulf to the South China Sea. Considering China is currently the second largest consumer of oil per day after the United States, it is only a matter of time (after its navy is strong enough

⁷ Selection from *The Early Bird*, Author Unknown, "U.S. Military Tries To Plan For Rise Of Asia," *Christian Science Monitor*, April 04, 2001.

⁸ Mike Mount, "Pentagon report: China's military expanding its capabilities," *CNN.com*, March 26, 2009, <http://www.cnn.com/2009/WORLD/asiapcf/03/25/china.military.report/>, (accessed on October 1, 2009).

and capable enough to do so) until China begins providing its own protection over this oil that is ultimately destined to it and its neighboring countries. Here lies the concern for the United States: once China's Navy is strong enough and capable to dominate the South China Sea, the United States will no longer have a foothold and will therefore lose influence over key countries in the region. Once this occurs, "the Chinese and Indian spheres of influence could not only nudge out U.S. military influence in the region, but could also isolate Japan, whose oil lifeline could fall under the sway of China."⁹ Besides Japan, other smaller nations in this region who receive oil from the Persian Gulf and with whom the U.S. does not want to lose influence include the Philippines, South Korea, Vietnam, as well as India who will soon become interested in the protection of their own assets as well. This lack of access to the South China Sea would pose a serious problem to the United States, because the U.S. requires military access to the region to maintain Asian-Pacific stability and to fulfill commitments to its various allies.

China's efforts to develop and acquire conventional force capabilities that could limit the U.S. ability to operate in the western Pacific represent a more traditional form of military competition. China's conventional attack submarines, Russian destroyers with advanced antiship cruise missiles, more robust air defense and air attack capabilities, and antiship ballistic missiles will pose significant operational challenges for U.S. air and naval forces operating near China. U.S. military planners are already following China's naval modernization efforts and development of anti-access capabilities closely.¹⁰

Fortunately for the United States, its alliance with Japan will assure a presence in the region. Additionally, if necessary, this alliance would provide the United States the ability to utilize bases in Japan as a power projection platform to project its forces from

⁹ Ibid.

¹⁰ Strategic Forum, NDU, No. 242, 6.

bases in Japan in the event there was ever a need to defend Japan against any type of threats from its enemies.

Additional Military Advancements in China:

China's advancement, in expanding its naval forces, is coupled by its advances in nuclear modernization, space, and cyber warfare as well. Phillip Saunders reports in National Defense University's Strategic Forum that "the United States ultimately may have no choice but to accept a degree of vulnerability to Chinese nuclear weapons...which has induced restraint from other nuclear powers while minimizing economic and political costs."¹¹ China has not sought to be a leader in nuclear modernization. They have simply chosen to invest in a second-strike capability which can potentially negate the most extensive first-rate nuclear capability of any rival country. Any country would think twice about launching its most elaborate and superior nuclear arsenal if the fear existed that a "second-strike" capability would be launched in return.

In October 2009, China conducted its largest military parade in a decade that showed off its military's newest capabilities including "upgraded intercontinental DF-31 nuclear missiles capable of striking Washington, advanced short-range DF-11 and DF-15 missiles, sea-skimming YJ-83 anti-ship missiles, and DH-10 long-range cruise missiles intended to strike targets in rival Taiwan and deter the U.S. Navy from coming to the island's defense."¹² This large show of force by China's military was intended, not only as a preview to its citizens, but also to deliver a memorable message to the United States and the U.S. allies, including Japan and Vietnam. This message for those who have on-

¹¹ Ibid, 5.

¹² Christopher Bodeen, "China Aims to Send Message With Military Parade," *Virginian-Pilot*, September 14, 2009, 5.

going disputes with China over its borders or waters was that China now has a military force capable of defending itself and its interests within China and abroad, to include its interests in Taiwan should any disputes arise. Since the end of the Chinese Civil War, the United States has supported Taiwan, as a self-governing island and part of the Republic of China (ROC),¹³ while China has continued to view Taiwan as part of the People's Republic of China (PRC). "The exercise was aimed at not only showing the Chinese people some of the symbols of China's new great power status but also showing foreigners that policies based on the presumption of Chinese weakness must be changed."¹⁴ It was also reported that "the advanced equipment is the fruit of a 20 year military buildup fueled by annual double-digit percentage increases in defense spending and buoyed by rapid economic growth that has enabled the government to spend lavishly."¹⁵

"The high absolute costs of a conflict to both sides will likely dwarf considerations about who would suffer more, making leaders in Washington and Beijing cautious and extremely reluctant to authorize the use of force in situations that escalate into a broader war."¹⁶ Given China's enormous land mass and huge military force, a confrontation would likely not be limited to one realm, but would likely involve air, land, and sea. These vulnerabilities highlight the complexities associated with any attempt to dominate China from a military viewpoint and support the current administration's push for increased cooperation with China.

¹³ The Republic of China (ROC) currently consists of Taiwan and a small group of other islands which controlled all of mainland China before losing the Chinese Civil War in the late 1940s.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Strategic Forum, NDU, No. 242, 7.

China needs economic access to the outside world in order to maintain rapid economic growth. Its future economic vibrancy and political stability depend enormously upon its ability to maintain positive relations with its key economic partners, not to intimidate, coerce, or threaten them. China has actively sought to reassure its neighbors and other major powers that it will behave responsibly even as its economic and military capabilities grow.¹⁷

This need for China to maintain positive relations with its key partners and the outside world (to maintain its success) must be leveraged by the United States to assist in garnering China's cooperation. With the U.S.' ongoing military commitments in Iraq, Afghanistan, Kuwait, Africa, as well as the many military operations other than war to include peacekeeping, humanitarian, disaster relief, infectious disease control, counter-piracy, energy security, and many others, China can be a significant help if cooperation vice conflict is sought. Therefore, the thesis of maintaining good relations with China to remain a superpower is better assured if China is utilizing its improved military might to assist the United States in combating these various military and humanitarian missions vice combating each other.

¹⁷ Ibid, 8.

Chapter 7: THE TWO FACES OF CHINA: ALLY OR ADVERSARY

Most analysts have characterized present Sino-American relations as complex and multi-faceted, with the United States and the People's Republic of China being neither allies nor enemies. Generally, the American government and military establishment do not regard the Chinese as an adversary, but as a competitor in some areas and a partner in others. At the same time, it is acknowledged that the nature of Sino-American relations will be a major factor in the world in the 21st century. The U.S. has the world's largest economy and China's is second largest; and the two countries are the two largest consumers of motor vehicles and oil.¹

Ambassador Clark Randt speaking at the University of Southern California on April 21, 2008

Arguably, the most critical element strategic planners have to wrestle with when crafting an effective China Policy, is discerning whether China's actions are made under the friendly umbrella of partnership and cooperation or under the guise of competition. If China intends to jockey for a higher standing and to obtain advantage economically, militarily, or in some other form of national power, it may then choose competition over cooperation. There are numerous examples where China cooperates with the United States in some areas but competes with the U.S. in other areas that send mixed messages to the military and civilian leadership of the U.S. as to whether they are friend or foe. "U.S. policymakers may not have fully considered the challenges posed by a China that behaves with restraint and cooperates in some areas while simultaneously developing military capabilities that might threaten U.S. interests."²

¹ Ying-Jia Huang, "USC US-China Institute," *Ambassador Clark Randt on "The Crucial Relationship,"* [http://china.usc.edu/\(X\(1\)A](http://china.usc.edu/(X(1)A), (accessed September 30, 2009).

² Strategic Forum, NDU, No. 242, 3.

Over a decade ago between 1994 and 1996, China seized a small piece of land in the South China Sea where they occasionally conducted military exercises which caused the world to fear that China might attack or overthrow its neighbor Taiwan. At the height of the tensions, China, possibly out of fear that the major world powers were ready to step in to assist Taiwan (by imposing sanctions or through the use of military force against China), slowed their apparent hostile actions and cooled the rhetoric in efforts to

...prevent the United States and other countries from pursuing containment. Chinese leaders sought to address regional concerns through a combination of military restraint, friendly bilateral diplomacy, active participation in multilateral and regional organizations, and commercial diplomacy that offered others the chance to benefit from China's rapid growth.³

However, at the same time that China practiced this military restraint, in a friendly cooperative way, it also, increased its military budget by double digits. It also made an even larger presence throughout Asia and Africa, acting very cooperative and amenable to international demands on the one hand and very challenging and competitive on the other hand. There are numerous examples of China acting as a friendly ally on one hand while simultaneously acting as an adversarial foe. A more recent example involves China's military parade conducted on October 1, 2009. As a friendly gesture, China invited outside reporters to witness its largest military parade in a decade, but at the same time, it was also leaked that the underlying intent of the parade was to show its increased military strength and new advanced weapons boasting the capability to reach the United States. It is no coincidence that this "yin and yang" concept, of representing the two opposite principles in nature, is deeply rooted in Chinese culture.

³ Strategic Forum, NDU, No. 242, 3.

Suggested U.S. Response to China's Mixed Signals:

It is in the United States' best interest to have China as a cooperative ally, assisting in solving world crisis, than a competing adversary with which the United States must compete not only economically, but militarily as well. There are three main aims or tenants the United States must adhere to, to ensure China remains more of an ally and less of an adversary:

- 1.) First, the United States must continue to push for and practice cooperation, with China, whenever possible.
- 2.) Second, the United States must continue to modernize and transform its military formations and equipment to remain relevant, both to protect its borders and citizens while assisting in world crisis and to serve as a strong deterrent to threatening nations.
- 3.) Finally, it is vitally important that the United States maintain strong ties with its allies to not only alleviate the U.S. from policing the world alone, but also to discourage threatening Chinese aggression towards the U.S., Taiwan, or towards any nation wanting to be free from communist influence. This form of combined international pressure follows the rule of thumb that "there is strength in numbers." If China (or any threatening nation) understands that harming the U.S. means they are in fact harming the U.S. along with all its allies, the U.S. would see less aggression. The collective and unified response would be from the entire International community showing that the U.S. alone is not being harmed but that the U.S. along with all its allies is in fact harmed.

“Concerns about negative international reactions may create some constraints on Chinese strategic modernization efforts. However, pressure on China has been effective when international norms are strongly established and China is isolated (as in the cases of nuclear nonproliferation and pressure on China to sign the Comprehensive Test Ban Treaty).”⁴ Obviously it will require more aims and tenants, than the three noted above, to continue leveraging China’s strengths, but they can set a framework for an initial China policy and as a means to keep China as an ally and not adversary. Keeping China as an ally vice adversary allows the United States to maintain good relations with China, thereby remaining a superpower.

⁴ Ibid, 4.

Chapter 8: CULTURAL SIGNIFICANCE

China's culture is different from ours, they do not suffer from the Judeo-Christian ethical dilemma as does the United States – if their Soldiers are told, by their leadership, to 'killem all' they will have no problem doing so.

Dr. Paul Melshen, Professor, JFSC, NDU

Culture plays a huge role in U.S.-China relations. Perspective or image on any given situation depends upon the environment in which one is raised and the values, beliefs, practices, and level of education parents and teachers may have instilled. The Merriam-Webster dictionary defines culture as “an integrated pattern of human knowledge, belief, and behavior that depends upon the capacity for thought and social learning; and the set of shared attitudes, values, goals, and practices that characterizes an institution or organization.”¹ Much of the fog and friction that exists between the United States and China is largely a result of the images, some of which may be true while others may be false, but all simply images perceived and acquired through one's cultural upbringing.

Within China, there is a love-hate relationship with the United States. On one hand, American consumerism and culture are seen as stylish. At the same time, there is resentment of American intervention into other nations' affairs, combined with a fear of American power. The Chinese are often perplexed at the stated motives of American foreign policy and tend to conclude that these goals (such as promoting freedom and democracy) are an insincere cover for darker motives, namely to make China weak and divided.²

¹ Merriam-Webster, *Culture*, <http://www.merriam-webster.com/dictionary/culture>, (accessed October 1, 2009).

² Wikipedia, *Sino-American Relations*, http://en.wikipedia.org/wiki/Sino-American_relations, (accessed September 10, 2009).

There is a degree of truth to some of these statements and enough generalities in some of the others to make the entire statement unsubstantiated. American consumerism and culture seen as stylish is quite verifiable. Many entertainment artists, whether it is singers, actors, fashion designers, or any number of professions where style is a key element, often say that you have not “made it big” until you have made it big in America. Resentment of American intervention into other nations’ affairs is also shared among many countries. The current wars in Iraq and Afghanistan are prime examples. Although the United States had good enough reason to satisfy the United Nations, there were countries, to include U.S. allied countries that did not, and still do not, support the war. American misperceptions of Chinese culture also add to and play in the overall fog, friction, and complexity of U.S.-China relations.

Americans tend to see China as a far off and distant land in need of missionary and human rights support and a people abused by their Communist Party of China. Americans do not generally accept the notion that many Chinese support the PRC government, because of its authoritarian nature, and are critical of the non-democratic government's ability to make decisions to benefit the Chinese people. Americans tend to believe that any authoritarian government is necessarily intolerable — a viewpoint not shared by most Chinese. As a result, Americans tend to be baffled by the suggestion that most Chinese people find American criticism of human rights ‘abuses’ to be hypocritical and meddling.³

Depending on the culture and environment in which you were raised and the values, beliefs, practices, and level of education that your parents and teachers may have instilled, these statements, again, like the statements and beliefs of the Americans by the Chinese made earlier, have a degree of truth as well as a degree of unsubstantiated generalizations, that add to the fog and friction of U.S.-China relations.

³ Ibid.

An In-Depth Country Comparison:

Even with our differences, the United States will remain committed to pursuing a positive relationship with China, one that we believe is essential to America's future peace, progress and prosperity. As the ancient Chinese saying says: "When you are in a common boat, you need to cross the river peacefully together."⁴

Hillary Clinton, Secretary of State

Table 6 shows a country comparison between The United States and China:

Table 6⁵: Country Comparison

	United States	China
Population	307,348,000	1,338,751,000
Area	3.8 million sq mi	3.7 million sq mi
Population Density	80 per sq mi	363 per sq mi
Largest City	New York City (8.3 M)	Shanghai (18.8 M)
Government	Federal, presidential Const., republic	Single-party state, Socialist republic
Main Religions	75% Christianity, 20% non-Religious, 2% Judaism, 1% Buddhism, 1% Islam	69% non-Religious, 7.5% Taoism, 4.5% Buddhism, 3% Christianity, 3% Islam
GDP	\$14.264 trillion (\$46,859 per capita)	\$4.401 trillion (\$3,315 per capita)
Foreign Exchange Reserves	\$75,654 million	\$2,132,000 million
Military Expenditures	\$651.2 billion (FY09)	\$70 billion

⁴ Author Unknown, "Hillary Clinton highlights Asia, China in speech," *Sina*, February 14, 2009, <http://english.sina.com/china/2009/0213/218421.html>, (accessed October 1, 2009).

⁵ Wikipedia, *Sino-American Relations*.

This table provides a comparison of the key traits of both the United States and China and illustrates how similar the two countries are in some areas while vastly different in others which may begin to shed light on the differing cultures. Notice that China's population, of 1.3 billion, is more than four times larger than the United States, of 307 million. It is very interesting to note that the size of the U.S. and China are almost identical at 3.8 and 3.7 million square miles, respectively. However, when population density is overlaid within this very similar square footage of land, we come up with a drastic difference of only 80 people per square mile in the United States but a very compacted 363 people per square mile in China. This significant difference may very well add to the differing cultures. Many Americans are accustomed to their space and privacy; however, Asians are more accustomed to small and confined spaces. It is also interesting to note that it is against the law to have more than one child in China. When the United States' largest city, New York City (with 8.3 million people), is mentioned, many Americans, especially those living outside the city, immediately think "large, crowded, and busy". But, China's largest city, Shanghai, with nearly 19 million, more than doubles the United States' largest city.

The fact that a majority of the United States is religious while a majority of China is non-religious also sheds light on the vast cultural differences. Dr. Paul Melshen, a professor at the Joint Forces Staff College (JFSC), National Defense University (NDU), stated to the Joint Advanced Warfighting School's (JAWS) students, during a lecture on September 11, 2009: "China's culture is different from ours, they do not suffer from the Judeo-Christian ethical dilemma as does the United States – if their Soldiers are told, by

their leadership, to ‘killem all’ they will have no problem doing so.”⁶ The term Judeo-Christian, used by Dr. Melshen, refers to a set of beliefs and values shared by both Judaism and Christianity. These beliefs and values are based on legal codes, as in abiding by or breaking the law, and also based on morality, as in doing what is morally and ethically right based on religious scriptures (i.e. the Ten Commandments and other forms of religious scriptures). Patricia Bonomi, Professor of History Emerita at New York University, refers to Judeo-Christian as

...the joint concept of liberty and equality based on Genesis, where all humans are said to be created equal, and Exodus, where the Israelites flee tyranny to freedom. These founding generations of Americans saw themselves as heirs to the Hebrew Bible, and its teachings on liberty, responsibility, hard work, ethics, justice, equality, a sense of closeness and an ethical mission to the world, which have become key components of the American character, what is called the American Creed.⁷

The data shown in Table 6, for religion, indicates that the United States claims only 20% of its population as non-religious, while China’s population claims to be 69% non-religious, is amazing. The United States’ overshadowing percentage of Christians, at 75%, speaks volumes of the basic belief system with in the U.S. The preceding quote establishes that Christianity is centered around a firm, moral, and ethical value-system, where the common accepted belief is that “all men (and women) are created equal.” The U.S. constitution, our basic laws, as well as the general Christian mindset fosters a sense of morality that encourages one to ‘be nice to your neighbor’ and ‘help those less fortunate,’ and for many, to practice some form of charity on a regular basis. However, the Chinese have no sizeable religion that stands out among their different religious

⁶ Paul Melshen, Professor, Joint Forces Staff College, National Defense University, during a lecture to the Joint Advanced Warfighting School’s Senior Service College students on September 11, 2009.

⁷ Patricia Bonomi, *Under the Cope of Heaven: Religion, Society, and Politics in Colonial America*, (Oxford University Press) eBooks.

denominations. This does not imply that China has no socialization that values life, etc., but it does specifically imply that Christianity is not one of them and this is important for the United States to understand. A better understanding in this area may have prevented recent tensions with China as a result of President Obama's visit with the Dali Lama on February 18, 2010. Their largest religious denominations, Taoism and Buddhism, register only 7.5% and 4.5% respectively.

It has been noted in this thesis that the United States has the largest economy in the world and China has the second largest economy in the world. However, while the GDP per capita within the United States, as shown in Table 6, is nearly \$47,000, which is middle-class, it is only approximately \$3,300 in China. Finally, it is interesting to note that the United States spends more than nine times on defense, at \$651 billion, than that of China at only \$70 billion per year. However, it is widely believed and reported, by the United States as well as many independent analysts that China underreports and conceals the real extent of its military spending. In the Annual Report to Congress for 2007, the Office of the Secretary of Defense reported that

China's published defense budget does not include large categories of expenditure, including expenses for strategic forces, foreign acquisitions, military related research and development, and China's paramilitary forces. The Defense Intelligence Agency (DIA) estimates China's total military related spending for 2007 could be as much as \$85 billion to \$125 billion. Accurately estimating Chinese military expenditures is a difficult process due to the lack of accounting transparency and China's failure to comply with international standards for reporting military expenditures and funding.⁸

⁸ Annual Report to Congress for 2007 from The Office of the Secretary of Defense, "*Military Power of the People's Republic of China*," 25.

What U.S. and China's Business Leaders Prefer to Learn:

Vadim Kotelnikov, founder of *Ten3 Business e-Coach*, a web-based company that teaches and coaches business practices to customers in over 100 countries, has built-in search and query options on his site to allow viewers to see what business leaders, throughout the world prefer to learn. Figure 2 and Figure 3 show what business leaders, in the United States and China prefer to learn, giving excellent insight into their respective cultural mindsets.

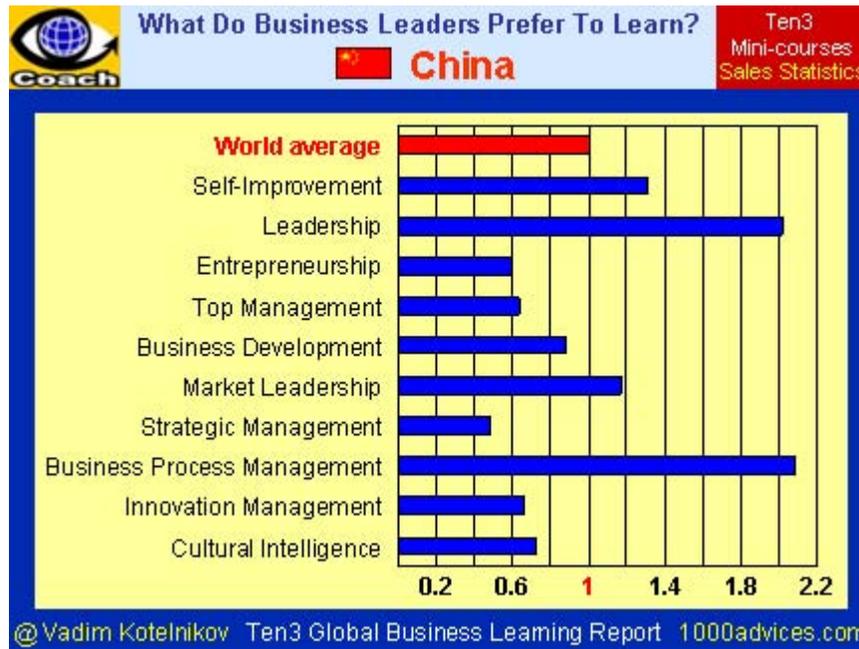
These two figures are very insightful and offer a great snapshot view of how the mind works and thinks for a business leader in the United States and a business leader in China, and tells what is important to each one. The two figures show ten different sub-

Figure 2: What U.S. Business Leaders Prefer to Learn⁹



⁹ Ten3 Business e-Coach website, www.1000ventures.com/business_guide/crosscuttings/ccd_ex_china-us.html, (accessed September 10, 2009).

Figure 3: What China's Business Leaders Prefer to Learn¹⁰



areas with each value given a level of importance that range from .2 to 2.1 in importance, with the “world average” balancing the scale at a rating of one. The figures show that business leaders in the United States surpass the world average in six of ten values (meaning they find six of ten classes, taught by Mr. Kotelnikov’s firm, more important than the world average), while China only finds four of ten values more important than the world average. It is interesting to note that of the four values that China’s business leaders find important, the U.S. business leaders find those same values important: Self-Improvement, Leadership, Market Leadership, and Business Process Management. However, the key differences are the two additional values that U.S. business leaders find important that China’s business leaders do not: entrepreneurship and Cultural Intelligence. The two charts clearly show that China’s culture places a high value on Business Process Management, Leadership, Market Leadership, and Self-Improvement,

¹⁰ Ibid.

and only a minimal focus in other areas. America's culture places a high value on Marketing, Entrepreneurship, Business Process Management, Self-Improvement, and Leadership close to equally. While the U.S. does place a higher value on Leadership and Business Process Management than the world average, it is important to note that China's value in these two areas almost doubles the level of importance the U.S. places on these two areas. The culture and mindset of a dictatorship does not permit much room for entrepreneurship as in a democracy such as the U.S.

Maintaining good relations with China will be much easier if the two countries understand and respect one another's cultural differences. There is a funny story, told by Winston Churchill, of an argument between American and British Military officers during planning for D-day over the phrase "table-it." When the British said they wanted to "table" a discussion, the Americans thought the British wanted to put it off until later, but for the British, "table-it" meant to discuss at that very moment. U.S. cultural differences with China will vary much more than with those of England. While simply a smile can be a polite gesture for an American, it can be offensive to a Chinese person depending on how and when the smile was made. Sensitivity to cultural differences can enhance the chances of success.

Chapter 9: PERSONALITIES AND WORLD OPINION MATTER

“The rise of anti-Americanism in recent years has given China a decided image advantage over the United States. Considerably more people around the world have an unfavorable view of America than think poorly of China.”¹

Andrew Kohut, President, Pew Research Center

If the United States or any country for that matter is to remain a superpower, while also maintaining global dominance in a Sun Tsu-like manner, without the use of force, public and world opinion will be critical. Public opinion adds to the moral dimension and a country like China desperately needs to be viewed positively from its trading partners to maintain its economic success. China would be affected a great deal by unfavorable views as a negative perception would directly and adversely affect their ability to maintain their level of trade export. Unfortunately, for the United States, since the Afghanistan occupation and Iraqi Invasion, an increasing number of countries around the world have begun developing negative views about the U.S. According to PEW research data and reports:

In 27 of the 46 nations plus the Palestinian Territories covered by the survey, the balance of opinion regarding China is decidedly favorable; in just five countries are views of China significantly more negative than positive. By comparison, the balance of opinion about the United States is favorable in 25 of the 47 countries; but views of America are decidedly negative in many more countries – half or more of the publics in 18 countries express disapproving views of the United States.²

However, although the United States has been slipping in popularity over the last seven years, China, over the last couple years, has also begun to lose favor with many countries

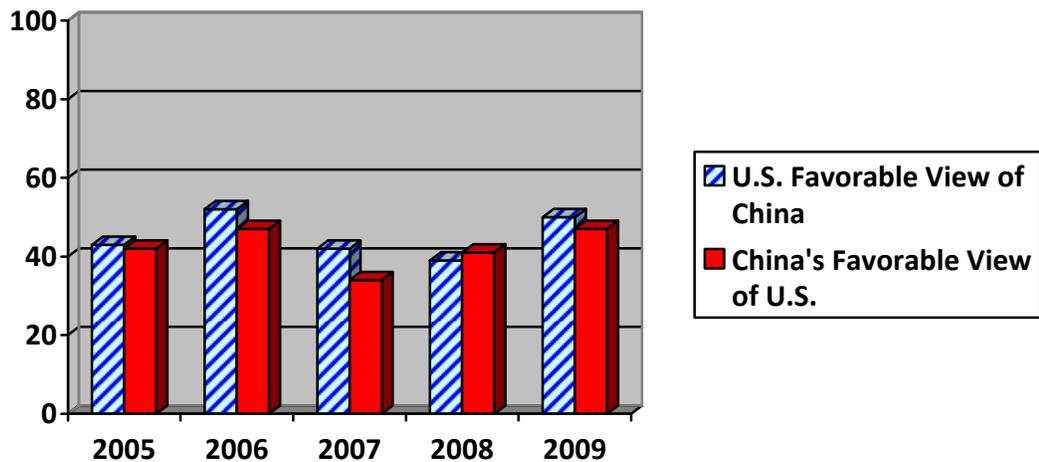
¹ Andrew Kohut, “How the World Sees China,” *Pew Research Center*, <http://pewresearch.org/pubs/656/how-the-world-sees-china>, (accessed September 21, 2009).

² Ibid.

because of its increased military and economic strength. “Moreover, even in countries where overall impressions of China remain positive, growing numbers worry about its heightened military power and, to a lesser extent, its mounting economic power. Concern about China’s military power is strongest in South Korea, Japan, India, and Russia.”³

Shown below, figures four and five respectively, show the favorable percentage that the United States and China have of each other and of themselves from the years 2005 through 2009. Figure four shows that both the United States and China have a very similar ‘favorable rating’ of one another for all years polled between 2005 through 2009 averaging a favorable rating slightly above 40% with the United States having a slightly higher favorable rating of China than China does of the U.S.

Figure 4: U.S. - China’s Favorable Opinion Rating of Each Other⁴



³ Ibid.

⁴ Ibid.

Figure 5: U.S. - China's Favorable Opinion Rating of Themselves⁵

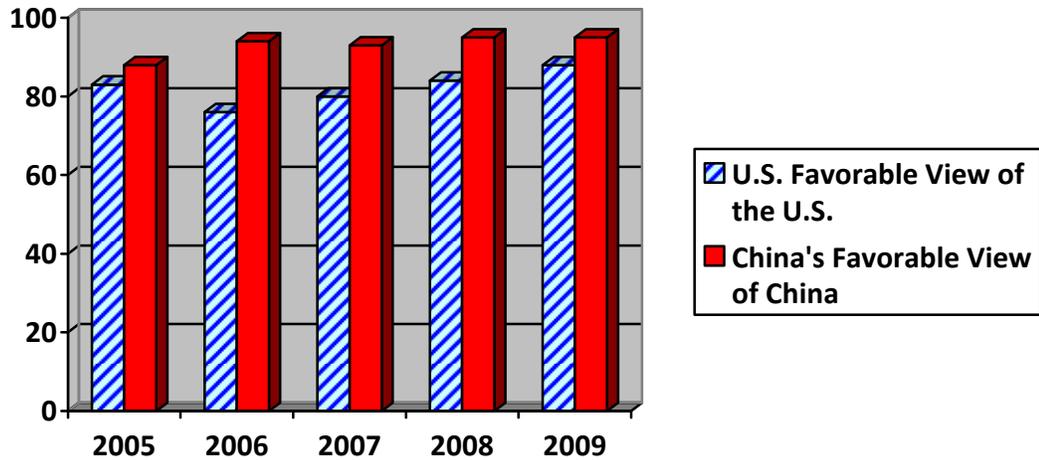


Figure 5 shows the United States and China's favorable rating of their own countries. Both have exceptionally high opinion ratings of their own countries with China averaging a favorable opinion of their own country in the high 90 percentile, while the Americans who were polled have an average favorable opinion rating of the U.S. in the low 90 percentile.

Shown below, Figures 6 and 7 show the favorable percentage rating that the United States and China have on their quality of life standards in two areas: satisfaction with their level of household income and satisfaction with their family life respectively. Figure 6 shows that the United States averages a satisfaction level of 70% with their household income while China averages a 60% satisfaction level of their household income. China has made progress with their satisfaction level over the past two years increasing from 46% in 2007 to 64% in 2009 but still much lower than the satisfaction level in the U.S. Figure 7 shows the United States' and China's favorable opinion rating

⁵ Ibid.

Figure 6: U.S. - China's Favorable Opinion Rating of their Household Income⁶

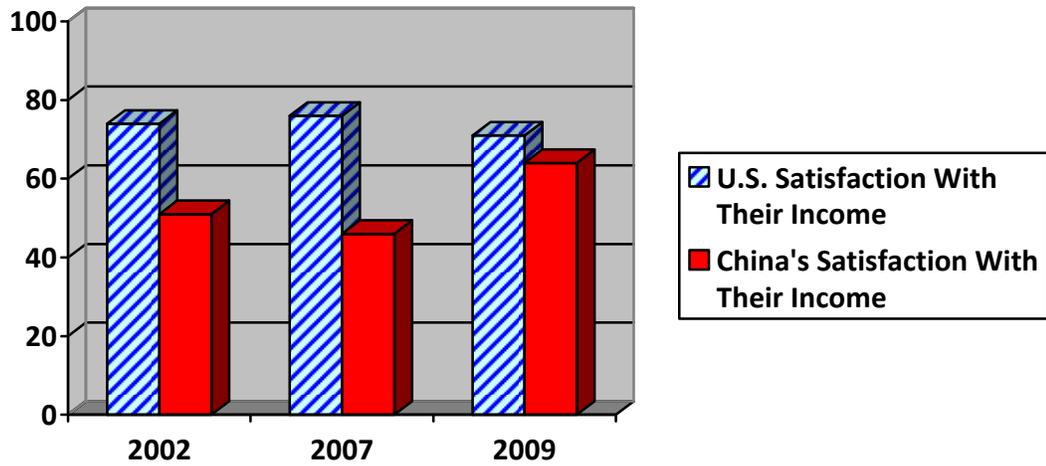
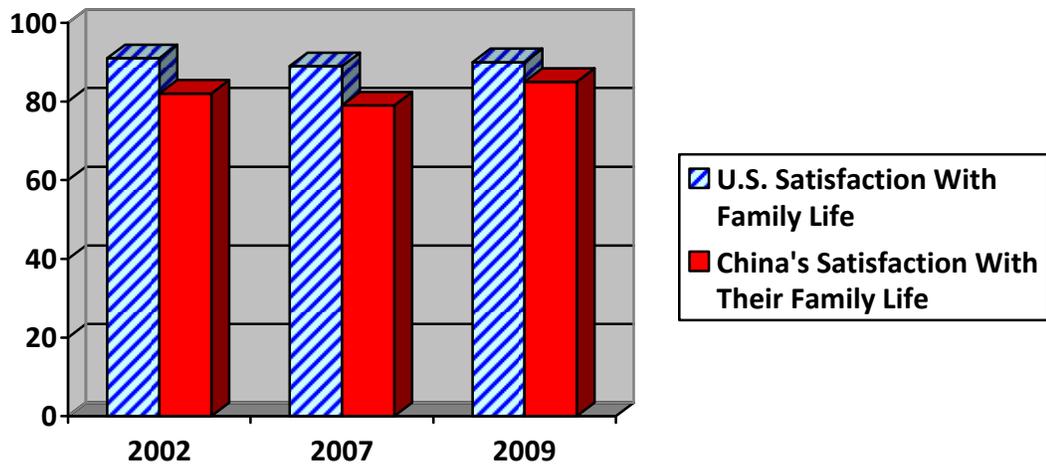


Figure 7: U.S. - China's Favorable Opinion Rating of their Family Life⁷



of their family life, with the United States averaging a satisfaction level of 90% and China averaging a satisfaction level in the low 80 percentile. Both are very high satisfaction levels of family life, which many Americans may find hard to believe

⁶ Ibid.

⁷ Ibid.

considering the numerous allegations of human rights abuse and the hard-line Chinese laws, especially the one-child law. When analyzing China's poll numbers, it may be necessary to keep in mind that this is a communist country, with a dictatorial government, where freedom of speech carries a different meaning than in the United States.

Chapter 10: CONCLUSION

I have learned many things in my 42 years of service in the national security arena. Two of the most important are an appreciation of limits and a sense of humility. The United States is the strongest and greatest nation on earth, but there are still limits on what it can do. The power and global reach of its military have been an indispensable contributor to world peace and must remain so. But not every outrage, every act of aggression, or every crisis can or should elicit a U.S. military response.¹

Secretary Robert Gates, U.S. Secretary of Defense

Although the United States would like to maintain dominance over China (and competing nations), the fact of the matter is that maintaining complete dominance over every country on every issue is not necessary to be a superpower. A more realistic goal and preferred strategy, at least for the near-term, may be to practice Sun Tzu's "Art of War" principles by winning the battle without fighting the war. A win-win for both sides is to support the Obama Administration's position of viewing China as a cooperative ally, assisting in solving world crisis, rather than as a competing adversary with whom the United States must compete, not only economically but militarily as well. The opening quote, by Secretary of Defense Gates, supports Sun Tzu's principles of winning the battle without fighting the war. Several phrases in this chapter's opening quote resemble the traits currently associated with China and current U.S.-China relations. They include: an appreciation of limits and a sense of humility; the U.S. as the strongest and greatest nation on earth and its indispensable contribution to world peace; and finally, not every outrage or crisis can or should elicit a military response.

¹ Robert Gates, "A Balanced Strategy: Reprogramming The Pentagon For A New Age," *Foreign Affairs*, Volume 88, Number 1, (January/February 2009), 28.

Economically, China has been massing a huge amount of holdings of United States assets over the last decade, in the form of U.S. securities such as Sallie Mae, Fannie Mae, and Freddie Mac. Much of this accumulation is a result of U.S. borrowing to finance its large trade deficit with China. According to the CIA's World Factbook, the United States exports only 5.5% to China. However, the United States imports from China an incredible 16.5%, of total goods and services, which ranks as the U.S.' largest import partner. This percentage highlights the large gap between the United States' exports to China compared to the imports from China which contribute to the large trade deficit the United States has with China. Whether the United States and China like it or not, this quid pro quo economic relationship binds the two countries to form an unusual partnership where they both will continue to rely upon the other for some time to come. The more China invests in U.S. debt holdings, the more successful the United States will be in funding its federal stimulus recovery plan and various other spending plans to revitalize the economy. Without China's investment in the U.S. debt, the United States would be forced to look elsewhere for the needed resources to fund its stimulus and recovery plans, thus supporting the thesis that maintaining good relations with China allows the United States to remain a superpower.

Politically and diplomatically, China has proven itself to be a key player on the world stage. The United States, in its efforts to support democracy throughout the world, has stretched itself very thin, and those countries fortunate enough to provide assistance should be encouraged to do so. China's cooperation in stabilizing warring nations, climate change, disaster relief, and other areas where the two countries agree will go a long way to assisting the United States remain a superpower or in solving these problems.

The United States military is currently involved in numerous conflicts, exercises, and commitments all over the globe. Ongoing conflicts include the Global War on Terror in Iraq and Afghanistan with supported operations in Kuwait, Africa, Pakistan, and several other lesser known Middle Eastern countries. Additionally, the U.S. is involved with many military operations other than war (MOOTW) exercises to include peacekeeping, humanitarian, disaster relief, infectious disease control, counter-piracy, energy security, and many others. China can be a significant help if cooperation vice conflict is sought. Therefore, the thesis of maintaining good relations with China to remain a superpower is better assured if China is utilizing its improved military might to assist the United States in combating these various military and humanitarian missions vice combating each other.

As a communist country, China may never fit the mold to become a full ally with the United States, assisting all NATO countries in spreading democracy around the world. However, the United States must accept the fact that China does possess vital resources and capabilities that would be extremely helpful in assisting to solve world crisis. While the United States continues to fight a War on Terror, with no end in sight, and while continuing to honor its commitments to allied nations around the world for various reasons to include domestic, humanitarian and military operations other than war, it is critical to gain (additional) support from countries able to assist. And China, with its vast economic resources, is a country able to assist, thus affording the United States a better opportunity to remain a superpower.

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