

What Road Ahead?

**Scenarios for the Future of
United States-China
Relations**

2001 - 2010

Workshop Report

Nautilus Institute for Security and Sustainable Development

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Scenarios for the Future of United States-China Relations

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Report of a Workshop
June 6-10, 2000 Shanghai
November 15-17, 2000, Beijing

Co-Sponsors:

Nautilus Institute for Security and Sustainable Development
Center for American Studies, Fudan University
Energy and Environmental Technology Center, Tsinghua University
South-North Institute for Sustainable Development

Facilitator:

Global Business Network-Europe

Nautilus Institute
April 2001

Forward

This report grows out of a two-year project spearheaded by the Nautilus Institute entitled *Towards a Common Agenda: Strategic Partnerships for Environmental Governance After the Asian Crisis*. The Project aimed to use scenario methodology to deepen and strengthen the capacity of American and Asian analysts and activists to develop a common policy framework on global environmental and economic governance.

Three scenario workshops were held between 1999-2000, all facilitated by Alain Wouters of the Global Business Network-Europe. The Hong Kong workshop in November, 1999 brought together participants from North and South East Asia, as well as Australia and the United States and focused on the future of the Asia Pacific region. The Shanghai and Beijing workshops in 2000 focused on the future of United States-China relations and brought together twenty analysts, ten each from each country, spanning security, energy, environment, and economic expertise. Directed by Lyuba Zarsky, the United States-China scenarios workshops were a collaboration between the Nautilus Institute's three core programs: Peace and Security, Energy and Climate Change, and Globalization and Governance.

Held in Shanghai on June 8-10, 2000 and in Beijing on November 15-17, 2000, the workshops were co-sponsored by the Center for American Studies at Fudan University, the South-North Institute for Sustainable Development, and the Energy and Environmental Technology Center at Tsinghua University.

This Report of the Shanghai and Beijing workshops was written by Lyuba Zarsky and Leif Brottem of the Nautilus Institute's Globalization and Governance Program, based on the scenarios generated by workshop participants. Helpful review comments were provided by Peter Hayes, Alain Wouters, Wade Huntley, Sandy Buffett, and Cai Dapeng. Thanks also to Jason Hunter for assisting in the Shanghai Workshop. Special thanks are due to our co-sponsors, especially Professor Dingli Shen of the Center for American Studies, Prof Yangjia Wang of Tsinghua University, and Professor Yang Jike of the South North Institute for Sustainable Development. Their enthusiasm and support were essential to the success of both workshops.

We would also like to thank the Ford Foundation and the Rockefeller Brothers Fund for their financial support.

What are scenarios?

A scenario is a tool for ordering one's perceptions about alternative future environments in which today's decisions might play out. In practice, scenarios resemble a set of stories built around carefully constructed plots. Stories can express multiple perspectives on complex events and give multiple meanings to these events.

Good scenarios are plausible and surprising. Despite its story like qualities, scenario planning follows systematic and recognizable phases. The

process is highly interactive, intense, and imaginative. Scenarios are powerful planning tools precisely because the future is unpredictable. Unlike traditional forecasting or market research, scenarios present alternative images instead of extrapolating current trends from the present.

Ultimately, the end result of scenario planning is not a more accurate picture of tomorrow but better decisions today.

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Nautilus Institute for Security and Sustainable Development

The Nautilus Institute is a policy-oriented research and advocacy organization based in Berkeley, California committed to improving the process and outcomes of global governance. The Institute has three core programs: Peace and Security; Energy and Climate Change; and Globalization and Governance.

www.nautilus.org

Center for American Studies, Fudan University

The Center for American Studies is a research and teaching institute affiliated to the Shanghai-based Fudan University. The Center's four research programs span US Politics and Sino-US Relations, US Economy, US Society and Culture, and Arms Control and Regional Security.

www.fudan.sh.cn/English/nsindex.html

The U.S./China Energy and Environment Technology Center

The EETC is implemented jointly by the US and Chinese governments, and by Tulane and Tsinghua Universities. The mission of the center is to nurture trust and goodwill between the US and China on energy issues and to conduct bi-national training and education regarding technical and financial issues related to promoting clean energy and environmental technology in China.

www.tulane.edu/~uschina

The South-North Institute for Sustainable Development

The South-North Institute for Sustainable Development is a Chinese NGO based in Beijing. The mission of the SNISD is to carry out research for laws, regulations and policy of environmental protection and sustainable development; and promote the use of renewable energy, especially in Asia-Pacific. SNISD also focuses upon publicity, training, and consulting and exchanges vis-à-vis environmental protection.

www.snisd.org.cn

Global Business Network-Europe

The Global Business Network is a worldwide membership organization engaged in a collaborative exploration of the future and committed to creating innovative tools for strategic action. GBN is internationally renowned for its creative and effective approach to scenarios as tools for strategic thinking and planning. Alain Wouters of GBN-Europe is the Director of Whole Systems in Brussels, Belgium.

www.gbn.org

What Road Ahead?

Policy Choices for the Next Decade

In the 21st century, the United States and China will be key players in shaping global diplomacy and governance. Whether on security, economic, social, or environmental issues, the United States-China relationship will be the catalyst—or stumbling block—in maintaining global peace and solving global problems.

The relationship between the United States and China is at a crossroads. In June, 2000, the United States Congress voted to adopt Permanent Normal Trade Relations with China, clearing the way for China's accession to the World Trade Organization. More than any other factor, China's future and the future of United States-China relations will be shaped by how it adapts to the trade and investment rules of the global economy.

Another pivotal factor in United States-China relations is whether and how the United States deploys national and Theater Missile Defense systems (NMD and TMD). With the election of George W. Bush, US policy has tilted toward early deployment. The character and scope of the proposed deployment will greatly influence Chinese perceptions of the United States as friend or foe.

This Report condenses a highly interactive collaboration between American and Chinese security, environmental, energy and economic analysts. Over six days, the experts generated four 10-year scenarios for the future of United States-China relations and drew implications for leaders and policymakers in both the United States and China.

At the center of each scenario is the dynamic and potentially explosive process China will undergo in adapting to globalization. While much is uncertain, there is little doubt that the next decade will be one of great social and economic flux in China.

Assuming goals of peace, cooperation and mutual welfare, the scenarios offer six policy insights.

Economic Engagement is Not Enough

Economic reform in China, even at its most successful, will not necessarily lead to improved United States-China relations. Without a habit of cooperation and a growing sense of mutual understanding, the United States and a much stronger and richer China could find themselves in a highly competitive, brittle and suspicious relationship by the decade's end.

Moreover, sustained economic prosperity is itself uncertain. The United States and China need to go beyond economic engagement and identify common security interests—for example, in mitigating the effects of climate change—that broaden the relationship and enable it to weather an economic downturn without triggering virulent nationalism in either country.

'Congagement' is the Wrong Approach

US policy towards China is characterized by an incoherent mixture of containment and engagement. The scenarios suggest that, rather than seek to contain China's stature, influence and capabilities, the United States should begin now to prepare for China's emergence as a regional and global power.

A good foundation would be policies which are clear and consistent about US interests and which acknowledge China's growing regional role. For example, the United States should be consistent in nurturing social and economic reform in China, including greater democracy, rule of law, international labor standards, and environmental regulation. One initiative might be for the United States to offer formal recognition of gains already made.

On defense and military issues, the scenarios clearly point to the damage in the bilateral relationship posed by US deployment of TMD. In some scenarios, the United States designs the character and scope of the deployment in ways which China perceives as less threatening. In others, TMD deployment tips the political balance in China towards hardliners, creating a more hostile bilateral climate.

Human Rights: Support Reform in China

American and international human rights groups are important players in United States-China relations. In some scenarios, they help to prod China towards social reform. In others, they inadvertently strengthen the hand of hardliners. Threaded throughout, however, is the sense of damage caused by the US government's on-again/off-again badgering of China on human rights.

The United States should abandon badgering in favor of a consistent and constructive human rights policy towards China. This policy should focus on political, technical and financial support for political reform, including rule of law assistance and other institution building measures. A good start would be for Congress to remove current restrictions on US aid to China. Human rights groups should be at the forefront in pressing for such support. For its part, China should engage in a consistent, constructive dialogue about human rights with the United States and the international community.

Increase Transparency

Bilateral relations could be greatly enhanced by increased transparency, especially in China. Transparency of military intentions and capabilities would help to build confidence of security planners. More transparency of China's administrative, legal and financial systems would help improve US investor confidence and could help China avoid financial crisis. Greater transparency would also help to avoid demonization on both sides and the threats to peace and intelligent policy choice it fosters.

Encourage Civil Society Interaction

Governments in both the United States and China should encourage the bilateral interaction of academics, non-governmental organizations, civic, professional and other groups. A greater understanding 'from below' between the two deeply different cultures will greatly help to shape more subtle and effective policies and diplomacies.

Seek Common Ground Over Taiwan

Taiwan will continue to be a potentially explosive issue in United States-China relations. However, the scenarios suggest that maintaining the status quo politically while encouraging cross-strait economic and civil society interaction might yield a political resolution in the long run. China and the United States should identify and pursue confidence-building measures which help to keep the peace.

A New Multilateralism

A unilateralist approach to US defense and diplomacy is dangerous in the long run. Rather, the United States should embrace the mantle of leadership and work with China to increase security for citizens of both nations. This would entail increasing cooperation on energy, environmental and economic governance, as well as confidence-building measures on military issues.

Not Friends But Family

The fundamental question for the future of United States-China relations is whether leaders and ordinary citizens in both countries will find the understanding and courage to see each other not as threats but as neighbors and potentially, as partners. As one workshop participant lucidly observed: 'The relationship is not one of friends, who may choose to be together, but of family, who must learn to get along with each other.'

The scenarios point to the pressing need—and fresh opportunity—for leaders in both countries to develop a strategic, long term and above all, coherent policy framework based on clearly defined national interests and objectives in the bilateral relationship. Neither war nor military skirmish appear in any of the scenarios. However, at the end of ten years, the prospects for hostility versus cooperation differ greatly in each scenario.

If the scenario workshops are a microcosm, the future is hopeful. Over the two three-day workshops, Chinese and American thinkers shared hopes, fears, perceptions, and analyses with candor and sometimes, passion. The leap in mutual understanding was palpable on both sides.

In the end, gaps between polities and cultures can be bridged only in this way—through sustained, direct communication aimed at solving common problems and meeting common needs. It is a lesson and a vision that we hope will inspire leaders and policymakers in both the United States and China in the next decade.

The Scenarios

The four scenarios were generated over the course of two three-day workshops. In the first workshop in Shanghai, participants developed an original sketch of the four scenarios. In the second workshop in Beijing, they deepened, reworked and in some case, completely refashioned the scenarios. In between the two workshops, the Nautilus Institute created a website to track developments in the United States-China relationship, check participants' perception of reality and fill in knowledge gaps. The material is available at www.nautilus.org/enviro/beijing2k.

The Shanghai workshop opened with a heartfelt exploration of the deepest 'hopes and fears' of the participants about the future of the United States-China relationship. Fears clustered around the possibility of war and hostile strategic rivalry, including over Taiwan and human rights. There were also fears about the effects of a slowdown or collapse in US economic growth and a resurgence of US isolationism.

Hopes focused on the peaceful resolution of the Taiwan issue, as well as on successful social and economic transition in China. Participants especially pinned their hopes on the emergence of a vibrant civil society in China and 'civil diplomacy,' i.e. a strong network between American and Chinese NGOs.

The first task of the participants was to collectively identify 'critical uncertainties'—factors that are both highly influential in United States-China relations and highly uncertain. Over the course of the two workshops, participants agreed on five factors as the most critical and uncertain:

- The future of Taiwan
- China's adjustment to WTO membership
- The state of the US economy
- Leadership in China
- Leadership in the United States

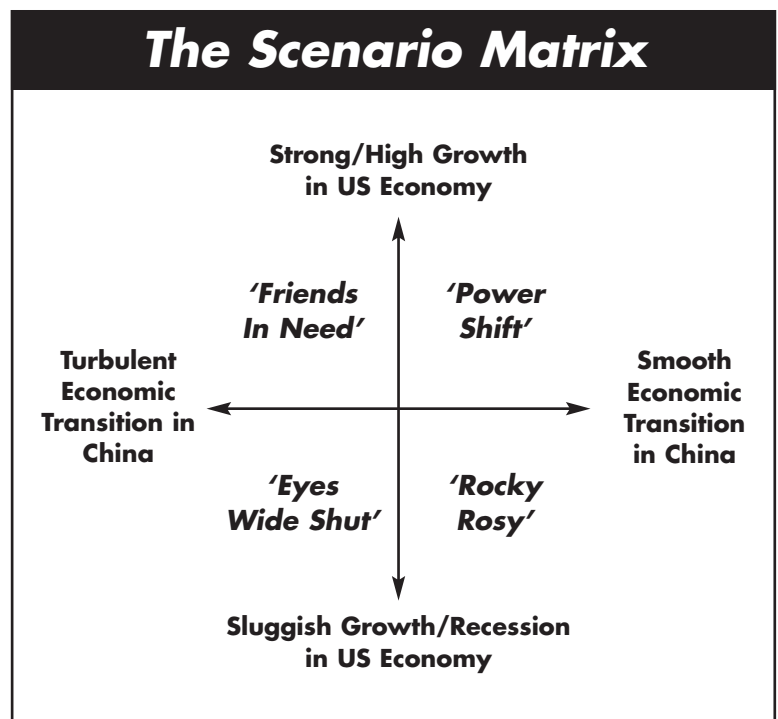
After a lively discussion, the participants zoomed in on two critical uncertainties as a basis for exploring the range of possible futures:

- (1) Whether China's economic reform process is relatively smooth or highly turbulent and destabilizing politically and socially;
- (2) Whether the United States sustains economic growth or slides into recession;

These two factors became the 'scaffolding' around which the US and Chinese analysts worked in small groups to create four scenario stories:

- 'Rocky-Rosy' - 'Liu An Hua Ming'
- 'Power Shift' - 'Quan li Zhuan yi'
- 'Eyes Wide Shut' - 'Tong Chuang Yi Meng'
- 'Friends in Need' - 'Tong Zhou Gong Ji'.

Each story is framed by one of the four possible paired combinations of the two critical uncertainties. Each story unfolds in the ten years between 2001 and 2010.



'Liu An Hua Ming'—'Rocky-Rosy'

The China-United States relationship faces a new challenge in the first decade of the 21st century as China enters the World Trade Organization (WTO) and is obligated to restructure its economy. Although China has made a commitment to honor WTO rules, there is widespread concern in the United States that the transition will not be successful. Many observers believe that there is neither the political will nor leadership capacity in China to implement the required restructuring. In China, the central government fears economic liberalization will displace masses of peasants and lay off workers in state-owned industries, creating economic and political instability throughout China.

These concerns about China's economic and political future are paralleled by fears that the long-running US economic expansion will come crashing to a halt and gravely impact China's economy, whose export sectors so depend on the US market. There are also fears within China—shared by many in the United States—that plans to deploy a National Missile Defense system in combination with Theater Missile Defense systems in Japan and Taiwan will greatly undermine overall United States-China relations and create a volatile security environment.

Immediately after China is accepted into the WTO, Taiwan also becomes a member. This common membership quickly contributes to increased economic integration between Taiwan and mainland China and proves a major factor in diminishing cross-strait tensions. In 2002, concerns about the stability of China's political leadership prove unfounded as the 16th Part Congress groups around a strong and capable circle of younger leaders determined to follow the path of economic liberalization. Although committed to liberal economic principles, the leadership shows no dramatic shift to liberal political principles. Beijing retains its hold on political power.

In the United States, the new 2001 administration makes no major changes in security policy and continues to maintain a policy of 'conengagement', a mixture of containment and engagement. What is new is the changing economic picture as the US economy tumbles into a recession in 2002. Rising unemployment and economic uncertainty strengthen the

hand of anti-free trade, anti-globalization forces in Congress and in US civil society. Labor and human rights groups also get a new hearing as Americans blame Chinese imports and the outflow of US investment to China for their economic woes.

The US economic downturn puts a drag on Chinese economic growth, shaving a couple of points off of the country's previous 7% annual growth rate. But under its new, younger leaders, China does not turn away from liberalization. It is a rocky road, but the central leadership keeps the path despite signs of growing social instability and economic disparities. However, China joins with other developing countries to resist new WTO initiatives. Led by China, this new alliance opposes the inclusion of new sectors such as services, government procurement, labor and environmental standards within the free trade regime. In the event, the WTO does not launch a new trade round, giving space for China and others to adjust to the extensive liberalization rules that emerged from the Uruguay Round.

Elections in Taiwan and in the United States in 2004 yield no major changes that adversely affect United States-China relations. Cross-strait economic integration greatly undermines pro-independence political forces in Taiwan. The United States maintains a conengagement policy with no new major arms sales to Taiwan. United States-China bilateral military relations hold steady.

By mid-decade, the United States emerges from recession and both China and the United States find that the rocky road turns smoother. The Chinese economy begins to reap the rewards of successful restructuring of its state-owned enterprises (SOEs) and other non-competitive sectors while benefiting from an expansion of a healthier US market.

In China, the outlines of the new shape of economic governance are now clearly discernible. The shortcomings of centralized political leadership are balanced by the emergence of nongovernmental networks dominated by powerful and innovative business leaders. Although there have been no major advances toward democratization, civil society in China has been greatly strengthened and decision-making has become more participatory.

The 'Rocky Rosy' scenario unfolds in a world characterized by:

Slowdown in the US economy

Smooth transition to open markets and free trade in China

There is an informal partnership between powerful political and business leaders both in Beijing and at the provincial and local levels. One of the most striking attributes of this partnership is the degree to which information-technology industries guide and drive economic progress in China. Indeed, this innovative business sector enables solutions to such critical social problems as water shortages and the low productivity of the country's agricultural sector. The political leadership successfully installed a legal system which has reduced corruption and it retains a degree of control over the privatized economy with an efficient tax collection system. Resources are available for public infrastructure investment and an expansion of social services.

By 2008, it is evident that both countries have left the rocky road behind them. The 17th Party Congress reconfirms the pro-liberalization leaders. While they have not taken bold steps towards political reform, they have promoted policies which have advanced respect for human rights and increased environmental protection.

Change within China is manifested to the world in 2008 as Beijing hosts the Olympics. The city is clean and the memories of the Tiananmen Square repression of 1989 are fading. On television screens throughout the world,

the new prosperity, sophistication, and national pride of China are unmistakable. While global action on climate change is still stalled, China's unilateral efforts to reduce greenhouse gas emissions have contributed to a working partnership between the United States and China, the world's two main sources of greenhouse gas emissions. This partnership propels an effective global framework on climate change after 2010.

China has adopted a 'pragmatic and more inclusive' version of its long-standing one-China policy, which holds there is only one China and Taiwan is part of it according to Deputy Prime Minister Qian Qichen.

(Washington Post, January 4, 2001)

Elections in Taiwan and in the United States produce no major changes. Although the US policy of engagement continues to disappoint China, it does not seriously endanger a general atmosphere of good bilateral relations. On the engagement side, the United States depends on China's cooperation to

help resolve issues on the Korean Peninsula. Continued strong economic growth in the United States deflects the influence of protectionist domestic forces.

As the decade ends, China is a confident player in international affairs, bolstered by its successful economic transition. After a rocky start, the United States and China have begun to develop pragmatic, working partnerships. As the new decade opens, the United States is poised to drop the containment framework and embrace normal diplomatic relations.

Rocky Rosy Scenario: Implications for Leaders and Policymakers

China

China should be more open and transparent about its security and defense intentions.

The Chinese government should continue to reduce its direct role in the economy and concentrate on strengthening the country's judicial and regulatory systems.

China should handle the Taiwan issue with more care, recognizing that an aggressive posture can have catastrophic implications.

United States

The United States should not deploy Theater Missile Defense.

The United States should undertake no new arms sales to Taiwan and offer no explicit or implicit support for Taiwanese independence forces.

The United States should use its influence to foster increased Taiwan-China integration through increased cross-strait flows of investment and people.

The U.S. should use its influence to foster increased Taiwan-China integration through increased cross-strait flows of investment and human resources.

The United States should maintain a flexible stance towards China on trade and human rights issues.

Bilateral

The United States and China should encourage research and exchanges to promote a more integrated understanding of the different dimensions of their relationship.

Both the United States and China should enhance the transparency of their security and military capabilities and intentions. (same as first one).

More transparency is needed about the security agendas of the U.S. Department of Defense and the People's Liberation Army of China.

Think tanks should foster pragmatic confidence building measures in their respective areas of expertise, especially security and institution building.

'Quan li Zhuan yi'—'Power Shift'

In spring of 2001, China and Taiwan are both accepted into the World Trade Organization. Both take a new view of their relationship. Economic and personal exchanges across the Taiwan Strait quickly increase. One year later, direct mail, shipping, and flights between Taiwan and the mainland have greatly expanded. Tourism from the mainland to Taiwan jumps and non-governmental organizations (NGOs) develop a rich network of communication. As a result, a host of joint programs are designed for environmental protection and disaster prevention.

With deep reductions in China's tariffs and an improved business environment, foreign trade and investment expand greatly in mainland China. Privatization in more sectors allows China to absorb more investment and technology. Economic restructuring also increases social mobility. Peasants increasingly migrate to urban centers in search of employment. An increasing number of businessmen and technical experts leave coastal areas to seek new markets in Western China.

As state-owned enterprises downsize their operations or shut down entirely, the traditional social welfare system rapidly unravels. Because workers are laid off with minimal assistance, social tensions and dissatisfaction with the reform process markedly rise. The State Council of China responds by temporarily putting aside any new measures of political reform. It does however, begin working on a new social welfare policy which complements and supports the role of families in providing help to the unemployed.

Although there are many obstacles to China's economic transition, China's economy continues to grow at the rate of approximately 7% per year. For the first time in ten years, the People's Liberation Army requests the government to invest in military modernization, a request supported by the Chinese elite who want to see China not only wealthy but also strong militarily.

The need for military modernization is accepted by the leaders and the public, but it still has to compete with other state agencies for funding, especially those responsi-

ble for social issues. Increased funding for education and environmental protection also has popular support. As a result, military modernization is pushed forward incrementally.

The Chinese military is increasingly exposed to the international community and develops an interest in joint exercises and foreign exchange programs. In 2003, it begins unprecedented personal and technological exchanges with the US military. Nonetheless, Chinese and American military and security planners remain highly suspicious of each other.

In the United States, leaders watch developments in China but focus on facilitating a new wave of domestic economic expansion. Information technologies continue to increase efficiency and biotechnology proves to be the new leading edge industry. Americans continue to buy more Chinese-made products, particularly apparel and textiles. A surprise decision by the federal government reduces barriers to job-seeking immigrants, triggering a surge of immigrants into the United States, particularly from China. A high rate of immigration has a dual effect of providing the US economy with low wage labor and the Chinese government with an outlet for displaced workers.

Despite economic growth, protectionist and isolationist tendencies never entirely disappear in the United States. The tendency is exacerbated by the sudden influx of Chinese immigrants and jump in Chinese imports. Faced with layoffs and stagnant wages, the textile and steel industries press the US government to take tougher positions in trade negotiations with foreign countries, especially China.

A coalition of unions and free-trade opponents re-ignites the campaign against globalization and alleged unfair trading practices by China. In response, the US government firmly requests that China do more to enforce labor standards and play by the rules of free trade. Given its painful efforts to restructure its economy, the Chinese government deeply resents the request. The Chinese leadership accuses the United States of abandoning China during its reform process.

The 'Power Shift' scenario unfolds in a world characterized by

Sustained strong growth in the US economy

Smooth transition to open markets and free trade in China

In 2003, the US State Department publishes a new report criticizing China's human rights abuses. In Geneva, the United States introduces a resolution condemning China; the Chinese government strongly protests US intervention into its internal affairs. It publishes its own report to document China's progress on human rights and articulates a strong case for the difference between Chinese and western approaches to human rights. To block the resolution, China seeks allies by offering preferential economic treatment to European countries, Japan, and other East Asian countries. Ultimately, the US resolution fails, leaving a bad taste on both sides.

Drawing lessons from the Geneva conference, the Chinese government actively seeks allies. To appease concerns over China's regional ambitions, China's President frequently visits neighboring countries to reassert China's desire for a peaceful security environment. China reaffirms to its Southeast Asian neighbors that it will continue to set aside the sovereignty question of the South China Sea and focus on economic development with other countries in the region. Bilateral relations between Japan and China steadily improve after the two countries reach an understanding on several long standing historical disputes. The "new security concept" proposed by China receives official recognition at the 2003 ASEAN Regional Forum. China begins to actively push forward a multilateral security regime in East Asia.

The United States is unwilling to accept China as the emerging regional power in East Asia. Based on the notion that China is nursing global ambitions, the United States acts to counter China's new role in regional security. In 2005, after several years of research and development, the US government decides to deploy a national missile defense system and to export theater missile defense to foreign allies, including in Asia. The US decision causes great consternation in China and triggers many discussions about US intentions. The Chinese military requests a dramatic increase in funding for missile defense countermeasure and, in early 2006, the request is accepted.

China released an article headlined "US Human Rights Record in 2000" detailing rampant infringement of human rights in the United States in response to the Country Reports on Human Rights Practices - 2000 issued by the US State Department.

(Xinhua News Service, February 27, 2001)

By mid-2006, the issue of access to Chinese markets has become one of the most pressing issues between the United States and China. Many US industries face shrinking exports to and the US government steps up efforts to open Chinese markets to US goods. Later in the year the United States files a grievance with the WTO based on a joint campaign by Motorola and Ford, which asserted that Chinese telecommunication and automobile companies are receiving unfair protection from foreign competition.

After months of bickering, China loses the case and is forced to further open its communication and automobile markets, as well as to modify related commerce laws.

The case turns out to be a landmark in China's path of economic liberalization. As the decision is implemented, bankruptcies among Chinese state-owned industries increase as they lose preferential access to Chinese capital markets.

Ensuing unemployment adds to the increased stratification that has begun to typify Chinese society in the beginning of the 21st Century.

At the 17th Communist Party Conference in 2008, Chinese leaders praise recent economic achievements but emphasize 'social cohesion' and social stability as their top priority. They call for a new economic and political development model which builds on China's unique cultural traditions. The Conference criticizes "several countries" for exporting advanced weapon systems to Taiwan and interfering in China's internal affairs. Despite the heated rhetoric, direct political negotiations between mainland and Taiwan continue and bilateral trade surpasses \$30 billion a year. There is a widespread perception that cross-strait economic ties have greatly diminished the risk of overt conflict between China and Taiwan.

In the United States, a conservative Republican is elected as President. Shortly after taking office, he criticizes China's military modernization and refusal to meet US human rights standards. He requests the US military to

hasten the deployment of theater missile defense in Asia and to enlarge the scale of national missile defense to 200 interceptors. A Republican controlled Congress supports NMD expansion, and to the dismay of China and many in the international community, approves funding almost immediately. By late 2009, the United States has almost finished the deployment of NMD and TMD. In China, there is a widespread sense of an increasing threat to their own national security.

In Taiwan, anti-unification leaders move quickly to capitalize on the heightened tensions between the United States and mainland China. They unexpectedly win an election and on December 25, 2010, Taiwan suddenly announces its independence. The Chinese central government responds strongly by demanding that the Taiwan President rescind the

announcement within 24 hours. In the United States, the political elite anxiously awaits his response.

As the decade ends, tensions between the United States and China run high, despite a high level of economic integration. China has emerged as a regional leader, with a strong, modern military and a sophisticated foreign policy. Unwilling to redefine its strategic interests in the face of China's dynamism, the United States remains highly suspicious and fearful of China's ambitions. Hope has evaporated that the forces of globalization, including trade, investment, citizen exchanges and cooperation on environmental problems, would generate a pragmatic mutual trust. As the new decade opens, China and the United States are poised for hostile rivalry.

China said it would spend \$17 billion on defence in the coming 12 months, an increase of nearly 18%. The United States said it was concerned and would continue to sell Taiwan enough weapons to defend itself.

(The Economist, March 3-9, 2001)

Power Shift: Implications for Leaders and Policymakers

China:

China must demonstrate that its regional leadership is beneficial to the region and to the United States.

China should work towards friendly relations with its neighbors by promoting regional economic cooperation and confidence building measures.

China should undertake substantial investment in a new social welfare system.

United States:

The United States should recognize that there are mutual gains from China's increased involvement in the international community.

The United States should complement its private investment in China with financial and technical assistance in the reform of institutions and governance.

The United States should refrain from using human rights as a political tool and instead work to establish common ground on the issue.

The United States must clarify its long term foreign policy interests in China and maintain a consistent set of policies which promote them.

Bilateral:

To avoid a war over Taiwan, the United States and China should increase communication on cross-strait issues.

The two governments should work on establishing a framework for preventive resolution of disputes over trade and human rights.

'Tong Chuang Yi Meng'—'Eyes Wide Shut'

The 21st Century begins in the United States with the inauguration of a President with an especially weak mandate. The strong economic growth of the 1990's has given way to a recession that is expected to persist. The economic downturn is seen not only as cyclical, but also the result of poor economic policy. A perception of American decline creates a new sense of vulnerability and unilateralism, while anti-government conservatives block social spending. Military spending begins to increase and, in 2001, a watershed decision is made to deploy a national missile defense system, albeit in a highly limited fashion.

In the United States, the NASDAQ sinks to 1000 in 2002 and pressure mounts for increased protection of declining industries and unemployed workers. The trade imbalance with China is singled out as a major problem. Business groups accuse China of not adhering to its pledges of market access; labor groups accuse China of unfair labor practices.

In China, leaders continue a long march towards an open, free market economy. As expected, the reforms needed to gain entry into the WTO generate regional inequalities and social tensions. Economic restructuring depends in large part on investment from Taiwan, the overseas Chinese community, and US capital markets, through stock offerings of newly privatized enterprises.

Foreign investment maintains continued growth in certain industries located on the coast. Other parts of the country, however, fall further behind. Government programs to develop China's western provinces fail to deliver increased economic growth. An already large gap in wealth and income between coast and interior gets even wider. Increasing public dissatisfaction begins to create rifts in the nation's leadership. As factions emerge, reformers lose momentum and the central government cannot coalesce around a social policy to address the impacts of economic restructuring.

In 2002, the Communist Party Congress fails to produce a smooth transition of power, further jeopardizing economic reform. Although leaders publicly reaffirm their commitment to economic liberalization, the

lack of consensus has become apparent. Forces opposed to reform become increasingly vocal and influential. Certain key reforms such as financial liberalization are halted as the government is forced to continue propping up failing industries.

The slowdown in reform slows economic growth and squeezes government revenues. At the same time, foreign companies lose enthusiasm for China due to the abandonment of financial reforms. Many parts of the country are suddenly cut off from the hand of government that feeds them without receiving the benefits of economic reform. The Western provinces region is hit hardest. In 2003, poverty riots erupt in Gansu, Shaanxi, and Qinghai. The situation is worsened by a deepened sense of political disenfranchisement among ethnic minority regions which fuels independence sentiments.

Mass migration by unskilled workers from rural areas to coastal cities increases, swelling urban unemployment. This displacement leads to a proliferation of social movements which the central government views with increased suspicion. Later in the year, a crackdown on the Falun Gong, whose popularity has been rising steadily, takes place in major cities across the country. US human rights groups harshly criticize the Chinese central government, which retorts that the United States is 'hypocritical'. Demonizing rhetoric about China begins to appear in the US press, further straining bilateral relations.

At the end of 2002, the United States decides to deploy a limited theatre missile defense system that includes Taiwan. Already feeling vulnerable due to its domestic problems, the Chinese government views the deployment decision as an increase in hostility. While strategic competition is decreasing, tension over Taiwan is on the rise. Following on the heels of the missile defense deployment, an openly pro-independence government takes power in Taiwan, fueled in part by the reaction to social strife on the mainland. The United States maintains that it is more committed than ever to its 'one-China' policy and to peaceful reconciliation.

The 'Tong Chuang Yi Meng' scenario unfolds in a world characterized by:

Slowdown in the US economy

Turbulence in China generated by a rapid move towards open markets and free trade

Although Taiwan continues to be a pivotal factor in the United States-China relationship, new regional dynamics are at work. Looking towards greater collaboration with the West, Russia agrees to renegotiate the Anti-Ballistic Missile Treaty, easing tensions over US deployment of a limited NMD system. Boggled down in domestic problems, China appears less of a threat. As a result, the United States reduces the scope of its NMD deployment.

A stronger US military and increasingly distant Russia cause China to become more sensitive to issues of sovereignty. The central government becomes increasingly suspicious of multilateral fora, hindering regional cooperation and global environmental diplomacy. In the United States, the 2004 election again fails to produce a President with a strong mandate. Political parties are internally divided and the economy has not recovered. Although the perception of China as a strategic threat has lessened, finger pointing persists. Lack of US leadership and lack of China's participation are the primary obstacles to solving global problems.

In China, official policy making becomes more erratic and serious doubts arise about China's commitment to economic liberalization. Popular faith in the central government wanes and calls for democratic reform

increase, aided by the international human rights community. The 17th Communist Party Congress convenes in 2008 with heightened internal divisions and no leader with a clear mandate. The Peoples Liberation Army begins to step in to fill the leadership void and presses for increasingly strict measures to deal with urban unemployment.

Approximately 9.6 million workers will be displaced from the agriculture sector when China joins the World Trade Organization according to a December 1998 study by the Development Research Council of the People's Republic of China's State Council.

In 2009, the Three Gorges Dam is completed. After years of corruption and mismanagement, the project fails, generating far less power at a much high cost than planned. Because they ignored opposition to the dam, Party leaders lose a great deal of credibility. A political

reform movement is reactivated, setting the stage for another standoff between hardliners and reformers.

By the end of the decade, despite rising tensions over Taiwan, both China and the United States are deeply mired in their own domestic political and economic problems. In both countries, decision makers have steered away from regional and multilateral cooperation, inhibiting progress on global environmental problems like climate change. A vaguely-defined adversarial stance towards China persists in the United States, mirrored in China by a sense of suspicion and vulnerability.

Eyes Wide Shut Scenario: Implications for Leaders and Policymakers

China:

Decision makers need to be very cautious about Taiwan.

The central government must build a crisis management system.

Decision makers should pay attention to the role of the PLA and its impact on constructive relations with the United States.

United States:

Transparency, missile defense and non-proliferation regimes should become high US policy priorities.

The United States should encourage academics and other analysts to participate in shaping defense policy, specifically regarding the Anti-Ballistic Missile Treaty.

The US government should work towards more in-depth understanding of China's foreign affairs ministries and other relevant government institutions.

NGOs and the general public in the United States need to expand their cultural understanding of Asian countries, including China.

Bilateral:

The United States and China should promote more high level 'working' and 'track two' meetings.

The United States and China should undertake confidence building measures (CBMs).

Both countries should promote expanded 'civil society' interaction.

Both countries should enhance transparency in military capabilities and intentions.

Emphasis should be placed on continued economic cooperation as a means to buffer political instability.

'Tong Zhou Gong Ji'—'Friends in Need'

The decade opens with strong, investment-driven economic growth in both China and the United States, creating a 'grace period' in bilateral relations. The US government and business community are united in their faith in China's accession to the WTO and provide strong backing for China's process of economic liberalization. Symbolic of this support is the US endorsement of China's bid for the 2008 Olympics. In China, huge infrastructure investments are launched throughout the country, including many underwritten by US investors. A new era of cooperation appears to be dawning.

In 2001, a new US President is inaugurated and the economy undergoes a rapid and relatively painless downward correction. American firms continue to invest in China and Congress removes Tiananmen-related sanctions, including a ban on OPIC. China enters the WTO and the United States sends an expert team to advise the Chinese government on legal reforms. To much celebration and national pride, the 2008 Summer Olympics are awarded to Beijing.

Strong US economic growth resumes in 2002, spurred by renewed vigor in a weeded-out Information Technologies (IT) sector, as well as continued strength in the biotech, pharmaceutical, and other technology industries. In China, large infrastructure projects are launched in the Western provinces, including gas pipelines, power plants, and highways. There are also limited investments in environmental protection, including reforestation and renewable energy. Many of the large projects face opposition within China and abroad. China's ethnic minorities complain that they are not receiving fair access to jobs in the projects. The immigration of Han Chinese from other provinces also causes tensions to rise as minorities fear their cultures will be overwhelmed by the new arrivals. In the U. S., environmental and human rights activists step up campaigns against American companies with investments in environmentally damaging projects in China. Although a few companies divest from China, the impact on the comprehensive development plan is not significant.

By mid-2003, downsizing of China's state-owned industrial enterprises (especially steel,

pulp and paper, fertilizer, and chemicals) begins to swell unemployment. Downsizing is particularly severe in the Northeast, which appears to have become China's 'rust belt'. A modest but significant North Korean immigration into Northeast China exacerbates the regional unemployment problem.

Agricultural reform and restructuring, largely as a result of WTO accession, also contributes to rural unemployment. Inefficient state farms are shut down and grain production is taken out of marginal lands. Despite new jobs in food export industries such as fruit and aquaculture, a large pool of excess agricultural labor emerges in some regions. Many of these newly displaced workers join the growing 'floating population' of unskilled workers in search of employment in urban areas.

In response, the Chinese government accelerates financial liberalization in the hope that it will lead to higher rates of job creation. Initially, the measures are limited. Many Chinese banks are still forced to lend money to unprofitable state-owned projects and enterprises. As competition pushes them toward insolvency, the government is compelled to reverse course. As a result, China turns even more to international capital markets to finance investment.

2004 is an election year in the United States. Conservatives push hard for advanced-phase deployment of NMD/TMD and progressives and centrists hesitate to oppose it for fear of looking 'soft' on defense. In response, China begins an arms build-up. An expansion of military spending further strains government fiscal resources.

In China, 2005 -2007 is a time of 'Troubles Brewing'. The social impacts of China's WTO accession have been far more severe than originally estimated. Economic growth

has not kept up with the contraction in various state-owned industries. The climate for economic reform worsens when a major corruption scandal involving contracts between the Chinese government and several multinational corporations is exposed.

In 2005, after laying out new anti-corruption measures,

The 'Friends in Need' scenario unfolds in a world where:

The transition to open markets and free trade in China is turbulent

Sustained strong growth in US economy

China begins a second phase of opening its financial and insurance markets. Foreign firms take a significant share of the banking industry and an even larger share of the insurance industry. Corruption is reduced as private companies with more accountable and transparent governance structures gain market share from state owned enterprises. Convertibility of the RMB is completed, but the Chinese government maintains controls over the exchange rate.

In 2006, the Koreans suddenly undertake a rapid reunification. A newly unified Korea becomes the darling of international capital markets and US and Japanese investment in China dips significantly. With RMB convertibility, elites begin to take their money out of China. In the United States, the dramatic easing of tensions in Northeast Asia prompts policymakers to turn their attention to domestic issues.

In 2007, a new wave of corruption and embezzlement scandals erupt, this time involving Western region infrastructure projects and Olympic construction contracts. The scandals further fuel the flames of regional and national dissatisfaction. Social unrest is neither quelled harshly nor decisively addressed by authorities, who fear a global backlash with the Olympics close at hand. Despite repeated delays and cost overruns, the now scaled-back Three Gorges Dam nears completion.

2008 begins with the testing of a major new element of the National Missile Defense System in the face of mounting domestic skepticism and international opposition. The test fails spectacularly and leads to a pledge by the United States to re-evaluate the advancement of NMD and TMD programs. The Olympics are held in September with high attendance and few logistical problems. The event is viewed as an organizational and cultural success from both within and outside China. However, an expected post-Olympics investment bonanza doesn't materialize, adding to the country's debt problems.

In November, China is hit by a swift and severe financial crisis. Fueled by the continuing dip in foreign investment, bad loans in the Western region, and real estate speculation, the crisis is exacerbated by a massive wave of capital flight. With the combination of RMB convertibility and exchange rate controls, Chinese elites both can and do

protect their own wealth. With major investments in China, Taiwan is also hit hard. Security concerns between mainland China and Taiwan are de-emphasized as they cooperate to deal with the financial crisis.

In the United States, conservatives lose the 2008 Presidential election to progressives and centrists, who also obtain a slim majority of both houses of Congress. The new administration announces a significant slowdown in the development of NMD/TMD in mid 2009.

Later in the year the US government and the global business community come to China's aid by backing an IMF 'bailout'. A major incentive for the United States to help China is the substantial stock of US investment in China established during the early stages of WTO implementation. The United States also seeks to reduce the risk of greater political turmoil in China and the rest of East Asia by helping China grapple with the financial crisis. This assistance ushers in a new era of Sino-U.S. cooperation.

By early 2010, China's economy begins to rebound. As a result of the financial crisis and IMF conditionalities, China has undertaken further economic restructuring and financial modernization. Investor confidence is high and foreign investment flows in at a record rate. China rapidly expands its share of the world textiles market and begins to make major inroads into technology manufacturing.

In June of 2010, a large US technology firm announces plans for a major research and development center outside of Shanghai. Investment confidence is due in part to the unprecedented amount of cooperation between the governments in China and the United States in overseeing the economic integration of the two nations.

In the wake of the financial crisis, and in response to the social unrest that preceded the Olympics, the Chinese government takes tangible, if somewhat limited, steps toward becoming a more open and democratic society. The government also begins to move toward Western standards in many areas pertaining to law, finance, and human rights. A notable example of this is the easing of press restrictions.

China has replaced the UK as the world's favorite destination for foreign direct investment after the United States, according to a survey of chief executives from the world's 1,000 largest companies

(from the Financial Times, February, 2001)

As the decade ends, the United States and China have established a new foothold for bilateral cooperation based on mutual economic self-interest. Having shown itself to be a friend in need, the United States enjoys new popular support in China. In the United States, fear and misunderstanding of China have receded as

China has moved closer to the west in social and economic terms. Within China, however, intense social and regional inequalities and dissatisfaction persist. As the new decade opens, China faces enormous social challenges generated by the new economic order. The United States could again be a friend in need.

Friends in Need Scenario: Implications for Leaders and Policy Makers

China:

Transparency of the administrative, legal, and financial systems should become a high priority.

The central government should establish stronger urban social policy including affordable housing, welfare, and job training programs.

Environmental and energy efficiency laws and regulations should be upgraded along with capacity building measures for enforcement of these regulations.

China could use its position as the Chair of APEC in 2001 to create regional institutions to expand regional environmental cooperation and work on methods to strengthen regional financial institutions.

United States:

The United States should provide substantial rule of law assistance to China.

The United States should help China strengthen private financial institutions to reduce corruption and bad investment decisions.

The US Congress should pass not-withstanding clauses to allow US environmental, energy and health (for example, HIV/AIDS) assistance to China.

Bilateral:

Military-to-military contacts should be encouraged to build confidence and reduce potential conflict over TMD, NMD and related issues.

The United States and China should create a working group composed of members from China, United States, ROK, DPRK, and Japan to start contingency planning for Korean unification, focusing on financing, infrastructure, and other issues.

Increased environmental cooperation, including US environmental investment (EPA, DOE, DOC, DOD Environmental Security Cooperation, AID, Eximbank) would help to head off some of China's social and environmental problems.

Conclusion: A Compass for Cooperation?

The four scenarios highlight the interplay of difficult and uncertain forces which are likely to affect the United States-China relationship in the next ten years. Not the least are internal political battles within both countries over globalization.

The stories identify the value and strategic interest in both countries in moving beyond economic engagement towards greater active cooperation. Even if it succeeds in facilitating continued growth and reform in China, economic engagement unmatched by a deepening sense of political consensus could lead to greater hostility by decade's end. A constructive and consistent dialogue on human rights and other sensitive issues is key to such cooperation.

One of the surprising insights of the scenarios is that economic downturn and financial crisis could bring the two countries closer together. Because China's economic transition is crucial to regional stability, the United States should and likely would lend a hand in times of need. And all the scenarios suggest at least caution, if not outright rejection, of an aggressive US Theatre Missile Defense deployment in Northeast Asia.

If strategic interest is matched by action, the next decade could lay the foundation for the normalization of cooperation after 2010.

Some of the most fertile areas for cooperation are in the areas of environmental protection and energy security. An extensive bilateral network of scientists, academics, and NGOs is already forming. This network could lay the foundation for a series of government and business initiatives which could help to build greater capacity in China for environmental protection. It will also enhance the outcomes of global environmental diplomacy, especially on climate change.

Many of the events envisioned in the scenarios are already coming to pass as we go to press. The US economy is slowing down and China's implementation of free trade measures is spotty. The United States announced that it will again seek a resolution against China in the Human Rights Commission—and China

countered with a report charging human rights abuse in the United States. China moved to deregulate its stock markets—and suffered a mini-financial crash shortly thereafter. Despite concerns of allies and foes alike, the United States has announced a unilateral intention to deploy TMD.

The scenario stories are coherent and distinctly different from each other. The real world is messy and contradictory. Aspects of all the scenarios are likely to unfold in the next decade.

The point of the scenario exercise was not to predict a single future. Rather, by creating a range of plausible futures, it aimed to get into sharper focus a basket of policy options and smart decisions. In any scenario, the United States-China relationship will have a bumpy ride in the next decade. The scenario workshops have helped to provide a map and compass.

What is most important is that the scenarios and policy implications were generated collaboratively by Americans and Chinese. With different areas of expertise and points of view, the 'mental maps' each person brought to the workshop were stretched and reformulated as a result of listening and challenging, as well as being challenged.

More than any other tool, effective dialogue can help bridge deep divisions and confusions not only between but also within the United States and China. Scenario workshops in the United States, for example, could help environmental, security, trade, labor and human rights policymakers and activists develop the kind of consistent, constructive policy framework called for in this Report.

If the scenario workshops are a microcosm, the future is hopeful. Over the two three-day workshops, Chinese and American thinkers openly shared hopes, fears, perceptions, and analyses. In the process, they come to better understand each other and the dilemmas both countries face. Our hope is that the lessons reflected in this report will inspire a new vision for leaders and policymakers in the United States and China over the next decade.

Participant Impressions

“A policy of communication is very important - there is a compelling need for leaders to ‘pick up the phone’ in times of crisis.”

“The potential slowness of political reforms in China is a real issue. I had not appreciated the fact that it doesn’t seem as though there is much debate in China about whether the reforms will go forward or not, just how fast they might be.”

“Perceptions are enormously important, and trust-building activities can make perceptions more accurate.”

“I’m deeply impressed by the potential impact of relations with Taiwan on all of the scenarios. While it seems to be a flashpoint that could throw all the scenarios off track, it seems that each of the scenarios offered insights into how the United States and China could engage each other (and Taiwan) to reduce the probability of conflict.”

“The candor of the Chinese participants was refreshing, and their willingness to consider a wide range of possibilities—e.g., the potential for different types of leaders to gain ascendancy at the 16th or 17th Party Congresses—made the sessions particularly interesting.”

“I think it would be instructive for others in the United States to learn that professional America-watchers in China have just as deep and nuanced a view of our country as we believe that American China-watchers have of China. There are influential people in China who really do understand the United States, how it works, and why its representatives say the things they do.”

“One thing I learned is that others see the world in ways which are much different from my ways.”

“The workshop takes a forward look. By discussing developments of the two nations in a ten-year period, the prospects and predictions on future relations become much more clear and solid. This kind of research is more real and open-minded than most of other studies on the Sino-US relations.”

“Chinese agricultural workers have the potential to be enormously destabilizing for China as they become displaced due to WTO implementation.”

“As someone focused on the pressing realities and constraints of US foreign policy decision making, I was initially skeptical about the value and worth of ‘scenario building’ exercise. But I came away from the workshops with a much better appreciation of realities and possibilities of United States-China relations. I also gained an appreciation of the scenario methodology as a way to foster consensus, understanding, and compromise among people and organizations of different nationalities and with varying perspectives.”

“The scenarios emphasized for me that the personal and political qualities of leaders in both China and the United States will have an important bearing on the course of relations between the two countries.”

“The scenario method gives a scientific way to discuss the different possibilities of the development of Chinese-United States relations. During the discussion, participants were reminded to pay attention to different, often overlooked, opinions. For example, during the meeting, Chinese researchers surprisingly found that in the Power Shift scenario, which assumed that China gradually accepts international rules and the US economy keeps a high growth rate, it still will be possible for China and the United States to come into conflict not only due to ideological difference but also a shift in the balance of power.”

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