

US-China relations: storm clouds gathering



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President Hu Jintao's long-planned visit to the United States is not likely to take place soon, as Beijing has postponed the preparatory talks as tensions mount between the two countries. Their relationship has global reach and influences the stability and prosperity of the Asia-Pacific region.

Rising rhetoric

The Chinese Communist Party's *People's Daily* carried an editorial at the end of July asking: "Is the US ready for China's ascent as a great power?" It warned that the two countries are on a collision course if Uncle Sam does not give way. The editorial rejected any expectation that China would become more tolerant with growing global influence. "When it comes to our national interests, China has no room to manoeuvre."

During the drill organized by the South China Sea Fleet in July, Chen Bingde (Chief of the PLA General Staff) stressed that (the military) "should pay close attention to changes in the situation and tasks, and get well prepared for military conflicts."

The *Washington Post* reported on 30 July that the Obama administration has adopted a tougher tone with China in recent weeks as part of a diplomatic balancing act in which the US welcomes China's rise in some areas but also confronts Beijing when it butts up against American interests.

The US rejects China's claims to sovereignty over the whole South China Sea and Chinese demands that the US stop conducting military exercises in the Yellow Sea. "The United States has a national interest in freedom of navigation, open access to Asia's maritime commons and respect for international law in the South China Sea," Secretary of State Hillary Clinton said.

Suddenly The South China Sea has become a public issue of major tension between the US and China. Underlying it is the fact that the two powers are geopolitical, and increasingly military, rivals.

Political tensions

Beyond trade, there is a list of discords: Beijing objects to the arms sales to Taiwan, President Obama's meeting the Dalai Lama, pressure on human rights and the joint US-South Korea military exercises in the Yellow Sea (which prompted Beijing to cut off high level military relations).

Washington regrets the 'Google affair', the uncomfortable Obama visit, the Chinese behaviour at the Copenhagen Climate change conference, China's non-intervention with North Korea and its failure to denounce the sinking of the South Korean ship, its watering down sanctions against Iran and its continuing to trade with and investment in Iran. Missile defence and cyberwarfare concern both countries.

Relations had deteriorated during 2009 but a joint declaration issued during the visit of President Obama to China in November was supposed to herald a "new era" in the relationship. The two parties promised to "nurture and deepen bilateral strategic trust". However, neither side actually trusts the other.

The Strategic Economic Dialogue brought to Beijing in May, US Secretary of State Hillary Clinton, Treasury Secretary Timothy Geithner and 16 cabinet secretaries or agency heads, leading a group of 200 Americans. The meeting was atmospherically successful but without substantive achievement.

Disputes are an intrinsic factor in international trade. The US and EU always have ongoing battles (eg. Boeing vs. Airbus and state aids) but

these battles are confined to the trade sphere without political spill over. It is doubtful if this can also be achieved between China and the US, because of the different cultures.

Military dimension

The US and ROK have announced that the two sides will "present a joint military exercise every month until the end of the year." The move has drawn strong criticism from Beijing. The exercises placed the Chinese capital within striking distance of the aircraft carrier USS George Washington, which was involved in the drill, Chinese military analysts said.

At a meeting on Asian security in Hanoi on 23 July, US Secretary of State Hillary Clinton pressured Beijing on issues in the South China Sea, over which China has overlapping territorial claims with some neighbours. However Chinese Foreign Minister Yang Jiechi characterized Clinton's comments as "an attack on China". He unusually issued a statement charging that the US was ganging up with other countries against China. Beijing has always opposed any effort to "internationalize" the issue.

Xinhua, the official news agency, reported on 29 July that Washington has strengthened its military cooperation in the region, stealthily instigated and supported some local countries to scramble for the Nansha Islands, and has dispatched naval vessels to China's exclusive economic zone to conduct illegal surveys. The agency opined that full control over the waters is necessary for the Chinese navy to better protect its seas and maintain security in the Asia-Pacific region. By trying to internationalize the South China Sea issue, the US wants to put off its resolution so as to contain China's rise. Strategically, Washington wants Southeast Asia to form the centre of an "Asian strategic alliance" (political and economic) that includes Northeast Asia, Southeast Asia and India.

The US, Xinhua says, wants to set up more military bases and positively interfere in security affairs in the Asia-Pacific region. The US covets the comparatively rich oil and gas reserves in the South China Sea, especially as it is keen to control world energy resources, for which it never hesitates to launch a war. Therefore, the US has made great efforts to complicate, extend and internationalize the South China Sea issue and it assiduously attempts to make the sea declared as international waters so that it can wantonly participate in oil exploitation in the region.

In addition, through cooperation with oil companies of Vietnam, Malaysia and the Philippines, American oil giants have participated in exploiting oil and gas in the South China Sea and the US military claims that it is responsible for providing security for these companies.

The US has a national interest in navigation in the South China Sea. In order to secure its control on important sea lanes the US doesn't want to see China cooperating with other concerned countries to resolve the issue. China has persisted in resolving the dispute through peaceful negotiations with neighbouring countries. China never bullies the weak. At the same time, Beijing will never allow external forces, like the US, to interfere in the matter. These are tough words from the official news agency.

Washington continues to worry about the growing military strength and the power of the People's Liberation Army (PLA) – the largest army in the world, notwithstanding that the gap between the US and Chinese militaries is considerable with the US probably outspending China 10 times. The US, for example, has 11 carrier groups and China none.

Trade tensions

Unfortunately, the increase in South China Sea tensions is happening at the same time as trade tensions increase. Geoff Immelt, GE's CEO, said at a dinner in Rome in June that, "I am not sure that in the end they want any of us to win, or any of us to be successful." China is GE's fifth biggest market.

Immelt went further, warning that GE (the world's largest manufacturing company) was exploring better prospects elsewhere in resource-rich countries, which did not want to be "colonised" by Chinese investors. "I really worry about China", he told an audience of top Italian executives in Rome, accusing the Chinese government of becoming increasingly protectionist.

"China and India remain important for GE but I am thinking about what is next," he said, mentioning what he called "most interesting resource-rich countries" in the Middle East, Africa, Latin America plus Indonesia. "They don't all want to be colonised by the Chinese. They want to develop themselves," he said. The comments echo a rising chorus of complaints from foreign business groups in China about the regulatory environment they face.

Coca Cola, GE, Goldman Sachs and Google have all come up against difficulties around the same time, which suggests a trend. US trade officials have been concerned for some time that Chinese economic and trade policy is becoming increasingly nationalistic and that, after three decades of extraordinary economic growth, Beijing believes it can now be less welcoming to foreign investment in order to focus on promoting national champions.

Wen Jiabao was told directly by the CEOs of BASF and Siemens that Beijing's current approach to foreign companies "does not exactly correspond to our views of a partnership". BASF and Siemens had combined sales in greater China of more than €9bn (\$11.6bn) last year and employ over 36,000 people in China. They complained about foreign companies being compelled to transfer technological and business know-how to Chinese companies in return for market access. They also told Wen that foreign companies "expect a level playing field in public procurement".

The businessmen called for the rapid removal of trade and investment barriers in sectors such as automobiles and financial services. Premier Wen insisted that China remained open to foreign investment and did not discriminate against foreign companies. "Currently there is an allegation that China's investment environment is worsening. I think it is untrue."

These American views have been increasingly held but complaints were made privately with silence maintained in public. US and European multinationals appear to be revising their views on doing business in China. The strategy has been that short-term losses would be compensated with long-term gains in a rapidly expanding market. However, there is an increasing worry that foreign companies will be less welcome after the benefits of their technology have been absorbed in China.

Indigenous innovation

China's drive for "indigenous innovation" as set out as set out in the "Long-term Plan for the Development of Science & Technology (2006-2020)" (MLP) is the root of foreign concerns. The MLP defines indigenous innovation as "enhancing original innovation through co-innovation and re-innovation based on the assimilation of imported technologies". Apparently, many international technology companies see this as a blueprint for massive technology theft. The Chinese are able to build national champions with western technology and a closed market, which then become world leaders, eg. in wind energy.

Both the American and European Chambers of Commerce (Amcham

and EUCCC) report deteriorating conditions for foreign companies in China.

President Obama argues that China is posing as a developing country but needs to be treated as the economic powerhouse it is. US Democrats tend to be protectionist and not necessarily believe in free trade. There are many interests against close Sino-American relations, including US trade unionists, Chinese nationalists and both the military establishments.

US multinationals have been the main advocates that a stronger and more prosperous China could be good for America. Thus, this change in attitude of corporate America is ominous.

The danger of protectionist forces having their way increases. The US continues to complain about "currency manipulation" and jobs lost to China. Obama is indebted to protectionist trade unions for his election and mid-term elections will be held in November. China increasingly alienates and frustrates western multinationals, thereby weakening the strongest pro-China lobbies in both Washington and Brussels. There is a bill before Congress to exclude China from US government procurement if it does not reciprocate.

Conclusion

We are witnessing at the same time a deterioration in Sino-American political, military and trade relations. This is reflected in unusually vociferous public rhetoric with some aggression being detected on both sides. Deng Xiaoping's axiom "Keep a cool head and maintain a low profile. Never take the lead - but aim to do something big", is no longer the rule.

There is a serious danger of growing protectionism which would be an all-round disaster. The unprecedented decline in US self-confidence can have negative consequences. Due to the financial and economic crisis, China has been catapulted unexpectedly early into a global leadership role, for which it is not yet fully prepared. Chinese leadership sometimes seems to be overconfident and sometimes unsure of itself.

In the past, Washington has kept firmly to the sidelines of tensions in the South China Sea. This has now changed. Washington has declared it a "national interest" and Beijing a "core interest", Thus bringing them head to head on the issue of sovereignty.

There is a risk of an intensifying cycle of recrimination, which could take on a life of its own, and become uncontrollable. Hopefully both governments appreciate the need to tone down the rhetoric and narrow their differences. In fact, underlying US policy has not changed, merely its public advocacy.

This paper does not suggest that armed clashes are likely or that there will be an early crisis, but the circumstances are such that there are several flashpoints that can result in accidental miscalculation. There is a balance of power game, with the US seeking to prevent China becoming the hegemon of much of the eastern hemisphere.

The current leadership ends in 2012. The major policy decisions governing foreign policy and China's international role will be determined by the fifth and sixth generations of leadership. The sixth generation leaders will come from a generation not scarred in the same way as the present ones by the Mao époque and the Cultural Revolution. They are much more likely to have travelled abroad, even studied abroad, and be able to speak a foreign language. These factors will substantially influence their thinking, but it is premature to forecast in what way. It is hoped that they will be more internationalist and comfortable with the West. And both countries need each other. ■