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# THE CHANGING LANDSCAPE OF U.S.-CHINA RELATIONS: WHAT'S NEXT?

UNITED STATES SENATE COMMITTEE ON FOREIGN RELATIONS, SUBCOMMITTEE ON EAST  
ASIA, THE PACIFIC, AND INTERNATIONAL CYBERSECURITY POLICY

ONE HUNDRED FOURTEENTH CONGRESS, FIRST SESSION

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**Statement of Chairman Cory Gardner (R-CO)**  
**Subcommittee on East Asia, the Pacific, and International Cybersecurity Policy**  
**of the**  
**U.S. Senate Committee on Foreign Relations**  
**on “The Changing Landscape of U.S.-China Relations: What’s Next?”**

Today’s hearing comes at an opportune time, with President of the Republic of China, Xi Jinping, having just concluded his state visit to the United States.

Prior to this visit, I sent a letter to President Obama with three of my colleagues on this Committee, urging the President to demonstrate leadership and deliver a strong message of U.S. concern to President Xi regarding the troubling trajectory of China’s foreign and domestic policies.

I urged the President to reiterate that China’s recent destabilizing actions in the East China Sea and South China Sea, their behavior in cyberspace, and their human rights abuses are actions fundamentally at odds with a country that wants to be considered a peacefully rising global power.

China has declared an illegitimate Air Defense Identification Zone in the East China Sea and has dramatically expanded its land reclamation activities in the South China Sea. According to the Pentagon, China has created about 3,000 acres of new land over the past 18 months and has “deployed artillery, built aircraft runways and buildings and positioned radars and other equipment.”

While on a visit to Beijing last month, I had an opportunity to engage a top official from the People’s Liberation Army on this issue and came out convinced that only tough resolve from the United States and our partners can impact Beijing’s actions and calculus.

China’s actions mean that we must urgently pursue enhanced security measures with our traditional and emerging allies in the Asia-Pacific region to ensure future peace and stability.

First and foremost, we must enhance the capabilities of like-minded partners in the region with regard to maritime security, starting with the effort recently announced by Secretary of Defense Ashton Carter called the ‘Southeast Asia Maritime Security Initiative’. And we should never miss an opportunity to reiterate our policy, as stated by Secretary Carter at the Shangri-La Dialogue in Singapore on May 30, 2015: “The United States will fly, sail, and operate wherever international law allows, as U.S. forces do all over the world. America, alongside its allies and partners in the regional architecture, will not be deterred from exercising these rights — the rights of all nations.”

China’s behavior in cyberspace has also emerged as a serious threat to U.S. national and economic security. Regrettably, well-documented state-sponsored or state-endorsed Chinese activities have not been met with an appropriate response from the United States. Although last year, the Administration announced criminal charges against 5 officials of the People’s Liberation Army, clearly that has not been enough to deter further bad behavior from Beijing.

I am deeply disappointed that despite the new Executive Orders issued on January 2 and April 1, 2015, this Administration has not penalized a single entity responsible for national security threats or commercial cyber-enabled activities directed against our nation and emanating from China.

On my trip to Beijing, I met with China's Cybersecurity Minister Lu Wei and had a frank conversation about these issues. We agreed that China and the U.S. must continue to talk about building international norms in cyberspace and we've seen very modest progress on this issue with the cyber agreement announced last Friday.

But given the grave threat China's activities represent to U.S. national and economic security interests, this Administration and future Administrations should never hesitate to use the punitive tools at their disposal, such as criminal charges and sanctions, to punish any and all Chinese-sponsored cybercrime.

We also urgently need U.S. leadership to reverse China's deplorable human rights record, which recently included illegal detention and harassment of more than a 100 lawyers in China.

The United States must have consistent and assertive diplomatic engagement with China to reinforce that all of these behaviors fall outside of accepted international norms.

We should also build a strong trilateral partnership between U.S., Japan, and South Korea, in the hopes that it will put the right kind of pressure on Beijing to play by established international rules.

I believe that a mature, productive, and peaceful relationship with Beijing is in the national security and economic interest of the United States. The United States can and should seek to engage China to solve complex regional and global challenges.

For instance, the United States must continue to engage China on the threat of the North Korea, since Beijing holds the key to the survival of that regime – and that is a message I reiterated to Foreign Minister Wang Yi in Beijing during our meeting last month.

However, the actions by China I mentioned today seriously jeopardize our bilateral relations and are not befitting of a peaceful rising global power that China claims to be. These actions require a strong U.S. response and leadership, consistent with international norms and in concert with our traditional and emerging allies in the Asia-Pacific.

Unfortunately, in my reading of the outcomes of this summit, the big issues I mentioned today seemed left largely unaddressed.

So what did this state visit achieve to change this sorry state of affairs in U.S.-China relations? Can Beijing turn from a path from confrontation to cooperation? What should the U.S. policy be to affect positive change in Beijing's behavior?

I look forward to our witnesses addressing these and other questions today.

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**Statement before the  
Senate Foreign Relations Subcommittee on  
East Asia, the Pacific, and International Cybersecurity Policy**

***“THE CHANGING LANDSCAPE OF U.S.-CHINA  
RELATIONS: WHAT NEXT?”***

A Statement by:

**Christopher K. Johnson**

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**September 29, 2015**

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Distinguished members of the Subcommittee, good afternoon, and thank you for this opportunity to come before you for this important hearing. I've been asked here today to provide my assessment of U.S-China ties in the wake of last week's summit between President Obama and Chinese President Xi Jinping and to give my view on where the relationship is likely headed going forward. In evaluating the summit's outcomes, I would like to focus my opening remarks on the degree to which they have helped narrow the gap between two narratives—one "official" and one "unofficial"—circulating in Washington in recent months with regard to bilateral ties. In the "official" view, there are substantial areas of discord and tension with Beijing, but there remains a belief that these disagreements are manageable and that, given the significant complexity of U.S.-China ties and the many cooperative dimensions of the interactions between the two countries, overall, the relationship is stable and being managed well. In the "unofficial" view, the strategic competition between the United States and China is the dominant theme and, left unchecked, that competition is driving Washington and Beijing toward a "tipping point" in the race for global hegemony. This view also holds that the disagreements are not under policy control within either the Chinese or the U.S. bureaucracies, suggesting that the potential for accidental conflict is high and growing steadily. Against that backdrop, let me turn to a quick analysis of the summit's achievements, as well a look at areas where little headway was made.

### **Evaluating the Obama-Xi Summit's Outcomes**

Given the serious tensions between our two countries over cybersecurity this year, it is safe to say that the most unexpected outcome of the summit was the agreement between the two sides on this contentious topic. Within the agreement, the most significant component is the declaration that neither government will "conduct or knowingly support" cyber-enabled economic espionage. As President Obama noted in his joint press conference with President Xi, the focus of the U.S. side must now be on ensuring China's actions comport with its words. In fact, we can and should expect that, the next time the U.S. side has releasable evidence of this type of activity emanating from China, the Administration will present such evidence to the Chinese, with the expectation that the responsible parties will be prosecuted to the full extent of Chinese law. If this does not occur, then we should expect the United States to levy the type of financial sanctions against the offending Chinese individual or entity that were hinted at before President Xi arrived for his visit.

President Xi's visit also witnessed some progress in the bilateral economic relationship. One key commitment was both sides' acknowledgement that they have a shared interest in promoting a stable global economy "supported by the multilateral economic institutions founded at the end of World War II that have benefited the people of both nations." This recognition is a helpful step toward addressing some of the concerns that China seeks either to undermine those institutions or to short circuit their effectiveness through the development of parallel institutions such as the Asian Infrastructure Investment Bank (AIIB). As with the cybersecurity agreement, however, it remains to be seen whether China's actions will match its words. Commitments from the U.S. side to implement the 2010 IMF quota and governance reforms "as soon as possible" and to endorse, with the appropriate caveats, the inclusion of the Chinese currency, the renminbi, in the IMF's SDR basket of reserve currencies presumably will serve as positive inducements to China to remain committed to working within these established global financial structures.

President Xi also made an effort, primarily through his interactions with senior U.S. business executives in several events in Seattle, to reassure the U.S. business community on issues of market access and the promotion of a level playing field in China. Here, there was less reason for optimism. Although Xi in his public and private remarks acknowledged the various concerns U.S. business has raised, he offered little in the way of concrete solutions. In fact, in several instances, Xi seemed to intimate that the ball was in the U.S. court in these areas, or that there simply was no role for U.S. opinion, such as in the case of several pending laws in the Chinese legislature that have sparked controversy among foreign business. The two leaders' commitment to continuing the negotiations toward a bilateral investment treaty is encouraging, as the high standards envisioned would address many of these problems, but there was no clear vision laid out by either side for how to expedite those discussions.

Moreover, aside from the agreement on cybersecurity, there was very little progress on the several security issues currently complicating U.S.-China ties. For example, President Xi showed almost no willingness to address U.S. concerns on maritime security, especially as it pertains to brewing tensions in the South China Sea. In fact, the absence of any reference to maritime security in the fact sheet released by the White House represents a glaring omission and suggests the two sides are fundamentally at loggerheads, with the United States calling for Chinese restraint with their island building and the militarization of reclaimed islands and the Chinese reiterating their sovereignty claims. Similarly, while there was agreement to continue bilateral human rights talks, the Chinese made no concessions on what might be called "non-traditional" human rights concerns, such as the worries over the provisions of China's draft law promising major—and potentially worrisome—changes to the way the Chinese government manages non-governmental organizations operating there.

So, taking what seems to be a very mixed picture into account, can we divine with any greater clarity whether the "official" or "unofficial" narrative on U.S.-China ties has more explanatory power? As with all complex analytic problems, the truth probably lies somewhere in between, as we see elements of both narratives operating in the context of the summit's negotiations and its results, and those same features are likely to be manifest in the relationship going forward. With that in mind, let me close my remarks by highlighting three trends in the relationship that do seem to point toward growing strategic divergence between the United States and China.

### **U.S. Reluctance to Acknowledge China's Great Power Ambitions is Exacerbating Tensions**

Many in the U.S. policy community choose to ascribe the Xi administration's seeming intransigence on sensitive bilateral issues to a developing sense of Chinese arrogance. However, the Chinese in fact are fundamentally looking for a basic U.S. recognition of Beijing's growing global stature and influence. They want the United States to formally recognize that the cadence and the mechanics of U.S.-China relations must change to reflect the shifting power dynamics in a rapidly changing global order. The U.S. policy establishment has yet to craft an approach that offers concrete measures for signaling U.S. recognition of Chinese thinking in this regard without judging it is compromising on U.S. strategic interests in the region, whether real or perceived.

This shortcoming results in several practical policy effects. The feckless attempt by the United States to block China's establishment of the AIIB offers a poignant example. Misguided concerns that the AIIB somehow represented a dagger pointed at the heart of the Bretton Woods system prompted a U.S. policy response that resulted in unnecessary awkwardness—and even tensions—with key U.S. allies such as Australia, the United Kingdom, and South Korea while emboldening a victorious China to view such institutions as desirable workarounds to the glacial pace of change in established institutions. Similarly, seeming U.S. discomfort with accepting China's growing power and prestige may lead to unfounded confidence in the inevitability of Chinese policy failure. Talk of China “scoring own goals” with its regional diplomacy, military posture, and economic statecraft seems accurate given that China's behavior has resulted in a counterproductive demand signal from its neighbors for greater U.S. security presence in the region. That said, a kneejerk assumption concerning the likelihood of Chinese failure is an excuse for intellectual and policy laziness in the U.S. diplomatic, economic, and security establishments, especially since the evidence to date in several of these areas points to mixed conclusions at best.

### **A More Capable Chinese Military Meets an Underfunded U.S. Defense Establishment**

In many ways, China's burgeoning ambitions are a reflection of the staggering success of its robust military modernization program over the last two decades. Beijing's desire for advanced military capabilities stems from its general assessment of the pillars of U.S. military power projection and the recognition that these capabilities amounted to an insurmountable obstacle for the People's Liberation Army (PLA). It is intuitively obvious that Chinese planners, with the assurance of sustained, targeted funding, have responded to these shortcomings by developing a suite of capabilities designed to counter each U.S. pillar: aircraft carriers; air superiority and long-range precision strike; regional bases and alliances; and space and information dominance.

At the same time, however, senior U.S. military officers presumably are concerned over the risk of degradation in U.S. combat effectiveness resulting from the sustained tight budgetary and fiscal environment imposed by sequestration. The impact on operations and maintenance accounts—to say nothing of the substantial drawdown in key investment accounts for future modernization of the force—makes responding to the challenge of China's rise more daunting. As such, a growing chorus of U.S. military voices appears to be advocating for pushing back on the PLA's expansion of its military operational activities while U.S. forces are still in a position to do so. Changes in Chinese defense strategy and priorities strongly suggest, however, that U.S. and Chinese forces will be coming into contact more often rather than not going forward. As such, the risk is rising that the potential for miscalculation is increasing faster than the two countries' national security establishments can keep those tensions under policy control.

### **A Balkanized U.S. Business Community is Less Supportive of Stable Bilateral Ties**

Finally, one of the immediate consequences of President Xi's apparent turn to the left on the state's role in the economy is the effective Balkanization of the foreign business community into something akin to “haves” and “have nots.” In this construct, the “haves” include firms that

produce products—especially high-technology items—that Chinese domestic firms are either completely incapable of producing on their own or can only do so with very poor quality. As to the “have nots,” these are firms where a domestic Chinese competitor is already close to producing products on par with those produced by the foreign firm, or where the foreign firm is directly competing with a Chinese counterpart in an industry where the government has clearly signaled its intent to favor an indigenous capability.

Regardless of which category various U.S. firms happen to fit into, the net result is a business community less capable of—and less willing to—come together in using its lobbying power to stress the maintenance of sustained healthy U.S.-China ties. In fact, it is likely that the business community will turn toward greater pressure on the relevant government agencies to push back on the more blatant manifestations of Chinese industrial policy. Given the fundamental role of the economic relationship historically in stabilizing U.S.-China ties in times of security or political tension, the deterioration of that influence provides the potential for a more conflictual relationship going forward.

In conclusion, the summit between President Obama and President Xi succeeded in highlighting the challenges in the U.S.-China relationship but offered little in terms of providing concrete policy solutions or strategies. Each of the three trends I’ve laid out pointing to increased strategic divergence between the United States and China is entirely manageable with the application of creative thinking and strong leadership on both sides. The alternative is to allow these and other negative trends in the relationship to conspire to effect a steady worsening of ties. Moreover, the risk of that happening is amplified by the fact that the Obama Administration will soon enter its final year in office, making a disposition toward maintaining the status quo its likely default setting. Given that the U.S.-China relationship arguably should be the chief strategic preoccupation of U.S. foreign policy thinkers in the 21st Century, allowing such policy malaise to enter the equation is something both of our nations—and arguably the world—can ill afford.

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# Assessing American Foreign Policy Toward China

Testimony Before the Senate Foreign Relations Committee  
Subcommittee on Near East, South Asia, Central Asia,  
and Counterterrorism  
Hearing on the Changing Landscape of U.S.-China Relations

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September 29, 2015

Chairman Corker, Ranking Member Cardin, Subcommittee Chairman Risch, Subcommittee Ranking Member Murphy, Sen. Gardner, and members of the committee, thank you for this opportunity to discuss U.S.-China relations.

We are witnessing a period of great change within China and in China's behavior abroad. Under President Xi Jinping's leadership, the Chinese Communist Party is launching a wave of policy reforms that aim to fundamentally restructure China's economy and move the nation away from the "hide your strength, bide your time" foreign policy strategy it has adhered to since the Deng Xiaoping era.<sup>1</sup> Beijing is demonstrating a new assertiveness across multiple policy fronts. That assertiveness creates new opportunities and new challenges for the United States.

The United States has pursued an engagement strategy toward China for almost four decades. Regardless of party affiliation, every U.S. president since Nixon has aimed to integrate China into the international system. That decision has been and continues to be one of the greatest American foreign policy successes of the post-World War II era. The U.S. engagement strategy toward China and alliance relationships in the Asia-Pacific region made it possible for Asia-Pacific nations to focus on economic development at home instead of strategic competition abroad.

Now, nearly 37 years after U.S.-China normalization, China is an upper-middle-income nation. China's economic growth is allowing it to expand its military capabilities and foreign policy ambitions. That is a natural expansion. Beijing is increasingly unwilling to sit on the sidelines and watch other nations shape international norms. Today, instead of

biding their time, Chinese leaders are experimenting with new ways to use their nation's growing strengths to shape the international environment in China's favor. On some issues, those efforts dovetail with U.S. interests, so China's new assertiveness is opening up new opportunities for cooperation. Where U.S.-China interests are not aligned, however, Chinese actions are reheating old frictions and creating new ones. Those frictions—most notably in the South China Sea—are triggering new debates in the United States about overall foreign policy strategy toward China. Some U.S. observers discount the new opportunities for cooperation and argue that because some challenges in the U.S.-China relationship appear difficult to navigate, the United States should scrap the entire engagement strategy and begin treating China as a strategic rival. Those arguments are misguided.

The fundamentals of the U.S.-China relationship are the same today as they were in the 1970s when the United States first reached out to turn this former rival into a strategic partner. Chinese leaders still prioritize domestic economic growth and stability above all other policy goals; they still view the U.S.-China bilateral as China's most important foreign policy relationship and want that relationship to be peaceful and cooperative. The Chinese military still focuses first and foremost on defending the Chinese Communist Party's right to govern the Chinese mainland and its territories. These fundamentals have not changed. What has changed in recent years is China's capabilities and the tools Beijing is using to further its domestic and foreign policy interests. Those changes call for some tactical adjustments on the U.S. side. Those changes do not warrant an abandonment of the engagement strategy that has brought, and can continue to bring, decades of enduring peace and economic growth for all Asia-Pacific nations, including the United States.

My testimony will cover four main points:

1. Economic and political challenges within China are still Beijing's top priority, and those challenges trigger a new assertiveness from Beijing.
2. China's new assertiveness is constructive in some areas of U.S.-China relations and problematic in others.
3. The current U.S. engagement strategy excels at expanding cooperation in constructive areas and is achieving incremental progress in problematic areas.
4. The United States should maintain this engagement strategy but expand its tactical toolkit for addressing problematic Chinese behavior.

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## Beijing's perspective

The Chinese economy has reached an inflection point. It is not yet clear whether the Chinese Communist Party can successfully traverse these changing circumstances and maintain its hold on power. The growth model that pulled more than 400 million Chinese citizens out of poverty over the past three decades is running out of steam. Chinese wages are rising and eliminating China's prior price advantages in global export markets. Fixed infrastructure investments are producing diminishing returns. Chinese citizens no longer accept the pollution costs associated with heavy industry, and even if they did, the global market cannot continue to absorb more Chinese steel and cement at double-digit annual growth rates. In order to keep the economy growing and maintain ruling legitimacy, Chinese leaders must downshift from the old growth model and foster new industries based on technological innovation, domestic consumption, and services.

This will be a difficult transition to execute. Chinese leaders must eliminate benefits flowing to state-owned enterprises and other vested interest groups that have supported the party for decades. Growth will slow, and businesses will close their doors. In theory, new businesses and new political supporters will emerge to take their place. However, it is uncertain how long it will take for growth to pick up and create new pillars of support—for example, business and local government leaders that thrive under the new model—for the Chinese Communist Party. As China undergoes this transition there is a risk that disenfranchised groups will challenge the ruling regime and push for political change. To guard against those risks, Chinese leaders are strengthening defenses against forces that have triggered political change in other nations—namely, domestic and foreign nongovernmental organizations, journalists, and networked communication.

Chinese leaders are behaving more assertively at home because they view a more forward-leaning policy stance as the only way to successfully traverse difficult waters. Policy stasis would likely lead to a massive political crisis. The only way forward is massive change, and that depends on the leadership's ability to overcome powerful vested interest groups—some within the party itself—that either oppose economic rebalancing or believe it should proceed at a more gradual pace. From a U.S. perspective, Chinese leaders should pursue and achieve aggressive market economic reform, and in that respect, Beijing's new assertiveness can be a positive development not only for China but also for the United States.

Chinese leaders are also demonstrating a new assertiveness on foreign policy issues.<sup>2</sup> That is partly because they recognize that their upper-middle-income status and overall economic strength bring new capabilities; it is also because Beijing wants to use foreign policy to shore up political support at home and support the nation's economic transition. For example, Beijing's new Belt and Road initiative is primarily an economic growth strategy.<sup>3</sup> Chinese leaders hope to improve regional economic integration and create new markets for Chinese products, thus giving the Chinese economy new legs

to stand on as it move through the transition phase. On regional maritime issues, many Chinese scholars argue that their nation has too long bided its time and watched other nations make territorial gains at China's expense. They believe that since China now has the capabilities to push back and assert its territorial claims, Beijing has a responsibility to do so.

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## The U.S. challenge: Dealing with a more assertive China

China's new assertiveness creates new opportunities and new challenges for the United States. On the positive side, China is showing an increasing willingness to play a leadership role among nations outside the highly industrialized democratic block. China played a key role in the Iran nuclear negotiations, helping the process through shaky moments, and Chinese nuclear experts helped Iranian officials redesign the Arak plutonium reactor so that it will never produce nuclear fuel.<sup>4</sup> On climate change, China's willingness to issue bold climate targets with the United States last November challenged other developing nations to follow suit and knocked down a firewall that has hindered global climate negotiations for decades.<sup>5</sup> China also appears to be leaning harder on North Korea.<sup>6</sup> China supported the U.N. Security Council effort to sanction North Korea in response to that nation's February 2013 nuclear test. Earlier this month, after North Korean officials announced plans to launch another long-range rocket, China's foreign minister warned against "taking new actions that could lead to tensions" on the Korean peninsula and called for all nations to take a "responsible attitude."<sup>7</sup> On all of these issues, Beijing's ability to speak to a different audience and from a different angle than the United States has made China a valuable diplomatic partner.

On the commercial front, Chinese companies are venturing outward, which creates new partnership opportunities, most notably in China-to-U.S. direct investment.<sup>8</sup> For many Americans, China-to-U.S. foreign direct investment, or FDI, projects provide their first opportunity to directly engage in and benefit from the U.S.-China economic partnership. A recent survey conducted by the Rhodium Group reveals that 340 of the 435 American congressional districts have at least one China FDI project.<sup>9</sup> Many of those projects are providing jobs for American workers: More than 80,000 Americans are now directly employed through a Chinese investment project in the United States.<sup>10</sup> Economic competitiveness has always been an issue in the relationship, including U.S. concern that American jobs will migrate to China. Now the reverse is happening: Chinese companies are finally creating jobs in this nation—a trend that leaders in both countries should support.

On the other side of the Pacific, if Chinese leaders successfully rebalance their economy, it should, in theory, create new overseas commercial opportunities for American businesses. China is already the United States' fastest growing export market: U.S. exports to China have grown nearly 300 percent over the past decade.<sup>11</sup> Beijing's new reform

program aims to boost consumer buying power and expand the nation's dependence on high-tech products, two trends that should boost Chinese consumption of U.S. goods and services.

Unfortunately, Chinese leaders are also moving forward with initiatives that undermine U.S. interests via tactics that evade current international governance mechanisms and U.S. attempts to counteract and deter these actions. Problematic areas include:

- **Cybersecurity:** Recent cyberspace intrusions at health insurer Anthem and the U.S. Office of Personnel Management are reported to be Chinese intelligence-gathering operations.<sup>12</sup> Those two incidents affected an estimated 100 million Americans, and they follow a string of commercial cyberthefts targeting American businesses. It is difficult to quantify with precision the costs to the United States from a steady drain of U.S. commercial secrets and other private information—including federal government information—but those costs are likely to be significant, both in terms of U.S. economic competitiveness and U.S. national security. In the absence of an international cybergovernance mechanism or common cyberspace norms, it is difficult for U.S. leaders to craft an effective response. That problem is particularly acute with commercial cyberespionage because many American businesses prefer to keep cyberthefts private to avoid undermining investor confidence.
- **Commercial concerns:** Trade complaints have plagued the U.S.-China economic relationship for decades. U.S. companies have confronted intellectual property theft, export subsidies that appear to violate World Trade Organization regulations, and overt market access barriers in China. More recently, Chinese regulators are applying anti-monopoly legislation in a biased manner against American firms to force those firms to surrender market share to Chinese competitors and license or sell their intellectual property at sub-market rates.<sup>13</sup> The underlying legitimacy of the anti-monopoly rules that Beijing is manipulating for protectionist purposes makes it very difficult to counter these actions.
- **Infrastructure construction in the South China Sea:** China is building new outposts on disputed reefs and rocks in the South China Sea to strengthen its hand in ongoing maritime territorial disputes.<sup>14</sup> This activity raises new questions about China's intentions toward its neighbors and willingness to abide by both the letter and spirit of international law. Of particular concern for the United States, the Chinese military has ordered U.S. and Philippine aircraft to stay away from some of these new outposts. Those actions indicate that China may be aiming to block foreign military navigation in the seas surrounding these new infrastructure projects, a move that would violate the U.N. Convention on the Law of the Sea.

- **National security regulations:** China’s ongoing internal political tightening is directly affecting American businesses and other interest groups with a presence in mainland China. Chinese regulators are drafting a new banking security law that would force banks to utilize more Chinese technology products and force U.S. technology vendors to share sensitive source code with Chinese regulators.<sup>15</sup> In the academic realm, Chinese legislators are drafting a new law that if implemented in current draft form, would impose new administrative restrictions on American universities and think tanks that send scholars to conduct policy research in China.

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## Multitrack engagement strategy

Under the Obama administration, the United States is conducting the U.S.-China relationship along multiple parallel tracks. The administration formulates China policy on an issue-by-issue basis. Where interests converge, the administration seeks to expand concrete cooperation. Where interests diverge and China pursues actions that impose direct or indirect costs on the United States, the administration seeks to counter and deter those actions. This multitrack approach enables the United States to push back against problematic actions as needed without curtailing overall U.S.-China cooperation. This is a *realpolitik*, eyes-wide-open approach to engagement. Engagement need not be predicated on the assumption that China will not seek to undermine U.S. interests in some areas. The United States can work constructively with China while accepting that we have different principles, that we are not perfectly aligned. We can work along multiple tracks at the same time: expanding cooperation in one area while confronting differences and exchanging threats in another. That dynamic was on display through the most recent U.S.-China presidential summit, which aimed to achieve three distinct goals.

First, where interests converge, aim to work constructively on concrete initiatives that provide tangible benefits for both nations and lay groundwork for even bigger and more beneficial cooperation in the future. Successes from the recent summit include:

- Securing a \$3.1 billion climate finance commitment from China that exceeds what the United States has pledged thus far via the Green Climate Fund, or GCF.<sup>16</sup> In addition, prior to the official presidential meeting, U.S. and Chinese climate negotiators convened a climate leadership summit during which 11 Chinese city- and provincial-level governments formed an Alliance of Peaking Pioneer Cities, or APPC, under which all are committing to peak carbon emissions earlier than the nationwide 2030 target announced last November.<sup>17</sup> Since China issued its commitment to peak in 2030 and to make its “best efforts” to peak earlier, new economic data have opened the possibility that China could peak well before the current deadline and possibility as early as 2025. All of the APPC cities believe that with the right policy mix, they can beat the

2030 target and serve as models for the rest of the nation. Early-peak targets vary by location based on individual capabilities. Beijing, Guangzhou, and Zhenjiang have committed to peak around 2020, 10 years ahead of China's official national target.

- Working collaboratively with China to expand the international reconstruction effort in Afghanistan. Afghanistan's peace and stability are critical to both U.S. and Chinese national security objectives. The United States and China co-chaired a high-level U.N. General Assembly meeting on Afghan reconstruction during which Chinese Foreign Minister Wang Yi called on other nations to join the United States and China in supporting Afghan peace, development, and integration into the global community.<sup>18</sup> The United States and China are already partnering on capacity-building programs in Afghanistan, and China has committed to provide \$150 million in development assistance. Such collaborative efforts are bringing China forward on the diplomatic and development stage at a time when U.S. funding is diverted to other pressing crises. Furthermore, such collaboration should become the foundation for greater Chinese development assistance to Afghanistan's long-term development.

Second, where interests diverge, take actions that decrease the risk of inadvertent conflict with China and increase the costs China pays for problematic behavior. Successes from the recent summit include:

- Establishing new annexes on air-to-air safety and crisis communication under the military-to-military confidence-building measure, or CBM, framework launched in November 2014.<sup>19</sup> The 2001 collision of a U.S. EP-3 and a Chinese J-8 aircraft and recent incidents between U.S. and Chinese aircraft underscore the need to establish better operational standards and best practices for military aircraft and military vessels operating in close proximity in the Asia-Pacific region.
- Launching a new high-level dialogue on cybercrime and securing what appears to be a new presidential-level commitment on commercial cyberespionage. The new high-level dialogue will hold its first meeting before the end of 2015 and, if the mechanism works as intended, will give U.S. officials new tools for investigating and prosecuting cyberattacks and intrusions attributed to Chinese actors. In addition, according to the U.S. fact sheet on the recent summit meetings, the two presidents agreed that neither the United States nor China "will conduct or knowingly support cyber-enabled theft of intellectual property, including trade secrets or other confidential business information, with the intent of providing competitive advantages to companies or commercial sectors."<sup>20</sup> This agreement is not likely to completely eliminate those activities on the Chinese side, but if the White House did secure a personal commitment from President Xi on this issue, that will increase the reputational damage Chinese leaders will face if their nation continues to engage in commercial cybertheft and those activities are reported by the United States. Within China, a presidential-level commitment of this nature would likely add new administrative restrictions on these activi-

ties. Chinese leaders will have an incentive to improve their awareness of and control over what is happening at the operational level. They may apply new restrictions and require higher-level approvals for cyberspace intrusions targeting U.S. commercial entities. If so, those controls may reduce the scope of this activity and therefore reduce the associated harm to U.S. commercial interests.

Third, when Chinese behavior poses a direct and serious threat to American interests, take actions, as necessary, to signal that the United States will not withhold punitive action in one issue area to pursue promising opportunities in another. When pursuing U.S.-China relations among multiple tracks, there is a risk that China will assume that if there are good cooperative opportunities on the table, the United States will not risk losing those opportunities by taking punitive action on more-controversial issues. Clear U.S.-China communication is necessary to avoid this dangerous misperception, which could lead Beijing to underestimate the probability the United States will take punitive actions in response to provocative behavior. In the run-up to the most recent summit, the Obama administration utilized public and private channels to signal that the United States was seriously considering levying cybersanctions against China and that the White House was willing to issue those sanctions right before the September presidential summit regardless of the impact that would have on President Xi's state visit. Beijing took those threats seriously and dispatched a high-level delegation to Washington to discuss cyber issues two weeks before the official presidential visit.<sup>21</sup> This presummit communication likely played a role in the new U.S.-China cybercrime mechanism and new commercial espionage commitment mentioned above.

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## Expanding the tactical toolkit

The current U.S. engagement strategy is achieving breakthrough cooperation on issues of common interest ranging from climate change to development cooperation. Where interests diverge, however, progress is more incremental. Going forward, the United States should maintain current momentum on the cooperative side and simultaneously seek to expand its toolkit for addressing problematic areas of U.S.-China relations. If progress on difficult issues does not become more concrete, those problems are likely to fester and undermine positive cooperation. For example, if China does not take steps to substantially reduce the scope and frequency of its commercial cyberespionage activities, those activities will likely reduce U.S. willingness to engage in joint technology development projects that benefit both nations but also give Chinese companies more knowledge about and access to U.S. technology development projects.

U.S. experience with prior difficult issues in U.S.-China relations suggests that three approaches can be particularly effective at deterring problematic behavior.

## 1. Using smart statecraft and institution-building to expand common interests and turn a difficult area of the relationship into a new pillar of cooperation

The climate arena provides an excellent model to follow. Climate change started out as an area of U.S.-China contention rather than cooperation. When U.S. and Chinese leaders met to discuss climate change during the first round of the Kyoto Protocol negotiations in the mid-1990s, the United States was on one side of a global divide, China was on the other side, and the two nations struggled to figure out how to work in concert. That dynamic persisted through the Copenhagen climate negotiations in 2009. However, since then, U.S. and Chinese leaders have worked proactively to change that dynamic. Leaders on both sides made a critical observation: Although the two nations were always on opposite sides of a developed versus developing country divide in multilateral negotiations, the United States and China had many common interests on energy and climate issues at the bilateral level. U.S. and Chinese leaders decided to nurture and expand those common interests by identifying a set of common goals in this space and launching a new framework of bilateral mechanisms designed to rally U.S. and Chinese officials, businesses, and nongovernmental experts to work together to achieve those goals. That effort has been enormously successful. Over the past few years, bilateral energy and climate projects have helped both nations expand clean energy deployment and reduce climate pollution. Progress at the bilateral level has also made it possible for the two nations to redefine their roles in multilateral negotiations and work together to shape a new global climate regime. The increasingly positive U.S.-China energy and climate dynamic reflects a natural interest alignment between the two nations. However, careful diplomacy was required to identify those commonalities and lay the groundwork for joint action. The United States should apply this model in other areas of the U.S.-China relationship.

## 2. Working multilaterally with other nations and, where available, through international institutions to address issues that affect not only the United States but also a broader array of international interest groups.

The United States should not rely on the bilateral U.S.-China relationship to solve problems that are multilateral in nature. Where Chinese behavior is a common concern for multiple nations, the best way to address that behavior is to make the issue a broader multilateral discussion. In the past, it has been much easier to change Chinese behavior on issues relating to international norms rather than a U.S.-specific complaints. When the United States is the only party challenging a particular action, Chinese officials often suspect that the United States is doing so as a tactic to block or contain China's rise. That can lead China to harden its positioning rather than accommodate American interests. When the United States works in concert with other nations, the dynamic changes, and Beijing can view the issue as a wide-ranging problem rather than a U.S. containment strategy. For example, on the commercial front, engaging partners in Europe and

the United Kingdom played a critical role in convincing China to table a controversial cyberbanking law earlier this year. To be clear, this is not about the United States furthering its own interests through third parties; rather, this is about recognizing that when an issue affects multiple parties, it is generally not helpful to frame that issue as a U.S.-China problem.

In the maritime domain, ratifying the U.N. Convention on the Law of the Sea would better enable the United States to work with other countries to push back against China's unlawful actions in the South China Sea.<sup>22</sup> Until the United States does so, we stand outside the international system and have a limited capacity to leverage international law to counter Chinese actions.

### 3. Shoring up defenses and strengthening capacity at home to reduce U.S. vulnerabilities to and costs from problematic Chinese actions

Cybersecurity is now a high-priority issue in U.S.-China relations. It is important to do what is possible to reduce the frequency and scope of Chinese intrusions, and the U.S.-China relationship appears to be making progress in that direction. However, if hackers are breaking into U.S. networks on a regular basis, then better security is necessary. Improving security should be a top priority for federal government systems, as well as for the private sector. Americans should not be receiving multiple notices every year telling them that their information has been stolen. This is a problem. It is a U.S. problem and a global problem. This is not just a sticky issue in the U.S.-China relationship. The U.S. federal government needs to do a better job at driving progress in this area at home. China and Russia are hacking into U.S. federal government networks, and that is a concern, but what happens if a group such as the Islamic State of Iraq and al-Sham, or ISIS, develops those capabilities? If policymakers do not close these loopholes, then they leave the nation open to unacceptable security risks.

One of the most important steps the U.S. Congress could take to strengthen U.S. cyber response capabilities is to pass cybersecurity legislation that facilitates information sharing between the American companies targeted in these attacks and the U.S. government agencies with the expertise and capacity to assist. Closing current security loopholes should be the first priority. Figuring out how to respond to these attacks should be the next priority, and that is where this becomes a U.S.-China issue.

## Endnotes

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