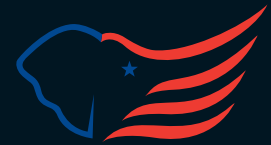


The China Debate: Friend or Foe?

Photo by Getty Images.



U.S. Representative J. Randy Forbes Policy Considerations for New Relations with China

Since the initiation of economic reforms in 1979, China has become the 2nd largest U.S. trading partner, the 2nd largest source of American imports, and the 4th largest export market for the United States. The U.S. has surely benefited from China's expansion, and there are tremendous opportunities both countries can share as China continues its explosive growth and emergence as a major player on the world stage. China could be valuable as a friend and dangerous as an enemy.

While some Americans are keenly tuned in to China's "Golden Age" of economic development, many have failed to recognize that the rapidly growing Chinese economy is financing a significant military modernization effort. It is clear that China's military capabilities and America's \$233 billion trade deficit with China will have great impact on global trends and America's national priorities. When these two factors are viewed in the same snapshot as China's appetite for energy, record on human rights and religious freedom, environmental challenges, and desire for regional and global influence, a puzzle emerges that can only be solved through the development and implementation of a comprehensive policy with respect to our relations with China. No such policy exists today.

As a rule, China's foreign policy can be described as one of manipulation rather than negotiation. Last year when President Hu came to the United States, he brought a \$16 billion checkbook. If you happened to be one of the companies on the receiving end of that checkbook, the temptation to wink at everything China is almost too great to overcome. But if you are an ordinary American citizen, chances are that checkbook never reached your pocketbook, and in the moment some policymakers winked they lost sight of some crucial facts that could play a major role in the course of U.S. history.

First, according to testimony by the Attorney General, China is now the number one espionage threat against the United States. Chinese authorities have maintained an artificially deflated currency to give themselves a 15-40% advantage over our businesses and have not been able to control the piracy issues and other violations of intellectual property rights that are rampant in China today. Furthermore, the government in Beijing denies fair access for many of our companies to compete in China. The result is a \$233 billion trade deficit that has been used to fund the largest and most sophisticated military buildup in China's history.

Some feel that to date, U.S. policy has been more talk than action. They feel if China took our car and we had an expensive T.V., golf clubs, and a computer in the trunk, our current policy would be to negotiate until we got the T.V. back. When the American people questioned the whereabouts of the car, golf clubs and computer, they would be told, "Don't be greedy, things take time—and after all, we did get this great T.V. for our efforts."

Although China's capabilities are becoming more apparent, their intentions remain cloudy. The announcement by The People's Republic of China of a 17.8 percent increase over 2006 levels in defense spending is blurred by a lack of transparency; any reported defense spending is no more than one-third of actual spending, since it fails to include important sectors such as weapons procurement and research and development.

Yet here and there, pieces of the puzzle start to take shape. Whether it's a covert submarine, a missile that can target and destroy a satellite orbiting in space, or an espionage ring working to

illegally ship military equipment such as an F-16 jet aircraft engine to China, we must assess each development and reflect upon how it fits into the puzzle. We must also assess whether our national policies are in conflict.

The U.S.-China relationship hinges on transparency, not just in dialogue, but in action as well. This is critical to the development and preparation of a comprehensive policy to prepare the United States for the long-term impact of China's rising power

and influence around the world. It is important for policymakers, the administration and federal agencies to work together, sharing strategic information on this and other critical issues facing the nation.

To that end, we must evaluate the interagency planning and coordination process as it exists today. Current interagency efforts are undefined, ad-hoc, and largely ineffective. Stove-piped decision-making results in a piecemeal response to most international issues. There is no formal guidance to compel or instruct interagency coordination and every federal agency has its own unique operational and structural organization. Outside of the Department of Defense, most federal agencies have limited operational capabilities and ineffective means to mobilize and deploy personnel.

Comprehensive interagency reform should center on the creation of a cadre of staff, a National Strategic Staff, from each department and agency trained in a common lexicon and tasked with developing, modeling, coordinating and evaluating policies that cross agency lines. Service on this interagency staff would be compulsory for promotion to senior grades and would be complementary to service on the joint staff of the Armed Forces.

The purpose of this National Strategic Staff would be to consider China and its status as a potential threat or ally to the U.S. in the same way that it would study the difference between a mine field and a gold field—both of which look the same from the surface—and to put together the puzzle pieces to ensure due consideration is given to the subtleties of dealing with China. Without a comprehensive plan for U.S.-China relations, we risk knee jerk responses that may ultimately hurt more than help. The American people want and deserve a fair and level playing field that allows them to compete and to maintain their national security for decades to come. A comprehensive interagency national plan will help weave the tapestry needed to reach this goal.

— U.S. Representative J. Randy Forbes is in his 4th term representing the 4th district of Virginia. He serves on the House



Counterfeiting and Piracy: The New Face of Crime

Caroline Joiner

Counterfeiting and piracy together create an exploding crisis that threatens our national economic security. The U.S. loses 250 billion dollars a year in sales because of this growing problem, and that is just an estimate. The number could be much higher. 750,000 Americans have lost their jobs because of counterfeiting and piracy. Globally, trade in counterfeit and pirated products is as high as 5% of worldwide trade. Every time someone buys or sells a fake product it threatens a company's brand reputation, wipes away incentive for research and development investment, and threatens a company's bottom-line.

It hurts tax payers too. These products always escape taxation. That means less money spent on roads, hospitals, schools, and other public services in a community. In New York City alone, counterfeiting costs the city 1 billion dollars a year in lost tax revenue. A city can do a lot with that kind of money. This is truly an issue that threatens the very core of our economic security at a federal, state, and local level.

And big business is not the only victim. Behind the statistics are thousands of stories of small businesses that have been victimized by counterfeiting and piracy. Eastman Machine Company of Buffalo, New York is a 4th generation family-owned company that makes top-of-the-line cutting tools for the apparel industry. They were competing and succeeding globally and adding high-paying jobs to the local economy— until criminals in China stole the designs, model numbers, and colors of Eastman's patented products. The name they used: Westman. The result was devastating for Eastman. Sales dropped 50% and nearly 100 employees lost their jobs.

There are hundreds of other stories like this. Zippo, a company that makes lighters in Bradford, Pennsylvania, laid off 121 employees, 20% of its entire workforce, due to counterfeiting. Abro Industries, a company in South Bend, Indiana, that makes glues, tapes, and epoxies, has seen more than 40 of their products counterfeited. The company's president estimates that these fakes cost them about 15 million dollars a year – spending almost a million in legal battles to protect their IP.

It is not just about economics. When most people think of counterfeiting and piracy, they think of CDs, DVDs, teenagers downloading songs from the Internet, or street vendors selling knockoff sunglasses, watches, and handbags. Consumers think they are just getting a great deal and no one gets hurt. They are wrong. They could be the next victim. Counterfeit and pirated goods are in our stores, in our pharmacies, and eventually in our homes. Every product in every industry is vulnerable. These products are everywhere. Common examples are fake batteries in smoke detectors, fake brake pads on cars, and even fake shampoo.

Counterfeiting and piracy are an exploding crisis that threatens our national economic security.

Counterfeiting and Piracy: The New Face of Crime

The auto parts industry estimates that counterfeit parts have become a \$12 billion problem worldwide, with \$3 billion in phony auto parts sold in the United States. Ford Motor Company alone loses \$1 billion a year to counterfeit parts. There are terrible implications of these fake and faulty parts ending up in cars, heavy trucks on the highway, or worse yet, in school buses. Recently, police in New York City stopped a shipment of fake parts destined for the city's police cars and taxi cabs. These are not quality fakes; we have seen cases of fake brake pads made of saw dust and even kitty litter.

Bendix, a company out of Ohio, develops air brake components for tractors, trailers, and school buses. It supplies parts for 8 million vehicles on America's roadways. That is nearly every large truck on the highway. Anthony LaPlaca, Bendix Vice President, says, "Millions of dollars in Bendix look-alike valve and brake products reach the automotive aftermarket annually - putting drivers at risk with low durability, poor fit, and inferior workmanship." Bendix has an aggressive legal strategy, trusted distributors, trained staff, and a tight supply chain, and yet their problem is still prolific.

These products are not just appearing on the roadways. They are making their way into our stores, and eventually our homes. In a Chicago suburb last year, police seized nearly 60,000 potentially explosive Duracell batteries that were headed for small, independent convenience stores in the area. Duracell found that each battery contained a small percentage of mercury. Exposure to the batteries can lead to brain, kidney, and nervous system damage. They also found that if an electrical current went through the battery, it could explode. In the same seizure, police also found 585 bottles of counterfeit Head & Shoulders Shampoo. The commonly used product tested positive for a bacteria that was essentially fecal matter.

Counterfeit pharmaceuticals are also a huge threat to the health and safety of people around the world. The World Health Organization estimates that the worldwide supply of counterfeit drugs is as high as 5%. And this number is steadily growing. It also estimates that only 11% of internet pharmacies are selling legitimate products. Think about the potential for purchasing one of these fakes without even knowing it. Timothy Fagan, a teenager from Long Island, New York, learned the hard way. He was taking

Behind the statistics are thousands of stories of small businesses who have been victimized by counterfeiting and piracy.



Fake and real surgical mesh

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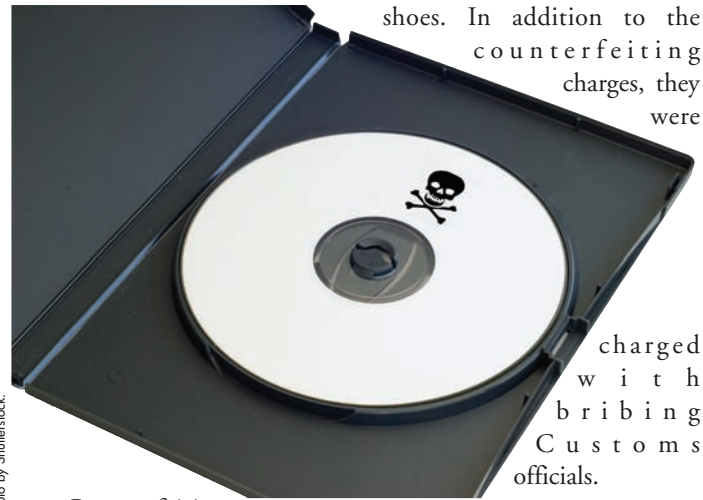
Epogen, a prescription he got at his local pharmacy after a liver transplant, but remained in constant pain. Tim almost died because he was taking a fake drug. This is not an isolated incident. We are hearing more and more accounts of counterfeit pharmaceuticals here in the U.S.

Recently, the FDA administered a nationwide alert and recall of counterfeit blood glucose strips. The counterfeit strips could give incorrect blood glucose values, causing a diabetic to take the wrong dosage, which could lead to serious injury or death. And counterfeits do not stop with drugs. There have been cases of counterfeit pacemakers and other medical devices being surgically implanted in patients.

These are not just people selling goods at flea markets and on street corners. These are sophisticated criminals running big businesses! Consider this statistic: the FBI reports that in the U.S., traditionally defined property crimes, like burglary, accounted for \$16 billion in losses in 2005. The best estimates we have for losses from IP theft: \$250 billion.

Let me introduce you to the face of counterfeiting and piracy. Danny Ferrer of Lakeland, Florida lived the high life of a successful high-tech entrepreneur. He had his toys. Three planes, a helicopter, a Lamborghini, a Hummer, three Corvettes, a Lincoln Navigator, a Flight Simulator, a twenty-eight foot boat, and an ambulance. Do you know what set Danny apart from other high-tech executives? His software was stolen. Danny's computer screen went dark in October of last year. He was arrested and charged with conspiracy, copyright infringement, and selling millions of dollars in pirated software. Danny pleaded guilty in June and was sentenced to six years in prison and ordered to pay restitution of more than \$4.1 million.

Crooks like Danny are not just in the counterfeiting and piracy business. Nathan Peterson, operator of one of the world's largest software piracy rings, was also convicted of selling handguns and illegal assault weapons to a convicted heroin dealer. Last year, 6 men were indicted for trying to sell \$16 million in fake Nike



shoes. In addition to the counterfeiting charges, they were

charged with bribing Customs officials.

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Counterfeiting and piracy are part of a global criminal network that is linked to money laundering, human and arms trafficking, terrorism, and drugs. We are seeing these connections right here in the U.S. According to Interpol, Al Qaeda and Hezbollah are making money trafficking fake goods like Nike shoes, Sony stereo equipment, and Calvin Klein jeans. Late last summer, 19 men were indicted in Dearborn, MI for running a multi-million dollar counterfeit ring that provided material support to Hezbollah. In addition, as reported by New York City Police Commissioner Ray Kelly, the group responsible for the attack on the commuter trains in Madrid, Spain was funded by counterfeiting.

There is no denying that these are sophisticated criminal networks, working to undermine our global economy with very little risk and a very high return. To illustrate the profitability of piracy, let us compare pirating software with dealing cocaine. A cocaine dealer pays \$47,000 for a kilo of cocaine. He can sell it on the street for about double. That's a 100% return on his investment. For that same \$47,000, he can buy 1,500 pirated versions of Microsoft Office, which could create a 900% return.



Fake and real testing strips

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Counterfeiting and Piracy: The New Face of Crime



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study to measure the economic impact of counterfeiting and piracy, educational road shows around the country with industry and congressional representatives, a study on India's Bollywood, and roundtables and educational events in all our foreign markets.

The Chamber is committed to setting a global standard for intellectual property enforcement. Efforts this year include a historic partnership with Interpol to create a global intelligence database, the introduction of model state legislation to hold counterfeiters and pirates accountable for their crimes, training for customs officials in Brazil and Russia, partnerships with state attorneys general, advocacy for industry in foreign markets, and a comprehensive strategy and an aggressive push for much-needed domestic reform of enforcement laws as well as an increase in federal government resources. ♡

— *Caroline Joiner is the Executive Director of the U.S. Chamber of Commerce Global Anti-Counterfeiting and Piracy Initiative.*

The U.S. Chamber of Commerce, the world's largest business organization, is committed to fighting back to protect industry and consumers. The Chamber is also making intellectual property protection a global priority. In 2004, when the Chamber started its Global Anti-Counterfeiting and Piracy Initiative and formed the Coalition Against Counterfeiting and Piracy (CACAP), these two issues were at the bottom of a long laundry list of concerns of both industry and government. This is not the case today. With more than 20 staff dedicated to this issue, and a broad-based coalition composed of more than 300 associations and businesses, The Chamber is leading an aggressive global effort.

Our initiative has grown significantly since its inception. We are working around the world—in China, Russia, India, the Western Hemisphere, Africa, and here in the United States—to implement a two-part strategy of education and enforcement. We have programs in place that are pushing boundaries, calling for big changes, and resulting in real, substantive progress.

Our education efforts include a partnership with National Geographic to produce the following: a 60-minute film based on Moisés Naím's best-selling book *Illicit*, a tool kit distributed to more than one million businesses on how to protect their supply chains, a Gallup U.S. consumer perception

We're talking fake batteries in smoke detectors, fake brake pads on cars, and even fake shampoo.



Fake and real brake pads

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China's Rise and Sino-U.S. Relations

Carl Minzner

China's steady rise in economic and political influence is the single event that will reshape international politics in the 21st century. There are four key points to keep in mind.

China's Rise is Natural

China is a country of 1.3 billion people. Until 1800, it comprised a third of world economic output. Beginning in the mid-19th century, China suffered 150 years of wars, imperialism, political strife, and socialist economic policies that temporarily reduced its weight on the international stage. But China's rapid growth since 1978 reflects a return toward a long-term historical equilibrium as one of the world's major political and economic poles. China's development, as well as that of the rest of Asia, will necessarily alter the preeminent geopolitical position that the United States has enjoyed since the end of the Cold War, and that Western nations have enjoyed since the 19th century. The operational question is not whether we like it or not. It is how we adapt.

Economic Growth is Transforming China

China's economic growth is leading to massive demographic, developmental, and urbanization changes that are fundamentally altering Chinese society. Transitions that took the United States and Western Europe centuries to complete are being compressed into just a few decades in the case of China. For example, because of increased job opportunities in urban areas, a massive wave of some 150 million migrants currently flows back and forth

between China's countryside and cities every year. This is rapidly altering China's rural-urban ratio. China, where 73 percent of the population lived in rural areas in 1990, will be roughly 70 percent urban by the middle of the 21st century.

Stagnant Political Institutions Are Generating Rising Social Unrest

The demands of a rapidly evolving society are conflicting with China's stagnant political institutions, creating increasing levels of social conflict. Thirty years of economic reforms have brought Chinese citizens increased wealth, modern cities, and a rapidly expanding telecommunications web. But China's political

China's leaders do not seek worldwide confrontation with the United States. The single issue that keeps them up late at night is the fear that the growing discontent of rural farmers and migrants could metastasize into a revolutionary force that topples them from power.

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institutions have not kept pace with these economic shifts. Local Communist Party secretaries continue to exercise sweeping control over all of the formal legal and political levers of power in their jurisdictions. Citizens continue to lack meaningful access to independent legislatures to participate in the decisions that affect their lives, and to an independent judiciary for the resolution of their grievances against local officials or those closely connected with them. Increased wealth, mobility, and communications have provided Chinese citizens with new means of organizing to protect their interests. But since Chinese authorities maintain strict controls over the political and legal systems, citizens' efforts to protect their rights are being channeled into the streets, rather than into the gradual evolution of independent courts or legislatures. Unsurprisingly, rural protests and petitions have surged since the early 1990s, as Chinese citizens have pursued increasingly assertive strategies to protect their rights.

Chinese officials have supported a range of experimental reforms over the past two decades to address these problems. Party authorities have attempted to strengthen popular input into decision-making through a range of electoral and open-information reforms. They have supported the creation of mechanisms such as legislative hearings and administrative legal procedures that allow citizens a limited means to challenge official decisions. Activist lawyers and civil society organizations have aggressively attempted to use these channels to defend legally protected rights. But Chinese authorities have arrested activist leaders and curtailed underlying governance reforms when they infringe upon core principles of one-Party rule.

Chinese Leaders' Top Priorities Are Domestic

China's leaders do not seek worldwide confrontation with the United States. The single issue that keeps them up late at night is the fear that the growing discontent of rural farmers and migrants could metastasize into a revolutionary force that topples them from power. All of the formidable energies of the Chinese party-state – the tough police controls, the focus on rapid economic development, and the new emphasis on addressing the needs of the rural poor – are directed at warding off such an event.

This is not to ignore the existence of real and important conflicts between the United States and China. Trade disputes flare. Tensions over Taiwan remain. Chinese officials continue to violate their own laws and treaty commitments granting citizens religious liberty and free speech, generating recriminations on the part of the American government and public. But China today, unlike the Soviet Union of the 1950s, is not seeking to challenge the very foundations of the international political and economic order that have been established since World War II.

Given the above, how should America respond to China's rise?

Accept and Manage China's Rise

Increasing Chinese influence in the world is a geopolitical fact that goes beyond the nature of the existing political system in Beijing. If China does liberalize politically, it will still demand that international political and economic institutions appropriately reflect its size and weight. It is not a transitory political challenge by a specific regime. Nor is it a moderate economic challenge by a



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medium-sized trade partner. Rather, China's rise reflects a fundamental reworking of the international balance of power as over a billion people become integrated with the global political and economic systems.

Responding to this requires us to engage in careful planning as to how to best cope with this shift in order to protect America's long-term interests. The United States should not view China's rise as a short-term threat, but as a long-term challenge. We should address Chinese competition, not through economic protectionism, but rather through sustained investment in the education of America's children. We should address increased Chinese political influence, not through bellicose unilateralism or timid isolationism, but rather through expanding existing institutions to give Chinese authorities a role in shaping the international order, and bear corresponding responsibilities in handling international crises such as North Korea and Sudan.

Support International Norms and Multilateral Institutions

The United States must reaffirm its commitment to international norms and multilateral institutions as a means to protect our interests. American officials do not want to see China's growing economic and political muscle funneled into creating free-trade zones and political alliances that exclude the United States. Out of simple national self-interest, American officials should seek a China that is firmly anchored in multilateral institutions and processes. But realizing that goal requires American officials to make serious commitments to strengthening these institutions now. If American authorities undermine our commitments under international human rights or WTO treaties now in favor of short-term political gain, we limit our own ability to invoke them in our defense in the future, when our relative influence may be weaker, and our need to resort to them greater.

Engage China

American officials need to adhere to a policy of engagement toward China. Proposals regarding economic sanctions or strategic containment are simply not feasible when dealing with a country that represents a fifth of humanity and is America's second largest trading partner.

Nor would such policies be strategically desirable. Thirty years of engagement with the international community has made China a fundamentally conservative power with respect to the status quo. Chinese leaders are deeply reliant on international trade to provide the investment needed to support China's development, and the employment opportunities to absorb the vast migration of Chinese farmers to urban areas. Chinese leaders seek to uphold stable relations with their neighbors to ensure that this can continue unchecked. Indeed, one of the most overlooked aspects of China's foreign policy over the past decade is the extent to which it has quietly settled outstanding border disputes with almost every one of its neighbors. If we attempt to roll back America's 30-year old policy of engagement with China, all of these givens would go up in smoke. We would likely end up creating a

China's rise reflects a fundamental reworking of the international balance of power as over a billion people become integrated with the global political and economic systems.



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more insecure, more nationalistic Chinese leadership that poses a significantly greater threat to regional stability.

Engagement also offers the best chance for us to witness the gradual evolution of the Chinese political system into something more open and representative. The real pressures for political reform in China do not come from ultimatums issued by American officials in Washington, but from the increasing demands of the Chinese people themselves that are the natural result of massive economic and social changes over the past thirty years. Rural farmers are increasingly aware of their legal rights. Migrant laborers are seeking channels to participate in the decisions that affect their lives. Activist lawyers are demanding a fairer judicial system for their clients. These are the people and forces that are gradually transforming China. It is unclear whether Chinese Party leaders will be wise enough to respond in time to these pressures by relaxing their controls and channeling these social demands into positive reforms. But the best way we can continue to put meaningful pressure on Chinese authorities for positive political change is to ensure that China's economic and social transformation continues.

Support Human Rights and Political Liberalization

We should also directly address Chinese violations of human rights standards and denials of political liberties, not through willful ignorance or high-pitched denunciations, but through careful and consistent emphasis on the extent to which they fuel the social unrest Chinese officials so desperately wish to avoid. The ability of the United States to remake any country in a democratic

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mold by compulsion is limited, if not nonexistent. These efforts often result in a nationalist backlash and rejection of the very democratic principles which the United States espouses, particularly when American officials themselves are forced to compromise these principles for the sake of their geopolitical interests. But the concepts of rule of law and representative government continue to hold appeal for many in China, particularly those who appreciate the extent to which many of China's internal troubles are rooted in a fossilized political system that has failed to keep pace with the rapid economic and social changes of the past three decades.

We should support calls for positive reform, and in particular emphasize that citizen experimentation with these concepts does not represent American efforts to impose a foreign ideology, but rather an ongoing search by Chinese citizens themselves for means to resolve the core problems of governance, social unrest, and violations of citizen rights that confront China.

Emphasize Bipartisanship

American officials must deal with China in a bipartisan manner. American politicians, both Democrats and Republicans,

have all too often viewed China as a means to score political points with narrow domestic constituencies, instead of trying to work together across the aisle to formulate a broader strategic vision. One can do that with small nations. One can not with China.

Conclusion

China's rise should not be a source of fear. It is the result of natural economic and geopolitical shifts that are changing China itself as much as they are changing the world at large. America needs to respond carefully and steadily. By fully engaging China on a wide range of economic, military, and domestic issues, American officials can help ensure that the world which emerges as a result of its rise is more peaceful, and the China which results is freer and more open. ☞

— *Carl Minzner is an International Affairs Fellow at the Council of Foreign Relations. He previously served as Senior Counsel for the Congressional-Executive Commission on China.*

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