The future of U.S. - China Relations

Joseph S. Nye Jr.
THE FUTURE OF U.S. - CHINA RELATIONS

Joseph S. Nye Jr. 1

Abstract: With the recent possibility of China rising as the world’s most powerful economy and surpassing the US, this paper will explore what is possible to expect for the future. Under these circumstances it is developed how the relationship between the two countries can change the international scene that we know since the end of Cold War. To comprehend this situation it is compared China and US in terms of: territory; population; army; cultural industries; Universities; non-governmental organizations; and soft power. Despite China’s astounding growth rate, it is argued that China has been facing problems such as an underdeveloped countryside and a rapid urbanization. Furthermore, for the U.S. maybe, in a near future, it will be a hard mission to hold back the power gain of emergent countries. Although, it is clear that China and US are, in terms of commerce, interdependent. It is concluded that this process, in the end, can manage to a positive change that would bring benefits for all countries and the balance of power is decisive for the success or ruin of the relationship between these eastern and western countries.

Key-words: China – U.S. Relations; Economic power; Balance of power.

O FUTURO DAS RELAÇÕES CHINA-ESTADOS UNIDOS

Resumo: Com a recente possibilidade da China se tornar a economia mais poderosa do mundo, ultrapassando os Estados Unidos, esta pesquisa irá explorar o que é possível esperar para o futuro. Dentro desse contexto é desenvolvido como as relações entre esses dois países podem causar mudanças no âmbito internacional, o qual se conhece desde o fim da Guerra Fria. Para compreender essa situação são comparados, China e Estados Unidos, em termos de: território; população; exército; indústria cultural; universidades; organizações não governamentais; e soft power. Apesar da surpreendente taxa de crescimento chinesa, argumenta-se que a China ainda enfrenta problemas como um interior subdesenvolvido e a rápida urbanização. Ademais, para os Estados Unidos talvez, em um futuro próximo, seja difícil a missão de conter o avanço de poder dos países emergentes. Embora, seja claro que a China e os EUA são, em termos de comércio, interdependentes. Conclui-se que este processo, no final, pode causar uma mudança positiva, podendo trazer benefícios para todos os países e o balanço de poder é essencial para o sucesso ou ruína da relação entre os países ocidental e asiático.

Palavras-Chave: Relações China-Estados Unidos; Poder econômico; Balanço de Poder.

1 Joseph S. Nye Jr. is University Distinguished Service Professor at the Harvard Kennedy School of Government and author of The Future of Power. Email: Joseph_Nye@hks.harvard.edu
The British historian Niall Ferguson has said “the 21st century will belong to China.” A recent book is even entitled When China Rules the World: The End of the Western World and the Birth of a New Global Order.” How valid are such projections?

China’s territory is equal to that of the United States and its population is four times greater. It has the world’s largest army, more than 250 nuclear weapons, and modern capabilities in space and cyber space (including the world’s largest number of internet users.) In soft power resources, China still lacks cultural industries able to compete with Hollywood or Bollywood; its universities are not top ranked; and it lacks the many non-governmental organizations that generate much of America’s soft power. However, it has always had an attractive traditional culture, and it has created hundreds of Confucius Institutes around the world to promote it.

Already in the 1990s, I wrote that the rapid rise of China might cause the type of conflict described by Thucydides when he attributed the Peloponnesian War to the rise in the power of Athens and the fear it created in Sparta. The political scientist John Mearsheimer flatly asserts that China cannot rise peacefully. Historical analogies are also drawn to World War I, when Germany had surpassed Britain in industrial power and the Kaiser was pursuing an adventurous, globally oriented foreign policy that was bound to bring about a clash with other great powers.

In contrast, however, China still lags far behind the United States in the hard power to coerce and pay (military sticks and economic carrots) as well as the soft power of attraction. While its “market Leninist” economic model provides soft power in some authoritarian countries, it has the opposite effect in many democracies. Nonetheless, the rise of China recalls Thucydides’ other warning that belief in the inevitability of conflict can become one of its main causes. Each side, believing it will end up at war with the other, makes reasonable military preparations which then are read by the other side as confirmation of its worst fears. In this

---


regard, a possible source of optimism is Jonathan Fenby’s judgment that China “will not have the economic, political and human resources to dominate the world, even if it wished to do so.”

**Economic Power**

The “rise of China” is a misnomer; recovery is more accurate. China was the world's largest economy until it was overtaken by Europe and America in the past two centuries as a result of the industrial revolution. After Deng Xiaoping’s market reforms in the early 1980s, China’s high annual growth rates of 8 to 10 percent led to a remarkable tripling of its GDP in the last two decades of the 20th century, and many believe it will soon regain its place as the world’s largest economy.

Nonetheless, China has a long way to go to equal the power resources of the United States, and it still faces many obstacles to its development. Currently the American economy is about twice the size of China’s at official exchange rates, but China may soon pass the U.S. if measured at purchasing power parity (ppp). All such comparisons and projections are somewhat arbitrary. Purchasing power parity is an estimate that economists make to compare welfare in different societies, but it also sensitive to population size. Thus India, the tenth largest economy measured at the dollar/rupee exchange rate, comes out as the world’s third largest in terms of ppp. On the other hand, comparisons in terms of current exchange rates, although they may fluctuate depending on currency values, are often more accurate in estimating power resources. The value of a given salary in terms of being able to buy a haircut or a house is best compared by using purchasing power parity. On the other hand, the cost of imported oil or an advanced aircraft engine is better judged at the exchange rates that must be used to pay for them.

Even if overall Chinese GDP passes that of the United States (by whatever measure), the two economies will be equivalent in size, but not equal in composition and sophistication. China still has a vast underdeveloped countryside, and faces a number of challenges including rapid urbanization. Per capita income provides a better measure of the sophistication of an economy, and even measured in ppp, China’s per capita income is only 20 percent of the American level and it will take decades to catch up (if ever).

---

Of course total size is an important aspect of economic power. Having a large attractive market and being the largest trading partner for a large number of countries is an important source of leverage which China wields frequently. But that is not the same as equality. For example, although China surpassed Germany in 2009 as the world’s largest trading nation in terms of volume, Chinese are concerned that their country “has yet to develop into a truly strong trading country” because trade in services is lackluster, many exports have low added value, and China lacks “top notch brands compared with world trade powerhouses like the United States and Germany.” (Nineteen of the top 25 global brands are American.) Of transnational corporations, 46 percent of the top 500 are owned by Americans. In other words, Chinese trade is larger but relatively less sophisticated than that of the United States or Germany.

Another illustration comes in the monetary area. China has studied the power (including financial sanctions) that the United States derives from the role of the dollar in the world. China has tried to increase its financial power by encouraging the use of the yuan for trade finance, and it now represents 9 percent of the global total. But the dollar still accounts for 81 percent. The role of the yuan will increase, but it is unlikely to displace the dollar until China lets international markets set exchange rates, and develops deep and sophisticated domestic capital markets and an accompanying legal structure that engenders trust. As The Economist notes “size and sophistication do not always go together….In the 2020s China will probably be the world’s biggest economy, but not its most advanced. America’s sophistication is reflected in the depth of its financial markets.” China’s are only one-eighth as big and foreigners are permitted to own only a tiny fraction.

Technology is yet another example of differences in sophistication. China has important technological achievements but it also has relied heavily on a strategy of copying foreign technologies more than domestic innovation. In the words of the Chinese journal South Reviews, “China boasts the title of the largest factory powerhouse in the world [and] China-based patents are growing fast and exceeding those of developed countries. But most patents obtained in China


are less important in the entire industrial chain….In short, China remains weak in science and technological innovation.”¹¹ Chinese often complain that they produce i-phone jobs, but not Steve Jobs. The trade volume shows up in Chinese statistics, but the value added shows up in the U.S. figures.

Looking ahead, at some point China’s growth will slow, as all economies do once they develop. Some economists think China’s growth will slow to 5 percent as it downsizes wasteful political investment in the inefficient state-owned sector, and it may have trouble maintaining that level as demographic problems set in after 2020.¹² But even at lower rates China could continue to grow faster than much of the world. However, linear projections of growth trends can be misleading because countries tend to pick the low hanging fruit as they benefit from imported technologies and cheap labor in the early stages of economic take-off, and growth rates generally slow as economies reach the per capita levels of income (in ppp) that China is now approaching. This so-called “middle income trap” is not an iron law (as Japan and South Korea proved), but a regularity that many countries encounter if they fail to innovate and change their growth model. President Xi Jinping is well aware of the problem and China is trying to implement market reforms to avoid it.

The Chinese economy faces serious obstacles of transition from inefficient state owned enterprises, growing inequality, environmental degradation, massive internal migration, an inadequate social safety net, corruption and an inadequate rule of law. The north and east of the country have outpaced the south and west. Only 10 of 31 provinces have per capita income above the national average, and underdeveloped provinces include those with higher proportions of minorities like Tibet and Xinjiang. Moreover, China will begin to face demographic problems from the delayed effects of the one child per couple policy it enforced in the 20th century.¹³ Newcomers to China’s labor force started to decline in 2011, and China’s labor force will peak in 2016. China is aging very rapidly, and by 2030 it will have more elderly dependents than children. Chinese express concern that their country is “getting old before getting rich.”


Reducing saving and increasing domestic consumption as China plans is an obvious but not easy answer because an aging population may keep household savings high, and high corporate savings reflect special interests and limited competition in some sectors. And although China holds the world's largest foreign currency reserves of nearly $4 trillion, it will have difficulty in increasing its financial leverage until it has an open bond market where interest rates are set by the market and not the government. Nor do China's massive holding of dollars give it much direct bargaining power with the US, because in an interdependent relationship power depends on asymmetries in the interdependence. China holds dollars it receives from its sales to America, but the U.S. keeps its market open to Chinese products and that creates growth, jobs and stability back in China. Despite irritations and temptations, China has not dumped its dollars on world financial markets. In doing so, it might bring America to its knees, but at the cost of bringing itself to its ankles.

China's authoritarian political system has thus far shown an impressive capability in relation to specific targets, for example building impressive new cities and high speed rail projects. Whether China can maintain this capability over the longer term is a mystery both to outsiders and to Chinese leaders. Unlike India, which was born with a democratic constitution, China has not yet found a way to solve the problem of demands for political participation (if not democracy) that tend to accompany rising per capita income. The ideology of communism is long gone, and the legitimacy of the ruling party depends upon economic growth and ethnic Han nationalism. Will economic change bring political change when per capita GDP approaches $10,000 (ppp) as occurred in neighboring South Korea and Taiwan? Whether China can develop a formula that can manage an expanding urban middle class, regional inequality, and resentment among ethnic minorities remains to be seen. The basic point is that no-one, including Chinese leaders, knows how China's political future will evolve and how that will affect its economic growth.

Cyber politics presents another complication. With 600 million users, China has the largest internet population, as well as a highly developed system of governmental controls and filters. Companies self-censor and follow government orders. Nonetheless, some leakage of information is inevitable. Coping with greatly increasing flows of information at a time when restrictions can hinder economic growth presents a sharp dilemma for Chinese leaders. Though
the Communist Party elite is unlikely to lose control of the population, politics sometimes has a way of confounding economic projections.

**Military Power**

As long as China’s economy grows, it is likely that its military expenditure will increase. China spends about 2 percent of GDP on the military (half the U.S. level) but GDP is growing rapidly. China’s official 2014 budget of $132 billion was about a quarter of the American budget, but Chinese statistics on military expenditure do not include many items that are listed in the American defense budget. The International Institute of Strategic Studies adds another $20-30 billion to the official number. After a period of low investment, from 1989 to 2009 China’s official military budget increased by double digits every year, and last year it rose 12 percent.

At the same time, China’s 11 percent of global military expenditure is far less than the American 39 percent. At current growth rates, China’s military expenditure may be half that of the U.S. in 2020, but in accumulated stocks of modern military equipment, the U.S. retains at least a 10:1 advantage over China without even counting American allies. China has not developed significant capabilities for global force projection, and while it has increased its ability to complicate American naval operations off its coast, it is only beginning the complex process of developing a blue water navy with carrier battle groups.

With one refurbished Ukrainian carrier, China is still decades behind America’s ten carrier battle groups with long experience in global maneuvers. China is developing two different prototypes of fifth generation stealth fighter aircraft, but again without the global reach of the Americans. At the global level, China has a limited number of intercontinental ballistic missiles and has been making impressive efforts to develop asymmetrical conflict capabilities in space and cyberspace, but it is still not the equal of the U.S. in these domains. And in the conventional arena, it lacks the alliances, overseas bases, long range logistics, and the expeditionary experience of American forces. While the U.S. has some 240,000 troops based in dozens of foreign countries, China has a few thousand engaged primarily in UN peacekeeping missions.

---

The fact that China will not soon be a peer in global power projection should not detract from the fact that China’s investments in fighters, submarines, cruise missiles and intermediate range ballistic missiles have already increased the costs of any American intervention in the seas near China’s coasts. Global military reach should not be conflated with regional military effectiveness. If current trends continue and the United States wishes to continue to reassure its allies in the region, it will need to reduce its force vulnerability in the face of China’s strategy of area denial. This will require costly investments such as stealthy unmanned aerial vehicles that can operate from carrier flight decks; submarines with greater land attack capacity; local ballistic missile defenses, a more resilient system of smaller satellites, and offensive cyber capabilities.15

Soft Power

In 2007, President Hu Jintao told the Chinese Communist Party that China needed to increase its soft power. For a rising power like China whose growing economic and military might frightens its neighbors into counter-balancing coalitions, a smart strategy includes soft power to make China look less frightening and the balancing coalitions less effective.

The soft power of a country rests primarily on three resources: its culture (in places where it is attractive to others), its political values (when it lives up to them at home and abroad), and its foreign policies (when they are seen as legitimate and having moral authority.) But combining hard and soft power resources into a smart strategy is not always easy. For example, establishing a Confucius Institute in Manila to teach Chinese culture may help produce soft power, but it is less likely to succeed in a context where China is bullying the Philippines over possession of disputed islands in the South China Sea. As China becomes more assertive in its territorial claims towards its neighbors, it makes it more difficult to achieve the objective of increasing its soft power.

Moreover, much of America’s soft power is produced by civil society – everything from universities and foundations to Hollywood and pop culture – not from the government. Sometimes the United States is able to preserve a degree of soft power because of its critical and uncensored civil society even when government actions -- like the invasion of Iraq -- are

otherwise undermining soft power. But in a smart power strategy, hard and soft reinforce each other.

In his book *China Goes Global*, David Shambaugh details how China has spent billions of dollars on a charm offensive to increase its soft power. Chinese aid programs to Africa and Latin America are not limited by the institutional or human rights concerns that constrain Western aid. The Chinese style emphasizes high-profile gestures. But for all its efforts, China has had a limited return on its investment. Polls show that opinions of China’s influence are positive in much of Africa and Latin America, but predominantly negative in the major powers of the United States, Europe, India, and Japan.

The 2008 Beijing Olympics was a soft power success, but shortly afterwards, China’s domestic crackdown on human rights activists undercut its soft power gains. The 2009 Shanghai Expo was also a great success, but it was followed by the jailing of Nobel Peace Laureate Liu Xiaobo and television screens around the world were dominated by scenes of an empty chair at the Oslo ceremonies. Marketing experts call this “stepping on your own message.”

China makes the mistake of thinking that government is the main instrument of soft power. In today’s world, information is not scarce but attention is, and attention depends on credibility. Government propaganda is rarely credible. The best propaganda is not propaganda. For all the efforts to turn Xinhua and China Central Television into competitors for CNN and the BBC, there is little international audience for brittle propaganda. As *The Economist* noted about China, the party has not bought into “Nye’s view that soft power springs largely from individuals, the private sector, and civil society. So the government has taken to promoting ancient cultural icons whom it thinks might have global appeal.”¹⁶

The development of soft power need not be a zero sum game. All countries can gain from finding each other attractive. But for China to succeed, it will need to restrain its claims upon its neighbors, and this is difficult in a period of rising nationalism. With regard to more distant countries in Europe or North America, it will need to be self-critical and unleash the full talents of its civil society but this is difficult in a period when the Communist Party is pursuing tighter controls. While China’s economic success, its economic aid programs, and its 700 Confucius

---

¹⁶ “Sun Tzu and the art of soft power,” *The Economist*, December 17, 2011
Institutes teaching culture can enhance China’s soft power, it will remain limited so long as the domestic constraints of rising nationalism and party control remain strong.

**China’s Strategy**

The current generation of Chinese leaders, realizing that rapid economic growth is the key to domestic political stability, has focused on economic development and what they call a “harmonious” international environment. But times change, power often creates hubris, and appetites sometimes grow with eating. Martin Jacques argues that “rising powers in time invariably use their newfound economic strength for wider political, cultural and military ends. That is what being a hegemonic power involves, and China will surely become one.”

Chinese leaders have created a myth that China has never invaded its neighbors or behaved “hegemonically,” but as Foreign Minister Yang Jiechi famously told an ASEAN meeting in 2010, “China is a big country and other countries are small countries, and that is just a fact.”

Traditionally, China saw itself as the center or “middle kingdom” of a tributary system of states in East Asia and some analysts believe it will seek to recreate this order. Others like John Ikenberry argue that the current international order has the openness, economic integration, and capacity to absorb China rather than be replaced by a Chinese led order. Thus far, Chinese leaders have taken only minor steps toward a major global role, whether hegemonic or as a “responsible stakeholder.” They still act largely as free riders. China has benefited greatly from the existing international institutional order but it also wants to make some changes, and even Chinese cannot know the views of future generations.

More important, it is doubtful that China will have the military capability to make overly ambitious dreams possible in the next several decades. Costs matter. It is easier to indulge one’s wish list when a menu has no prices on it. Chinese leaders will have to contend with the reactions of other countries as well as the constraints created by their own objectives of economic growth and the need for external markets and resources. Too aggressive a Chinese military

---


20 Steinberg and O’Hanlon, cited above, p20
posture could produce a countervailing coalition among its neighbors in the region that would weaken both its hard and soft power.

The fact that China is not likely to become a peer competitor to the United States on a global basis, does not mean that it could not challenge the United States in Asia, but the rise of Chinese power in Asia is contested by India and Japan (as well as smaller neighbors such as Vietnam), and that provides a major power advantage to the United States. The U.S.-Japan alliance, which the Clinton-Hashimoto declaration of 1996 reaffirmed as the basis for stability in post-Cold War East Asia, is an important impediment to Chinese ambitions, as is the improvement in U.S.-Indian relations, and Japan-India relations. This means that in the great power politics of the region, China cannot easily expel the Americans. From that position of strength, the U.S., Japan, India, Australia and others can work to provide incentives for China to play a responsible role, while hedging against the possibility of aggressive behavior as China’s power grows.

American Responses

Looking ahead, pessimists predict an impending clash as China grows stronger and seeks to expel the U.S. from the Western Pacific. Some argue that this can be forestalled by the acceptance of spheres of influence in which the U.S. restricts its activities primarily to the Eastern Pacific. But such a response to China’s rise would destroy American credibility and lead regional states into bandwagoning rather than balancing China. Instead, a continued U.S. presence can reinforce the natural balancing reactions of regional states and help to shape the environment in a way that encourages responsible Chinese behavior.

An appropriate policy response to the rise of China must balance realism and integration. When the Clinton Administration first considered how to respond to the rise of China in the 1990s, some critics urged a policy of containment before China became too strong. Such advice was rejected for two reasons. First it would have been impossible to forge an anti-China alliance since most countries in the region wanted (and still want) good relations with both the U.S. and China. Even more important, such a policy would have unnecessarily guaranteed future enmity.

---

21 For a detailed analysis, see Bill Emmott, Rivals: How the Power Struggle Between China, India and Japan Will Shape Our Next Decade (New York: Harcourt, 2008).
with China. Instead the US chose a policy that could be called “integrate and insure.” China was welcomed into the World Trade Organization, but the U.S.-Japan security treaty was revived to insure against China becoming a bully. If a rising China throws its weight around, it drives neighbors to seek to balance its power. In that sense, only China can contain China.

This is a key point in assessing the relative power of the U.S. and China. As Yan Xuetong wrote about how China could defeat America, “to shape a friendly international environment for its rise, Beijing needs to develop more high-quality diplomatic and military relationships than Washington. No leading power is able to have friendly relations with every country in the world, thus the core of competition between China and the United States will be to see who has more high-quality friends.” At this point, the United States is better placed to benefit from such networks and alliances. Washington has some 60 treaty allies; China has few. In political alignments, The Economist estimates that of the 150 largest countries in the world, nearly 100 lean toward the United States; 21 lean against.

In 2011, the United States announced a strategy of rebalancing toward Asia, the fastest growing part of the world economy. Some Chinese see the Obama Administration policy of “rebalancing” towards Asia as a form of containment, but unlike the Cold War doctrine when the U.S. had virtually no trade or social contact with the Soviet Union, it has massive trade with China and some 230,000 students in American universities. Shaping the environment for Chinese decisions is a more accurate description than containment for American strategy.

Some analysts see China as a revisionist state eager to overthrow the established international order as its strength increases. But China is not a full-fledged revisionist state like Nazi Germany or the Soviet Union in the last century. While it has joined in the creation of a BRICS development bank, and promotes regional organizations that suit its needs, China has benefited greatly from and is not eager to destroy existing international institutions such as the UN, the International Monetary Fund, the World Bank, and the World Trade Organization – as well as many others. Europe, Japan, India and Brazil are significant powers that help shape an international environment that encourages responsible behavior, and China cares about its reputation. At the same time, however, as China’s economic power increases, it will be better placed to resist such pressures.

---

In addition, technological and social changes are adding a number of important transnational issues to the global agenda such as climate change, pandemics, terrorism, organized crime, and cyber crime. These issues represent not a transition of power among states, but a diffusion of power away from all governments. Coping with these global threats will require increased inter-governmental cooperation that includes China, Europe, Brazil, India, the United States and others.

China aspires to play a larger role in East Asia and the US has Asian allies to whose defense it is committed. Miscalculations are always possible, but conflict is far from inevitable. The legitimacy of the Chinese government depends on a high rate of economic growth and the top leaders realize that China will need many decades before it approaches the sophistication of the American economy. Where Germany was pressing hard on Britain’s heels (and passed it in industrial strength), as we have seen, the US remains decades ahead of China in overall military, economic, and soft power resources at the global level. Moreover, China cannot afford a policy like that of the Kaiser’s Germany. Too adventurous a policy risks its gains and stability at home and abroad.

In other words, the United States has more time to manage its relations with a rising power than Britain did a century ago, and China has incentives for restraint. Too much fear can be self-fulfilling. Whether the United States and China will manage their relationship well is another question. Human error and miscalculation are always possible. But with the right choices, war is never inevitable, and the rise of China globally is a long process that can have a positive outcome for everybody.