



DCFR ON THE RECORD

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China and the United States: Is the bilateral relationship over?

The Dallas Committee on Foreign Relations is pleased to present the second edition of DCFR on the Record, an occasional publication featuring interviews by executive director Amanda Schnetzer with selected guest speakers. This issue features Dr. Adam Segal, Maurice R. Greenberg Senior Fellow for China Studies at the Council on Foreign Relations (CFR), who led DCFR and CFR members in discussion on Tuesday, September 23, 2008, of the impact of Chinese innovation and technological entrepreneurship on American power. Maintaining DCFR's longstanding adherence to the Chatham House Rule and the off-record nature of our meetings, Ms. Schnetzer and Dr. Segal separately discussed China's reemergence as a geopolitical power and stakeholder. The views they express are their own. The Dallas Committee on Foreign Relations takes no institutional positions.

On November 15, President George W. Bush will welcome 19 heads of state to Washington for a summit on the international financial crisis. Initiated by President Bush, French president Nicolas Sarkozy, and European Commission president José Manuel Barroso, the gathering will be the first of several seeking solutions to the globe's economic woes.

While Messrs. Sarkozy and Barroso proposed a meeting of the G7 industrialized nations, President Bush urged inclusion of important emerging markets. "For this meeting to be a success," he said, "we must welcome good ideas from around the world." Robert Zoellick, World Bank president and former U.S. deputy secretary of state, was more direct. "The G7 is not working," he said in early October. "The engagement of rising powers with the global economy has made them 'stakeholders' in the global system....These rising powers want to be heard." Foremost among them may be China.

During a recent conversation at the venerable Dallas Petroleum Club, I asked Adam Segal of the Council on Foreign Relations to elaborate on the significance of China's reemergence as a geopolitical

power and stakeholder. "The U.S.-China relationship is no longer bilateral," he began. "Every global issue we want to address now requires us to deal with China."

Traditionally, says Segal, discussions of U.S.-China policy have centered on the "Three Ts": Taiwan, trade, and Tibet. While these issues still figure prominently, others have emerged. In North Korea, for example, "China plays a huge role" in the six-party negotiations to end the country's nuclear weapons program. Likewise, in Iran "the Chinese have to be along, if we're going to get any traction" on their nuclear program. On global warming and climate change, "we clearly have to involve China" as well.

The fact that China holds an estimated \$1 trillion in U.S. Treasury bonds and other dollar-denominated debt securities also "changes the nature of the relationship." Should China undertake a massive selloff of U.S. debt, the implications for the United States and the rest of the world would be devastating. Yet Segal sets aside the possibility that China will use the U.S. financial crisis to its advantage. "I think it's hard for the Chinese to leverage this directly," he says, "because there are economic costs to them" as well. Nevertheless, Segal



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concedes, “It doesn’t mean the Chinese won’t do it, and it probably plays in the background of U.S. policymakers’ thinking.”

Assessing U.S. China Policy. With the faint clatter of dinner dishes in the background and the evening lights of downtown Dallas beginning to flicker, I asked Segal how he would assess U.S. policy toward China over the last 20 years. “Except for the occasional blips” in any presidential administration, he finds the U.S. policy of engagement, or hedging, “fairly consistent.” “We work with China as broadly as we can, but since we don’t know the future and the Chinese don’t know the future, we also prepare for the possibility of a more confrontational relationship.”

One of the most significant “blips” in recent years was the failed 2005 bid of the China National Offshore Oil Corporation (CNOOC) to purchase U.S. oil company Unocal. Segal sees both short and long term implications of the fierce opposition that emerged in some corners of the U.S. Congress, purportedly over national security concerns.

Segal classifies as “immediate fallout” calls in China to give greater weight to national security when making decisions about foreign direct investment in the country. “The Chinese were already looking for ways to keep foreign money out of the sectors they want to control.” The Unocal deal gave them further ammunition.

In the long term, Segal wonders whether the Unocal deal has emboldened those in China who, supporting a more “mercantilistic vision” of the country’s economic development, have pursued equity oil stakes elsewhere—in Sudan, Venezuela, and other countries “where we don’t want the Chinese.”

China 101 for U.S. Policymakers. According to Segal, the amount that U.S. policymakers really understand about China “depends on what kind of policymaker you are talking about.” In his view, “the vast majority of U.S. legislators don’t really know anything....The thing we always hear is that the Chinese have 15-year plans and 20-year plans, but that’s not my understanding of how

China really works. There are these plans, but how policy is made in China...is much messier. The vision of a coherent, unified China is just not how it really works.”

That said, Segal concedes that most members of the U.S. House and Senate do understand that a prosperous, stable, peaceful China is in the U.S. interest. As he puts it, “It’s very hard these days not to understand that everything is connected....Just look at SARS. If another global health problem were to emerge from China, we would need the Chinese to be able to deal with it. [Unfortunately,] the current system doesn’t seem very effective.”

As Segal sees it, the biggest problem for the United States is that “China isn’t transparent, so we don’t really have a sense of what their intentions and interests are.” In the technology realm, for example, many Chinese see the value of innovation and believe open systems, independent universities, and critical thinking—not a one-party state—may provide the best path to prosperity. For others, state capitalism remains the preferred model. Although Segal concludes that Chinese state capitalism is “more resilient than we expected,” he does think that “pressures will eventually push the country in a more open direction.”

The Olympic Effect. I asked Segal what impact the 2008 Olympic Games have had on China’s political and economic openness. In a *Foreign Affairs* article released just before the Games, Segal and coauthor Elizabeth Economy declared that “Beijing’s Olympic dream quickly turned into a public relations nightmare” when “[d]emands for political liberalization, greater autonomy for Tibet, increased pressure on Sudan, better environmental protection, and an improved product-safety record [threatened] to put a damper on the country’s coming-out party.”

With the Olympics over, Segal supposes that “they didn’t change anyone’s mind.” Outside China, many marveled at the country’s “great build-out of infrastructure” and declared this “the story of China.” Others saw the government’s overreaction to Olympic protestors and the cover-up of a summer milk scandal



that has killed at least 4 children and sickened more than 50,000 as further evidence of the leadership's unrepentant support of authoritarianism.

Domestically, says Segal, the Chinese accomplished "all the goals the government set." All in all, he says, "they got their coming out party, but it was slightly spoiled by the focus on all these other things."

Priorities for President-Elect Obama. If George W. Bush and other recent U.S. presidents have gotten China policy right, Segal reckons the time has come to widen our focus to the rest of Asia. For example, while relations with Beijing, Tokyo, and Delhi are generally strong, the rhetoric of the war on terrorism has grown tiresome in Asia. A greater focus on economic development "would do the United States a great deal of good."

Segal also believes attention to rhetoric and symbols matters. For example, he faults U.S. Secretary of State Condoleezza Rice for failing to attend meetings of the Association of Southeast Asian Nations (ASEAN) until just this year. "There was a feeling," he says, "that it was just a talk shop." "That was probably a mistake" the next administration should avoid.

The crisis in global financial markets underscores Adam Segal's fundamental point that the next U.S. president must "think more expansively about how every kind of issue now has to deal with China." President Bush certainly recognized China's global stakeholder status when he insisted on its participation, along with other emerging markets, at the November 15 summit in Washington. Time will quickly tell if President-elect Barack Obama's new administration shares the same appreciation.

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