Report on

Maintaining U.S.-China Strategic Stability

International Security Advisory Board

October 26, 2012

Disclaimer

This is a report of the International Security Advisory Board (ISAB), a Federal Advisory Committee established to provide the Department of State with a continuing source of independent insight, advice and innovation on scientific, military, diplomatic, political, and public diplomacy aspects of arms control, disarmament, international security, and nonproliferation. The views expressed herein do not represent official positions or policies of the Department of State or any other entity of the United States Government.

United States Department of State

Washington, D.C. 20520

October 26, 2012

MEMORANDUM FOR ACTING UNDER SECRETARY GOTTEMOELLER

SUBJECT: Final Report of the International Security Advisory Board (ISAB) on Maintaining U.S.-China Strategic Stability – Part One

I am forwarding herewith the ISAB's report on Maintaining U.S.-China strategic stability. The report responds to former Under Secretary Ellen Tauscher's request of July 5, 2011, that the Board undertake a study of the policy options to ensure a stable U.S.-China strategic relationship. The report was drafted by a Study Group chaired by Lt. Gen. Brent Scowcroft (USAF, Ret.). It was reviewed and unanimously approved by all ISAB members by October 17, 2012.

The report includes recommendations for efforts of the Department of State and, more broadly, the United States Government (USG), to manage the increasingly complex U.S.-China relationship in the coming decades. Part One of the report is this unclassified paper that examines strategic stability within the U.S.-China relationship at three distinct levels; the bilateral relationship, regionally in East Asia, and at the strategic nuclear level. Although the report recognizes the relationship will continue to grow more complicated, it also reports that the U.S.-China relationship can very well remain a positive, cooperative relationship in the coming decades if well managed.

Part Two of the report is a separate classified paper. It addresses cyber security aspects of U.S.-China strategic stability. I encourage you to consider all of the report's recommendations carefully. The Study Group members and I stand ready to brief you and other members of the Administration on the report.

William J. Perry
Chairman
International Security Advisory Board

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INTERNATIONAL SECURITY ADVISORY BOARD

Report on

Maintaining U.S.-China Strategic Stability

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Report on Maintaining U.S.-China Strategic Stability

The United States and China are both undergoing significant economic, demographic, political, and military changes that will alter the relative balance of power and reshape U.S.-China strategic relations over the next twenty years. Given each side's increasing vulnerability to the other's military capabilities and commitment to protecting its critical interests, maintaining strategic stability will require managing these dynamic changes to maximize predictability, restraint, and cooperation and minimize incentives for arms races, the use of force, or other destabilizing actions.

In the U.S.-China context, strategic stability requires close attention at three levels: the regional balance in Asia, the U.S.-China strategic nuclear force balance, and the overall bilateral relationship with political, economic, and values aspects. All three levels are dynamic and intertwined. This is especially true of less familiar elements such as space, cyber, and anti-access/area denial (A2/AD) capabilities that can have strategic effects. U.S. policymakers must understand these connections and recognize that actions taken at one level may have effects on other levels – negative or positive. Furthermore, both sides will see connections between these levels differently, at times leading to policy responses that are different and perplexing.

The ISAB makes the following key findings and recommendations:[1]

U.S. objectives in strategic relations with China should be to:

1.) Build a **stable and cooperative bilateral relationship** whereby the United States and China can work together effectively on areas of mutual interest while managing divergent interests, building effective crisis-management mechanisms, and limiting the impact of competitive dynamics in the relationship.

2.) Maintain a relationship **in strategic nuclear forces** that encourages moderation and avoids provoking expansion in China's nuclear

[1] While all ISAB members have approved this report and its recommendations, and agree they merit consideration by policy-makers, some members do not subscribe to the particular wording on every point.

capabilities and reinforces norms of nonproliferation, peaceful resolution of disputes, transparency, and restraint in strategic force development.

3.) **Sustain a U.S. presence and a regional balance in Asia** that protects U.S. economic and strategic interests, reassures allies and friends, and discourages any Chinese inclination to use force.

Regional Stability

- The United States should forge an Asia policy that includes a China component rather than making China the central focus of its regional policy. For this reason, U.S. policy should emphasize advancing U.S. interests in the region and not be couched in terms of either containing China or setting up a "G-2" condominium with it.

- Most Asian countries trust the United States and want it actively engaged in the region, in contrast with the various degrees of concern expressed about China's regional goals and ambitions. U.S. policymakers should exploit this advantage, and strive to maintain the current strategic practice of fostering better relationships than China with almost every country in the region.

- The United States should use its military presence and bilateral and multilateral relationships with allies, partners, and adversaries to shape China's options and discourage any efforts to use force or military coercion. While working to strengthen relationships with regional allies and partners, the U.S. should recognize that countries in Asia do not want to be forced to choose between the United States and China.

- Given that U.S positions on territorial issues often emphasize process (e.g. peaceful resolution and mutual agreement) rather than specific desired outcomes, U.S. policy makers should carefully consider how U.S. interests would be affected by possible territorial settlements.

- The United States should seek to address Chinese concerns that its alliances and security partnerships, including the current rebalancing towards Asia, are aimed at containing China. This includes a candid discussion of the extent and limits of U.S. interests, reiteration that a more prosperous, powerful China is not necessarily a threat to critical U.S. interests, appropriate respect for China and Chinese leaders in both process and

substance, reaffirmation of a U.S. "One China" policy linked to no use of force to change the cross-Straits status quo, and articulating a pathway for China to pursue its legitimate interests in Asia using peaceful means, including willingness to support joint development of resources and increased economic links in general.

- Effective U.S. non-nuclear capabilities are an important component of regional stability. As Chinese military modernization proceeds, these capabilities will be critical for maintaining the U.S. ability to operate effectively in support of friends or allies, despite Chinese anti-access/area denial (A2/AD), counter-space, and cyber attack capabilities.

- A more active and capable Chinese military will increasingly operate in close proximity to U.S. forces in Asia. The United States should use dialogue and international rules and norms to reduce the risk of accidents or incidents and to develop better bilateral crisis management mechanisms. Given the complexities of civil-military coordination and poor information flow, U.S. policymakers should be patient in crisis situations to allow senior Chinese civilian leaders time to learn the facts and be ready to engage.

Strategic Nuclear Force Balance

- U.S. nuclear policy remains committed to seeking reduction of global nuclear stockpiles, albeit without undermining the U.S. ability to deter any adversary and defend our allies.

- China's efforts to build a survivable second-generation sea-based and mobile land-based nuclear force are progressing and will over time produce a larger, and less vulnerable, force with more (from 25 to about 100) ICBMs capable of striking the United States. U.S. policymakers should recognize that Chinese perceptions of U.S. intentions, missile defenses, and nuclear and precision conventional strike capabilities will likely shape decisions about China's nuclear force posture. Chinese leaders have been determined to maintain a credible nuclear deterrent regardless of U.S. choices and will almost certainly have the necessary financial and technological resources to continue to do so.

- Accordingly, mutual nuclear vulnerability should be considered as a fact of life for both sides. However, neither the U.S. ability to use conventional

forces to protect our interests in the region nor the U.S. "nuclear umbrella" require the ability to negate China's nuclear forces. Nuclear deterrence rests as much on perceptions, confidence, credibility and rhetoric as on technical military capabilities.

- The United States should therefore maintain a broad ranging dialogue with China and key regional allies on the role of nuclear weapons, and on the nature of U.S. deterrent policy and capacity. Policy statements and the configuration of U.S. conventional and nuclear forces should convey that the United States has the means, will, and intention to respond effectively to any contingency. U.S. policymakers must send consistent messages to China, to key allies, and to the U.S. public and Congress.

- Given the interaction between U.S. and Chinese nuclear modernization choices, enhanced dialogue and transparency about nuclear and conventional modernization can play an important role in dampening arms race dynamics and increasing crisis stability. The United States should support and actively participate in official and unofficial nuclear dialogues, including carefully structured scientific and technical exchanges between U.S. and Chinese scientists focused on nuclear nonproliferation and related issues.

- U.S. nuclear force modernization and arms control objectives will necessarily take into account deterrence requirements created by the arsenals of other nations and the ongoing problem of proliferation. Because China's decisions on nuclear modernization will affect other actors (including India and Russia), the United States should encourage Chinese restraint and greater nuclear transparency and pursue efforts to involve China in multilateral discussions about nuclear arms control. Given China's reluctance and the smaller size of its nuclear arsenal, initial efforts should focus on increased understanding of each other's views of the role of nuclear weapons and laying the groundwork for future negotiations.

- The United States should continue working to expand and broaden nonproliferation dialogues and practical cooperation with China. Despite differences in approaches and priorities, the United States and China are both fundamentally opposed to the spread of weapons of mass destruction and have important common interests on global and regional nonproliferation issues.

- Ratification of the Comprehensive Test Ban Treaty would reduce potential volatility in bilateral arms race dynamics, and send a positive signal about U.S. commitment to nonproliferation and support for nuclear arms control. The United States should work with China toward the Treaty's entry into force, which requires Chinese (and U.S) ratification as well as cooperation on a path leading to an effective treaty regime.

Bilateral Relationship

- The future of the U.S.-China relationship is not pre-determined. Despite differences in political systems, economic models, and values, the United States and China are not engaged in a global ideological conflict and do not have fundamentally incompatible economic or strategic objectives. The relationship could develop along a positive track, with greater cooperation spurred by economic integration and China's assumption of more responsibilities in providing regional and international public goods. If badly managed by either side, however, the relationship could also assume a negative track that sees mutual suspicion and nationalism limiting cooperation and pitting the two countries against each other in a zero-sum contest fraught with risk of military conflict.

- Chinese leaders face daunting domestic and external challenges (including divisions within the Communist Party) and state that they view a stable international environment and a positive relationship with the United States as fundamentally necessary to managing these challenges. China's growing power has increased its bargaining leverage, but Chinese leaders still seem to want and need a cooperative relationship with Washington.

- The United States should work to build a cooperative long-term foundation for U.S.-China relations. A window of opportunity exists now to lay a positive foundation for relations that may not exist twenty years from now.

- Exploitation of U.S. military and commercial computer networks by actors in China is generating significant damage to the U.S. economy, undermining mutual trust, and undercutting domestic political support for cooperation with China on a range of issues.

- The vulnerability of each side's critical infrastructure to cyber attack and Chinese military writings stressing the utility of early cyber attacks also raise important question about the risks of escalation in a conflict.

- The United States should use policy statements and bilateral dialogue at the official and unofficial level to ensure that China appreciates the risk attendant to cyber-attacks against critical U.S. infrastructure or nuclear command and control systems and that the United States will judge such attacks by their effects, not how they are produced.

- The United States should work with China and the international community to develop agreed rules and norms on cyber-security issues (including effective communications channels and enhanced cooperation on standards and against non-state or third-party threats as well as prevention of theft of intellectual property). With respect to theft of intellectual property and exploitation of U.S. networks, the United States should pursue redress in international organizations and national legal systems. For deterrence to pertain in the cyber world, the United States needs better defenses and the demonstrated ability to counter cyber intrusion and to make the intruding agent pay for his actions.

- The United States should continue encouraging the Chinese government to pay more respect to human rights and be more responsive to the aspirations of its citizens. At the same time, instability in China would pose dangers for U.S. interests as well as for the Chinese themselves. U.S. policymakers should assure Chinese leaders that U.S. policies do not seek to create instability or take advantage of political or ethnic unrest.

- The United States should continue efforts to improve and expand military-military relations with the PLA. Better mutual understanding, substantive areas of military cooperation, and improved communications and crisis management mechanisms can help build trust and prevent incidents or accidents from escalating.

Appendix A - Terms of Reference

UNDER SECRETARY OF STATE FOR
ARMS CONTROL AND INTERNATIONAL SECURITY
WASHINGTON

July 5, 2011

MEMORANDUM FOR THE CHAIRMAN, INTERNATIONAL SECURITY ADVISORY BOARD (ISAB)

SUBJECT: Terms of Reference – ISAB Study on Maintaining U.S.-China Strategic Stability

The International Security Advisory Board (ISAB) is requested to undertake a study of policy options the United States could pursue to ensure a stable U.S.-China strategic relationship that allows the United States over the next 20 years to pursue its regional and global interests against a backdrop of expanding Chinese economic, political, and military power.

Over the next 20 years, China is anticipated to develop into a global economic and political power with increasingly commensurate military capabilities. The United States has welcomed China's rise and engaged Beijing in high-level dialogues seeking to build a comprehensive and cooperative relationship that increases mutual understanding and trust and reduces risks of misperception, misunderstanding, and miscalculation that could lead to crisis or conflict. At the same time, China's expanding international footprint, its military modernization, and related lack of transparency regarding its projected military capabilities and intentions present challenges for U.S. policy in East Asia and globally. The 2010 Nuclear Posture Review called for a strategic stability dialogue with China to enhance confidence, improve transparency, and reduce mistrust. The United States needs a strategic approach to China that at once advances U.S. interests, reassures U.S. allies, dispels Chinese suspicions of "containment," fosters Chinese transparency, and maintains strategic stability.

It would be of great assistance if the ISAB study of U.S. strategic engagement with China would examine and assess:

- Chinese strategic goals, intentions, and options over the next 20 years and Beijing's ability and resolve to pursue them;

- The potential impact of China's rise on strategic stability and other U.S. strategic interests, including on U.S. extended deterrence to East Asian allies and friends;
- Options the United States could pursue to maintain strategic stability with China--to include, *inter alia*, contexts of sustained Chinese military modernization and evolution of strategic thought; potential strategies to engage China on arms control and reductions of nuclear forces in the future; missile defenses; and advances in U.S. conventional military capabilities;
- The ability of the United States to influence Chinese choices regarding strategic military modernization, force structure, doctrine, and related transparency; and
- Prospects, advisability, timing, and potential modalities for engaging China in arms control and transparency measures.

In the conduct of its study, as it deems necessary, the ISAB may expand upon the tasks listed above. I request that you complete the study in 180 days. Completed work should be submitted to the ISAB Executive Directorate no later than January 17, 2012.

The Under Secretary of State for Arms Control and International Security will sponsor the study. The Assistant Secretary of State for International Security and Nonproliferation will support the study. Erik Quam will serve as the Executive Secretary for the study and Chris Herrick will represent the ISAB Executive Directorate.

The study will be conducted in accordance with the provisions of P.L. 92-463, the "Federal Advisory Board Committee Act." If the ISAB establishes a working group to assist in its study, the working group must present its report or findings to the full ISAB for consideration in a formal meeting, prior to presenting the report or findings to the Department.

Ellen O. Tauscher

Appendix B - Members and Project Staff

Board Members

Dr. William Perry (Chairman)
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