

The United States holds high cards in its poker hand, but hysteria could cause us to fail to play our cards skillfully.

—JOSEPH S. NYE, JR.

The Rise of China

Joseph S. Nye, Jr.*

Failure to cope with the rise of China successfully could have disastrous consequences for America and the rest of the world. Robert Blackwill argues that American presidents' misunderstandings of China's long-term objective to become number one in Asia, and in time the world, ranks with the Vietnam and Iraq wars as one of the three most damaging U.S. foreign policy errors since the end of World War II.¹ Moreover, the interaction of an established power and a rising power could lead to miscalculations that could disrupt this century much as the twentieth was devastated in 1914. Graham Allison warns about repeating such a "Thucydides Trap." While his numbers have been contested, his metaphor remains an important warning.²

Many observers believe that the rise of China will spell the end of the American era, but it is equally dangerous to over- or underestimate Chinese power. Underestimation breeds complacency, while overestimation creates fear—either of which can lead to miscalculation. History is replete with misperception about changing power balances.³ Just since 1945, Nixon and Kissinger interpreted as decline what was really the return to normal of America's artificially high postwar share of world product. They proclaimed multipolarity when what actually transpired over the next two decades was unipolarity. At the same time, opponents of Nixon's *détente* in the 1970s exaggerated Soviet power, which then collapsed. And after that, Americans misunderstood the unipolar reach of American power. It proved far easier for American technology to dominate the global commons of air, sea, and space than to control the domestic politics of social revolutions in urban jungles.⁴

Contrary to current conventional wisdom, China has not yet replaced the United States as the world's largest economy. Measured in purchasing power parity, the Chinese economy became larger than the American economy in 2014, but purchasing power parity is a valid economist's device for comparing estimates of welfare, not for measuring power. For example, oil and jet engines are imported at current exchange rates, and by that measure, China is about two-thirds the size of the United States.⁵ Moreover, gross domestic product (GDP) is a very crude measure of power. For the first half of its "century of humiliation" that started with the opium wars with Britain in 1839, China had the world's largest GDP (and military).⁶ Including per capita income gives a better index of the sophistication of an economy, and American per capita income is many times that of China.

Many economists expect China to pass the United States someday as the world's largest economy (measured as GDP in dollars), but the estimated date varies from 2030 to midcentury depending on what one assumes about the rates of Chinese and American growth. By any measure, however, the gravitational pull of China's economy is increasing. President Clinton's secretary of treasury, Lawrence Summers, poses the future foreign policy questions well: "Can the United States imagine a viable global economic system in 2050 in which its economy is half the size of the world's largest? Could a political leader acknowledge that reality in a way that permits negotiations over what such a world would look like? While it may be unacceptable to the United States to be so greatly surpassed in economic scale, does it have the means to stop it? Can China be held down without inviting conflict?"⁷

* This is adapted from my forthcoming book *Do Morals Matter? Presidents and Foreign Policy from FDR to Trump* (New York: Oxford University Press, January 2020).

Thucydides famously attributed the Peloponnesian war to two causes: the rise of a new power and the fear that creates in an established power. Most people focus on the first half of his statement, but the second is more within our control. Summers properly doubts that U.S. foreign policy can prevent the rise of China's economy, but we can avoid exaggerated fears that could create a new cold or hot war if we use our contextual intelligence well. Even if China someday passes the United States in total economic size, that is not the only measure of geopolitical power—witness the American experience in the first half of the twentieth century. Economic might is just part of the equation, and China is well behind the United States on military and soft power indices. U.S. military expenditure is several times that of China. While Chinese military capabilities have been increasing in recent years, and pose new challenges to our forces, analysts who look carefully at the military balance conclude that China is not a global peer and will not be able to exclude the United States from the Western Pacific so long as the United States maintains its alliance and bases in Japan. The RAND Corporation estimated that a non-nuclear war would be costly for both the U.S. and China, but even more so for China.⁸ And in soft power, opinion polls as well as a recent index published by Portland, a London consultancy, ranked China in twenty-sixth place, while the United States ranked near the top.⁹ Mao's communism had a far greater transnational soft-power appeal in the 1960s than "Xi Jinping thought" does today.

On the other hand, China's huge economic scale matters. The United States was once the world's largest trading nation and largest bilateral lender. Today, nearly a hundred countries count China as their largest trading partner, compared to fifty-seven that have such a relationship with the United States. China plans to lend more than \$1 trillion for infrastructure projects with its Belt and Road Initiative over the next decade, while the United States has cut back aid. China's economic success story enhances its soft power, and government control of access to its large market provides hard-power leverage. Moreover, China's authoritarian politics and mercantilist practices make its economic power readily usable by the government. China will gain economic power from the sheer size of its market as well as its overseas investments and development assistance. Of the seven giant global companies in the age of artificial intelligence (Google, Facebook, Amazon, Microsoft, Baidu, Alibaba, and Tencent), nearly half are Chinese.¹⁰ With its large population, the world's largest internet, and data resources becoming the "new oil" of world politics, China is poised to become the Saudi Arabia of big data. Overall, Chinese power relative to the United States is likely to increase.

China is a country of great strength but also important weaknesses. The United States has some long-term power advantages that will persist regardless of current Chinese actions. One is geography. The United States is surrounded by oceans and neighbors that are likely to remain friendly. China has borders with fourteen countries and has territorial disputes with India, Japan, and Vietnam that set limits on its soft power. Energy is another American advantage. A decade ago, the United States seemed hopelessly dependent on imported energy. Now the shale revolution has transformed it from an energy importer to an exporter, and the International Energy Agency projects that North America may be self-sufficient in the coming decade. At the same time, China is becoming more dependent on energy imports, and much of the oil it imports is transported through the Indian Ocean and the South China Sea, where the United States and others maintain a significant naval presence. Regional analyses that ignore this are mistaken because eliminating this vulnerability will not happen quickly.¹¹

The United States enjoys financial power derived from its large transnational financial institutions as well as the role of the dollar. Of the foreign reserves held by the world's governments, just 1.1 percent are in yuan, compared with 64 percent for the dollar. While China aspires to a larger role, a credible reserve currency depends on currency convertibility, deep capital markets, honest government, and the rule of law—all lacking in China and not quickly developed. While China could divest its large holdings of dollars, such action would risk damaging its own economy as much as the U.S. economy. Dumping dollars might bring the U.S. to its knees, but it would have a similar effect on China. Power in interdependent relations depends upon asymmetric vulnerability, and there are too many symmetries in U.S.-China interdependence at this point, though that might change if there is

a much more radical decoupling. Although the dollar cannot remain preeminent forever, and American overuse of financial sanctions creates incentives for other countries to look for other financial instruments, the yuan is unlikely to displace the dollar in the near term.

The United States also has demographic strengths. It is the only major developed country that is currently projected to hold its place (third) in the demographic ranking of countries. While the rate of American population growth has slowed in recent years, its population is not shrinking as will happen to Russia, Europe, and Japan. Seven of the world's fifteen largest economies will face a shrinking workforce over the next decade and a half, but the U.S. workforce is likely to increase by 5 percent, while China's will decline by 9 percent.¹² China will soon lose its first place population rank to India, and its working-age population already peaked in 2015. Chinese sometimes say they worry about "growing old before growing rich."

America has been at the forefront in the development of key technologies (bio, nano, information) that are central to this century's economic growth, and American research universities dominate higher education. In a 2017 ranking by Shanghai Jiaotong University, sixteen of the top twenty global universities were in the United States; none were in China. At the same time, China is investing heavily in research and development, competes well in some fields now, and has set a goal to be the leader in artificial intelligence (AI) by 2030. Some experts believe that with its enormous data resources, lack of privacy restraints on how data is used, and the fact that advances in machine learning will require trained engineers more than cutting-edge scientists, China could achieve its AI goal.¹³ Given the importance of machine learning as a general-purpose technology that affects many domains, China's gains in AI are of particular significance.

Chinese technological progress is no longer based solely on imitation. The Trump administration is properly punishing China for cybertheft of intellectual property, coerced intellectual property transfer, and unfair trade practices. Reciprocity needs to be enforced. If China can ban Google and Facebook from its market for security reasons, the U.S. can take similar steps. Huawei or ZTE, for example, should not be allowed to build American 5G networks. However, a successful American response to China's technological challenge will depend upon improvements at home more than external sanctions.¹⁴ American complacency is always a danger, but so also is lack of confidence and exaggerated fears that lead to overreaction. In the view of John Deutch, former provost of MIT, if the U.S. attains its potential improvements in innovation potential, "China's great leap forward will likely at best be a few steps toward closing the innovation leadership gap that the United States currently enjoys." But notice the "if."

The United States holds high cards in its poker hand, but hysteria could cause us to fail to play our cards skillfully. When the Clinton administration published its East Asian Strategy Report in 1995 to cope with the rise of China, we decided to reaffirm the U.S.-Japan alliance well before seeking to engage China in the World Trade Organization. Discarding our high cards of alliances and international institutions would be a serious mistake. If the U.S. maintains its alliance with Japan, China cannot push the U.S. beyond the first island chain, because Japan is a major part of that chain. Another possible mistake would be to try to cut off all immigration. When asked why he did not think China would pass the United States in total power any time soon, former Singapore Prime Minister Lee Kuan Yew cited the ability of America to draw upon the talents of the whole world and recombine them in diversity and creativity that was not possible for China's ethnic Han nationalism.¹⁵ If the United States were to discard its high cards of external alliances and domestic openness, Lee could be wrong.

As China's power grows, many observers worry we are destined for war, but few consider an opposite disruptive danger. Rather than acting like a revolutionary power in the international order, China might decide to be a free rider like the United States was in the 1930s. I have called this the "Kindleberger Trap" after the renowned MIT economist who attributed the depths of the Great Depression to a rising America's failure to contribute to global goods at a time when Great Britain could no longer do so alone. In this version of the failure of hegemonic power

transition, China may act too weakly rather than too strongly and refuse to contribute to an international order that it did not create. Some sinologists say that this fear overstates the “not invented here” problem and that China knows it benefited from the post-1945 international order. In the United Nations Security Council, China is one of the five countries with a veto. China is now the second-largest funder of UN peacekeeping forces and participated in UN programs related to Ebola and climate change. China has also benefited greatly from economic institutions like the World Trade Organization and the International Monetary Fund, and China agreed to the 2015 Climate Accords.

On the other hand, China has started its own Asian Infrastructure Investment Bank (AIIB) and a Belt and Road Initiative of international infrastructure projects that some see as an economic offensive. China has not practiced full reciprocity as a market economy, and its rejection of a 2016 Hague tribunal ruling regarding the South China Sea raised questions about whether China would treat its legal obligations *a la carte* (as the United States has sometimes done). American and allied navies’ freedom of navigation operations in the South China Sea remain essential to maintain this point.

Thus far, China has not tried to overthrow but rather to increase its influence within the world order from which it benefits, but this could change as Chinese power grows.¹⁶ Appetites sometimes grow with eating. The Trump administration labeled China a revisionist power, but so far it is moderate revisionism, unlike extreme revisionist powers such as Hitler’s Germany. China is not interested in kicking over the card table but in tilting the table so it can claim a larger share of the winnings. As a RAND study concludes, “It is not entirely appropriate to speak of China’s interaction with ‘the’ international order—its posture has been highly differentiated depending on the component of the order.”¹⁷ At the same time, China’s growing economic power will create problems for the United States and the international order, and this friction will likely be over market access, forced technology transfer, state-directed industrial policies to support national champions, overcapacity, and theft of intellectual property. The American approach to an open international economy will need to be adjusted for greater oversight of Chinese trade and investments that threaten our technological and national security objectives, but there is still a basis for fruitful interdependence and rules of the road to govern it.

As Chinese power grows, the American liberal international order will have to change. China has little interest in liberalism or American domination. Americans would be wise to discard the terms “liberal” and “American” and think in terms of an “open and rules-based” world order. This would mean framing an open international order in terms of John Rawls’s approach to liberalism as institutional cooperation rather than democracy promotion. That latter part of Woodrow Wilson’s legacy might remain a happy, unexpected long-term consequence, as the prospects for long-term pluralization would be enhanced by such a situation compared to the alternative of conflict. We can express our disagreement over values and human rights while cooperating on rules of the road related to matters where there are joint interests.

As China, India, and other economies grow, the United States’ share of the world economy will be less than it was at the beginning of this century, and the rise of other countries will make it more difficult to organize collective action to promote global public goods. But no other country—including China—is about to replace the United States in terms of overall power resources in the next few decades. Russia is in demographic decline and heavily dependent on energy rather than technology exports; India and Brazil (each with a \$2 trillion economy) remain developing countries, and their allegiance to a BRICS (Brazil, Russia, India, China, and South Africa) alliance is limited. Despite Russia and China’s current alliance of convenience against the United States, a real alliance of authoritarian countries similar to the Axis of the 1930s or the Sino-Soviet alliance of the 1950s is unlikely given the underlying mistrust between Russia and China and the difficulty of coordinating competing nationalist ideologies.¹⁸

Today's alliance of authoritarians lacks the soft-power appeal of the 1950s Comintern, though steps will need to be taken to counter their covert "sharp-power" threat to democratic values.¹⁹ China makes major efforts to promote its soft power by promoting its authoritarian social model through economic inducements as well as manipulation of social media. However, while Maoism used to bring protesters into the world's streets, it is unlikely that many protesters will march under the banner of "Xi Jinping Thought about Socialism with Chinese Characteristics" (even though that term is now enshrined in the constitution of the Chinese Communist Party). Since Nixon, China and the United States have cooperated despite ideological differences. Now China's use of artificial intelligence applications for domestic surveillance technology and the export of such practices will place new burdens on the relationship, but it will not prevent all cooperation.

Rapid Asian economic growth has encouraged a horizontal power shift to the region, but Asia has its own internal balance of power. Chinese power is balanced by Japan, India, and Australia among others. None want to be dominated by China. The United States will remain crucial to that Asian balance of power.²⁰ If the United States maintains those alliances, the prospects are slight that China can drive the United States from the Western Pacific, much less dominate the world.

The more relevant question for an effective foreign policy will be whether the United States and China will develop attitudes that allow them to cooperate in producing global public goods while competing in other areas. Exaggerated fears and worst-case analyses may make such a balanced policy impossible. Yan Xuetong, a Chinese realist speculates that with the end of unipolarity and American hegemony, China will carefully avoid war and a "bipolar U.S.-Chinese order will be shaped by fluid issue-specific alliances rather than rigid opposing blocs . . . [and] most states will adopt a two-track approach siding with the United States on some issues and China on others."²¹ The U.S.-China relationship is a cooperative rivalry where a successful strategy of "smart competition" as advocated by Orville Schell and Susan Shirk will require equal attention to both aspects of that description.²² But such a future will require good contextual intelligence, careful management on both sides, and no major miscalculations. And that is a tall order.

Joseph S. Nye, Jr. is University Distinguished Service Professor Emeritus and former Dean of Harvard's Kennedy School of Government. He has served as Assistant Secretary of Defense for International Security Affairs, Chair of the National Intelligence Council, and a Deputy Under Secretary of State. His recent books include *Soft Power*, *The Power Game: A Washington Novel*, *The Powers to Lead*; *The Future of Power*; *Presidential Leadership and the Creation of the American Era*; *Is the American Century Over?*; and the most recent *Do Morals Matter?* He is a fellow of the American Academy of Arts and Sciences, the British Academy, and the American Academy of Diplomacy. In a recent survey of international relations scholars, he was rated the fifth most influential over the past 20 years; ranked as the most influential scholar on American foreign policy, and in 2011, *Foreign Policy* named him one of the top 100 Global Thinkers. He received his bachelor's degree summa cum laude from Princeton University, won a Rhodes Scholarship to Oxford, and earned a Ph.D. in political science from Harvard. He is co-chair of the Aspen Strategy Group.

- ¹ Robert Blackwill, *Trump's Foreign Policies Are Better Than They Seem* (New York: Council on Foreign Relations, 2019), 9-10.
- ² Graham Allison, *Destined for War: Can America and China Escape Thucydides' Trap?* (New York: Houghton Mifflin, 2018). Michael Beckley challenges this analysis and argues that power transition theory is littered with false positives and false negatives: Michael Beckley, "The Power of Nations: Measuring What Matters," *International Security* 43, no. 2 (Fall 2018): 42-43. Kori Schake argues that there has been only one case: Kori Schake, *Safe Passage: The Transition from British to American Hegemony* (Cambridge, MA: Harvard University Press, 2017). Regardless of the numbers, Allison's warning merits attention.
- ³ See Joshua Shiffrin, *Rising Titans: Falling Giants* (Ithaca, NY: Cornell University Press, 2018).
- ⁴ Barry Posen, "Command of the Commons," *International Security* 28, no. 1 (Summer 2003): 5-46.
- ⁵ "World GDP Ranking 2016," Knoema, April 10, 2017, ranks China first if purchasing power parity is used.
- ⁶ Michael Beckley, "The Power of Nations: Measuring What Matters," *International Security* 43, no. 2 (Fall 2018): 22.
- ⁷ Lawrence H. Summers, "Can Anything Hold Back China's Economy?" *Financial Times*, December 3, 2018.
- ⁸ Terrence Kelly, David Gompert, and Duncan Long, *Smarter Power, Stronger Partners, Vol. I: Exploiting US Advantages to Prevent Aggression* (Santa Monica, CA: RAND Corporation, 2016).
- ⁹ Portland Consultancy, "The Soft Power 30," 2018.
- ¹⁰ Kai-Fu Lee, *AI Superpowers: China, Silicon Valley and the New World Order* (Boston: Houghton Mifflin, 2018), 83.
- ¹¹ Meghan O'Sullivan, *Windfall: How the New Energy Abundance Upends Global Politics and Strengthens America's Power* (New York: Simon & Schuster, 2017).
- ¹² Adele Hayutin, *Global Workforce Change: Demographics Behind the Headlines* (Stanford, CA: The Hoover Institution, 2018).
- ¹³ Kai-Fu Lee, *AI Superpowers: China, Silicon Valley and the New World Order* (Boston: Houghton Mifflin, 2018).
- ¹⁴ John Deutch, "Assessing and Responding to China's Innovation Initiative," in *Maintaining America's Edge*, eds. Leah Bitounis and Jonathon Price (Washington, DC: The Aspen Institute, 2019), 163.
- ¹⁵ Conversation with Lee Kuan Yew, Singapore, September 22, 2012. See also Joseph S. Nye, Jr., *Is the American Century Over?* (Cambridge, UK: Polity Press, 2015), 77.
- ¹⁶ Ceri Parker, "China's Xi Jinping Defends Globalization from the Davos Stage," World Economic Forum, January 27, 2017; "Statement by Wang Yi," filmed February 17, 2017, Munich Security Conference, 23:41.
- ¹⁷ Michael Mazarr, Timothy Heath, and Astrid Cevallos, *China and the International Order* (Santa Monica, CA: RAND Corporation, 2018), 4.
- ¹⁸ See Bobo Lo, *A Wary Embrace: What the Russia-China Relationship Means for the World* (Docklands, VIC: Penguin Random House Australia, 2017).
- ¹⁹ Larry Diamond and Orville Schell, *Chinese Influence and American Interests: Promoting Constructive Vigilance* (Stanford, CA: Hoover Institution Press, 2018).
- ²⁰ Bill Emmott, *Rivals: How the Power Struggle Between China, India and Japan Will Shape Our Next Decade* (New York: Houghton Mifflin Harcourt, 2008).
- ²¹ Yan Xuetong, "The Age of Uneasy Peace," *Foreign Affairs* 98 (January/February 2019): 46.
- ²² Orville Schell and Susan L Shirk, Chairs, *Course Correction: Toward an Effective and Sustainable China Policy*, Asia Society Task Force, February 2019.