

MEETING THE CHINA CHALLENGE: A STRATEGIC COMPETITOR, NOT AN ENEMY

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EXECUTIVE SUMMARY

China's dramatic rise to major power status will soon present the United States with an across-the-board near peer competitor. The challenge for the United States will be how to project and defend its political, economic, military, and technological interests in the emerging strategic competition without pursuing decoupling from China to the point of entrenching a new Cold War. The magnitude of the Chinese challenge is undeniable. It is on the way to becoming the world's largest economy, competing with the United States in innovation of technology platforms key to economic and military global leadership, developing military capabilities to balance the United States in the western Pacific and make possible forcible reunification with Taiwan, and exerting decisive influence and leverage in some multilateral institutions and standard-setting bodies where the U.S. has been preeminent. The ideological differences between the United States and China exacerbate their rivalry, but most of the issues are inherent in major power competition. They should be handled without the need to demonize China over systemic differences.

While China can appear to be a behemoth, it suffers from weaknesses that will limit its rise to global leadership. Its emphasis on sovereignty and internal control, especially on its territorial fringes, reflects anxiety, not strength. The need to address serious environmental, social, and public health problems will slow down the pell-mell growth of previous decades, as will the demographic curve that places burdens on a diminishing work force to support an expanding retired cohort. China's growing and modernizing military will complicate United States strategy regionally but will not approach American force projection capabilities globally.

The principal tasks for the United States to counter the Chinese challenge are to maintain our historic

edge in technology platform innovation, to build a multilateral coalition to confront Chinese violations of the rules-based international order, and to rebuild America's broken political, economic, and social foundations to reposition the country for international leadership. While strategic competition with China will be the overall framework for the immediate future, it would be contrary to American interests to treat China as an enemy. There are transnational issues where U.S.-China cooperation is essential, such as climate change, nonproliferation, public health and combatting epidemics, and tension reduction in regional hot spots. American hostility would be reciprocated by the next generation of Chinese, who have been generally positive about the United States until recently. The United States should not engage with China in a race to the bottom in diplomacy, scientific and student exchanges and cooperation, and economic protectionism. That is a competition that America as an open society should not seek and cannot win.

CHALLENGES AND PROBLEMS

The relationship between the United States and China will be the most important one for the United States and the world in the 21st century. China poses challenges for the United States across the entire spectrum of our interests — political, economic, technological, ideological, military, and security — as an emerging peer competitor. Other countries pose challenges to the United States in one or more realm, but none across the board.

What will be the character of this relationship? What kind of framework would best serve U.S. interests?

Americans increasingly view China as a potentially dangerous rival because of four major changes in the last decade.

- China's growing power in all domains.
- The halt, and in some cases reversal, of market-driven reform of the economy and greater emphasis on central control and guidance at a time when Chinese economic power abroad is growing and, in many places, disruptive.
- The return of stress on ideology, including indoctrination of officials in Marxism, tightening of space for dissent, heightened domestic surveillance enabled through technological advances, mass incarceration and "reeducation" of Uighurs in Xinjiang, and the recent crackdown in Hong Kong curtailing its autonomy and political freedoms.
- Threats to neighbors through bullying and, in some cases, use of the PLA (People's Liberation Army), notably the change in the status quo in the South China Sea and recent border clashes with India.

These developments have driven favorable attitudes toward China in the United States to their lowest levels since the establishment of relations. But they are just a small sample of the manifold challenges China is likely to present. How should the U.S. think about a China in a decade or two that, for example:

- Will be the world's largest economy and the world's largest market.
- Vies with the U.S. for leadership in development of the key technological platforms that drive innovation in warfare and national security, biomedical care and innovation, education, communication, transportation, and infrastructure construction.
- Boasts a military that has parity with the U.S. in the western Pacific, that credibly could threaten to achieve reunification with Taiwan through use of force, and that can project power globally.
- Offers to others a governance model that strengthens the surveillance state, splinters the internet into censored and closed systems, and could make common cause with authoritarian states repressing domestic freedoms and minority ethnic groups.
- Is the world's largest emitter of greenhouse gases by a large margin.

- Has greater influence both in multilateral rule-making, standard-setting, and finance-providing multilateral organizations and more leverage in bilateral relations with U.S. friends and allies in Asia and Europe.

In response to these past actions and in anticipation of these future trends, much of the American foreign policy establishment has concluded that China is a strategic competitor, a strategic rival, and potentially a strategic enemy. This shift in perception of China has coincided with the arrival of the Trump administration, led by a president who sees foreign relationships primarily through the narrow prism of U.S. trade balances (*vis-à-vis* China, a long-standing highly negative one). His administration's senior ranks have been dominated by officials who see the Chinese Communist Party as an existential threat to U.S. security and interests. They have unleashed a cascade of actions aimed at decoupling the United States from China primarily in the economic and technological spheres but more broadly, enabled by a domestic atmosphere in which hostility toward China has peaked in the wake of the COVID-19 outbreak that began in Wuhan.

The result has been a free fall in relations built up over five decades since President Nixon's visit to China. If the goal is to have a new Cold War with China in response to what some view as an existential challenge to American interests and values, that may be regarded as unpleasant but necessary medicine. It is hard to see, however, how the near-daily onslaught of unilateral punishments of China in the last six months will seriously degrade the challenges its growth poses, position the U.S. to compete, or provide a sustainable framework for a relationship with a China that is thoroughly integrated into the global economy.

WHAT ARE CHINA'S INTERESTS? CAN THEY BE RESPECTED, OR MUST THEY BE RESISTED?

We can identify China's current interests with some accuracy and confidence. Broadly speaking, the goal remains the same as what China's reformers pursued in the 19th century, namely a strong and prosperous China: strength to protect China against imperial aggressions by the West and prosperity to bring China from its present backwardness onto a par with the industrializing West.

China's core interests begin at home. In their eyes, they are defensive in nature, and reflect vulnerability to historically aggressive Western powers. China's leaders see internal stability as the foundation for a strong and prosperous China and contend that the leadership of the Communist Party is necessary to ensure that stability. While there are good historical reasons for the emphasis on stability, it also is obviously a self-serving argument for tight control of a range of groups, ideas, and activities that can be seen as challenging Party leadership. So religions, ethnicities, democratic ideas, nongovernmental organizations, mass protests, and demands for federalism or autonomy all are treated as potentially subversive.

Economic growth has been the key to Chinese stability and satisfaction of its people's needs for 40 years. The need for economic growth to absorb the continuing large migration from countryside to cities and expectations of a growing middle class remains fundamental. There have been swings between market-driven growth with encouragement of the private sector and periods of retrenchment featuring reimposition of controls. Large subsidies to state-identified "winners" and state-owned enterprises, IPR and technology theft, Party guidance of enterprises through commissars embedded in companies, regulatory discrimination against foreign companies, and other neo-mercantilist practices have persisted through 40 years of reform. In many respects these practices have worsened in the last decade. The pace and breadth of economic reform remains a divisive issue among Chinese officials and economists. It is not unthinkable that there could be dismantling of such practices in the future, but that does not appear on the horizon under the current leadership.

National unity, reunification, and sovereignty are central priorities, and would be regardless of whether the Communist Party ruled China. Hong Kong and Macau have already been reclaimed, and Beijing is determined that Hong Kong's traditional internationalism and openness not be a source of instability. No government in Beijing can renounce the goal of reunification with Taiwan, though in the short run the bottom line is the unacceptability of formal independence. Beijing's other core territorial concern is maintenance of control of Tibet and Xinjiang, both with restless populations of non-Han ethnic groups with strong religious heritages.

These interests, seen by Chinese leaders as defensive and China's own business, are of long standing. Over the last decade, we can identify some new Chinese objectives where trends are pretty clear and others that are more speculative but bear watching:

- In the military sphere, a rapid modernization designed to achieve at least a stand-off with U.S. forces in the western Pacific, a preeminent position over other territorial claimants in the South China Sea, a blue water navy that can show the flag around the world and project force, and technology advances in weaponry and military operations.
- State-encouraged infrastructure development on a vast scale in Asia, Europe, Africa, and Latin America through the Belt and Road Initiative (BRI), with the potential to alter political, economic, and security relations with recipient countries. The BRI also facilitates Beijing's goal of building multiple trade routes ending in China and ensuring access to sources of energy, minerals, and other commodities.
- Determination to be a global leader in key high technologies, including artificial intelligence, 5G systems, aerospace, semiconductors, electric vehicles, bioengineering, life sciences, and alternative sources of energy.
- Ability to play a leadership role in international political and economic institutions, influencing their operations, personnel, values, and objectives. Having a major role in setting international standards in information technology and product design.

This is a daunting set of objectives, some of which China may achieve in whole or in part and others which will remain out of reach in the coming decade or two. It is important to ask if China's aspirations go significantly beyond these goals, or whether greater ambitions will emerge with its growing strength. Will China seek to become a global peer military competitor of the United States? Will it become a threatening subversive actor in democratic societies? Even if we cannot answer these questions, we cannot dismiss these risks.

Some of these core interests, current objectives, and likely future trends are normal developments

for a major power and have nothing to do with the Communist ideology and character of the state, e.g., national reunification and aggressive behavior on its contested borders, development of a military seeking local preeminence and global capabilities, pursuing economic policies that bend and break the rules, playing a leadership role in international institutions, and looking to be a global innovator in technology. On the other hand, some of China's objectives as a major power, legitimate in its eyes, conflict with U.S. interests, e.g. military preeminence in the western Pacific, potential use of force against Taiwan and dominance in the South China Sea, innovation and control of 21st century technology platforms, leadership in international organizations and product standard-setting, and Chinese relationships with BRI beneficiary countries if they take an exclusionary direction. Other Chinese core interests offend American values when they are used to justify repression, notably in Xinjiang and Hong Kong. And finally, there is an ideological overlay on top of the emerging major power rivalry that sharpens normal major power rivalry.

LIMITS TO THE CHINA CHALLENGE

While the breadth and magnitude of the challenges posed by China are large, they should not be exaggerated or misunderstood.

China will not be a global military power able to match the United States for the foreseeable future. America's nuclear and ballistic missile forces, ability to project power, global system of alliances and bases, and war fighting experience are advantages that are unlikely to be eroded. China's military poses a regional challenge but is not an instrument designed for an unprovoked attack on the United States.

China's economy will surpass the United States in gross domestic product, but it will lag well behind the United States in GDP (Gross domestic product) per capita for the foreseeable future. That will mean that demands for attention to domestic needs will continue to loom large for Chinese leaders. These domestic demands will provide some restraint on ambitious overseas spending (such as for BRI) that are unpopular in China. Internationally, there is no doubt that China's spectacular surge to global leadership in trade, investment, and infrastructure development provides the country with greater

influence, but China is many years, perhaps decades, away from being a rule maker rather than a rule taker in international finance, capital markets, and currency. It lacks the foundation of rule of law, currency and capital account convertibility, an independent central bank, and deeply liquid markets that international investors seek, all of which will be necessary for it to provide an alternative to the U.S. dollar as an international currency.

China no longer has the luxury of pursuing breakneck speed growth as it did in the 1990s and early 2000s. Its citizens are not willing to tolerate the environmental wasteland created by the uncontrolled industrialization of earlier decades, and the government will need to engineer a transformation of China's coal dependence, polluted water system, dubious food safety, and disease-prone markets and public spaces to retain the support of its urban population. It has to develop a broad-based pension system and social safety net to care for migrants and private sector workers. And it is facing a negative demographic curve, much as Japan did 30 years ago, with a current ratio of about 6.9 workers supporting one retiree, which is slated to fall based on current trends to 3.6 by 2030 and 1.7 by 2050.¹ If not mitigated, this will exert significant downward pressure on economic growth and tax revenues.

China's lack of international "soft power" is a huge weakness. Its ideology does not travel well and has found no copycats. Among Chinese ethnic societies in Asia, such as Taiwan and Singapore, there is no desire to emulate the Chinese system. China is traditionally a self-centered culture. It does not enjoy the broadening of outlook that comes from a multi-ethnic society, with its small ethnic minorities excluded from Han-dominated society and institutions. China's relationships tend to be cool, calculated, limited, and transactional on both sides, generally based on mutual economic benefits (Pakistan and Cambodia are exceptions, but there are not many). China does not have the luxury of living in a secure and friendly neighborhood. Its relations with India, Japan, and Vietnam are deeply distrustful, and with Korea and Indonesia problematic. Its current warm relationship with Russia is an historic anomaly, based on mutual hostility to American global leadership and energy interdependence, and neither Chinese nor Russian strategic thinkers have confidence about its long-term durability.

IMPLICATIONS FOR U.S. POLICY

Chinese leaders understand their strengths, but they also realize that their problems cannot be wished away. Indeed, they will limit China's ability to compete as a global "superpower" even if China aspires to be one.

There is no evidence suggesting that China seriously aspires to threaten the United States homeland or seek a global confrontation with the United States replicating the pattern of the U.S.-Soviet Union Cold War. Rather, we can expect to face a China that strives for economic preeminence in East and Central Asia, military security against the United States in the western Pacific, and rising but not predominant influence outside of Asia based largely on economic connections. We should not expect China to build up a network of like-minded or satellite states that pose a security threat to the United States, or to adopt the U.S. role in recent decades as the world's policeman.

China is not an existential threat to the United States, but there is no avoiding the fact that we will be competitors and, in some respects, rivals — economically, politically, militarily, and technologically. That will require the United States to get its house in order in numerous ways that go beyond the scope of this paper, as domestic rejuvenation is the basis for successful competition. Such competition also will compel limitations on cooperation in some areas where the United States and China interacted relatively freely in the past. The U.S. will have to secure its fundamental foreign policy interests against Chinese attacks or erosion, through defense of our allies in the Asia Pacific, deterring use of force against Taiwan, and protection of the key values and institutions of the international rules-based order. We also will have to formulate an economic strategy that not only rebuilds competitiveness at home, but brings together a coalition of like-minded aggrieved countries, eliminates Chinese trade and investment privileges unsuitable for an advanced economy, fights for maintenance of an open internet, and preserves the dollar's special role in international trade and finance. The compilation of papers in this project offer specific recommendations for how the United States can most effectively compete with China across the full range of political, economic, military, security, and ideological domains.

The most important battleground for U.S.-China rivalry is likely to be in the field of technology. U.S. creation and domination of the chief technology platforms provided the springboard for the American century. With the astonishing advances in technology that mark the 21st century, whoever is the chief innovator will be strongly positioned to be the dominant military and economic power for years to come. The reality that the United States and China will be technology rivals does not mean that there can or should be radical decoupling. American companies will want access to the Chinese market for profits and to Chinese immigrants and researchers who contribute so extraordinarily to their advances. We need to recognize the trade-off between restricting Chinese access to advanced U.S. technology and the encouragement we inadvertently provide to Chinese competitors when we force them to develop the products we refuse to provide. We should aspire to a world that is not completely fractured between American and Chinese technology forcing the world's 190 countries to choose between mutually incompatible systems. We will need to protect technologies critical to U.S. national security and economic competitiveness without making export of every product with a chip an obstacle course. And we will need to redouble vigilance against Chinese theft of technology and impose enforceable penalties on Chinese entities that engage in such actions.

The central challenge for the United States, however, will be how to project and protect our interests in the face of this emerging competitor but without losing our way by exaggerating or misunderstanding the nature and magnitude of that challenge. We cannot compete with China by outbidding China in an unwinnable race to the bottom through technology and social media prohibitions, expansive definitions of national security in trade and investment, managed trade, cancellation of scholarly and research exchanges, visa and immigration bans, and imposition of diplomatic restrictions. When we feel the need to use such tools in order to gain greater reciprocity, our goal should be for both sides to eliminate restrictions whenever possible, not impose them permanently. Our strength lies in our traditional openness, which cannot be casually tossed aside in every skirmish that comes along. The United States also cannot neglect one of its great assets: the alliances and partnerships we have built up

over the last 70 years in Asia and Europe. Our allies and partners will not follow us in radical decoupling from China or a new Cold War, but they share many of the same grievances and can be a powerful force multiplier on all manner of issues if we treat them and their interests with respect.

Many of the trends in Chinese development can become serious threats, but in some cases, they could be opportunities for cooperation, depending on China's behavior but also on our intentions. China's economic growth and presence, for example, can close overseas markets to American companies or expand American opportunities as wealth is created abroad. It is worth recalling that the great recession of 2008 would have become a depression without U.S.-China joint efforts to cushion the fall and provide massive stimulus. Continued Chinese construction of coal-fired power plants will contribute to global warming, but if the United States doesn't work with China to combat global warming, the results will be catastrophic for the world. As two deadly epidemics (SARS and COVID-19) emerged from China in the last two decades, it is clear that isolation and sanctions alone cannot keep China-born viruses outside our borders. Rather, both countries must also engage in intensive scientific and public health cooperation. China does not agree with U.S. sanctions-based policies to deal with North Korean and Iranian nuclear weapons programs, but it does wish to roll back both, and it is naïve to believe that the United States will have success in containing either program without Chinese cooperation.

The costs of radical decoupling have received little attention in the rush to announce the arrival of an ominous new strategic rival. The inevitable ensuing enmity would exacerbate an arms race that would crowd out pressing domestic priorities. It would divide scientists, researchers, and scholars working on common problems. Ethnic hatred and stereotypes would find fertile soil. Above all, it would increase the risk of military conflict between two nuclear powers.

The temptation to see China as an enemy rather than a competitor is reinforced by its internal policies of repression. But there is much more to China's impact on the world than its appalling imprisonment of political dissidents and repression of ethnic minorities; U.S. policy cannot ignore

this behavior, but it cannot be the singular focus. Americans should not expect that the Chinese will yield to U.S. blandishments or pressure on human rights or governance issues. We should speak out on human rights and democracy because they have defined our character as a nation and our international standing. More importantly, we should live up to our ideals to inspire admirers abroad, including in China. Along with interaction with Chinese civil society when possible in the face of current restrictions, American soft power provides the best opportunity for modest progress.

The United States and China have areas of overlapping interest and issues on which they must work together. Additionally, the overall character of the relationship will affect Chinese decisions, for better or for worse. If the Chinese see the value of at least a non-hostile relationship with the United States, it will restrain them from taking actions that they think might damage that relationship. There are still strong voices in China favoring market-based reform, and their voices are amplified when they are met with encouragement and incentives by the United States. On the other hand, if relations with the United States deteriorate, the voices of recklessness and protectionism on the Chinese side will be strengthened.

The Xi Jinping years have seen a change in Chinese behavior that has elicited a sharp American reaction and brought us to our current state. Modern Chinese political history, however, rarely validates those who project a straight line forward from the present. The changes from Mao to Deng, from Tiananmen to double-digit growth, from the market-driven reforms and low-profile foreign policies of Jiang Zemin and Zhu Rongji to the retrenchment and risk tolerance of Xi Jinping should make us cautious about assuming that today's policies will persist. The United States has to plan on the basis of current unhappy realities and trends, but not pursue an approach that makes the worst-case evolution more likely.

REFERENCES

- 1 See Yi Fuxian, *South China Morning Post*, January 4, 2019.