

“The Revival of China as a Great Power and What It Means for the United States”

by  
Richard C. Bush  
The Brookings Institution  
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It is a great honor to speak to you this evening. I must say that my topic presents me with a rather daunting challenge. It could be the subject of a lecture series or a graduate seminar. There are many issues that I can only touch on lightly. But I will do my best.

To frame my remarks, I cite as my text a passage written by the Greek historian Thucydides almost twenty-five hundred years ago on the root cause of the Peloponnesian War. In paraphrase, Thucydides said, “The growth of the power of Athens, and the alarm which this inspired in Sparta – the leading power of the day, made war inevitable.” To state the idea generally, international conflict is likely when regional and global power balances shift quickly, and when a rising power challenges the status quo and the position of the state or states that guard the established order. Rising powers have a temptation to expand, and as they do so, they impinge on the interests of established powers. International relations specialists call this power transition theory. Recent examples of the phenomenon include the following:

- World War I was the tragic result of a fast-rising Germany’s challenge to the hegemony of Great Britain.
- The Pacific part of World War II was a function of Japan’s challenge to British and American dominance.
- The Cold War reflected the Soviet Union’s challenge to America’s newly won hegemony.

Now there is no question that China’s power is growing.

- Its economy is growing quite quickly — 10 percent a year for a quarter century.
- Its political influence has been growing, both around its periphery, but also in Latin America and Africa — for a variety of reasons. The most stunning example, I think, is the Republic of Korea, an ally of the United States for five decades, but now a very close partner – at least economically – of the People’s Republic of China.
- The budget of the People’s Liberation Army has grown 15 to 20 percent a year for two decades.
- In the first four years of this decade, the Chinese military has bought over \$10 billion a year of military equipment — probably advanced military equipment — from foreign countries.

So something significant is going on and raises the question: might China someday challenge American preeminence in East Asia, if not the world? With China's growing power – economic, diplomatic, military and so on – are we seeing the first stages of a testing of American dominance? Chinese President Hu Jintao's presence at the G-20 meeting on Saturday posed that question in concrete terms.

But a rising power and the established power do not always descend into conflict. Great Britain accommodated to the rise of the United States about a century ago.

So this phenomenon of power transitions does pose both an intellectual and policy challenge. In thinking about China as the new power of the twentieth century, and going back to the analogy of Germany, we might ask, will China's leaders over the long run tend to act like Wilhelm II, who pushed Europe into World War I? Will they end up like Helmut Kohl and Angela Merkel? Or will they, God forbid, act like Adolph Hitler?

So what happens between the United States and China over the next few decades is very important. How the United States addresses the China challenge is, I believe, the biggest foreign-policy problem we will face. From an intellectual point of view, viewing China as the latest case of power transitions, we are also in the middle of a huge and consequential social science experiment, but the results of that experiment will affect us all.

I said that the phenomenon of power transitions poses an intellectual challenge. Scholars would observe, for example, that it is not always easy to figure out the goals of a rising power. Is it limited in its goals? Or is it trying fundamentally to change the international order, what scholars call revisionist or revolutionary? Now countries don't go around advertising what their objectives are, for obvious reasons, and sometimes they change their goals. So it is hard for established states and scholars to know.

Another question about a rising power is its approach to risk. Is it risk-averse or not? To make it even more interesting, the nature of the rising power's goals may be different from its approach to risk. *Revolutionary* states may take a lot of risks and rising powers with *limited* goals may be risk-averse. That's what you would expect. But a state with limited goals may be willing to take lots of risks, and established powers may mistakenly view it as a revolutionary power. Conversely, a state that has long-term ambitions of overturning the system may be risk-averse, lulling the established powers into a sense of complacency. Obviously, Great Britain under Neville Chamberlain made a bad mistake when it believed that Hitler had only limited aims. That only invites more aggression. But established powers can make the opposite mistake: concluding that a rising power with limited aims has revolutionary goals.

So how do these abstract and analytic considerations relate to China? This evening, I would like to explore China's growing power and what it means from a couple of perspectives. First of all, I will assess its impact on its relationship with the international system in general and its ties with the United States in particular. My thesis is that *so far* China has played a cooperative and accommodative role in the international system as a whole and vis-à-vis the United States, the system's key actor. It seems like China is a

rising power with limited aims, and that its cooperative stance can continue for a long time. But remember, our theoretical discussion also tells us that China could be a revisionist power with a very cautious approach to risk.

Second, I would like to look at how the United States and China interact in China's immediate neighborhood, East Asia, and on a couple of major issues. I worry that more than anything else, the quality of our interaction in this arena — for good or ill — will shape how we each view each other's intentions for the long term. On these issues, one can imagine conflicts emerging that would set the two countries on a negative spiral and shape their global strategic relationship. But none of that is inevitable. And there is a more optimistic scenario for China's role, if both Washington and Beijing have the good sense to seize it.

As an aside, it's actually a misnomer to talk about China's rise. All the more interesting is that it is more than a previously poor, weak country flexing new muscles. There is a unique historical consciousness energizing China's contemporary ambition. China is the only traditional world civilization and great power to have fallen on hard times and now have a realistic hope of revival and return to glory.

Two millennia ago the Han dynasty was more or less the equal of the Roman Empire. Both collapsed, but while Europe was mired in weakness and division for more than a thousand years, traditional Chinese civilization remade itself twice, in the Tang dynasty and the Song dynasty. These dynasties were the wonders of the world at that time and, relatively speaking, combined economic vitality, social coherence, political effectiveness, military power, and cultural brilliance. At their height, these dynasties ruled over a territory more or less equal to that of China today and one hundred million people — the United States did not reach a population that large until the 1910s. Historians of science tell us that one thousand years ago, during the Song dynasty, and some eight centuries before the West, China possessed the ingredients for the industrial revolution but somehow failed to put those ingredients together. Even though China did not hit on steam-powered manufacturing before the Europeans, as late as 1820 China still accounted for *one-third* of global economic output.

All Chinese are deeply proud of this cultural heritage and past greatness. They feel a sense of humiliation that their civilization was unable to meet the challenge of the West (and still resent the West for having posed the challenge). China's economic growth over the last thirty years and spreading international clout provide Chinese today with some optimism that their country and civilization can return to greatness, as well as with a strong sense of historic responsibility to bring that about. And so we really should not talk about China's rise but China's revival.

### China and the International System

Back to our social science experiment. In evaluating this what has happened so far, I begin with China and the international system. Scholars who look at China's rise in political and security terms are impressed at how cautious it is. Since the mid-1990s

Chinese foreign policy has had two broad themes.

First, Chinese leaders have embraced policies designed to reassure China's neighbors and to enhance the PRC's reputation as a more responsible and cooperative international actor. Examples of this are Beijing's self-restraint during the wave of currency devaluations that accompanied the Asian financial crisis in the late 1990s and its active embrace of multilateralism over the last decade. On every occasion possible, China's leaders offer the reassurance that China pursues a foreign policy of peace, development, and cooperation. Its hosting of the Olympic Games is offered as evidence of the country's benign intentions.

Second, since 1996 China's leaders have been engaged in a concerted effort to improve bilateral relations with the world's other major powers in order to reduce the likelihood that they will unite to prevent China's slow but steady rise. By cultivating various types of partnerships, Beijing seeks to increase the benefits other great powers see in working with China and to underscore the opportunity costs of working against it.

Scholars who have studied China's foreign policy behavior have concluded that over time and on balance it has adhered to international norms rather than undermined them. It has supported the missions of international organizations rather than frustrated them. It advocates dialogue rather than engaging in brinksmanship. There are exceptions, but as a rule China's record is positive.

So it is hard to conclude that China is acting internationally like a revisionist power, a rising power intent on overturning the system. Instead, the Beijing regime assumes that China is still relatively weak and needs both time (a period of decades) and a peaceful international environment in which to complete the modernization necessary to become a true great power. What we see are a combination of policies designed to provide both time and a peaceful context. Indeed, if China had the intention to challenge the international order, it would be stupid to do so in the near term.

If China's *political* role in the international system is rather accommodating, its recent economic performance is more impressive. Its gross domestic product grew thirteen times in the last thirty years. Its two-way trade with the U.S. increased by more than 10 times in 15 years, from \$33 billion in 1992 to \$387 billion in 2007.

China has moved from being a marginal global player to an important one, becoming a significant link in many global supply chains. Companies that used to manufacture or assemble in Japan, South Korea, Taiwan, Hong Kong, etc., have moved their operations to various places in China. And China's demand for all kinds of ingredients of industrial manufacturing have made it a favored customer for natural resources in Southeast Asia, the Middle East, Africa, South America and Russia.

But it's not just industry that is driving China's expanding need for resources. It's also the creation of infrastructure and consumer demand – especially consumer demand by a middle class that, depending on your definition, may already be as big as the population

of the United States. This middle class, for example, wants the freedom of cars and roads, plus the gasoline to drive the cars.

As Chinese companies move around the world buying commodities, it's important to note that the central Chinese government is not directing their every action, even though it may nominally own those companies. The growing Chinese demand for commodities reflects two inescapable realities: that China has become the world's leading manufacturing and assembly center, and that the Chinese people are now seeking the sort of prosperous life that we enjoy, after having been denied it for decades.

The latest evidence of China's new global economic role was President Hu Jintao's presence in Washington this past weekend at the meeting that President Bush called to discuss the global economic crisis.

### China and the United States

Let me turn to China's rise and its significance for America.

Of course, some of the growth in China's national power is beneficial to the United States:

- It is now our second largest trading partner, trailing only Canada.
- It is our fastest growing export market: \$41.8 billion in 2005, and \$55.2 billion in 2006, and over \$65 billion last year.
- That factories in China, most of which are affiliates of non-Chinese companies, can keep the costs of production of its exports low, is a boon to consumers in the United States and helps keep our inflation moderate.
- That China recycles its dollar export earnings by purchasing Treasury securities helps keep interest rates here low, which is good for every American homeowner.
- China is using some of its new-found international influence in support of goals that the United States shares. The most obvious is de-nuclearization of the Korean peninsula, where China has sought to facilitate a diplomatic solution. Iran is another example. The big issue for the next decade is climate change. China's international record is not perfect, but it has come a long way.

By the way, China's economic growth has had the positive humanitarian result of pulling several hundred million people out of poverty in just a few decades. But there are some side-effects, too – severe environmental degradation to mention just one.

On the other hand, China's growing power has had its down-sides for U.S. interests.

- Although Beijing has done well on North Korea and okay on Iran, it has done less well on Sudan and on Burma, primarily because it wants to ensure a supply of natural resources.

- We have not been able to compete with China in Southeast Asia because of the distraction of the Iraq war and perceptions in Southeast Asia about the U.S. approach to Islam.

Some might say that the United States and China are too interdependent to have a serious conflict. And yet the countries of Europe were highly interdependent economically right before 1914 and they descended into horrific war. Moreover, there are some serious problems in the U.S.-China the economic relationship:

- U.S. imports from China are increasing at between \$30 and \$40 billion per year (equal to half the total value of American exports to China in 2007), which has impacts in some sectors of our economy and parts of our country.
- As we have seen in the last couple of years, the weak regulatory system within China has led to the export of dangerous ingredients in human food, pet food, pharmaceuticals, and toys.
- Again because of weak enforcement, Chinese protection of foreign intellectual property rights is seriously flawed.
- There are new concerns about mercantilist trade policies and Chinese economic nationalism.
- Most serious is the global macroeconomic imbalance that China's export boom has created, of which its imbalance with the United States is only a significant part. This imbalance cannot be sustained, and China's maintenance of an artificially low exchange rate only delays the day of re-balancing. One prays that there will be a soft landing rather than a hard landing. But skillful policy innovation and management will be required. Whether it will be forthcoming is another question.

So even economic relations are not the paradise that the American business community would like people to believe.

And in the security realm there is a cautious game of hedging going on. China is building up its military power: steadily, systematically, and impressively. U.S. government analysts used to denigrate what they called a junk-yard army. They do not anymore. The Pentagon is not sure where all this is going so it has been preparing for down-side scenarios. The Bush Administration, for example, has undertaken a major upgrade of American facilities on Guam and an unstated reason for doing so is to be ready for a more powerful China. After all, it has been U.S. strategy since Pearl Harbor to prevent any rival power from achieving military superiority in the Pacific. The projected development of new U.S. military platforms and the modernization of existing ones seem to have China as their rationale. The danger is that defense planning processes on both sides – bureaucratic processes that prepare for the worst – will create a result that is inconsistent with the intentions of the political leaders of the two countries.

So Washington is *engaging* China on the one hand, seeking as much economic benefit as it can and drawing China into the international community, while simultaneously *hedging* against downside risks. And China is doing the same thing. It values the access to

American markets, capital, technology, and universities. It cooperates with Washington on some of our foreign-policy priorities. But Beijing sometimes suspects that Washington is trying to block its revival. So it hedges as well.

The problem with mutual hedging is that each side will give in to its suspicions rather than maximize its opportunities. Recall that in Thucydides's explanation of the Peloponnesian War, it was Sparta's *alarm*—a subjective response—about the growth of Athens's power that he cited, not the objective reality. Perceptions matter too when it comes to the United States and China. If we ever conclude incorrectly that China is destined to be our future adversary, if we decide that it is a revisionist power when it is not, and base our foreign and security policy upon those conclusion, then it will become our enemy, because, in a self-fulfilling prophecy, China will begin to base its security planning on its perception of our actions. This would be a tragic irony. Neither side would want hostility or conflict. Each would see the benefits of cooperation. But both would allow mutual suspicions to get the better of them and slide into a descending vicious circle.

For the moment, China is not acting like a revisionist power in its overall behavior toward the United States, and that is good. Diplomats from both countries describe vistas of common interests and cooperation, which is good. But we are in the early days of China's rise so a benign outcome is not guaranteed. There are, of course, no certainties about China's global role. And theory suggests the alternative hypothesis that China might be harboring revisionist aims but be take a cautious approach to risk when its power is weak, lulling the United States into a sense of complacency. Yet, on balance, I believe there are a number of specific reasons for thinking that cooperation rather conflict will be our future.

First of all, it's easy to overstate how far China has come. It has grown rapidly to be sure but its growth has created a host of internal problems: corruption, poverty, inequality, a weak social safety net, and environmental degradation. China's leaders spend most of their time worrying about these internal problems and how to address them. They are preoccupied by their country's weakness. To put it differently, the internal basis of China's external rise is not a sure thing.

Second, we should remember that this is the era of globalization, and not the era of geopolitics. A hundred and fifty years ago, countries accumulated power by seizing territory. Today, countries accumulate economic power by enhancing interdependence. China's a prime example of that. We do create economic vulnerabilities in our relationship with China, but interdependence creates vulnerabilities for China as well.

Third, although China's military power is growing it is still no match for that of the United States. America spends as much on defense as the next half of the world's countries combined, and China is part of that number. China is only just beginning to accumulate the ability to project military power beyond its borders, something the United States did very well in World War II. China needs others to secure shipments of Mideast oil on which it is increasingly dependent.

Fourth, China has thought very carefully about how to address the power of the United States. Some Chinese *strategists* have seen American power as a threat to their country's interests and have argued for an aggressive response. But the *leaders'* response has always been the same. That is, China should tread lightly and not, for example, try to organize a coalition of countries to balance against America. Instead, China accommodates to U.S. power where it must, builds up its internal strength, and expands its external influence where it can. The lesson for the United States is that if we will lose global influence it will be because of inattention and incompetence, not simply because China's power is growing.

Fifth, China's leaders are ambivalent about the growth of domestic nationalism. They use it to legitimize the rule of the communist party. They believe that they must respond to it up to a point. On the other hand, they fear that if popular nationalism is not restrained it might be turned against the regime.

Sixth, as I have already suggested, China understands that its growing power is making the United States nervous, so it works hard to reassure us about its peaceful intentions. These assurances are not always convincing. But it is significant that Beijing is able to put itself in our place and sees the need for reassurance.

Seventh, seven American administrations over almost four decades have based U.S. policy on the idea that we can shape the direction of Chinese strategy away from a narrow pursuit of power and in the direction of global responsibility.

So, to come back to my German analogy, I wouldn't say that Chinese leaders are yet like Helmut Kohl or Angela Merkel. But neither would I compare them to Wilhelm II, much less Hitler. Rather, I would say they were *somewhat* like Otto von Bismarck, strategically cautious and conscious of the domestic fragility of their country, but lacking Bismarck's tactical opportunism.

### The United States and China in East Asia

I would be the first to say that my assessment so far is at a fairly general level. I believe it is correct as a snapshot of where we are. But I believe that the ultimate answer to the question about China's rise, the outcome of our experiment, comes not from snapshots but from a motion picture about the intersection of U.S. and Chinese interests in *East Asia* and on two other issues: bilateral economic imbalances and climate change. This interaction is intensive. Through its course, each side learn lessons about each other and each draws conclusions – correct or incorrect – about the other's conclusions. It is in the arenas of these specific issues that the future of U.S.-China relations will be forged.

Let me start with East Asia. East Asia is China's immediate neighborhood, so it's natural to expect China to play a role there. It has also been a region where the United States has assumed a special responsibility, believing that our national security and peace in the Pacific was a function of stability in East Asia. So since World War II America fought

two wars in the region, erected a network of alliances there, now bases somewhere under 100,000 troops there, and takes on a special responsibility to preserve the peace. If there is one place where the expansion of Chinese influence might come in conflict with America's global role, it is in East Asia. On the other hand, if the two countries can work out patterns of coexistence there, we can probably do so anywhere.

I would like to talk about two issue areas: the Taiwan Strait and the Korean peninsula.

On the one hand, conflict between China and Taiwan might seem unlikely because their two economies are so closely intertwined. On the other, a corrosive political dynamic has been at play for the past fifteen years that creates the risk of conflict.

The situation between Taiwan and China over the last fifteen years was one of deepening mutual suspicion in which each side feared that the other was preparing to challenge its fundamental interests. China, whose goal is to convince Taiwan to unify on the same terms as Hong Kong, feared that Taiwan's leaders were going to take some action that would have the effect of frustrating that goal and permanently separating Taiwan from China – the functional equivalent of a declaration of independence, if you will. So Beijing increased its military power to deter such an eventuality. Taiwan feared that China wished to use its military power and other means to intimidate it into submission to the point that it would give up what it claims as its sovereign character. Taiwan's deepening fears – this is important – leads it to strengthen and assert its sense of sovereignty. That doesn't necessarily mean independence, and it doesn't rule out certain kinds of unification in the future. But China, in a misreading of what is going on, saw Taiwan's assertions of sovereignty as pushing towards de jure independence, towards permanent separation. So the vicious circle of mutual fear and mutual defense mechanisms – military on the Chinese side and political on the Taiwan side – continued and worsened.

To complicate matters even further, some Taiwan leaders saw a political advantage in waving the sovereignty flag. It was a useful tool for mobilizing their political base at election time and putting the competition at a disadvantage. And if such tactics provoked China in the process—but not too much—that was fine too. China, on the other hand, could never tell whether this was simply a political ploy or a tricky way to undermine its interests, but it prudently chose to interpret it as a major threat.

For example, in the last legislative and presidential elections on Taiwan, former president Chen Shui-bian sought to mobilize support for his Democratic Progressive Party by proposing that on election there be a referendum on whether Taiwan should join the United Nations and do so under the name of Taiwan, rather than its official name, the Republic of China. China regarded this as highly provocative, and as a way to creep towards legal independence. It declared that there was a “period of high danger.”

The United States came to play a special role in this deteriorating situation. China's first line of defense when it facing such “dangers” was to mobilize the United States, on the assumption that Washington had more control over Taiwan it did. Taiwan, on the other

hand assumed that we would take its side as China's rhetoric became more threatening. Each was unhappy when Washington appeared to take the side of the other. In China, therefore, it is common to conclude from America's behavior that our policy is one of blocking Taiwan from pursuing de jure independence, which Beijing also opposes, but also obstructing unification, which Beijing seeks. Some in Taiwan believe we sold out our democratic values for the sake of commercial or foreign-policy benefits with China. Sometimes in diplomacy, the best you can do is make everybody else equally unhappy.

Actually, the U.S. role is rather different from what observers in China and Taiwan believed. Washington's main goal has always been the preservation of peace and security in the Taiwan Strait. We have opposed the use of force and intimidation, but we don't oppose an outcome that the two sides worked out on a mutually acceptable basis. We have opposed what's called "a unilateral change in the status quo by either side," *and* we have worried a lot that the two sides might inadvertently slip into a conflict through accident or miscalculation. We would then, unhappily, have to choose sides in that conflict. So, first the Clinton Administration and now the Bush Administration have worked very hard to discourage China from using force against Taiwan and to discourage Taiwan's leaders from taking political initiatives that might provoke China to use force, in order to keep the probability of conflict low.

My underlying point is that through these mini-crises the United States and China were learning lessons about each other. Each was learning what kind of great power the other is. Is it cautious? aggressive? constraining? over-reactive? and so on. The lessons we learn on this specific issue in East Asia will shape the general and ultimate character of our relationship.

There is good news here. The downward spiral of mutual fear that has trapped China and Taiwan over the last fifteen years, in which each side fears a fundamental challenge from the other, may be coming to an end. China's President, Hu Jintao, adopted more moderate and constructive policies a couple of years ago. And this March, Taiwan voters elected Ma Ying-jeou, a youngish leader of the Guomindang, to be president of the island. His approach was to take seriously China's fears and seek to reassure Beijing about Taiwan's intentions. In return, and this was his promise to Taiwan voters, he expected China to expand economic cooperation, broaden Taiwan's international role, which has been severely restricted, and reduce the military threat that China poses to Taiwan.

That is a pretty tall order. There is no certainty that China will take up President Ma's offer. But his offer, and the policy vision that Chinese President Hu laid out before him hold out the promise of a Taiwan Strait that is more stable, predictable, and peaceful than ever before. This stabilization would not resolve the fundamental dispute between the two sides. That is really hard. But it creates an environment for talking about the obstacles.

Stabilization of relations between China and Taiwan would also be very good for the United States. Washington stands to gain if Beijing and Taipei take more responsibility for the peace and stability of their neighborhood. For our purposes, however, the

important thing is that both Washington and Beijing will be learning lessons about each other as the engagement between Beijing and Taipei proceeds.

Another venue for learning lessons is the Korean peninsula. In the 1990s, China played only a minor role and the U.S. took the lead in capping North Korea's plutonium program. The result was the Agreed Framework, reached through bilateral negotiations. In 2002-3, that arrangement broke down because of the Bush Administration's approach to evidence that Pyongyang was pursuing an enrichment program and because of Pyongyang's response. The United States was neither willing to pursue a flexible approach to the problem nor even to negotiate bilaterally with the DPRK. Because there was some danger of conflict and instability, China did not remain on the sidelines. It stepped in and facilitated the creation of a negotiating mechanism that became the six-party talks. Beijing has encouraged both the United States and North Korea to be flexible and make concessions. When both have done so, there has been progress. That began in 2005 and accelerated in 2007.

Now we all hope that North Korea accepts the bargain offered in the six-party talks: complete denuclearization; assimilation into the international economy with generous aid; diplomatic relations with the U.S. and Japan; strong assurances that it won't be attacked even though it gives up its nuclear deterrent; and a peace regime for the peninsula. If that occurs, the lesson learned for the United States and China will be very positive. It will be a victory for Beijing-Washington foreign-policy cooperation.

But in my personal view, this is a hard bargain for the DPRK to accept. Pyongyang looks out and sees a dangerous neighborhood, particularly a United States that retains formidable military power. It has no real allies, and if it had allies, it wouldn't trust them completely. Economic reform will undermine the communist system. Under those circumstances, would it really trust the security guarantees offered? So there's a logic for North Korea to remain a poor nuclear power.

What happens then? A key issue is how Japan responds to the increased vulnerability that it feels because of a nuclear North Korea. A key variable is how the United States and China respond (as well as the Republic of Korea). Do we jointly sympathize with Japan's position and take steps together to reassure Tokyo? That would be a positive outcome that reinforces U.S.-China cooperation. Or does the United States take Japan's side and China, for reasons of 20<sup>th</sup> century history, remain suspicious of Japanese intentions? We could also divide on whether to contain and pressure North Korea. If China and the United States divide on how to deal with the consequences of a nuclear North Korea, the lessons learned will not be favorable.

A related issue is how China and the United States respond to the events that follow the death of the Dear Leader, Kim Jong Il, the ruler of North Korea. Of course, no-one has a clue whether the Dear Leader's passing will be followed by a soft landing or a hard landing or a total collapse. But China is North Korea's neighbor and would become a destination of refugees in the event of a humanitarian disaster. If a North Korean collapses, unification of the peninsula would ensue under the aegis of America's ally, the

Republic of Korea. That would raise the question of how close to China American troops in Korea would be deployed. So Kim's death will stimulate a lot of lesson learning. I happen to think that the situation will be so unpredictable and the value of learning positive lessons is so high, that Beijing and Washington should begin policy coordination now to be better ready for whatever.

### Learning Lessons

As I noted, this idea of lesson-learning, that the experience of addressing tough issues shapes each side's attitudes about the other's intentions, will likely occur to issues in the bilateral relationship. One is our economic co-dependence. As I mentioned, there is a growing global macroeconomic imbalance that China's export boom and America's import boom have created. The U.S.-China bilateral trade imbalance is only a significant part and symptom of this imbalance. According to one explanation, it is caused by the tendency of Chinese families to save a lot because they have no confidence in the country's social safety net, and, simultaneously, by Americans' propensity to save not at all. The bilateral trade imbalance is only a symptom of this savings-consumption asymmetry, and it will only decline if Americans save more and Chinese spend more. That in turn will only occur if the American government takes policy steps to encourage saving and the Chinese government repairs the social safety net, which in turn would foster spending. There are other things that can be done, but those are the basics. The two countries can cooperate their way out of this problem together through skillful policy innovation and management, learning positive lessons in the process, or they can blame each other and learn negative lessons.

Another issue is climate change. As the two leading contributors of green-house gases to the atmosphere, our two countries have a significant reason and responsibility to act together in a cooperative way to address the problem. But it will be devilishly difficult to allocate the costs of cooperation in a fair way, particularly since China, with many more people still in relative poverty, will be less willing to sacrifice future growth for the sake of the environment. Moreover, developing strategies for adapting to and mitigating climate change requires an attack on the vested interests of the political economies of both countries, which is incredibly difficult to do. It is pleasant to imagine that our two leaderships find a way to accommodate to each other's concerns and learn positive lessons about each other. It is easier to speculate that the U.S. and Chinese government will quickly reach a deadlock on climate burden-sharing. China will conclude that the United States wanted to use the issue to retard China's growth. The United States will conclude that China put its desire to build national power over its broader international responsibilities.

Obviously, if China and the United States are going to be sophisticated in the lessons they learn about each other in the realms of foreign policy, security, economics, and climate, the leaders in each country will need to build domestic political support for the bilateral relationship. Otherwise, internal forces in each country will give in to the temptation to be suspicious about the intentions of the other. They will confuse the symptoms of problems with the causes of problems. And those who are the losers in the relationship

will complain loudly. Political constituencies will exploit suspicions, the symptoms of problems, and the grievances of the losers. It is only if leaders in each country come forward and build constituencies based on the winners; if they craft policies that address the causes of problems; and if they overcome suspicions and look for opportunities will the promise of the relationship be realized.

It is interesting to me that over the past eight years President Bush did not give a public speech in the United States on why our relationship with China is important to our national interest. To the best of my knowledge, China's president Hu Jintao, who is 60 percent through his time in office, has not given a similar public speech. Speeches aren't all there is to foreign policy but they can help build public support, and you can't execute a foreign policy without public support.

### The Factor of American Leadership

Before I conclude, I would like to step back from my analysis about the power-transition experiment and make two observations. One the one hand, I've talked a lot about what China is doing to increase its power and some about the U.S. response. But I have rather assumed that the United States is and will be static in terms of its power. But I actually don't believe that. Indeed, when thinking about whether or not China's global role will be threatening to the United States or not, a critical variable is the ability and the resolve of the United States to continue to play the kind of leadership role it has played since World War II.

On a variety dimensions, America is losing the lead and the edge that has allowed it to set the agenda for the international system *and* to set the terms of mutual accommodation for rising powers like China. Because the United States has global responsibilities, it must maintain a lead in each major region, including East Asia. The reason China has been willing to accommodate the United States so far is because we have had a significant power lead – so far. But what if we don't? Let me note that America has always led as much by example as by effort, with both soft power and hard power, and we must devote equal attention to both. What I am talking about here is not a domineering dominance but more a benign hegemony.

Because that benign hegemony is stabilizing, regaining America's lead will require returning to what made the United States strong in the first place: a sound fiscal policy; ample resources for building science and technology; a high-quality education system that is accessible all; the institutional infrastructure for a knowledge-based economy; a strong defense; and restoring our reputation in the realm of values. This in turn will require political leadership and a broad-based public consensus.

### An Optimistic Vision

Second, there is an assumption in the power transition, rising power-established power mode of analysis that rivalry is inevitable. And perhaps it is. Some schools of Chinese strategic thought certainly would agree. And if we assume that rivalry is the only option,

then we both will act within that mental arena. But perhaps there is another mental construct for how great powers interact. Perhaps there is an optimistic vision for China's future role and how America responds. That is, in the messy, globalized world of the twenty-first century, perhaps the United States, China, Japan, Europe, and perhaps Russia, India and Brazil share sufficient interests in the survival of the international system as a whole that they may see they value of subordinating their narrow national interests to work cooperatively to preserve that system and promote peace, stability, and prosperity. In the process, there will be absolutely no need for China and the United States to fight for relative supremacy. I would suggest that what is occurring in the six-party talks is the operation of the same concept on a regional basis, with China, the United States, Japan, Russia, and the Republic of Korea working to address the problem of North Korea's nuclear program.

This is not a new idea, and it is not my idea. It was actually conceived by President Franklin Roosevelt during the middle of World War II. He called it the "Grand Design." International relations scholars refer to it as a concert of power, where the leading actors in a system do not contend for power but take special responsibility for the system's preservation. Regarding the United States and China, this is a rather idealistic proposal, easy to put forward but hard to pull off, because it requires the powers concerned to minimize mutual suspicion and maximize joint cooperation. But it is a good ideal for which to strive.

### Summing Up

So to sum up, I leave you with several conclusions about the intriguing power-transition social-science experiment on which China and the United States have embarked.

Conclusion Number 1: So far, China's role in the international system has been relatively cautious. It hasn't sought to upset the status quo. That doesn't guarantee that China's return to great power status will be benign, but we are off to a good start.

Conclusion Number 2: The rise of China does present the United States with a significant foreign policy and security challenge. We must be ready to manage that challenge with skill, but we have the ability to do so. Mutual hedging creates the risk of a downward spiral. But conflict is not inevitable, because in an age of interdependence and in a world where China shares interests with the United States, it would have much to lose by confronting us.

Conclusion Number 3: Ultimately, whether the United States and China are partners or rivals will be determined by the lessons that each country learns about the other in managing a series of tough issues like the Taiwan Strait issue, the Korean peninsula, our economic co-dependency, and climate change that will cumulatively shape for good or ill our. We can all hope that what each capital learns from this mutual socialization will be constructive and not destructive.

Conclusion Number 4: To a significant extent, the United States holds the future in its hands, in that it is up to America as a nation to choose whether we wish to remain a global power and summon the resources to do so.

Conclusion Number 5: Finally, neither the United States nor China should assume that they are destined to a future of rivalry and competition. There is a contrary, positive, and at least hypothetical possibility, that China and the United States, working together with the other great powers, can be a significant force for the preservation of peace and security in the world.

Thank you very much.

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The complexity of China's international economic activities is exemplified by its energy companies. There is an impression that the Chinese *government* is moving around the world, locking up energy supply bases, and removing it from global energy supply. The reality is more complicated.

The liberalization and decentralization of China's energy sector over the past two decades has resulted in a shift of power and resources away from the central government toward the state-owned energy companies and a substantial reduction in the ability of the government to monitor these firms.

China's national oil companies [NOCs], like all other oil companies, need to continuously acquire new reserves to replace what they produce, and the opportunities for them to do so within China appear rather limited. Exploration and production have been the most profitable part of their business.

However, declarations that the Chinese NOCs have overpaid for assets by locking up sources of supply, in many cases, are premature because the rates of return on the companies' investments depend in large part on the future price of oil. Indeed, the sustained increase in oil prices since late 2002 has made many Chinese purchases, previously written off as foolish, now look rather smart.

China's NOCs are actually expanding, rather than contracting, the amount oil available to other consumers by pumping oil abroad, especially at oil fields in which other companies are unable or unwilling to invest.

Contrary to popular perceptions, most of China's imported oil is procured in the same way as the U.S.'s. Both Chinese and U.S. buyers purchase oil on the spot market and through long-term contracts (typically no more than 12 months) which are based on spot prices. The oil that China's NOCs produce abroad—regardless of whether it is sold locally or sent to China—is likely to be valued by the host country at the world price for the purpose of calculating royalty and tax payments.

The issue of energy raises an interesting question. Since China is a net energy consumer just like the United States, Japan, and Europe, its interests are the same as ours. Should we not be cooperating in support of those interests?