

WAITING FOR THE US GRAND STRATEGY ON CHINA. A SUMMARY OF FINDINGS AND RECOMMENDATIONS OF THE US–CHINA SECURITY REVIEW COMMISSION IN 2002-2018

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Abstract. The article is a summary of works of almost two decades of the US-China Security Review Commission. As the US Congress notices the challenges posed by China to a wide spectrum of US interests and orders the US President to develop a comprehensive strategy on China, author highlights that such an awareness was already present among US officials much earlier. Article focuses on three key areas, i.e.: geostrategic posture, military posture and technological development, anticipating, that most of the problem defined by the Commission in these areas have not been eliminated and are most likely to be observed by the creator of the upcoming strategy. Author argues that China has a significant advantage over US, resulting from two major factors. First, it's the inflow of capital followed by inflow of US technologies to Chinese industries and businesses. Second, it's the centrally planned and governed Chinese system that allows CCP to steer the economy and society with higher predictability, as opposed to freedom-based economy on the US side, which is independent of the Congressional/Administrational guidance. The article's overall goal is to allow readers a better insight into the Presidential Strategy on China, which is to be published 180 days from the enactment of the National Defense Authorization Act for FY 2019.

Keywords: US–Sino Relations, US Strategy on China, Washington on Beijing.

Introduction

The 2019 National Defense Authorization Act became law in August, significantly earlier than the required deadline of September 30, and it is worth noting that it has been the first time in a decade when the Defense Department received its authorisations on time, instead of being limited by the Continuing Resolutions which have been hampering the budgeting system of this millennium¹.

¹ Continuing Resolution (CR) for a Fiscal Year (or its part) is enacted by the Congress in case if the Budgeting Process is not completed by September 30 of the year before given Fiscal Year. Technically, it authorises a federal agency/department to use the proportional part of the funds from the previous Fiscal Year. In other words, CR freezes federal budget at the level of previous fiscal year, and thresholds that result from this act pertain not only to level of funding but also to number of pieces of equipment a department is allowed to acquire. Since 2002 CR for DoD has not been enacted in FY 04, 05, 07 and 09 only. For more details, please read: L.M. Williams, J.M. Roscoe, *Defense Spending Under an Interim Continuing Resolution: In Brief*, CRS, Washington February 23, 2018.

In 2018, while formulating the 2019 NDAA, the Legislative Branch is very vocal, strict and clear about the need for a tailored strategy to respond to China's activities².

The Congressmen state that a long-term strategic competition with China is a fact that requires firm response. As the Act calls for a comprehensive strategy, setting goals for each possible element of US's national power, it is also very precise when it comes to the areas, where Beijing's activities constitute a possible threat to the interests of Washington. The President is ordered to deliver the strategy not later than March 1, 2019 in an unclassified form (with classified annexes if need be) and prescribe activities that will counter Chinese INFOPS, political influence and censorship, use (and abuse?) of intelligence in the process of exploiting scientific networks. To that end, the Administration is to enhance the efficiency of strategic communication in order to promote US interests.

The Chinese infrastructure projects are named a tool of influence, and the Administration is ordered to assess the strategic impact they have on all continents, to include Europe. The President shall also submit a plan to coordinate efforts of all available agencies in order to gain a maximum effectiveness.

The American system of building defence oriented strategies has received severe criticism mainly because it combines ends with ways and means, but very often is deemed not be rooted in the realm of resources³. This time, however, President is ordered to calculate all possible costs associated with implementation of the strategy and include those in the Presidential Budget Request.

As the deadline for such strategy approaches, this article will review the so-far observations and recommendations developed for Congress by the US-China Economy and Security Review Commission⁴.

The purpose of the Commission, established by the provisions of FY 2001 NDAA, is to: „monitor, investigate, and report to Congress on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China"⁵. To that end the Commission was tasked to report⁶ to the Congress annually, on the matters ranging from the economy, defence, trade and technologies that have influence on the strategic relations between the superpowers.

In other words the Commission was to investigate how China is generating the favourable trade balance, how it consumed it, and what portion of that was used to develop its military power. Not only was the Commission to diagnose the

² FY2019 NDAA, P.L. 115-232, Section 1261.

³ J.W. Meiser, *Are Our Strategic Models Flawed? Ends + Ways + Means = (Bad) Strategy*, https://ssi.armywarcollege.edu/pubs/parameters/issues/Winter_2016-17/10_Meiser.pdf, (retrieved April 23, 2018).

⁴ From this point forward referred to as „Commission”.

⁵ FY 2001 NDAA P.L. 106-398. Symbolically the Commission took over some responsibilities and most staff and infrastructure from the Trade Deficit Commission. From the very beginning a huge stress was put on the Commission's bipartisanship, which was to be guaranteed by an equal division of seats between both parties and rotational chairmanship. Quality of works was to be guaranteed by close monitoring of selection of the members by Finance and Defence Committees of both chambers.

⁶ All reports are available at: https://www.uscc.gov/Annual_Reports. For purpose of this article they were being retrieved in the period of July 13 – 18 November 2018.

problem, it was also to find and propose a cure for it. This order was to be executed by accompanying the report (its findings) with suggestions for further action by US Administration and Congress (recommendations).

In fact, one of the recommendations, (Annual Report 2017) suggested Congress require the executive branch to develop a whole-of-government strategy for countering Chinese coercion activities in the Indo-Pacific coordinated through the National Security Council that would encompass diplomatic, informational, military, economic, financial, intelligence, and legal instruments of national power.

In order to get a better understanding of the observations made by the Commission, in the article, a link between ends ways and means of China's activities will be highlighted. For that reason geopolitical goals will be followed by very often interlinked roles of economy and People's Liberation Army in achieving them. The aspect of ways and means will be further explored by highlighting the Commission's findings on the technological development, especially those to be used specifically or potentially by PLA.

The article is not an attempt at summarising the developments in China. The author rather strives to examine to what extent the so-far findings and recommendations of US Congress working body – US–China Security Review Commission – may be used by the President in the development of a comprehensive strategy on China. In other words, the article, in anticipation of the strategy, summarises the Chinese deeds and policies highlighted the most in the past (nearly) two decades since introduction of the Commission together with the Commission's recommendations. Given the Commission's opening remark on China: "Based on our analyses to date, as documented in detail in our Report, the Commission believes that a number of the current trends in U.S. – China relations have negative implications for our long-term economic and national security interests, and therefore that U.S. policies in these areas are in need of urgent attention and course corrections".

Paired with: "China's accelerated military modernization program has been enabled by China's rapid economic growth; reliable and generous increases to the People's Liberation Army's (PLA's) budget; gradual improvements to China's defense industrial base; and China's acquisition and assimilation of foreign technologies – especially from Russia, Europe, and the United States – through both purchase and theft".

Commission's finding on China's geostrategic goals, military posture and high-tech development are analysed. Effects are paired with Commission's recommendations. For that reason statements and expressions in parts other than Introduction and Conclusions of the article are those of the Commission in focus.

Geostrategy – Regional and Global Aspects

During the period in focus, Chinese hunger for regional hegemony is acknowledged by the Commission and its findings are rather alarming, since main

obstacle on its way to achieving the goal are the US interests and alliances in Asia, which Beijing is eager to undermine (2018). Even without stable political relationship, example being South Korea, Beijing is successful in building economic ties, where regional well developed and developing economies add fuel to the export oriented industries of China by consuming a large portions of its products, or even by acting as intermediaries in the chains of supply directed at US market. With huge momentum added to those regional economies, China finds it extremely easy to promote its policy as a win/win offer for the recipients (2004).

For two different reasons, however, the generous offer, is not addressed to Taiwan nor Hong Kong, which are to remain under direct influence of the Chinese communists. The latter, a driving force of the country's economy and the former, although also gaining in importance as a centre for high-tech R&D and the largest foreign investor in the Mainland China, is to be kept under Beijing's pressure to prevent it from becoming an independent state (2004).

The 2010 sees a soothing findings – the tension over the Strait is diminished and this results from the presidential elections and more dialogue oriented presidency of Taiwan President Ma Ying-jeou (2010).

Around 2008 the Commission started to put more focus on the Chinese territorial claims and highlighted the perception of the Chinese leaders who oppose any interference with what they claim to be their internal affair. Although listed as a sign of China's regional emergence, this activities had serious global ramifications, because they undermined the fundamental principles of freedom of global lines of transport. To this end, Beijing had alarmed the Commission by waging a full-fledged legal warfare in the international fora, with 2010 being the year perceived by the Commission as significantly adding to the momentum of Chinese actions. The tensions between the claimants were growing in 2011, what the Commission perceives as a sign that Chinese sovereignty/territorial claims are there to stay on the table with significant consequences for the region and US interests there.

2012 saw a historical significant low in the Beijing-Taipei tensions. According to the Commission's findings, it followed almost three years of mutual lowering of expectations and emphasis on economic exchange, what required some effort from both sides. In order to maintain it, both parties introduced the policy of tackling „the easy first, the difficult later”.

At the same time, Commission observed a near boiling point in the Sino-Japanese relations, which, heated up by nationalist tendencies and centuries long animosities, around this time focused mainly on the Senkaku Islands. After the purchase of some of the islands by Japanese government from a private owner, angered Beijing ordered more frequent patrols by its navy and maritime law enforcement agencies in the region. Given Tokyo's mirroring reply, the Commission was concerned about a possibility of a incident-induced conflict (2013). Tensions continued in 2014, when, as stated in the Annual Report, Chinese decision to open an airspace identification zone over the contested islands. This, combined with the

Vietnamese incident⁷ was yet another testimony to China's view on Asian security architecture.

However, as stated in the 2016 Annual Report, even the regional goals, i.e. in the Indo-Pacific region were a step towards a global influence, if not dominance. The stance of Beijing remained solid and with time, as observed by Commission (2018), is more and more pronounced, with a fine example of this being the statement by President Xi's directed to Secretary Mattis: "China would not tolerate the loss of a "single inch" of its territorial claims".

The attack on Pax Americana was also visible to the Commission in the global context. China was accused of using its currency reserves to fuel regimes and governments that were perceived or declared as anti-US, hence adding to the burden of our current global security provider (2004). By selling arms to end-users that are subject to embargo or sanctions by other important manufacturers (Sudan, Burma and Iran), China made US work harder in its effort to stabilise those regions (2008). Such an approach is observed by the Commission throughout its service for the Congress and in many regions, where China intentionally cherry-picks countries like Iran and Syria, to challenge the US. According to the Commission it was especially visible during the Syrian conflict (2013).

US, by the words of the Commission, expressed its concern over Chinese more and more disturbing role in the market of oil and natural gas. This was done in two different ways. First is by securing access to oil fields in places otherwise abandoned by other consumers, e.g. Sudan and Iran. Second was by equity oil acquisition, a strategy that uses Special Purpose Acquisition Company, which main purpose is to find and sell quality oil.

Growing demand for fuels was also to be satisfied by increased imports through various channels, therefore an increased involvement in Central Asia was forecast. The forecast came into fruition sooner than one may think, as both the 2014 and 2015 Annual Reports highlighted President Xi Jinping's promise of building new Silk Road.

All the regional and global activities received support of well organised and well trained influence apparatus, whose main message was that China was on a path of peaceful development fuelled by an enormous economic growth for which the CCP leadership should be appreciated (2009).

One of the most frequently highlighted facts in the papers issued by the Commission was the currency policy of China. Commission, having received testimonies from numerous experts was certain about Beijing unfair practices in keeping the RMB's value at an artificially low level, to keep it as favourable for Chinese export-

⁷ In May 2014, China sparked widespread protests in Vietnam (and attracted criticism from the international community) when it moved an oil rig into Vietnam's exclusive economic zone.* The rig was accompanied by dozens of Chinese fishing, Coast Guard, and naval vessels, and clashes between these and Vietnamese boats injured dozens of Vietnamese fishermen and sunk a Vietnamese fishing boat. Beijing has concluded the U.S.-led East Asia security architecture does not benefit its core interests of regime preservation, economic and social development, and territorial integrity. Excerpt from 2014 Annual Report.

ers as possible (2009). Commission sourced the extreme trade deficit as well as huge dollar reserves held by Beijing to this very fact. It was at the same time rather certain that China is unlikely to abuse the reserves, as depreciated dollar will both diminish the advantage of a low-value RMB and lower the value of the reserves themselves. In this regard, the Commission goes as far as stating that: "The current economic crisis, which started in the United States but has now shifted to encompass the entire world, has its roots in the massive global economic imbalances. The responsibility for these imbalances can be placed partially on the United States as the world's biggest spender and borrower and partially on China as the world's biggest saver and lender. China pursues policies that have the effect of increasing Chinese savings, restraining consumption, and keeping the RMB under-valued"⁸.

The loans to the US made through purchase of governmental bonds by the surplus dollars were a policy observed by the Commission, especially after the global financial crisis of 2008 (2010). Results of such a flow of capital include – it keeps RMB artificially low, hampers the effectiveness of US exporters, however, aids the consumer market in the US, since the interest rates as well as prices might have been kept low.

One of the aspects of global Chinese outreach was the BRIC (Brazil, Russia, India, China) conglomerate. Commission finds it a leverage to Chinese global position in both economy, politics but also military and, contrary to Beijing's official positions, this cooperative group is considered a vehicle for Chinese global geopolitics.

Local, Regional and Global Military Postures

Throughout the period under consideration the Commission observed the Chinese military developments and postures, and the findings may be divided into four categories. First, it's the traditional Taiwan-oriented military strategy, that is used to coerce Taipei into a defensive stance and keep it under pressure, as a result limiting the island's willingness and ability to climb the mountain of full independence. Second encompasses all the regional aspects of military development. In this regard, Chinese military actions in the regions of territorial disputes are acknowledged and listed as posing threat to regional stability and indirectly influencing US military dominance and, possibly interests in the region. Third category results from the Commission's focus on a broader, global military presence of PLA's soldiers. Fourth are all the operations and developments of the PLA and, in a broader sense, the military complex, aimed directly against the US. These include mainly various types of espionage and infiltration of the US defence establishment as well as industry in order to solidify the technological progress of PLA at the cost of the US dominance.

⁸ 2009.

In all four cases, according to the Commission, the military power is used as an active tool or a means of deterrence in achieving the country's strategic goals.

From the outset, the Commission was concerned about the disadvantageous military balance between Mainland and the Island, further deepened by technological and structural modernisation of PLA (2004). The goals of the modernisation were very specific, and, apart from military superiority measured by raw power and ability to project it, there was a growing focus on the ability to act swiftly and decisively, preempting any potential activities from the US (2006, 2009, 2017, 2018)⁹.

This remained the main focus even in times when both parties (i.e. Beijing and Taipei) were more cooperation-oriented. Such a focus was highlighted by on-going espionage efforts from the PLA intelligence units and everlasting efforts from Taipei to counter those activities (2013)¹⁰.

Although far from the initial build-up tendencies, and on the wave of mutually beneficial economic relation, Taiwan did respond to the pressure by introducing military capabilities to deter and defend the potential Chinese threat, and heavily invested in the strategic relation with the US (2017).

Findings of successive annual reports were clear about the importance of US role in the Beijing-Taipei relation, a role that would stabilise tensions and prevent any of the sides from unilaterally changing the status quo. The Commission went as far as stating that the conflict might be used by China as an incendiary for a larger scale conflict with US (2017).

Commission observed the increased scope of military interests beyond the so-far Taiwan Strait orientation and attributes this trend to Hu Jintao's Historic Missions. Members advocate that rationale behind this approach was the understanding, that with growing global interests, China should be able to support them with a decisive military presence. Starting point of this presence were peacekeeping, disaster relief and anti-piracy missions.

At the very beginning of its works, however, the Commission found it hard to define what direction would the PLA modernisation follow when exceeding the Taiwan mission. Some indications of Western Pacific capabilities (including space warfare) were read as hints that in the upcoming years Beijing might be willing to disorganise US and its allies' freedom of manoeuvre and operation in the region (2005, 2006).

The non-Taiwanese military goals become more and more clear, as the analyses conducted by and for the Commission revealed that, with growing demand for foreign supplies, China will be striving for independence in securing the sea lines

⁹ There is a tradition in the Commission works not to repeat its recommendations and avoid repetitions, if possible, in findings. There are, however, certain recurring issues, one of these being the Taiwan-oriented military strategy and development in PLA.

¹⁰ As stated in the 2013 Annual Report: Taiwan has arrested at least six former or active Taiwan military officers, including one flag officer, for espionage. In one case, a former Taiwan Navy officer may have provided to China classified submarine nautical charts as well as hydrographic information about the waters surrounding Taiwan.

of communication (2005). As time progressed, Commission became absolutely certain that with growing naval capabilities, China would achieve that goal, but as a result the freedom of movement by US forces in the region will be put at jeopardy (2009). At that time reports concluded for the Commission were alarming, that with claims regarding the freedom of operations/manoeuvre around the contested island, China will pursue the capability of militarily enforcing those freedoms for its civilian vessels. This is to be paired with significant stress put on the anti-access/area denial capabilities in order to constrain potential adversary (2009).

As mentioned earlier, the official announcements by both the state authorities and the propaganda apparatus were redirecting international community's attention from this subject, and all modernisation efforts were described as purely maintaining the status quo in the region (2011). In the eyes of the Commission, however, such statements were not credible, as the report from the same year emphasised that activities in the region are rather intimidating and that search for peaceful solution and maritime activities were very often paired with aggressive cyber warfare against other claimants.

With the efforts focused on the Western Pacific and the seas in the direct neighbourhood, where most of the territorial claims are located, Beijing efforts to establish a tangible naval forces in the Indian Ocean were assessed as unlikely (2014).

The Commission was concerned by the tempo and quality of developments in the PLA's Second Artillery Force. With substantial investments in both range and precision of strikes, Beijing moved the unit's profile to a mix of nuclear and conventional (previously only nuclear), having achieved a formidable force capable of deterring all militaries in the region and putting a substantial pressure on the US forces operating there. What was found particularly alarming is the Force's ability to deny and penetrate enemies' missile defence installations (2015).

Further structural changes in the PLA are also startling for the members, as a flattened structure adds to Beijing's capability of organising and conducting a major joint operations in all theatres, including a „range of perceived threats along China's periphery". With inclusion of all uniformed services operating in the seas (People's Armed Police, China Coast Guard) under the Central Military Commission's command, they achieved a quasi-military status and are now an important instrument in the territorial disputes (2016, 2018).

Above all challenges regarding Chinese developments as well as current and projected status of PLA, Commission has been consistently concerned about colossal risk of misjudgement and miscalculations on both poles of the China-US conjunction. Throughout almost two decades of activities, members were calling for establishment of appropriate confidence and security building measures between US and China that would diminish the risk of clash resulting from misjudgement¹¹. This fear was even more heated in the context of territorial claims in the region,

¹¹ A point recurring in almost every Annual Report.

as the Commission states: “Prior to the PLA achieving its objectives of becoming a “modern” and “world-class” military, Beijing may use coercive tactics below the threshold of military conflict rather than resorting to a highly risky use of military force to achieve its goals in the region. However, as military modernization progresses and Beijing’s confidence in the PLA increases, the danger grows that deterrence will fail and China will use force in support of its claims to regional hegemony”¹².

The lack of CSBM’s had for the Commission also a context of shaping the global military balance. The Cold War arms race between US and USSR, having passed its climax, resulted in several agreements between antagonists, which eased tensions, slowed the race, but also imposed certain limitations on the parties. At that time China was not subject to those agreements, hence had not pledged to limit itself in any way, an observation made by the Commission on several occasions. Especially the 2012 report combined the use of weapons prohibited under INF and New START Treaties with “Beijing’s diplomatic posture toward nuclear restrictions”.

In the latest report (2018), the Commission focuses on the projected capabilities of PLA and bases the prediction on the 2017 Xi Jinping’s announcement of the modernisation goals. According to the words of the leader: “PLA is to become a fully “modern” military by 2035 and a “world-class” military by mid-century”.

This added to the momentum of development and increased – according to the Commission – the likelihood of China surpassing US militarily in the Indo-Pacific by 2035 or even earlier, while the Middle Kingdom had already amassed a wide variety of tools to contest US Southeast Asian operations in all modern warfare to include cyber and space (2018).

As mentioned earlier, apart from contesting US around its border, China has been waging a full-fledged espionage operation against US. These activities constituted a significant part of the Commission’s interest.

Commission reports that spectrum of operation included direct military espionage in all domains, but also an extensive use of non-military and even non-professional collectors. While in the very beginning these operations were mainly focused on obtaining information that would facilitate and speed up the economic and technological (as a result also military) progresses in China, Beijing started to oppress the remnants of democratic political anti-communist opposition operating in the US (2009). Such efforts continued to surface during the life of the Commission and sometimes make it to the list of key findings in the Annual Reports¹³.

As part of its military strategy, Beijing highly prioritised scenarios against technologically superior opponent. In other words, to balance the technical supremacy

¹² 2018 Annual Report.

¹³ The 2012 Annual Report describes the most significant example of malicious Chinese cyber activity exposed in 2012 „when the National Aeronautics and Space Administration (NASA) reported it was the victim of 47 “advanced persistent threat” attacks, 13 of which successfully compromised agency computers. Intruders stole user credentials for more than 150 NASA employees and gained full functional control over networks at the Jet Propulsion Laboratory”.

of US, China was preparing a plethora of high-tech systems aimed at paralysing its adversary's C4ISR capabilities (2011).

Cyber activities, also those presumably conducted by China, are hard to be attributed definitively. Commission, however formed a list of subjects that may operate on China's behalf against the interest of US in the digital domain. The list included military intelligence units, military cyber attack units, but also a large number of IT and communication Chinese enterprises that might be used as proxy for such operations (2012). Such operations were very often directed against Washington's security architecture, as a result China gained possession of classified and sensitive information about „national security, military plans and operations, as well as weapons designs” (2016).

Apart from cyber domain, China was described as „the world's preeminent spacer power” (2014), what, when combined with a considerable increase in „fire-power” decreases the relative power of US and Washington's potential of deterrence; it even had the possibility to annihilate the American satellites working for the national security systems, or at least render them inoperable.

Technological Progress

Large part of the Commission's works has been focused on the technological progress achieved by China through various means. There is a broad rationale behind such focus. First, technological superiority of the US as such is threatened. What results from that is China's ability to jeopardise the foundations of US national security. Moreover, CCP's leadership is (ab)using the technological prowess of its companies to exert pressure on the development of free society in China, by limiting access to information (2004).

Such a high pace of development was not, however, a by-product of other activities, it was, as the Commission had observed, the end result of carefully planned science and technology strategy, that was conceived in the mid 1980s and included combative implementation of industrial espionage (2005).

Part of the strategy included attracting R&D efforts of foreign companies by creating favourable conditions. There is a popular belief, demystified by several annual reports, that this attractiveness was generated mainly by low labour cost¹⁴. However, R&D activities qualify as „technology intense”, hence labour costs just a minor fraction in the overall costs. What really attracted foreign companies to conduct the R&D in China were the preferential taxes and artificially lowered equipment as well as land costs. Commission complained that such attractiveness was abused by China in order to fulfil its overall goal of „leapfrogging” global competition in the tech-race, since very often technologies developed in the process were either transferred to Chinese companies through legal arrangements, or technological espionage (2008).

¹⁴ Information recurring in several Annual Reports.

Another dimension of making China more attractive was the „1000 talents programme”, through which Beijing was (successfully) attracting 1000 leading experts and entrepreneurs from 100 leading foreign universities and industries.

At some point in its history, Commission was alarmed by the low effectiveness of the US intelligence community in gathering and processing information on China and its progress, what resulted in a shock among officials when certain developments surfaced (2007).

What attracted particular interest of the members was the progress achieved in development of space capabilities, which, although designed as civilian, might in the future be used as pillars of the military architecture (C4ISR) (2008, 2011, 2015). As such, the capabilities would add significant leverage to Beijing’s comparatively smaller forces. This was the direct result of the Chinese dual-use philosophy. „Combine the military and civilian”, „Combine peace and war” or „Let the civilian production support military production” as the Chinese call it, has been both main source of latest technology to saturate the military, and also the biggest concern for the Western countries, as expressed by the Commission (2008). Given the consistency and pace of developments, Commission blatantly stated: “As part of an active lunar exploration program, China may attempt to land a man on the moon by the mid-2020s”.

Similar observations were made regarding the aviation industry (use of predominantly civilian developments for military purposes), this time with certain opportunities for the US industries. Higher demand for aviation products in China called for an increase in the pace of developments in this branch. Until this industry is full-fledged, however, US companies had an opportunity (2010, 2011).

Having listened to numerous testimonies, Commission was gaining certainty that China is on its way to becoming a fully innovative economy, and, although as of 2012, the economy was unable to indigenously develop innovative military platforms, however with certain „pockets of innovation”, the members observed a huge potential of switching larger chunks of economy (including defence industry) to the fully innovative mode.

Technological progress cannot be considered in isolation from the overall picture of the Chinese economy that has produced it. And the picture constitutes a significant subject for Commission’s investigations. Structure of the economy, which in key areas is dominated by State Owned Enterprises (SOE) under a predominant central control of the actors very often linked to the military domain, has remained the top concern for the Commission. Described as root of all problems, it determines major aspects of economic activities by China and in China, namely: compliance with WTO standards, fair treatment of foreign investors in China, open and transparent activities by Chinese subjects in other markets, mainly in the US¹⁵.

Among findings throughout the two decades, some were alarming and had an accusing character, namely, especially in the area the so-called privatisation.

¹⁵ Problem recurring in most Annual Reports.

It did not occur in China, quite the contrary, it solidified the centralised control, and did nothing but concealing military influences in the dominant industries. As a result Commission finds it difficult to trace, and claims that US Administration (nor any other player) has the tools to trace the actual provenience of capital flowing from China to the US and Hong. Moreover, there was an allegation that the PLA-controller SOE's might be involved in proliferation of civilian technologies and dual-use technologies or sometimes even weapons built with them (2004, 2008).

Above that, the Commission would shed light on the statement by China's State Council, which was open and vocal about its strategic branches, i.e. those, which were to remain under state's total control and „heavyweights”, which were to be partially controlled (2008): “The strategic industries are armaments, power generation and distribution, oil and petrochemicals, telecommunications, coal, civil aviation, and shipping. The heavyweights are machinery; automobiles; information technology; construction; and iron, steel, and non-ferrous metals”.

The Commission was gravely concerned about the unfair policies used by Beijing in order to attract investment in key industries, which had a potential to jeopardise US technological dominance. The policies included: “Foreign investment incentives, tax incentives, government subsidies, technology standards, industrial regulations, and incentives for talented Chinese students and researchers studying and working overseas to return to China” (2005).

The practices were deemed illegal by WTO standards and result in substantial dive in the US manufacturing base (2006).

As a result, already in 2008 the Commission observed a worrying peak in the investment values from both US, European, as well as Taiwanese manufacturers, who in large numbers, moved their R&D activities to China. Given China's poor record of respecting intellectual property, Commission expressed their concern over exposure of sensitive information that was contained in the facilities established in China by foreign companies. The tendency has remained Commission's top concern in almost every report until 2018, yet the technologies targeted by Beijing and attracted by its policies come from other sources as well, with EU Member States being mentioned the most.

Such investments, very often accompanied by transfer of technologies, which, due to economies of scale, accumulated, adding to the indigenously developed technologies, allowed Beijing to move its focus from labor-intensive operations towards high-technology production. This, combined with huge surplus in currency reserves, allowed CCP to deepen the already unfair subsidies (2009). The wide array of practices which the Commission qualified as illegal under WTO agreements was increased, as China introduced export restrictions on rare earth materials. At the same time a worrying trend was observed of offering access to China's market in exchange for transfer of technology (2010).

SOE also enjoyed special treatment in subsidies, low taxes and technologies acquired at low cost, hence they very often had an upper hand when competing

for global markets (including foreign governmental contracts) against other manufacturers (2011). The above trends have regularly been observed in annual reports, with 2017 bringing a statement, that indigenous companies were planned to replace foreign technology providers and developers in unspecified future.

With an increase in technological proficiency Chinese companies were being observed as threat to US security. This threat resulted from deep penetration of the chains of supplies of high-tech goods ordered by administration, including in the sensitive areas of military and intelligence communities. Such products were delivered by Chinese companies operating in US, Mainland China, but the deliveries conducted from Hong Kong seemed to worry the Commission the most. After all, Hong Kong was to retain a large degree of sovereignty, however, with large political influence from Beijing's government, the city's independence was questioned (2012).

With time, China increases the portfolio of unfair practices which were detrimental to US businesses. Among findings there was one describing the Internet control laws in China, as being designed also to limit the access of foreign manufacturers to Chinese customer, giving a clear advantage to the Chinese manufacturers using the CCP-censored network (2012, 2015).

Key Recommendations

The Commission has been advising the Congress to use a wide array of factors and activities in order to either stop or reverse consequences of China's policies. Large part of those recommendations have focused on diplomatic means or tools available to US through multinational regimes both countries are parties to. The most common pertain to local partnerships and cases that could be filed in World Trade Organisation.

Such diplomatic means should, according to the Commission be used to demonstrate and effectively solidify US commitment to the region, so that Chinese offer is not considered as more beneficial by Beijing neighbours, especially in the Pacific region (2004). This should be achieved by both bilateral and multilateral cooperation (2005). This was to be supplemented by direct relations with China, and e.g. gaining a clarification on what the „core interests” actually are and what changes in the environment are they supposed to bring (2011). Also, as part of military cooperation and diplomacy, Commission recommended periodical naval exercises to be conducted in the Indo-Pacific region (2011). In this efforts special place has always belonged to Taiwan, which has been mentioned on numerous occasions, including in 2015, when the members requested a special classified report on the role of Taiwan in the US regional strategy.

As for the multinational tools, Commission recommended qualifying the continuous undervaluation of Yuan by Beijing as an unfair practice¹⁶ and use the

¹⁶ In 2004 the Commission claims that such approach is advisable „in absence of concrete progress by the administration”.

procedures within the WTO to exert pressure on China in order to refrain from manipulating the currency. Administration should gain support of other countries in order to make the case even stronger (2004, 2010). Commission has observed little progress on China side, and was calling for effective actions from Congress and Administration repetitively in 2002-2018, advising, apart from the above action, appropriate legislation (2008). Apart from currency manipulation, US authorities were also advised to use WTO in order to file cases against China's infringement of intellectual property rights¹⁷.

As part of its diplomatic efforts, the Congress, in cooperation with the President should work with other partners, like the European Union, in order to maintain the arms embargo imposed on China after the Tiananmen Square massacre (2005). The same year Commission recommended an even stricter approach, by banning any defence industry cooperating with China from participation in any „defence-related cooperative research, development and production programs”. Advice on maintaining the arms embargo was repeated in 2012, this time with an encouragement to support Taiwan's defence development (2014). Embargo, however, was to be even sharpened by sanctions against any Chinese entrepreneur participating in the militarisation of the South China Sea (2018). A general advice of maintaining strong relations with European countries in order to develop and defend a strong sense of common economic interests vis-a-vis China was above all that present in the 2018 Annual Report.

Several of the Commission's recommendations were addressing the US economy and industries – legal basis as well as practices – that could either protect it from China's activities or increase their competitiveness versus China.

Call for a comprehensive strategy and policy for technological development was among Commission's top recommendations from the very beginning, and, against the body's custom of not repeating recommendation, has been repeated on several occasions. This strategy should, in the eyes of the Commission, help US maintain its technological leadership and competitiveness (2004, 2005).

Commission also wanted the Congress to exert pressure on the US Trade Representatives to investigate the internal policies used by China, especially those who might be deemed unfair and had a potential for attracting US funds and technologies to the Chinese environment (2005). This recommendation is present continuously in various incarnations, however in 2007 and 2014 Annual Reports, an encouragement was published to treat illegal currency manipulation and any such Chinese policy as a subsidy for Chinese companies, and as such, giving justification to imposing tariffs on goods and services imported from China. Commission was also encouraging Congress to provide appropriate funding for the US Trade Representatives and counterintelligence efforts in order to seal US economy from negative Chinese influences (2007). In 2010 members were encouraging Congress

¹⁷ A problem and recommendation recurring in several Annual Reports.

to assess accuracy of internal policies on investment and technological development that could be used by US solely to the benefit of American entrepreneurs. As for the US Trade Representative Office and other trade-oriented bodies, a common assessment was advised in order to find out whether any sanctions could be imposed on the Chinese entities benefitting from information obtained through illegal methods, e.g. cyber espionage (2014).

Further in time, Commission required an assessment of all federal policies oriented on economy and technologies towards China. This was to be done by National Security Council. Parallel to such review an investigation should be conducted to identify what part of R&D activities of US entities transferred to China through direct export, or exchanged for access to Chinese market were funded by federal monies (2011). Such assessments were advised by the Commission on several occasions, and some were calling for broadening and deepening the knowledge on certain aspects of China and their influence on US economy and technology and superiority (2004, 2005, 2011, 2017).

In addition to that, members advocated for an interagency cooperation (secretaries of Commerce, Defence, Energy, Interior, State, plus the Geological Survey) in developing a clear definition of rare earth materials, their role and influence on the American processes of development and implementation of new technologies. Such a cooperation was to also bear a fruit in a strategy on maintaining US independence in securing sufficient amounts those minerals.

Lately, the members advised the Congress to thoroughly consider a ban on acquisition of US assets by Chinese companies, and broaden the US definition of „control” in an enterprise to include joint ventures, venture capitals and other arrangements that increase availability of assets (physical, financial, technological) in US companies (2017).

Among the recommendations addressed to the Secretary/Department of Defence or aimed at a military complex (the armed forces and defence industry) there are certain groups that can be distinguished.

First, there was a call for analyses whether the capabilities in possession of the US are satisfactory vis-à-vis China and, whether they were distributed (in the global context) in an appropriate way. Such recommendations were issued in 2007 and 2008, when Congress was to order the national intelligence director to conduct a comprehensive review of intelligence capabilities aimed against China. The director was also to develop a strategy for acquiring any capabilities that are insufficient or absent. As part of this overall effort the regional Combatant Commanders are to report on the effectiveness of capabilities in their possession, especially in terms of survivability, as well as power projection (2010), and this recommendation was supplemented in 2011, when the Commission recommended an overall assessment of the capability of US forces to operate under limited C4ISR capabilities resulted from adversary's influence. Given the increasingly effective A2/AD capabilities on China's side, the recommendation is repeated in 2017. Special emphasis was put on

space and counter-space capabilities, with a recommendation for a classified report detailing such capabilities on both sides. Moreover the Commission advised Congress to consider option of fielding short and intermediate range cruise and ballistic missiles in the US forward bases in order to increase their deterrence (2015). In 2018 Commission advised Congress to gain DoD's assessment of what were the perceived effects of including the Chinese Coast Guard into the military chain of command and what could be done to mitigate risks associated with this structural change.

Second, there were calls for analyses whether funds authorised for certain capabilities and functional areas were sufficient, this very often backed up by a call for increase in funding oriented on certain capabilities. Special emphasis was put on the security and eventual recovery of sensitive cyber networks used in US, especially in the domain of homeland security and defence, and a suggestion to increase funds, if those already appropriated are not sufficient (2008). The Commission observed a significant inadequacy in monies appropriated for countering the Chinese A2/AD capabilities, hence it recommended Congress increases funding for this purpose. Any inadequacies were to be tackled both by the US forces themselves, but also in cooperation with regional allies (2011). After the „Pacific Pivot“, the Commission recommended, or actually even urges Congress to provide appropriate funding for the US Navy's presence in the region as well as development of fleet of required capabilities (2013). Next year, however, the Commission recommended Congress broaden its view on the Sino-American balance in the Pacific by hiring a panel of experts who will thoroughly examine the relation of powers in the region. Sometimes, as in 2016, however, the calls for increased funding had more general nature and pertain to the increased capabilities of PLA resulting from the tempo of modernisation and funds made available for that purpose by Beijing.

Third, the Department of Defense has been encouraged on numerous occasions to seal the chains of supplies of sensitive systems, in order to avoid undercover deliveries of subsystems and components that may jeopardise availability of those systems when compromised by e.g. external actor. To that end DoD was advised to keep a complete record of suppliers and their subcontractors to the lowest possible level (2008). Moreover, the Department was encouraged to form a list of weapons and systems acquisition of which should not include foreign subcontractors and deliverers of parts/components. The Commission was also very articulate about lack of vision for what should be retained in the US, as a strategically justifiable industrial base, and at all costs should never be a subject of foreign investment, sales or cooperation, including subcontracting (2008). The same year saw recommendation of assessing which capabilities developed by US companies in China may have potential defence applications. Going further down this road, the Commission in 2012 recommended Congress to order a national (i.e. military and civilian) review of services and capacities in cyber domain like data storage, cloud computing and networks, with emphasis on possible vulnerabilities associated with China's products.

Conclusions

America's approach to China has been driven by a desire to expand the outreach of US manufacturers to an enormous Chinese market, therefore most activities aimed at increasing transparency of economy and compliance with international regulation were to make China more open and, as a result, prone to influences from financially and technically superior US companies. Such a plan, however, failed to take into account four important facts. First, US has never had a positive trade balance with China. Never. Second, Hunger for indigenous development – a desire among the CPP's officials to turn China into a global leader, taking over both development and implementation of latest technologies. Third, the scale, pace and consistency of Chinese development. Fourth, to author's belief being the most important one, was and is the US manufacturer's everlasting desire to increase their profits. And China, as stated above, has been using a whole array of factors to make transfer of both labour and technology intense activities to the Mainland.

In other words China's development is fuelled by US not only in a traditional bi-polar sense – a phenomenon observed during Cold War, when arms race was a process of mutual influence fuelling the development of defence industries on both sides (US and USSR). In the case China, US has literally assisted Beijing in the areas of technology by transferring production and R&D efforts to China, boosted its budget through continuously unfavourable trade balance and, to amazement of some, has not stopped that even after changing its opinion on Middle Kingdom, which with time was re-qualified as a competitor and adversary, not only as a developing partner.

We can read in one of the opening Annual Reports (2005): "A number of the current trends in U.S.-China relations are presently moving in the wrong direction. With a renewed and realistic focus on the relationship by the Congress, we are optimistic that U.S. policy toward China can be put on a more solid, productive footing to tackle the long-term challenges that lie ahead".

By becoming an important link in the chains of many economies, to include the developed ones, China is becoming to be more vocal and assertive about its goals and is willing to pursue them regardless of the opinion of other key players. So, what should and can be done? Given global goals of both sides, which in certain areas may be opposing, while in other may offer an opportunity for cooperation, the Strategy should weigh all pros and cons of more restrictive actions against China with the potentially lost opportunities in other parts of the World¹⁸.

Many authors and dissertations divide the possible actions/policies into categories, with the ones repeated the most are economy, military and diplomacy (bi- and multilateral)¹⁹.

¹⁸ *Developing a U.S. Strategy for Dealing with China – Now and into the Future*, RAND Corporation 2014.

¹⁹ R.D. Blackwill, Ashley J. Tellis, *Revising U.S. Grand Strategy Toward China*, Council on Foreign Relations Press, April 2015.

Having considered the arguments among experts about the effectiveness and real goals of the Pacific Pivot, author leans towards those believing that the move was rather a declaration of the Administration to pay more attention to the situation in the region through employment of larger military force. A move that followed over a decade of fast-paced transfers and flows of funds and technologies that made the China's economy flourish at the expense of America's. And in this context, a move made almost a decade too late.

The opponents of calling the Pivot a success highlighted the fact that it coincided with dramatic cuts in the defence spendings, to include the procurement for the US Navy²⁰. Moreover, given China's large naval modernisation program and inclusion of all non-military ship-borne forces under the PLA Navy's command, one should immediately notice the urgency of an increased US presence in the region.

This calls for a strategic decision of availability of funds for the development of US Navy and sustained implementation of the force's programmes, like for example the 355-ship Navy²¹. This particular concept that was abandoned with the cuts, gained importance during the latest Presidential campaign, and subsequently was implemented, starting with the FY2017 Presidential Budget Request that amended President Obama's call for funds.

Currently, the program is a part of the FY2018 National Defense Authorisation Act, however, despite the legislation's importance, the provisions are not irreversible.

Apart from the obvious, which is maintaining the US supremacy as a global superpower with a fleet large enough to dominate in the Indo-Pacific, the decision of maintaining the pace of growth will bring as many problems as opportunities. Larger fleet will require more seamen²², however it will also boost US economy and industries, with balanced predictions forecasting creation of some 20-30 thousands jobs²³ and highlighting the fact that for every dollar invested in the shipbuilding industry, 2,5 USD is generated in other industries.

One has to remember that apart from raw power that US forces have to have at their disposal, they should also invest in reliability and resistance of their C4ISR systems, especially with the Chinese growing potential of jamming, penetrating and destroying even the most sophisticated networks. This will should be done using dual approach:

Conceptual. This part is already on-going, with many doctrines and concepts developed that strive to make the US forces capable of operating in contested environments, a tendency that is observable in various defense strategies, joint concepts and branch doctrines. Security-related. As stated on numerous occasions by the

²⁰ W. Burke, *US Navy: Less Means Less*, <https://thediplomat.com/2014/03/the-us-navy-and-the-pivot-less-means-less/> (Retrieved May 28, 2018).

²¹ R. O'Rourke, *Navy Force Structure and Shipbuilding Plans. Background and Issues for Congress*, CRS, Washington, 2018.

²² H.H. Seck, *Navy Needs Up to 40,000 More Sailors to Staff 350-Ship Fleet*, <https://www.military.com/daily-news/2017/05/19/navy-needs-up-40000-more-sailors-staff-350-ship-fleet.html> (retrieved June 5, 2018).

²³ E.G. Keating, *The Economic Consequences of Investing in Shipbuilding*, RAND Corporation, Santa Monica, 2016.

Commission, Department of Defense should do its best to secure chains of supplies and exclude contractors that do not provide appropriate level of security.

Apart from including the 355-ship Navy project in the Strategy on China by the current Administration, it has to be maintained for almost three decades of consistent, high spendings (ca. USD 100 bln, to include costs of shipbuilding, systems integration and manning) in order to make the plan come true²⁴. Also, sealing the chains of supplies and limiting contractors to those providing appropriate level of security, requires increased funding for procurement, and with limited number of suppliers, may increase the risk of non-timely deliveries, not to mention a heated trade war with China, that could make the process even costlier for US taxpayers. Still, it can never be stated often enough: whatever concepts, doctrines and programs are there in the strategy for the military, they will be futile unless consistent funding is provided.

One must also remember that whatever may be done to improve US's situation will most certainly not be 100% effective, as the competitor is a potent player. Potent and asymmetric. Although this particular buzz word has been abused in the discourse conflicts contemporary conflicts, it is of particular importance in the context of US-Sino relations. As large as China is, both geographically, demographically and last, but not least, in terms of economy and financial power, it is still a highly centralised country. And, while Chinese people haven't enjoyed all the freedoms of Western societies, Chinese authorities have not been deprived of the traditional elements of hard power and influence over society as well as the entrepreneurs. This situation violates numerous universally acknowledged human rights and laws of free market, yet it allows the CCP to outmanoeuvre any potential competitor. For this particular reason, author likes to believe, that when comparing US and China, we should not think about asymmetry, but rather bear in our mind the simple fact that we are looking at two different types of country. It is almost like the proverbial comparison of apples and oranges.

The author would like to conclude by quoting President Xi's address during the 19th Congress of the CCP: "Other countries should not have the fantasy of forcing China to swallow the bitter fruit of damaging its own interests"²⁵.

This clearly shows, that, at least in the STRATCOM part of strategic relations, any action from the US Administration may result in a balancing response.

²⁴ *Comparing a 355-Fleet With Smaller Forces*, Congressional Budget Office, Washington 2018.

²⁵ From President Xi's address during 19th Congress of the CCP. Quoted after the 2018 Annual Report.

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**CZEKAJĄC NA WIELKĄ STRATEGIĘ USA W STOSUNKU DO CHIN.
PODSUMOWANIE USTALEŃ I ZALECEŃ KOMISJI PRZEGLĄDU
BEZPIECZEŃSTWA RELACJI USA–CHINY W LATACH 2002-2018**

Streszczenie. Artykuł jest podsumowaniem prac przez prawie dwie dekady amerykańsko-chińskiej Komisji ds. Przeglądu Bezpieczeństwa. Ponieważ Kongres Stanów Zjednoczonych dostrzega wyzwania stawiane przez Chiny szerokiemu spektrum interesów USA i nakazuje prezydentowi USA opracowanie kompleksowej strategii wobec Chin, autor podkreśla, że taka świadomość była już obecna wśród urzędników amerykańskich znacznie wcześniej. Artykuł koncentruje się na trzech kluczowych obszarach, tj.: postawa geostrategiczna, postawa wojskowa i rozwój technologiczny, przewidując, że większość problemów określonych przez Komisję w tych obszarach nie została wyeliminowana i najbardziej prawdopodobne jest, że zostaną zaobserwowane przez twórcę nadchodzącej strategii. Autor twierdzi, że Chiny mają znaczną przewagę nad USA, co wynika z dwóch głównych czynników. Po pierwsze, napływu kapitału, a następnie napływu technologii amerykańskich do chińskiego przemysłu i przedsiębiorstw. Po drugie, jest centralnie planowanym i zarządzanym chińskim systemem, który pozwala CCP sterować gospodarką i społeczeństwem z większą przewidywalnością, w przeciwieństwie do gospodarki opartej na wolności po stronie amerykańskiej, która jest niezależna od poradnictwa Kongresu/administracji. Ogólnym celem artykułu jest umożliwienie czytelnikom lepszego wglądu w prezydencką strategię dotyczącą Chin, która ma zostać opublikowana 180 dni po uchwaleniu ustawy o autoryzacji obrony narodowej na rok finansowy 2019.

Słowa kluczowe: stosunki amerykańsko-chińskie, strategia USA wobec Chin, Waszyngton a Pekin.