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Economics and National Security: The Case of China

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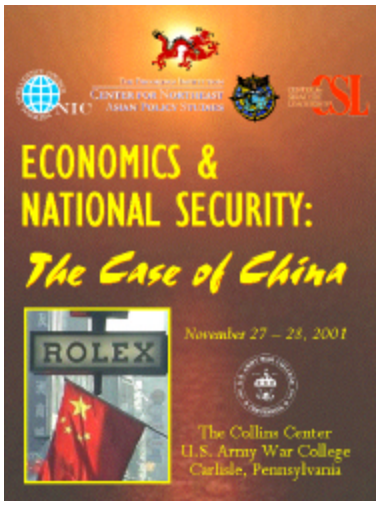
The United States Army War College's Center for Strategic Leadership, the National Intelligence Council, the U.S. Pacific Command, and The Brookings Institution's Center for Northeast Asian Policy Studies cosponsored a conference for selected invitees entitled "Economics and National Security: The Case of China." The conference was conducted at the Collins Center, Carlisle Barracks, Pennsylvania on November 27th and 28th, 2001.

BACKGROUND

The phenomenon of global integration has gone beyond what was envisioned by the early interdependence debate. The rationalization of industrial production and the power of the internet have created a new era of economic integration with profound security implications for the United States. The Bush administration recognized this phenomenon. In February 2001, President Bush created the position of Deputy Assistant to the President for International Economic Affairs and Deputy National Security Advisor. The President appointed Gary Edson to the position who will effectively serve as a deputy to both. National Security Advisor Condoleezza Rice and Director of the National Economics Council Lawrence B. Lindsey, indicating that economics will play a significant role in U.S. foreign policy. Nowhere is the nexus of economics and national security more problematic than with the emerging regional power, China. China's Most Favored Nation trade status dominated U.S. – China policy for much of the 1990s and recent incidents between the two countries highlighted the debate over the degree to which increased economic integration and trade may lead to a stable, more



democratic China. With China's economy continuing to grow, the importance of economics to Chinese security policy and the relative size and capabilities of its military will only increase.

PURPOSE OF EVENT

The purpose of the conference was to explore the national security dimensions of the U.S. – China economic relationship and identify possible roles for the economic element of national power in formulating policy options. Specifically, senior military, administration, congressional, academic, private sector, interagency, and donor organization subject matter experts examined: the linkage between economics and national security; the military implications of China's expanding trade relationships; China's energy development and environmental policies; the role of economic sanctions and export controls; and the role of economic policy in U.S. national security.

CONFERENCE METHODOLOGY

The conference commenced with a series of panel presentations on the changing definitions of national security, general economic trends and globalization, how China affects the U.S. economy, and how economic engagement may change the political landscape of China. This was followed by a series of presentations on China's integration into the world economy. Dinner with Ambassador Clark Randt providing the keynote address closed the first day.

During the second day, there were three panels, each having a series of presentations. The first panel explored the military implications of China's expanding trade relationships. Next, the conference examined China's energy development and environmental policies as constraints to economic growth. Lastly, participants explored the role of economic sanctions and export controls, and considered new approaches in U.S. policy.

PRESENTATIONS AND DISCUSSIONS

The post World War II financial institutions envisioned at Bretton Woods continue to promote the integration of the World Economy. The success of the World Bank, International Monetary Fund, and General Agreement on Trade and Tariffs/World Trade Organization has been furthered by the end of the Cold War and the revolution in technology. As a result: more than three trillion dollars in currencies cross borders daily; the growth rate of transfers between foreign affiliates of multinational corporations doubled that of

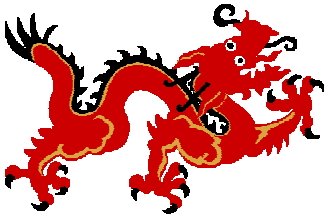
global trade over the past ten years; and the international economic engagement's share of the U.S. GDP has increased from 13 percent in 1970 to 30 percent in 2001 (Frost). No longer autarchic, the economic vitality of the United States increasingly depends upon decisions made in other countries.

Unlike Japan, China had made the difficult decision to reform its financial system. China made the economy its top national priority and is moving rapidly toward full World Trade Organization membership. Employment in state owned and urban collective enterprises fell by 54 million between 1992 and 2000. Its economy continues to grow at a rate of six to eight percent per year as the world economy struggles. The GDP of the United States is approximately $8 trillion. China's GDP is around $1 trillion, with the Russian GDP about half that of China. Foreign investment once targeted for the U.S. is now directed toward China, and the Chinese economy is expected to double every ten years to $4 trillion by 2020 (Naughton).

The U.S. imported $100 billion in merchandise from China in 2000 while returning $16.2 billion in exports. The quality of Chinese imports to U.S. has increased dramatically, with data processing and office machines, and telecommunications and sound equipment now ranking second and third. Further, component parts for high technology Asian imports to the U.S. are increasingly produced in China. With this shift the viability of export controls and trade sanctions as foreign policy variables is changing.

FINDINGS

As trade between the two countries has grown and China has increasingly become part of the world economy, China has made incremental changes in its political and economic systems. Does economic engagement positively influence Chinese leadership? Yes, and the resultant incremental changes in institutions are establishing the foundation for a more stable political and economic system. Will this lead to democracy or a level of human rights respect that silences foreign critics and isolates U.S. China policy from acrimonious debate? Probably not. Moreover, the issues of technology transfer and Chinese trade policy will remain contentious and subject to U.S. domestic variables.



Other security issues abound. Will China's growing trade empire shift regional allegiances and influence U.S. Asia-Pacific alliances? It most likely will. Is the People's Liberation Army (PLA) benefiting disproportionately from the economic benefits of China's trade? No, although the PLA and defense sector will modernize, China's priority remains its economy, and the PLA's role in the business sector has been substantially reduced. Moreover, it is unlikely that China's expanding trade network will provide the justification for military intervention or the development of an expeditionary military force. However, as China's economy grows, energy demand will keep pace and

most of its energy imports will originate in the Persian Gulf. China's strategy of petroleum concession ownership creates the potential for geopolitical conflict in areas of longstanding U.S. security interests.

Environmental factors are also important. Economic growth will increase the problems associated with water shortages in the North East. China will continue to struggle with the domestic and international pollution associated with its growing number of coal fired power plants.

There is great potential for using the economic element of power proactively to achieve an end state of an economically and politically stable China that is willing to accept a continual U.S. presence in the Asia Pacific region.

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