

ASHLEY J. TELLIS



BALANCING
WITHOUT

CONTAINMENT



*AN AMERICAN
STRATEGY FOR
MANAGING
CHINA*



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Carnegie Endowment for International Peace
1779 Massachusetts Avenue NW
Washington, DC 20036
P: + 202 483 7600
F: + 202 483 1840
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ABOUT THE AUTHOR

ASHLEY J . TELLIS is a senior associate at the Carnegie Endowment for International Peace, specializing in international security, defense, and Asian strategic issues. While on assignment at the U.S. Department of State as senior adviser to the undersecretary of state for political affairs, he was intimately involved in negotiating the civil nuclear agreement with India. Previously he was commissioned into the foreign service and served as senior adviser to the ambassador at the U.S. Embassy in New Delhi. He also served on the National Security Council staff as special assistant to the president and as senior director for Strategic Planning and Southwest Asia.

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SUMMARY

China is poised to become a major strategic rival to the United States. Whether or not Beijing intends to challenge Washington's primacy, its economic boom and growing national ambitions make competition inevitable. And as China rises, American power will diminish in relative terms, threatening the foundations of the U.S.-backed global order that has engendered unprecedented prosperity worldwide. To avoid this costly outcome, Washington needs a novel strategy to balance China without containing it.

KEY THEMES

- The loss of American primacy to China would pose unacceptable risks to the security and interests of the United States and its allies.
- China's power—unlike that of previous U.S. competitors—stems from Beijing's deep integration in the U.S.-led global economy.
- The containment strategy that the United States used to great effect during the Cold War cannot succeed today. Cutting off ties with Beijing and urging China's neighbors to do the same is politically, economically, and practically unthinkable.
- Washington should balance Beijing's growing capabilities by pursuing policies that simultaneously increase China's stake in the existing global system and raise the costs of abusing its power.

RECOMMENDATIONS FOR U.S. POLICYMAKERS

Bolster Regional Actors. By increasing the national power of China's neighbors, the United States can constrain Beijing's behavior and limit its capacity for aggressiveness. This investment is in Washington's best interest irrespective of whether it is repaid in kind because it will diminish China's ability to misuse its growing strength and increase American geopolitical maneuverability in the Indo-Pacific. But the United States must be wary of Chinese tactics to subvert these efforts.

Selectively Deepen Globalization. The United States should make trade liberalization a top priority. Since comprehensive global liberalization remains a distant goal, Washington should work to quickly conclude key regional trade pacts, including the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership, which promise increased relative gains to the United States and its allies vis-à-vis China.

Bolster U.S. Military Capabilities. To preserve its military superiority in the face of growing Chinese power, Washington should invest in improving U.S. power projection capabilities that will allow it to defeat challenges posed by China's new strategic denial systems and regain U.S. freedom of action in the Indo-Pacific.

Reinvigorate the U.S. Economy. Revitalizing the domestic economy is imperative to sustaining American hegemony. To maintain its global economic dominance, the United States must emphasize labor force renewal, promote disruptive technological innovations, increase efficiency in production, and resolve the political squabbles that prevent Washington from fixing the country's public finances.

INTRODUCTION

The rise of China constitutes the most serious geopolitical challenge facing the United States in this century. On current trends, China could—many scholars say will—develop a national economy that rivals, if not exceeds, that of the United States at some point in the future.¹ Already, the Chinese economy is growing in technological sophistication, embodies a huge industrial and manufacturing sector, and has demonstrated the capacity to develop and field a remarkable array of sophisticated weapon systems. China’s national ambitions too are clear: at the very least, Beijing seeks to recover the centrality it enjoyed in Asian geopolitics until the coming of colonialism, and its economic renaissance since the 1980s has now positioned it to play a major global role that was simply unimaginable some thirty years ago.

Given China’s recent economic achievements, it should not be surprising to find Chinese elites and policymakers now concluding that, after many centuries of internal decay and national humiliation, true great-power status, with all its accompanying prerogatives, finally lies within reach. This judgment led Lee Kuan Yew, one of Asia’s most astute observers, to ask almost rhetorically, “How could . . . [China] not aspire to be number 1 in Asia, and in time the world?”² In a similar vein, Ye Zicheng argued in his excellent treatise on Chinese grand strategy that “there is a close connection between the rejuvenation of the Chinese nation and China’s becoming a world power. If China does not become a world power,

the rejuvenation of the Chinese nation will be incomplete. Only when it becomes a world power can we say that the total rejuvenation of the Chinese nation has been achieved.”³

With its extraordinary military modernization program, Beijing has also made tremendous strides toward contesting the erstwhile American domination of the Western Pacific. China’s current and prospective war-fighting capabilities already enable it to hold at risk America’s forward-deployed and forward-operating forces in this area, thereby raising the costs of implementing U.S. deterrence guarantees to its partners in the region and, by extension, undermining the traditional U.S. security system in Asia.

Irrespective of whether Beijing intends it or not, China has thus become in effect a strategic competitor of the United States—and the rivalrous pressures of international politics only threaten to intensify that antagonism. This discord does not arise in the first instance because Beijing seeks a confrontation with Washington, even if some of its current policies risk producing exactly that outcome. Rather, it emerges because China’s growing power spawns expanded interests—to begin with, in the Indo-Pacific region—that are likely to scrape against the existing security order, centered as it is on the preservation of American primacy as the mechanism for assuring the security and autonomy of both the United States and its regional allies.

The frictions inherent in this process are exacerbated by the deep and abiding Chinese suspicions of the overarching American aims in international politics. As Wang Jisi noted, “It is strongly believed in China that the ultimate goal of the United States in world affairs is to maintain its hegemony and dominance and, as a result, Washington will attempt to prevent the emerging powers, in particular China, from achieving their goals and enhancing their stature.”⁴ Although American mistrust of China is perhaps not as acute—at least right now, given the U.S. advantages in relative power—there is little doubt that significant anxieties persist because of challenges in diverse areas ranging from economic relations to military operations to alliances and geopolitics. As China’s power continues to grow, the discordance between Washington and Beijing in these and many other areas will likely be aggravated, thus intensifying the competition between the two countries. As Aaron Friedberg summarized it succinctly, “the United States and the People’s Republic of China are today locked in a quiet but increasingly intense struggle for power and influence, not only in Asia but around the world.”⁵

When all is said and done, this deepening Sino-American power-political competition derives fundamentally from the fact that both nations find themselves trapped in inescapable opposition. The United States seeks to protect its global hegemony—as it must, if it is to advance its varied national interests—while rising Chinese power is oriented toward eroding that U.S. primacy, which remains the most dangerous external constraint on Beijing’s ability to use its steadily accumulating power to reshape the extant political order to serve its own interests.

This rivalry is manifested in diverse ways, from contests over control of the Asian rimlands and the Indo-Pacific to ideological competition over different models of state-society relations. It is ultimately rooted, however, in material factors, namely what Robert Gilpin has called “the uneven growth of power among the dominant states in the [international] system.”⁶ Power, in this context, is a multidimensional phenomenon. It refers to the ability of a state to protect its freedom of action through the possession of superior economic capabilities that in turn enable the production of requisite military strength. These twin foundations allow a state to acquire the other trappings of power, such as the ability to attract and protect friends and allies, secure a seat at the high tables of international governance, and popularize ideologies that help to secure international acceptance of its standing.

China’s expanding economy, which has grown at an average of some 10 percent of gross national product (GNP) annually during the past thirty-odd years, has enabled it to become the new global power most capable of challenging U.S. primacy. Shorn of all subtlety, Beijing’s rise poses a special problem for U.S. interests because it threatens a possible power transition at the core of the global system. If China continues to grow at higher rates than the United States well into the future, it could in time displace Washington as the most important entity worldwide and threaten the postwar international order that has been built and maintained by preeminent American power.⁷

This transition will not occur automatically if China’s GNP one day exceeds that of the United States. Rather, the threat of supersession will be more gradual as continuing Chinese economic growth—at levels superior to the expansion occurring in the United States—steadily enables Beijing to acquire all the other accoutrements that make for comprehensive national power. On current trends, China will consistently accumulate these capabilities over the next two decades. It certainly aims to do so, at the latest, by 2049, the 100th anniversary of the founding of the People’s Republic of China and the date by which Chinese President Xi Jinping has declared China’s intention to become a fully developed nation. Acquiring the appropriate foundations of power will position China to achieve, first, strategic equivalence with the United States, thus transforming the international system into a meaningfully bipolar order. Then, depending on Beijing’s own fortunes, China may possibly surpass Washington as *the* center of gravity in international politics. Irrespective of which outcome occurs—or when—either eventuality would by definition signal the demise of the primacy that the United States has enjoyed since the end of the Second World War.

Even if during this process a power transition in the strict vocabulary of realist international relations theory is avoided—a possibility because China’s per capita income will lag behind that of the United States for a long time even if it acquires the world’s largest GNP—Beijing’s capacity to challenge Washington’s interests in multiple arenas, ranging from geopolitics to trade and from advancing human rights to protecting the commons, will only increase as its power expands. In other words, China will demonstrate how a rival can, as Thomas J. Christensen phrased it, “[pose] problems without catching up.”⁸

As Avery Goldstein has persuasively argued, these hazards could materialize rather quickly because China is currently pursuing provocative policies on territorial disputes over islands in the East and South China Seas.⁹ That these disputes, which a former U.S. official described as involving “uninhabited and uninhabitable rocks,”¹⁰ do not appear *prima facie* to implicate a systemic crisis should not be reassuring to the United States because every serious contestation that occurs in future Sino-American relations will materialize against the backdrop of a possible power transition so long as China’s growth rates—even when diminishing—continue to exceed those of the United States. This dynamic, as William R. Thompson has pointed out, can produce extended “crisis slides” in which even “relatively trivial incidents or a string of seemingly minor crises” may suffice to escalate what was up to that point a precarious structural transformation into full-fledged geopolitical polarization and major war.¹¹ Since the relative disparity in Sino-American economic performance is likely to persist for quite some time, even trifling quarrels will push bilateral ties ever more concertedly in the direction of greater abrasion as accumulating Chinese power further constrains U.S. freedom of action.

AN UNPRECEDENTED CHALLENGE

In many ways, the challenge posed by China will be more serious than that posed by the previous American competitor—the Soviet Union. While the Soviet Union was indeed a formidable military power, its economic base was always much smaller than that of the United States. Although insufficiently appreciated during the Cold War, the Soviet Union was actually a deformed entity: a military giant possessing coercive capabilities that rivaled the United States but an economic midget nurturing a productive base that was less than half the size of its avowed competitor.¹² Angus Maddison, for example, has estimated that the gross domestic product (GDP) of the Soviet Union, when at the height of its relative power in 1975, was approximately 44.4 percent of that of the United States in the same year. China does not share this weakness, which makes the dangers posed by its ascent—and the prospect that it will one day acquire genuinely comprehensive power rivaling that of the United States—far more problematic.

Furthermore, China’s central location within the larger concentration of Asian economic power—the fastest-growing hub in the international system—endows its growth with even greater significance. There is a risk that Beijing might someday exercise choking control over this critical geopolitical space and thereby endanger larger American and global security.¹³ Today, even before China has completely risen, it is already committed to the objective of enforcing a strict hierarchy in Asia, meaning that Beijing’s position at the top of the continental order is acknowledged and respected by all its neighbors. As François Godement has pointed out, Chinese strategy for securing such primacy has revolved around translating

the massive economic gains it has made in recent years into a geopolitical approach that emphasizes “coercion without force.”¹⁴ Even more astutely, Christopher Ford has noted that “the ‘thorough submission’ of other countries” that China seeks is meant to be voluntary—that is, these countries “would be expected not to have to be forced to comply, but rather spontaneously to choose to take their place within the status-hierarchy under the benevolent guidance of the virtuous leader.”¹⁵ This is the only explanation that does justice to then Chinese foreign minister Yang Jiechi’s outburst at the 2010 meeting of the Association of Southeast Asian Nations when, staring directly at Singapore’s then foreign minister, George Yeo, he bluntly declared that “China is a big country and other countries are small countries, and that’s just a fact.”¹⁶

Just in case Beijing’s neighbors do not get the message, however, China has begun to put in place the foundations for enforcing its own version of the Monroe Doctrine along its various peripheries. Beginning with “cartographic aggression”¹⁷ through claims such as its “9-dash line” in the South China Sea and its expansive assertions along the Sino-Indian border to further efforts at “national enclosure”¹⁸ through its recently expanded air defense identification zone in the East China Sea to mounting “the world’s biggest military expansion”¹⁹ for several years running, China is systematically laying the foundations to ensure that its neighbors acquiesce to its burgeoning hegemony while simultaneously ensuring their isolation vis-à-vis their most important external protector, namely the United States.

To be sure, China does not yet pose the kind of military threats to Asia that the Soviet Union posed to Europe in its heyday. This condition, however, may not last for long given that China’s relations with its neighbors are troubled in many ways. Disputes over continental and maritime boundaries persist, status rivalries between China and its Asian peers have not disappeared, and Beijing has, at least so far, studiously refused to renounce the use of force in resolving geopolitical disagreements at a time when its own capacity to mount significant standoff attacks on adjacent countries is rapidly growing. Consequently, however remote the prospect may seem at present, the United States could find itself in a conflict with China in the future thanks to its extended deterrence obligations to various Asian nations. Conflicts between China and its neighbors that do not directly involve the United States but nevertheless affect U.S. interests are also possible. On balance, both these contingencies have inevitably impelled China “to expand and rapidly accelerate improvements in . . . [its] military and economic capabilities as well as increase its external influence to simultaneously establish political and economic dominance over the periphery . . . [in order to] provide leverage against future great power pressure.”²⁰ And these developments, all told, will almost automatically accentuate regional security dilemmas vis-à-vis both China’s neighbors and the United States.

The specific location of China’s military capabilities makes this danger to the Asian theater especially problematic. The Soviet Union’s air and land lines of communication to its Asian

peripheries were long, tenuous, and relatively underdeveloped, which made the sustainability of Soviet military forces in the Far East a challenging proposition. Soviet combat power adjacent to the Pacific, however significant in absolute terms, was considerably weaker than its equivalent in Europe. China, by contrast, is highly advantaged on both counts. It can threaten all the major regional states located along both its continental and maritime peripheries through highly robust, and rapidly improving, interior lines of communication. Furthermore, the bulk of its military capabilities are either directly deployed along its eastern seaboard or can be swiftly moved to any one of its strategic peripheries. Thus, by comparison to the Soviet Union, China can more easily overawe the major power centers in the Indo-Pacific while at the same time more effectively preventing the United States from bringing rearward reinforcements to bear in defense of its regional allies.²¹

All these realities—being a continental-sized power, possessing a gigantic and technologically improving economy, enjoying superior rates of relative economic growth, having a strategically advantageous location, and rapidly acquiring formidable military capabilities—add up quickly to make China a far more consequential rival to the United States than any Washington has faced in the past. Although U.S. officials are bashful about describing China plainly as a geopolitical threat, there is little doubt that they recognize the possibility of a coming power transition, with all its attendant dangers. Because of the perennial arguments among liberals, realists, and neoconservatives, there is no agreement in Washington about what the implications of this transition might be. Yet it is precisely this contingency that U.S. grand strategy should aim to thwart because American primacy has been beneficial for the international system and, even more importantly, for the United States itself.

Preserving this preeminence, accordingly, remains the central task for U.S. policymakers today. Devising a strategy that is equal to this responsibility must begin with an acknowledgment of both the significance and the complexity of the challenge given China's deep enmeshment with the world. There is no better way to begin this assessment than by recognizing that globalization in the postwar period has spawned uneven gains that have produced in China a new competitor to the United States. This most recent bout of international integration has been reinvigorated and nurtured by American hegemony, understood simply as possessing more comprehensive power than any other state and being willing to use that power to structure the global order in certain ways. Beijing's continuing ascent in these circumstances creates a difficult dilemma for Washington: unlike previous great powers that rose largely through autarkic means, China has grown rapidly because it has benefited disproportionately from American investments in sustaining a liberal international economic order.

China, admittedly, is not alone in this regard. Many other European and Asian states have enjoyed economic revitalization in the postwar period because of their integration

into the multilateral trading system underwritten by American power. But China has experienced disproportionately greater gains than the United States and others because its native comparative advantages have been magnified through three distinctive policies. First, Beijing has opted to maintain a domestic economy characterized by significant protectionist components even as it has pursued an investment-driven, export-led growth strategy that exploits the free access available to the more open economies of the developed world.²² Second, the dominant role of the Chinese state in economic decisionmaking has permitted the government to control critical factors of production, such as land and capital, maintain advantageous exchange rates, and sustain huge state-owned enterprises, which in their totality have enabled China to advance nationalist aims beyond simply allocative efficiency and the increased welfare of its population.²³ And third, the consistent and systematic targeting of foreign intellectual property on a gigantic scale has advanced China's industrial policy goals, which emphasize the speedy acquisition of advanced technologies by both legitimate and illegitimate means in order to accelerate Chinese growth vis-à-vis other rivals in the international system.²⁴ All these elements operating in unison have raised China's level of development, which in turn has helped increase American welfare through trade—but at the cost of embodying a rising challenge to U.S. power.

However, it is by no means inevitable that China will continue to rise to the point where it becomes a genuine peer competitor of the United States. Although China has experienced meteoric economic growth in recent decades, the Chinese state has manifold weaknesses. It grapples with the prospect of adverse demographic transitions, contradictions between Beijing's command polity and pseudo-liberal economy, and an unbalanced growth strategy that emphasizes overinvestment at the cost of domestic consumption. These weaknesses may yet take their toll, leading to either a collapse of China's hitherto relentless expansion or its severe moderation.²⁵

The evidence indicates that China's leaders are acutely aware of the precarious character of the nation's economic achievements thus far. Given their own problematic legitimacy, there is no doubt that they are deeply—even fearfully—concerned about the survival of China's Communist regime in the context of the rising threats to domestic stability. Given the growing internal inequalities along multiple dimensions, the rampant corruption throughout society (and especially among the elites), and the increasing individuation in the prospering middle classes, China's leaders remain obsessed by the dangers of internal chaos. They understand that they might not be able to satisfy the rising expectations of their now highly informed and restive population. The decisions reached during the recent third plenum of the 18th Party Congress indicate that the Xi Jinping regime remains intently focused on confronting the country's myriad economic problems head-on both in order to sustain China's global rise and to ward off any indigenous threats to Communist control within China.²⁶

However, the Xi regime remains reluctant to face up to the need for constitutional political liberalization, which raises questions about whether its policies (or any similar policies followed by its successors) will indeed satisfactorily dissipate the dangers of domestic instability. On this score, only time will tell. But the reality of China's internal troubles—which undoubtedly are considerable—has often strengthened the belief that its rise as a great power will not prove as troublesome to others as might be ordinarily expected. According to this line of thought, China's domestic challenges will prevent its leaders from pursuing those self-regarding policies that have been prosecuted by all other great powers in history.²⁷

There is no doubt that if the Chinese economy falters badly and for a substantial period of time or the Chinese state is gripped by a cataclysmic crisis—for whatever reason—the growing challenge to American hegemony would be attenuated. But absent such calamitous developments, it is unlikely that the weight of China's internal challenges alone will prevent its leaders from pursuing those willful policies that would seem natural to Beijing as its power continues to grow. After all, elevated levels of Chinese assertiveness, which have been on display since the 2007–2008 global financial crisis, have occurred despite persistent domestic restiveness for over five years now. Moreover, internal problems have not prevented the Chinese state from successfully extracting the necessary resources to sustain a dramatic military modernization over a long period of time. Nor have they prevented recent Chinese leaders from steadily disregarding Deng Xiaoping's old counsel to “hide and bide” in favor of a new belligerence that takes the form of “show and go.” In fact, Beijing has been able to harness popular sentiments to support its increasingly abrasive foreign policies in the Indo-Pacific region.

Given this reality, the United States cannot count on the possibility that China might stumble in any fundamental sense. Nor can it assume that China's relatively higher growth rates will naturally decay well before Beijing acquires sufficient comprehensive power to become a consequential rival. Washington also cannot presume that its own national capabilities writ large will always remain more powerful or more fecund than China's. Still less can it count on the prospect of Chinese oppugnancy vanishing merely because Chinese growth rates threaten to ease up somewhat in the future. After all, as Moscow did in years past, Beijing could still pose a major threat to U.S. interests despite possessing a smaller economy or experiencing slower economic growth. Because China alone among all other emerging powers has the potential to displace the United States at the top of the international hierarchy, Washington confronts the necessity of consciously developing a grand strategy that limits Beijing's ability to erode overall U.S. preeminence.

This corrective strategy needs to be developed now, while China is still some distance away from being able to effectively challenge the United States, or else it risks being too late. China's deep integration with the international economy, however, implies that the containment strategies that worked so effectively against the Soviet Union cannot be successfully

replicated today. Consequently, if Washington is to escape from the Scylla of paralyzing helplessness in the face of China's rise and the Charybdis of inveterate opposition to that ascent, it must embark on a novel course of action that can be best described as "balancing without containment."

This report lays out the logic of such a strategy, focusing not so much on the current crises enveloping China and the United States but rather on the structural quandaries created by Beijing's continuing rise. It begins by reviewing why China's rise is unique in modern history and examines the specific predicament posed by China's ascendancy to the United States. Thereafter, it elucidates the imperative of balancing China, given that other alternatives such as containment are not options that can be easily exercised by Washington at the present time. Finally, it develops the outlines of a strategy that the United States should pursue toward China, an approach that preserves the benefits of economic interdependence while limiting the dangers of a Chinese exploitation of its growing power.

CHINA'S UNIQUE AND TROUBLESOME RISE AND ITS UNSETTLING CONSEQUENCES

China's ascent has been unlike the rise of other great powers in the modern period. Most states that have dominated Western history since Christopher Columbus acquired their great-power capabilities through a combination of military expansion beyond their national borders and autarkic economic and political transformations at home. These transmutations usually involved significant increases in population and the harnessing of domestic technological innovations that drove the creation of new leading sectors in the global economy. They also involved momentous changes in state capacity and state-society relations, usually characterized by the increasing penetration of the state in society and an expanded ability to extract resources from the population at large for national purposes. In general, these revolutionary developments were embedded in a grand dialectic of "war making" and "state making," where violent international politics either drove domestic innovation and deepened state power or indigenous transformations enhanced national capabilities that in turn were pressed into the service of conflict and territorial expansion.²⁸

The rise of China, which is but part and parcel of the larger rise of Asia, is different. It has been engendered in great measure by the permissive benefits of American hegemony in the postwar period. The U.S. victory in the Second World War laid the foundations for a new global order that nurtured, among other things, a dramatic increase in international economic integration, first through expanded trade in goods and services among Washington's friends and allies and, over time, through the creation of unified production chains that, incarnating capitalism's vitality, soon transcended national boundaries.²⁹ The preeminence of the United States, which was manifested by its possession of the world's largest economy,

its maintenance of the dollar as the international reserve currency, its animating presence behind all major international institutions, and its deployment of superior globe-girding military forces, made this latest wave of globalization possible.³⁰

To the degree that assimilation into this larger process nourished China's growth, Beijing did not require any war making abroad to fuel its economic expansion. While its meteoric ascent undoubtedly required a measure of effective state making for success, the benefits of being embedded in the liberal international economic order allowed China to grow not by the autarkic processes that dominated the rise of previous great powers but rather by exploiting the interdependence arising from American investments in sustaining the postwar regime.

Viewed from the perspective of international relations theory, these U.S. investments had both liberal and realist roots. The liberal belief, arising partly from the U.S. domestic experience after the Great Depression, held that an open trading system provided the best device for increasing global prosperity and ensuring peace through deepened interdependence.³¹ The realist calculation, driven by the growing threat from the Soviet Union, also converged on promoting free trade—even if it was initially asymmetric—because free trade, in tandem with economic aid, was considered the best device for bolstering the economies of America's friends and allies in the coming struggle with Communism.³² All told, the U.S. contribution to this order helped resuscitate Western Europe while creating the first wave of Asian success, as exemplified by the early regeneration of Japan, South Korea, and Taiwan, followed later by the smaller Southeast Asian nations.

Although the rise of these states implied the relative decline of the United States, this outcome was politically tolerable because the reviving European and Asian nations were all American partners whose growth neither posed fundamental security threats to the United States nor threatened to displace Washington as the global hegemon. The rejuvenation of these allies, in fact, contributed to advancing the most important U.S. grand strategic objective of the time—namely, containing the Soviet Union and its Communist bloc. In retrospect, this strategy succeeded brilliantly: it accelerated the eventual Soviet collapse while reinvigorating America's allies without in any way threatening Washington's preeminent position at the top of the international hierarchy.

In the last decade before Soviet disintegration, the United States took the first tentative steps toward integrating China into its containment system. This effort was inaugurated by then U.S. president Richard Nixon's historic 1972 visit to Beijing and acquired momentum after bilateral diplomatic relations were established in 1979. It reached its apotheosis during Ronald Reagan's presidency, when Moscow's increased aggressiveness in Europe, Africa, and Asia prompted both the United States and China to bolster the encirclement of the Soviet Union. Washington had by then long recognized that the Sino-Soviet split was indeed permanent and that aiding China through high-level exchanges, modest military sales, and expanded technology access would not only help Beijing resist Soviet pressures

but also draw a “nonaligned” China closer to the United States at a time when it was not at all clear that the Cold War would end peacefully and with a decisive victory for the West.

In the waning years of this struggle, the United States promoted an even more consequential expansion of the international economic system by supporting China’s accession to the World Trade Organization (WTO). As with other American allies in the first wave of the Asian miracle, enlightened internal decisions made by the Chinese leadership were critical. Deng Xiaoping’s 1978 directive to begin liberalizing the national economy amplified the benefits of the U.S.-led global trading order to provoke a runaway expansion of growth in China, a continuing saga that the *Economist* has described as “the most dynamic burst of wealth creation in human history.”³³

This economic success, however, produced a hazardous geopolitical outcome. During the first wave of the Asian miracle, the political necessity of containing Soviet expansion comported perfectly with the economic desirability of strengthening U.S. allies and neutrals (if necessarily at American expense). But the gains embodied by China’s current rise are fundamentally unsettling to Washington because Beijing has used the prosperity derived from its participation in the global multilateral system to develop military capabilities that enable it to successfully coerce its major Asian peers (as well as its smaller neighbors) while increasingly posing a serious military threat to the principal guardian of that order, America itself.

The competition between the United States and China is thus defined by the awkward reality of Washington sustaining an international economic system that, although it produces great benefits for the United States and others, simultaneously fuels the growth of what could be its most significant geopolitical rival. This phenomenon is unique in contemporary history. Although something similar occurred prior to the First World War, when both Britain and Germany were bound by economic linkages despite geopolitical competition, the extent and density of interdependence between the United States and China has no parallel in the modern era.³⁴

China recognizes this conundrum and its corrosive uncertainties, but Beijing has a vested interest in sustaining the current patterns of international engagement—from which it benefits amply—for as long as possible. Consequently, it has emphasized through various ideational formulations that it seeks nothing other than a “peaceful rise.”³⁵ Yet a gnawing distrust persists in Asia and, increasingly, around the world. This fear is less that China may not rise peacefully today—although there are disturbing portents even on this score, as evidenced by China’s recent behavior toward Japan, the Southeast Asian states, and India—and more that it may not remain indulgent once it has successfully risen.

This problem highlights the fundamental apprehension arising from the second wave of the Asian miracle for the United States and its allies—namely, whether Beijing will exploit the benefits of participating in American-led globalization to improve its power-political

capabilities to the point where it could challenge the United States itself, either in the Asia-Pacific or in regard to control over the international system. On this question some Asian statesmen, like Lee Kuan Yew, have no doubts whatsoever: “The Chinese will want to share this century as co-equals with the United States, [but] it is China’s intention to be the greatest power in the world.”³⁶

The prospect that China might one day become “the greatest power in the world,” riding to that apex on the back of American investments in maintaining a liberal international order, should be disturbing to the United States. Whatever else it may imply, the loss of American hegemony would be dangerous to U.S. security because it would entail a diminution of strategic autonomy, the first and most important benefit of possessing greater power than others in a competitive environment. Being the most powerful entity in the global system for over a century has not only increased U.S. safety by allowing the United States to defeat threats far from its shores but also permitted Washington to shape the international environment in ways that reflect its own interests. This capacity to configure the milieu in which it operates to its advantage in all arenas—economic, military, geopolitical, ideational, and institutional—implies that Washington can constrain the choices of other states far more than it is constrained by them. This critical measure of relative power affords the United States greater immunity than its competitors enjoy.³⁷

The loss of American primacy to China, therefore, would put Washington at Beijing’s mercy far more than is currently the case. Consequently, as long as the international system remains rivalrous and harbors threats to U.S. security, the United States has no alternative but to preserve American hegemony. Such preeminence provides greater security than the alternative of equality with, let alone subordination to, others. It allows the United States to attract the resources necessary to maintain the most innovative economic system on the planet, a capacity that permits it to enjoy a high standard of living and produce the formidable military instruments that enable it to impose its will on rival powers. It affords the United States the luxury of being able to defend itself by conducting military operations closer to the homelands of its adversaries than to its own. It enables Washington to maintain a robust system of alliances that offers the promise of collective defense against common threats and provides significant reservoirs of capability for expeditionary operations abroad. It gilds the attractiveness of American ideas, customs, and fashions internationally and thus procures legitimation by means that go beyond mere force. And it permits the United States to protect its national equities through various international institutions that represent a “rule-based” order and secure favorable outcomes for Washington without it having to repeatedly apply raw power.

The United States would lose many of these benefits were China to rival or replace it as the most powerful state in the international system. And China’s ascent to this pinnacle would be doubly painful because Beijing has benefited disproportionately from an international

system that was originally intended—and is still meant—to advance American interests in the first instance. Concerns about the consequences of losing U.S. preeminence might matter less if it were certain that Chinese primacy would not fundamentally undermine American interests. Such an expectation, however, is absurd in any competitive system. For all their affinities, even the rising United States drove deep nails into the coffin of British hegemony, a reality that London, blinded by its illusions about its “special relationship” with Washington, often failed to see during America’s own ascent to power. As Correlli Barnett acidly concluded, “For the Americans—like the Russians, like the Germans, like the English themselves in the eighteenth century—were motivated by a desire to promote their own interests rather than by sentiment, which was a commodity they reserved for Pilgrim’s Dinners, where it could do no harm.”³⁸ Naturally, American power in turn would be similarly threatened by Chinese ascendancy, even if Beijing currently denies any intention to challenge U.S. preeminence.

INTERNAL DRIVERS OF CONFLICT

Beyond the realities of power in the competitive international system, however, there is good reason to believe that Beijing’s rise is likely to pose particularly intense dangers to the United States for three reasons that are distinctive to China.

To begin, the Chinese *weltanschauung* is deeply anchored in a “parabellum paradigm” that views conflict as endemic to the human condition.³⁹ In this worldview, the restless contestation among both individuals and states produces a permanent struggle for primacy. This struggle is alleviated only by the creation of a hierarchic system in which the ruling primate melds virtue and power to create a stable order at the price of subordination bordering on a disregard for all other entities. Both the Chinese understanding of how power is legitimated and its historical experience of state management have converged on such a monadic conception of order. The *Analects* of Confucius provided the foundation for the belief that good order is possible only through comprehensive centralization, “by subjecting all to a single, just sovereign.”⁴⁰ This vision was made manifest in both the imperial and Communist eras as the Chinese state neither recognized nor shared power with any competing institutions or social groups.

Such a conception of order finds some reflections in the West as well, particularly in the writings of Thucydides, Niccolò Machiavelli, Thomas Hobbes, and, with qualifications, Friedrich Nietzsche. But none of these theorists, with the possible exception of Hobbes, imagines a political order that systematically effaces all competing institutions in the name of virtuous rule. What makes the Chinese variant even more distinctive is the strong commensurability between the position of the virtuous ruler inside the polity and China’s

location within the international hierarchy, both of which are viewed as being at the pinnacle by right—a “principle of superiority” that historian Wang Gungwu described as underwriting the “long-hallowed tradition of treating foreign countries as all alike but unequal and inferior to China.”⁴¹

This worldview resulted in the creation of the “tributary” system during the premodern era of Chinese preeminence, and it survived long after Chinese power began to decline. There is a widespread conviction that residues of this “moral geography” still animate Beijing’s approach to international politics.⁴² If this is true, any future Chinese hegemony will accord only grudging and uncomfortable recognition to the United States, among others, as equal sovereignties. More likely, it will be characterized by strong expectations of American deference to Chinese prerogatives, as cultural sensibilities will only reinforce the realities surrounding the relative disparity in power. Thus, as Beijing sets out to reconfigure the international system to suit its interests, its unease with competing power centers abroad could induce pronounced attempts to subordinate them, either through the direct use of force, the indirect means of economics and diplomacy, or failing such, through *noblesse oblige*.

Furthermore, the simple fact that China has no commitment to liberal values as the ordering framework of political life will also jeopardize the United States and its allies. The foundation of liberalism is grounded in what Immanuel Kant called a fundamental “respect for persons.” Upon this base is erected the entire Western tradition of protecting life, preserving the rule of law, creating ordered space for free exchange, and advancing democracy as a device for safeguarding individuality, enshrining equality, and taming power. While the Western philosophical tradition contends that these are universal ends, there are alternative systems that believe otherwise. For example, many Eastern schools of thought, including those from China, prize social order over personal liberty, emphasize the primacy of collectives over individuals, and esteem traditional hierarchies over atomistic market relations.⁴³

Whether the Western approach to life and order is superior is beside the point; what is pertinent is that China as an Eastern entity is different. Consequently, if Beijing succeeds (or challenges) Washington as a global hegemon, it is unlikely to champion the values that the United States, as the latest incarnation of Western ascendancy, has long promoted worldwide. Such a loss of momentum, which would afflict diverse causes such as human rights, religious freedom, democracy promotion, and human trafficking, would not only have deleterious consequences for American interests but also evolve the international order in directions that are far removed from Washington’s own ideals.

This does not imply that American foreign policy has always hewed to its highest aspirations or that the strategic interests of the United States have revolved solely around realizing the loftiest visions of global order. For all its deviations, however, the United States, more than any other country and certainly more than China, has defined its identity in terms of some estimable values and has always tried, however imperfectly, to align its self-interest

with the demands of a larger and more encompassing morality.⁴⁴ This disposition has produced much good throughout the world. Beyond the various discrete acts of benevolence, such as providing substantial developmental assistance since the Second World War, it has nurtured a set of international norms that constitute standards for what is desirable human behavior in a gamut of areas ranging from the rights of children to the use of weapons of mass destruction. There is no assurance that a future Chinese hegemony would promote this agenda, which is ultimately grounded in a Kantian conception of the political good. Even if China subsisted as merely a challenger to the United States, the same outcome would obtain. The resulting recidivism in undesirable international behaviors would not only stymie the further evolution of the global system in desirable directions but also have distressing impacts on American security.

Finally, Beijing's ascent to global hegemony, first as a rival and then as a primate, could also pose an especially concerted threat to American interests because it may intensify the upsurge in Chinese nationalism. If the last two decades of Chinese growth have corroborated anything, it is that expanding economic power invariably stimulates various kinds of national awakenings, including those of the virulent variety. Western states that were once rising powers themselves are familiar with this phenomenon, which they often forget at their peril.⁴⁵ Not surprisingly, then, China's growing economic clout has already been accompanied by an unhealthy nationalism stimulated at different times by its media, its increasingly confident middle classes, its new netizen community, or sometimes even by the state itself.⁴⁶ These entities have boosted Chinese aggressiveness in recent years, which has been manifested in seizures of disputed territories or threats of punishment directed toward traditional rivals. The availability of new resources has empowered Beijing to pursue coercive actions that were previously considered out of reach or excessively risky, and either new social forces within the state or the aroused citizenry has legitimized these actions. This development effectively refutes the widespread expectation that China's economic growth, deriving as it did from interdependence instead of from the autarkic means that have led to the rise of other great powers, would produce a more pacific and cosmopolitan population focused on securing self-government at home rather than the expansion of national influence abroad.

The likelihood that such pernicious nationalism would be aggravated even after China becomes either a peer of the United States or the most powerful state in international politics is great for three different, but mutually reinforcing, reasons. First, if the Chinese Communist Party survives at the helm, its problems of legitimacy could compel it—as is the case today—to excite Chinese nationalism whenever it senses serious threats to its survival or its hold on power.⁴⁷ Second, the deeply etched memory of China's "century of humiliation" at the hands of foreign invaders ensures that a rising Beijing would be strongly motivated to prevent any loss of power. As a result, it would utilize all forms of political mobilization to bolster its strength in hopes of warding off any return to weakness that might spawn fresh indignities.⁴⁸ Third, a powerful China would quickly discover that it

remains surrounded by various challengers, some of whom may be capable of growing at even faster rates over time. Coping with these unending threats would charge Chinese nationalism further, in part because the major competitors along the country's immediate periphery—Russia, India, and Japan, not to mention the United States—are also significant powers with proud histories and their own unique chauvinisms.⁴⁹ The persistence of Chinese nationalism, then, will likely intensify the threats Beijing levies on Washington and its allies beyond what is inevitable due to the normal jostling of great-power competition.

CONSEQUENCES FOR A DISPLACED HEGEMON

The causes of strife rooted in China's internal characteristics described above—which contemporary international relations theory categorizes as “second-image” drivers of conflict⁵⁰—will exacerbate the dangers that would be posed by a prospective Chinese hegemony (or equality) to the United States. But the perils of growing Chinese preeminence would persist even if such elements did not obtain—that is, even if Beijing did not possess a hierarchic and self-referential view of the world, had vaguely liberal values, and escaped the scourges of nationalism. These factors make the hazards posed by China's rise more intense, but they do not constitute the fundamental reason why growing Chinese power is dangerous for American interests. In the final analysis, the prospect that China might become the world's most powerful nation or even a peer competitor is perilous to the United States because such a China would increase the risks to U.S. and allied security, limit Washington's freedom of action, and likely jeopardize American well-being. These consequences would emerge simply because of the pressures of competitive international politics, where the material advantages enjoyed by one state automatically become resources that can be used to endanger the safety and autonomy of others.⁵¹

It is, in fact, impossible to discern today with any clarity what the consequences for American security might be if China either displaces the United States as the most powerful nation in international politics or becomes a genuinely bipolar rival. Some implications, however, are obvious. For example, the immunity America has enjoyed from hemispheric threats could disappear because growing Chinese military power could allow Beijing to challenge Washington closer to U.S. shores. These dangers may not appear immediately, but that would be poor reason for consolation. China has already established a significant commercial presence in Africa and Latin America, which could serve over the long term as a springboard for servicing different kinds of future military operations.⁵² Moreover, there is even now evidence that Chinese strategists have been studying the erstwhile Soviet Union's Caribbean strategy during the 1980s, noting approvingly how “Soviet expansion posed a threat to [Caribbean] sea lines’ and helped ‘contain U.S. strategy.’”⁵³

These easterly risks, however, are a while away. The more immediate perils will materialize from the west. Prospective Chinese military challenges along the Asian rimlands—where the engine of the global economy is located and where America’s allies and important neutrals would be most in danger—signal an urgent and more dangerous deterioration in the global balance of power to the disadvantage of the United States, which by mid-century could be manifested through a Chinese war-fighting presence all over the Indo-Pacific.

Any sustained challenge to American power in this form would vitiate the international environment dramatically if many present U.S. allies, such as Japan and South Korea, developed independent nuclear deterrents to compensate for the dangers arising from their protector’s diminished potency. The consequences of such developments for the viability of the nuclear nonproliferation regime and, by extension, for American security, are disconcerting. And the loss of American primacy might damage other U.S. interests as well. It could open the door for China to increase its support for odious regimes opposed by the United States with far greater immunity than it has today. It could also result in the replacement of the dollar as an international reserve currency, which would impose significant costs by limiting the U.S. ability to effortlessly borrow on global markets, thus changing the conduct of its citizens in myriad ways. And, finally, the displacement of the United States by China as a global hegemon or as a consequential rival would radically alter the character of all international institutions, especially those that Washington dominates, in regard to maintaining order, accelerating economic growth, advancing desirable norms, and protecting the global commons.

All told then, the loss of primacy to China would fundamentally undermine the national security interests of the United States in the most comprehensive sense imaginable. Given this fact, it may seem surprising that the American polity has not yet responded to the growth of Chinese power with the seriousness and urgency that it displayed, for instance, in regard to the Soviet threat. It is possible to argue, of course, that the United States, protected as it has been by favorable geography, has always been somewhat lethargic in responding to the rise of strategic challengers, rousing itself to deal with such dangers only after these have passed certain thresholds of no return.⁵⁴ If this is true, an animated American rejoinder to the deteriorating power balances heralded by China’s rise may still be some time away. In any case, the relatively composed response thus far, especially in contrast to the U.S. reaction to the Soviet challenge, appears to be a product of three distinctive factors: imperialism, ideology, and interdependence.

Henry Kissinger has captured well the conventional wisdom about how China is different from the Soviet Union where imperialism is concerned. “The Soviet Union was heir to an imperialist tradition,” writes Kissinger, “which, between Peter the Great and the end of World War II, projected Russia from the region around Moscow to the center of Europe.”⁵⁵ The Soviet record of enlarging territory through conquest finds no counterpart in modern

Chinese practice—but the catch lies in the adjective “modern.” Considering Chinese history over the millennia decisively repudiates the image of China as a pacific state that uses force entirely as a last resort. The forcible Chinese expansion from its original Han core along the coast to a wider periphery in its contemporary west and southwest testifies to the fact that China was perhaps as violent as any other major state in world history.⁵⁶ That China’s neighbors fear its growing military might today further corroborates the argument that the absence of recent Chinese imperialist behaviors provides no comfort to these states, even if it accounts for the more relaxed American attitude to a rising China.

That Beijing has not amassed the gargantuan land power that Moscow did in its heyday only tends to reinforce this American complacency. Ground forces convey intense threats to conjoined national territories that simply cannot be matched by air and naval elements operating amid geographically separated areas because of what John J. Mearsheimer has called “the stopping power of water.”⁵⁷ Because Chinese armies do not threaten American allies in the way that massed Soviet tank divisions menaced Western Europe, Beijing’s rising military capabilities do not evoke comparable alarm in the American public even though both U.S. national security managers and the governments of major Asian states are well aware of China’s capacity to project coercive power from its continental sanctuaries to various points along its periphery.

The lack of a current ideological threat from China complements the absence of imperialist behaviors in contemporary Chinese history to reinforce the muted American response to Beijing’s steadily expanding power. Although China remains nominally a Communist state, the American victory over the Soviet Union during the Cold War eviscerated the mobilizing potential of Communism for purposes of organizing and legitimizing collective action against U.S. interests. The progressive Chinese disavowal of support for revolutionary movements worldwide—especially in the Third World after 1978, when Deng Xiaoping opened China to capitalism—signaled the final demise of Beijing’s earlier strategy of using “its state power to further revolutionary movements abroad” in Manichean opposition to the West.⁵⁸

Whatever its residual inspiration to various national elites around the world or, for that matter, to the Chinese state itself, the impact of Communism today is witnessed mostly in how some nations choose to organize their domestic political or economic systems. It no longer serves as a marshaling device for opposing U.S. interests globally—that function has atrophied completely. As a result, even Chinese opposition to the United States as and when it occurs is grounded entirely in *raison d’état* rather than in any competitive *weltanschauung* that commands human passions or political loyalties. Consequently, it is not surprising that the American public today does not view the rivalry with China with the intensity once reserved for opposition to the Soviet Union, even though the displacement of American by Chinese power could be just as dangerous for Washington’s interests, even if in different ways.

Finally, the currently subdued American response to the prospect of China's rise can be explained simply by the realities of economic interdependence. U.S. competition with the Soviet Union played out across two highly autarkic political and economic systems. During the Cold War, U.S. and Soviet interactions were restricted solely to the realm of security interdependence. This antagonistic relationship was extraordinarily tight but involved almost exclusively the activities of national leaders and the diplomatic and military establishments on both sides. Private interactions among the populations in both blocs were minimal or nonexistent, and the well-being of the ordinary citizen in each country was not dependent on the choices made by his counterparts in the other.

The circumstances defining U.S.-China competition could not be more different. Although security interdependence persists, it is not embedded in mutually autarkic national polities. Rather, millions of American and Chinese citizens interact with one another through formal trade and atomistic economic decisions. The welfare of both societies is deeply intertwined. Even though the two nations are at odds over various specific matters ranging from climate change to national security, their economic and societal interdependence erodes the intensity of the rivalry, making it less pronounced than it would have been if the United States and China were linked solely (or even mainly) by geopolitical competition. Not surprisingly, then, both American elites and the public at large are often uncertain about how to understand the problems posed by rising Chinese power, let alone how to respond to these issues—a dramatic change from the circumstances obtaining during the struggle with the erstwhile Soviet Union.

A RACE TO THE TOP

This inability to discern what the Nash equilibrium—where each party pursues its most rational options given its expectations of the other's decisions—might be (if there is one at all in U.S. policy toward the incipient competition with Beijing) does not make the U.S.-China rivalry any more evanescent or any less problematic. At its root, this contestation is anchored in a simple issue: which of these two states comes to acquire greater power through its own actions as well as its interactions with the other and with all other states. Because of the potentially vast gulf between the capabilities of these two nations and those of every other country in the international system, the winner in this race will come to obtain the resources that permit it to define the “rules of the game” that regulate interstate behavior. Most importantly, the victor will be able to constrain the actions of the other more than it is constricted in turn.

Possessing the world's largest economy is essential, even if it is ultimately not sufficient, for this purpose. Consequently, China will do whatever is necessary to sustain the highest rates of economic growth possible in order to elevate its domestic welfare and amass a sufficiently

large pool of material resources so as to permit it to realize its international aims. In order to achieve meaningful global hegemony, however—the kind that permits Beijing to recast the international order to reflect its own preferences—other counterparts to gross economic strength are necessary.

To begin, China's prospective economic primacy will have to be complemented by even greater extraregional military capabilities than it possesses presently. As the analysis of Larry Wortzel, a prominent U.S. analyst of the Chinese military, suggests, China is already in the process of acquiring some of the crucial components that will permit it to slowly project power at significant distances from its shores, some reaching beyond the Eastern Hemisphere to the entire globe.⁵⁹

China will also require new and durable strategic partnerships within Asia and beyond. Although Beijing does not have any contemporary history of nurturing formal alliances, Chinese foreign policy has assiduously sought to develop a variety of preferential affiliations on different continents centered entirely on exploiting various kinds of convergences in interest.⁶⁰ One prominent Chinese scholar, Yan Xuetong, has argued that China, in anticipation of the coming Sino-American bipolarity in global politics, needs to adjust its current nonalliance policy, contending that “strategic alliances can help China increase the number of its true strategic partners. By 2023, China will likely have established about 20 allies or strategic partnerships worldwide. While this is far less than the number of U.S. military allies, it is already beginning to take shape as a stable strategic alliance system.”⁶¹

Furthermore, China will considerably increase its legitimacy on the global stage if it can promote its own distinctive conception of order based on what is most appealing in China's history, tradition, and worldview. That Beijing understands completely the value of attracting adherents drawn either by China's material success or the attractiveness of its ideals is borne out by its calculated strategy of promoting cultural proselytization, what a close observer of China, Shaun Breslin, has summarized as a “a hard-bitten pursuit of soft power.”⁶² As part of what Breslin calls this “state project to internationalize the voice of China so that it penetrates into popular consciousness and influences the debate over the consequences of China's rise,”⁶³ Beijing has invested in creating a large number of new Confucius Institute cultural centers abroad, offering substantial numbers of scholarships for foreign students to study in China, and vigorously promoting Mandarin Chinese. These investments are all intended to advance international acceptance of China's growing power at both popular and elite levels throughout the world.

Finally, China must secure an acceptance of its permanent presence at all the high tables of international governance as a rule maker rather than as merely a rule taker. This process is already well under way and is in fact aided by the larger Western conviction that China's growing strength justifies offering it enhanced representation in various institutions

ranging from energy management to finance and development to security cooperation. In his study of China's expanding global presence, David Shambaugh documents how this process is already under way:

For the past three decades, observers have watched how the world has impacted China; now the tables are turning and it is necessary to understand how China is impacting the world. China's emergence on the world stage is accelerating dramatically in pace and scope—and it is important to understand the different manifestations of its “going global....”

Over a longer period of time, a distinguishing feature of China's modernization mission has been the national pursuit of “comprehensive power.” The Chinese have wisely learned one key lesson from studying the experiences of other previous powers: genuine global powers possess multidimensional strength. Chinese strategists have observed the failings of other powers that possessed strength in only a single dimension or a few, and they have thus concluded that it is important to build and cultivate power comprehensively across a variety of spheres: the economy, science, technology, education, culture, values, military, governance, diplomacy, and other sectors. The Chinese grasp that idea that power is comprehensive and integrative, not atomistic. Nor is power today the same as in the nineteenth or twentieth century, when industrial and military power prevailed; today it must reflect a strong cultural and normative dimension (soft power) as well. Thus China's contemporary effort to regain its status as a global power has consciously included multiple dimensions.⁶⁴

The evolutionary process described by Shambaugh only underscores the point Henry Kissinger has made on many occasions: “China seeks its objectives by careful study, patience and the accumulation of nuances—only rarely does China risk a winner-take-all showdown.”⁶⁵ Beijing's grand strategy is, therefore, a model of astuteness and subtlety. China is consciously amassing economic power without fanfare, utilizing the benefits offered by the multilateral trading system created by the United States, while systematically developing the other complementary accoutrements necessary to one day become “the greatest power in the world”—even as it constantly denies any ambition to replace the United States as a global hegemon. To be sure, not all the capabilities that China requires to sustain this leadership role are in place. In many areas, Chinese deficits are still acute. These weaknesses justify Shambaugh's judgment that China is today a “partial power.”⁶⁶ Yet it is reasonable to expect that these inadequacies will gradually be addressed if China can sustain its economic expansion well into the future and chalk up growth rates superior to those enjoyed by the United States. Hence it would be premature—if not dangerous—to conclude,

as Shambaugh does in his otherwise insightful analysis, that China “will *never* ‘rule the world’” (italics added).⁶⁷ Beijing’s ability to remedy its shortcomings, as the recent third plenum of the 18th Party Congress indicated its intention, will in fact solidify the growing international perception of China as a power to be reckoned with, a state that could in time rise to become America’s equal and, depending on circumstances, even displace the United States as the global hegemon at some point. The prospect that China could be on the cusp of possessing the world’s largest economy should then serve as a powerful reminder to the United States that this achievement would be another significant waypoint along the trajectory marking the gradual diminution in American power.

As the title of a recent book by Edward Luce framed it succinctly, the specter of America’s relative decline should warn the nation that it is indeed “time to start thinking.”⁶⁸ This reflection, however, should not focus on how the United States ought to adjust to the loss of power but rather on how it can force a comeback and forestall a further erosion of capabilities, with all its problematic consequences. Washington, undoubtedly, has been spoiled in recent times by the fact that its erstwhile peer competitors were rabid authoritarian regimes, which were on balance also much weaker than they first appeared. Faced with such challengers, the United States could gird its loins, mobilize its resources, and get down to the business of successfully protecting its national power through force or the threat thereof.

Beijing, in contrast, will not offer Washington similar opportunities—whatever else China may be, it will not exemplify the second coming of the Third Reich. It is unlikely to be either singularly expansionist or an inveterate ideological opponent, and it will not be a military upstart, punching above its weight on the foundations of a puny economy. Rather, it will remain, both today and well into the future, the kind of rival that the United States has not confronted before, at least not in recent memory. Unlike Wilhelmine Germany, Nazi Germany, imperial Japan, or the Soviet Union, the Chinese challenge will be grounded on sturdy economic foundations that will give rise to intermixed cooperative and competitive behaviors in varying and always fluid degrees. As a trading nation, China will continuously contribute to the production of American power, even as Beijing’s superior relative gains undermine Washington’s ability to preserve its standing in the international system. Despite occasionally aggressive actions toward its smaller neighbors, China also will remain on balance a cautious and generally risk-averse state, patiently accumulating potency and plenty through its integration into the American-led global order while attempting to avoid drawing undue attention to itself. Concurrently, Beijing will take care to benefit from every opportunity created by American missteps to enlarge its own material capabilities and improve its international status so that it can be appropriately positioned to one day dethrone U.S. global hegemony should Washington prove to be either absentminded, careless, or irremediably enervated.

The supreme task facing American policymakers at this juncture is to devise a grand strategy that obviates this outcome. Unfortunately, there are no easy solutions. The high costs of great-power war, the presence of nuclear weapons, the realities of economic interdependence, and the liberal values of the United States all interact in different ways to make some antidotes to the challenge of rising Chinese power unthinkable. Yet a policy for buttressing American hegemony must be devised. And when all alternatives are considered, the only course of action that offers the promise of success while maintaining continuity with past traditions is a reformed version of strategic balancing.

FORGET CONTAINMENT, INVEST IN BALANCING

When viewed over the long stretch of history, the rise of China—if durably sustained—would constitute the fourth successive challenge to American power since the United States burst upon the global scene after the American Civil War. For all the differences between this challenge and those posed by earlier antagonists, the United States is faced with exactly the same task that it confronted during those previous episodes: preserving its primacy in order to ensure continued physical security, political autonomy, and economic success for itself and its friends while safeguarding the international regime that advances its strategic interests. In today’s geopolitical environment, however, where tight and growing economic bonds enmesh the United States, its Asian partners, and China, many of the older strategies that served Washington well during previous bouts of hegemonic competition appear particularly inutile in different ways.

STRATEGIES FOR CONFRONTING CHALLENGES TO U.S. PRIMACY

In principle, there are three distinct approaches to managing the rise of Chinese power. The first and most time-honored solution, which surfaces frequently in history, is also the most expensive and the most radical: war. Armed conflict is the device by which the United States dealt with three previous competitors—Wilhelmine Germany, Nazi Germany, and imperial Japan—though in these instances, the rivals made Washington’s decision about how to respond quite easy by attacking either American allies or the United States itself. In the realist tradition, particularly, preventative wars aimed at decisively eliminating rising

competitors long before they can pose serious dangers to a state's interests have often been regarded as an especially effective way of dealing with such threats.⁶⁹

Today, however, the United States does not have the option of using war to eliminate the Chinese challenge for both practical and moral reasons. Unless Beijing forces a conflict upon Washington, the costs of great-power war in the modern age, the prospect of suffering the devastation that could be unleashed by any use of nuclear weapons, and the questionable ethics of attacking a state that poses only a prospective but not imminent danger all combine to ensure that the United States will have to live with rising Chinese power. The acceptance of this reality—to the point of even acquiescing to its own supersession so long as it occurs peacefully—is only reinforced by America's particular brand of liberalism, which also happens to subsist in an environment where the idea of suppressing China through naked and premeditated force is simply unacceptable in the modern world.

The second approach to addressing any future threat that might be posed by an ascendant China consists of shaping the country through internal transformation with the aim of securing certain common ends. It is based on the premise that if a rising China could be induced to uphold the same interests valued by the current primate, the risks of conflict with the United States would diminish considerably.⁷⁰ Whether any rising power would accept the idea of preserving in its fundamentals the order it inherited from the previous hegemon, even if that system appears useful during a power transition, is an open question. This is particularly relevant in the case of China, which is heir to a different political tradition and worldview than the United States. Many in Washington, however, focus on encouraging China to become something approximating a liberal democracy in the hope that such a change would induce Beijing to uphold the current order since doing so would serve China's new values and its own interests (which supposedly would have become compatible with those of the United States, among others).

This solution for dealing with Beijing's expanding power thus attempts to defuse the threats to U.S. interests by changing the internal character of China itself. But whether this strategy will produce the outcome desired is unclear. It hinges on the strong expectation that democratic comity would defang the perils of losing American hegemony, which is problematic because Chinese geopolitical interests could differ from those of the United States just as U.S. geopolitical interests differed from those of Great Britain—to the latter's disadvantage—despite their common democratic bonds. What is certain, at any rate, is that this approach would inflame U.S.-China relations. Any American effort to promote democracy in China would threaten the rule of the Chinese Communist Party, and there is perhaps no better way to provoke inveterate opposition by the current Chinese governing regime to American interests than by actively promoting its downfall.⁷¹

At the end of the day, even this risk might be worthwhile if it ensured that a future Chinese hegemony incarnated in democratic guise would not pose serious dangers to American

equities. However, this outcome likely cannot be assured because the threats emerging from China will result from its superior power rather than merely from the nature of its regime. As a result, seeking to transform the Chinese state does not provide the reassurance necessary for the United States to avoid contesting the potential emergence of Chinese ascendancy.

The third approach to coping with rising Chinese power draws its inspiration from the manner in which the United States dealt with its last challenger, the Soviet Union. Given the costliness of great-power war, the uncertainty of internal transformation, and the unacceptability of acquiescence to Soviet domination, Washington settled on a multipronged strategy called containment. At its root, containment did not aim to simply limit Moscow's capacity to harm American interests but rather sought to defeat it irrevocably by durably preserving what Melvyn P. Leffler has accurately called "a preponderance of power."⁷² The rise of China as a prospective challenger confronts the United States once again with the question of whether Washington ought to consider replicating the strategy of containment as a device for limiting the growth of Beijing's capabilities by comprehensively isolating China from its neighbors and the world. Since China's ascent cannot be restrained by means of preventative war or by compelling its domestic transformation, the temptation to pursue a containment strategy to ward off China's arrival as a consequential competitor is indeed great in principle.

If Washington were to embark on a containment strategy with regard to Beijing, it would have to reproduce the same four elements that made the approach successful in the context of the U.S.-Soviet rivalry. To wit, the United States would have to keep all the major global economic centers of power isolated from Beijing, ensuring that these entities are linked only to the United States, its allies, and one another. It would also have to integrate all the states that feel threatened by China into either a unified geopolitical alliance system or tight bilateral security arrangements primarily focused on arresting Beijing's expanding power. In addition, Washington would need to develop collective defense strategies through common military institutions or coordinated defense arrangements that apportion how the combat capabilities available to the United States and its partners would be used to defeat Chinese aggression or ability to exercise coercive power. Finally, the United States would have to pursue a larger ideological campaign worldwide aimed at delegitimizing the Chinese state and its governing regime.

A strategy of containment thus entails the comprehensive circumscription of China through multiple instruments aimed at retarding its growing power. Whatever its advantages for limiting China's capacity to harm U.S. interests, any approach centered on containment today is unlikely to be fruitful for many reasons, including those same ones that help explain the relative American composure toward Beijing—namely, U.S. perceptions of Chinese imperialism and ideology as well as the two countries' economic interdependence. In the final analysis, what made containing Moscow "easy," at least in conceptual

if not practical terms, was the fact that the Western and Eastern blocs shared no economic ties whatsoever. This unique condition, with the United States integrated entirely with its allies but not with its adversaries and the Soviet Union enjoying an identical relationship with its own confederates, made successful containment possible in a manner that cannot be duplicated in today's deeply interconnected global economy. Containment, therefore, is doomed to failure—at least for now.

No matter what its ill consequences may be for American well-being, U.S. grand strategy today must consequently operate on the presumption that China will continue to grow, among other things, because of its strong economic ties with the United States and the wider international community. Some two decades after the initiation of Deng's economic reforms and China's progressive integration into the liberal international trading order, it is simply too late to constrain Beijing's rise by restricting its access to the global economic system. China's relentless expansion, however moderated in the future, cannot be arrested in present circumstances by external action except at the margins because all the countries enmeshed in commercial interactions with China profit from this interdependence, even if Beijing accrues greater gains than most. No state, therefore, would willingly forego the absolute gains deriving from trade with China so long as it can avoid doing so.

Furthermore, the prospect that other countries might continue to engage commercially with Beijing, thereby enjoying enhanced growth from trade, deters any one state from weakening its economic ties with China—no matter how threatened it may feel by growing Chinese power—because such an action would leave it worse off relative to its competitors. This calculation constrains both the United States and its allies in varying measures, and it is to be expected in any international system that consists of multiple actors embroiled in many-sided rivalries. Consequently, even though China's neighbors recognize that they are contributing to expanding Chinese power and are as a result anxious about Beijing's swelling military capabilities, they are reluctant to limit their trading relations with China. This situation will obtain so long as Beijing does not present an intolerable danger to these states and so long as nonmilitary instruments, such as diplomatic engagement and regional institutions, continue to offer some hope of constraining China peacefully.

Beijing's growing centrality in Asia has thus resulted in its neighbors seeking to avoid any stark choices between China and the United States—a preference that could persist even in the event of conflict between these two great powers. A Cold War–style containment strategy would therefore find little traction with key Asian states and would in fact backfire if it presented these nations with the intolerable binary of aligning with either Washington or Beijing. The net result of globalization, therefore, is that rising, more powerful states, such as China, can exploit interdependence to increase their power and autonomy. At the same time, the weaker partners of these surging states become more reluctant to cut off their trading ties for fear of losing out in absolute terms.

This dynamic will persist as long as U.S. military might suffices to protect the Asian security system. This condition assures the regional states that no matter how advantaged China is in respect to relative gains, it will not be able to use its increased power to coerce its neighbors without precipitating a larger conflict with the United States. Such a calculus will unravel, however, once Beijing acquires the capacity to decisively undermine Washington's extended deterrence capabilities in the Indo-Pacific region. In such a situation, the states adjacent to China would become even more fearful if the United States were to find itself either further weakened economically or ensnared in a tighter economic embrace with China, which would produce in Washington an even deeper strategic ambivalence about confronting Beijing. At that point, China's regional trading partners would be faced with a variety of difficult choices: Reducing their commercial intercourse with China in unison would require them to sacrifice the gains from trade in the process. Decreasing trade with China unilaterally in an effort to slow Chinese growth would increase the risk of losing out both to China and to other neighbors who may not follow suit and who have significant incentives to engage in "buck-passing," a process that may ultimately end in the restoration of trade links with China and a continuation of the trends that produced increasing Chinese power. Persisting in robust trading with China and all other states could potentially underwrite the national production of more capable military instruments (a strategy known as "internal balancing") in order to deter Chinese threats either unilaterally or in combination with other similarly threatened countries (known as "external balancing")—but none of China's neighbors can be certain a priori that these strategies will suffice to protect them in the face of what could be relatively faster-growing Chinese power. Alternatively, acquiescing to Chinese hegemony would, in effect, mean choosing the increased gains from trade with China over any effort at limiting its geopolitical domination.

While China's regional partners contemplate these possibilities, hoping that the renewal of American power might spare them these burdensome consequences over the long term, the United States too confronts identically unpalatable options. Not surprisingly, the current unwillingness to do anything that might undermine trade with China, although most clearly manifest in Beijing's neighbors (many of whom are U.S. allies), afflicts even the United States itself, despite its being more powerful than China today. Like China's neighbors, Washington seeks to preserve the absolute gains it accrues from trade with China for as long as possible without disruption. These gains have a beneficial impact on American wealth and welfare and, by implication, on American power. The recognition that these benefits coexist with greater relative gains for China—and, by implication, that they may propel China's eventual eclipse of the United States—is indeed unsettling. But the magnitude of the Sino-U.S. trading relationship today, China's current role as an important U.S. creditor, and the political power of key American constituencies that profit from strong ties with China all combine to frustrate any attempt by Washington to restrain the growth of Chinese power by cutting off Beijing's economic links with either the United States or other trading partners.

In retrospect, it is obvious that Washington enjoyed far greater imperviousness on this count during the Cold War because U.S.-Soviet economic relations were defined by mutual autarky, in contrast to Sino-American economic ties today, which are characterized by intense codependency. The United States, therefore, confronts a challenge that it never faced during its struggle with the Soviet Union: it is linked to China through dense economic ties that are valued because of the absolute gains they produce for both states. But it is threatened all the same by the fact that the relative gains from this relationship are arguably greater for China and are increasingly used by Beijing to build up its military forces in a way that threatens the security of the United States and its closest Asian allies.

This conundrum admits of no easy solutions—and it is only likely to deepen in the near future. The situations in which it would abate are few and improbable in different degrees: Chinese economic success could peter out because of domestic political or economic crises. China could eschew seeking geopolitical gains in Asia at the cost of the United States and U.S. allies even if its higher economic growth persists—and permanently demonstrate the same without ambiguity. The United States and its Asian allies could conclude that the economic benefits of deeper ties with China are worth the sacrifice of their strategic autonomy. Or the United States could find a way to reverse its currently lower growth rates vis-à-vis China by unleashing new Schumpeterian revolutions—radical transformations brought about by new disruptive innovations—that permit it to develop and dominate the new leading sectors of the global economy in the future.

Until one or more of these conditions obtain, the current dilemmas in U.S.-China relations will only intensify because the tensions between economic objectives and strategic realities will be exacerbated without any sure escape in sight. What alone is certain is that both the American and the larger Asian preferences for preserving their respective absolute gains from trade with China guarantee that containment is infeasible today, even if it may be most needed as a device for limiting China's rising power. The problem arising from the fact that continued economic benefits of trading with China will come only at increased security risks to the United States and its allies will, then, have to be defused in some other way.

THE IMPERATIVE OF BALANCING

Given this reality, the United States must pursue a balancing strategy of the kind that has not been attempted before. Balancing is essential because Beijing's rising power cannot go unchecked. Even if China's intentions are peaceful today—though its actions in East, South, and Southeast Asia already cast doubt on that presumption—there is no assurance that they will remain so in perpetuity, especially when Beijing accumulates substantially greater power than it possesses presently. Moreover, even if it wanted to, there is simply

no way for China to demonstrate that it will be everlastingly peaceful, short of permanently disarming itself.

While Beijing's intentions are no doubt important, its expanding material capabilities matter most of all. On this count, China's rapid growth has already produced a geopolitical disequilibrium in Asia. It has elevated regional anxieties by engendering dramatic shifts in the local balances of power, and it has weakened the credibility of U.S. security guarantees to the littoral states, thanks to its ability to produce strategic instruments capable of inflicting great damage on U.S. military forces operating around the Indo-Pacific. In addition, it has threatened the traditional U.S. command of the commons through its growing capacity to deny the United States unfettered use of the seas, space, cyberspace, and the electromagnetic spectrum. These realities combine to generate a serious and deepening challenge to American primacy. If the United States is to protect first its regional and thereafter its global position amid these challenges, it cannot afford not to balance China, even if this response must of necessity be implemented subtly and politely and garbed in the debased language of "strategic partnership."

Unlike containment, balancing China does not require the United States to constrict Beijing's economic expansion. Thanks to globalization, any effort to do so would end up undermining American growth. Instead, balancing exemplifies the "Goldilocks principle": it rejects containment as too extreme because it sacrifices absolute gains to maximize relative advantages, and it eschews standing idly by because doing so would unacceptably privilege absolute benefits at the expense of relative gains.⁷³ Balancing against China, therefore, constitutes a middling approach that, given the unpalatable alternatives at either extreme, remains the optimal strategy for the United States right now.

In practical terms, this implies that Washington, far from attempting to undercut China's rise as it did the Soviet Union's during the Cold War, would focus mainly on restricting Beijing's capacity to misuse its growing national capabilities in ways that undermine American power, interests, and status—especially insofar as these bear on the security and prosperity of the United States and its friends. Realizing these more conservative aims ought to sufficiently protect the foundations of American global hegemony in the face of distending Chinese capabilities. Implementing a balancing strategy will require the United States to buttress its Asian partners, redress the losses in relative gains suffered because of China's participation in global trade, reinvest in sustaining the military superiority necessary for effective U.S. power projection worldwide, and revitalize its national economy—all of which constitute the practical entailments of balancing. To the degree that Washington can accomplish these aims, this approach will not only defang the dangers posed by China's ascent but also make Beijing's rise beneficial for both China and its global partners writ large. After all, constraining the growing Chinese capacity to injure the United States cannot come at the cost of poisoning an important wellspring of American power itself.

PURSuing A BALANCE OF POWER THAT PROTECTS PRIMACY

The core objective of balancing Beijing today and in the prospective future must be to protect, and wherever possible to expand, the extant American advantages in relative power with respect to China. This will allow Washington to sustain, for yet another long cycle in international politics—understood as the period during which a given hegemon dominates the global system—the worldwide regime that has benefited many nations including, and most especially, the United States. All things considered, attaining this goal requires a four-pronged strategy: supporting the rise of other Asian powers located along China’s periphery, deepening globalization in specific ways to procure enhanced gains for the United States and its friends, preserving the military dominance of the United States, and revitalizing the American economy to breed new disruptive innovations that assure its continued preeminence internationally.

RAISING OTHERS UP INSTEAD OF PUSHING CHINA DOWN

Ever since its formal articulation in NSC-68, U.S. strategy toward the Soviet Union from 1950 onward aimed not “merely to seek to check the Kremlin design” but rather to preserve the American “responsibility of world leadership.”⁷⁴ This objective, in turn, required constraining the growth of Moscow’s power in every way conceivable. The Soviet opposition to capitalism made this task easier by aiding Washington’s efforts to constrict Moscow’s economic and technological access to the global marketplace. China’s integration into the

liberal international economic order today denies the United States the opportunity to implement a similar strategy.

Nor should it attempt to do so now because China's growth has brought many benefits in tow. It has raised millions of Chinese out of poverty and offered them the prospect of a better life, created enormous opportunities for American business, and increased U.S. welfare by providing American citizens with cheaper goods than could be produced at home. Thanks to continuing Chinese protectionism and other allocative distortions, however, these economic benefits have been conveyed incompletely. But more importantly, they have come with dangerous geopolitical costs—including a growing Chinese capacity to overawe its neighbors and undermine U.S. power in Asia and globally. And redressing these dangers requires a different approach from that Washington has pursued to deal with earlier threats to American hegemony.

By continuing what was initiated by then U.S. president George W. Bush, any U.S. strategy for balancing Beijing should first aim not at keeping China down but rather at raising others up—or, as James Shinn put it, propelling the growth of other nations along China's periphery as a way of “weaving the net” that produces a “moderating effect on [Chinese] behavior.”⁷⁵ Early in her tenure as secretary of state, Condoleezza Rice alluded to this idea when she noted that

the U.S.-Japan relationship, the U.S.-South Korean relationship, the U.S.-Indian relationship all are important in creating an environment in which China is more likely to play a positive role than a negative role. These alliances are not against China; they are alliances that are devoted to ... stable security and political and economic and, indeed, values-based relationships that put China ... [on] a different path to development than if China were simply untethered, simply operating without that strategic context.⁷⁶

The logic of the strategy is simple and aptly suited to present circumstances. If the consequential states abutting China—such as Japan, India, Vietnam, Singapore, Indonesia, and Australia—could be aided by American power to realize their strategic potential and increase their mutual cooperation, the net effect would be the creation of objective constraints that limit the misuse of Chinese power in Asia. These checks would not materialize because the Asian partners necessarily bandwagon with Washington or even champion all its policies vis-à-vis Beijing. Rather, the growing capabilities of these key nations—aided by the United States—and their increased incentives for collaboration both mutually and with Washington would produce restraints on China's behavior. These elements, driven by the regional actors' own concerns about increasing Chinese power, would posture the littoral nations in ways that were fundamentally congruent with American interests, especially the core objective of

restraining the potential for Chinese aggressiveness, while at the same time providing “the necessary cushion that prevents tightened commercial interdependence [with China] from disrupting the delicate balance between economic gains and geopolitical risks.”⁷⁷

The result would be a regional equilibrium deriving from the presence of many powerful states on China’s periphery all cooperating among themselves and aided whenever necessary by the hegemonic power of the United States at the core of the global system. This outcome offers the potential for balancing China and inducing good behavior on the part of Beijing without any necessity for containment, let alone conflict. The success of this approach, however, hinges on the ability of the United States to pay consistent attention to the critical states abutting China while at the same time keeping diplomatic relations with Beijing on an even keel.⁷⁸ Maintaining decent ties between the United States and China is important not simply as a prophylactic to ward off troubling Chinese actions but more importantly as a means of integrating Beijing and giving it a stake in the existing international order. Even if China is destined ultimately to revamp the current system wholly or partially in order to better realign that order with its own interests, Washington benefits by delaying this eventuality for as long as possible.

Consequently, the United States (and its friends) ought to engage China at multiple levels, both bilaterally and multilaterally, escaping to the degree possible the tyranny of single-issue politics. Although members of the democratic community will continue to have concerns about Chinese actions—for example, in regard to human rights, political freedoms, the treatment of minorities, nonproliferation, military modernization, and intellectual property theft—disagreements over such issues should be handled tactfully. This approach does not require the West to paper over what may be troublesome Chinese domestic, foreign, or strategic policies or to shy away from visible and public confrontations if egregious Chinese lapses demand them. Rather, it requires the United States and its allies to ensure that all such responses are sensitive to context, proportionality, and effectiveness. Put simply, the goal of deepened political engagement with China ought to be encouraging Beijing to stay committed to peaceful development both within and without. To the degree that such engagement requires creating new intersocietal linkages or new modalities for bilateral and regional cooperation, these avenues should certainly be explored.

In this vein, Arvind Subramanian, for example, has argued that the United States should offer China greater opportunities in managing the international trading system by increasing Beijing’s voting rights in the International Monetary Fund or expanding the lending capacity of the World Bank to support additional projects in China.⁷⁹ Such proposals have evoked controversy either because of China’s contentious currency policies or, as one U.S. firm put it, because enlarged international lending is seen as funding “massive overcapacity [in China] that ends up harming U.S. industries and U.S. workers as a result.”⁸⁰ Yet if careful analysis indicates that the gains outweigh the disadvantages from the viewpoint of

American interests, these ideas deserve consideration. It is not clear whether such assessments have in fact been undertaken because most international financial institutions have thus far aided China, with U.S. acquiescence, solely in order to advance Beijing's developmental goals instead of considering the consequences of China's growth for international economic or geopolitical competition.

In advancing his proposal, Subramanian attempts to take these issues into account and, consistent with the liberal tradition, argues that the United States and China should in fact "strike a grand bargain ... [that] would require an exchange of power for purpose. In other words, Washington would give up power in ... [international] institutions in return for China taking on greater global leadership to preserve the system's real purpose—free and fair globalisation."⁸¹ If this objective could be achieved, it may be worth such a bargain. But this solution, and all similar liberal fixes, cannot deliver because, as David Shambaugh has pointed out, "the common denominator to most of China's global activities and foreign policy is China's *own economic development*, which leads to a mercantilist trade and investment posture" (italics in the original).⁸²

Whether the decisions made at the recently concluded third plenum will radically change this disposition remains to be seen. Even if they do, however, no bargain today of the sort proposed by Subramanian would be able to provide any lasting guarantees that China will not tweak the system (even if it maintains the larger architecture) to the disadvantage of others once it truly becomes hegemonic in global politics. The United States, consequently, should consciously avoid entering into any agreements with China that smack of duopolistic management of both the global economy and the international system at a time when there is still some uncertainty about the durability of China's rise. More to the point, any "G2" solution based on a condominium of U.S. and Chinese power would by definition undermine the larger strategy of uplifting America's friends and allies in the Indo-Pacific as a peaceful counterpoise to Chinese ascendancy.

Despite the undesirability of duopolistic solutions, however, the United States should engage China deeply on the widest possible range of global issues. The two countries have intersecting interests, including in enlarging the multilateral trading system, working toward meaningful agreements to arrest climate change, buttressing the global nonproliferation regime, developing new norms for avoiding conflicts in the global commons, addressing the evolving challenges to international security while protecting state sovereignty, and empowering regional institutions in the Indo-Pacific. As the former Australian prime minister Kevin Rudd argued, active engagement that produces "progress on any of these fronts would demonstrate that ... the existing global order can be made to work to everyone's advantage, including China's."⁸³

To their credit, all U.S. administrations have more or less successfully pursued this emphasis on sustaining productive relations with China since the beginning of this century. Such

a focus, however, cannot be allowed to eclipse—as it often does in Washington—the equally vital objective of strengthening American ties with the key power centers located along China’s immediate and extended outskirts. Since 2001, for example, the United States has made a special effort to transform its ties with India, the other rising Asian giant whose large continental size, great economic and demographic potential, significant military capabilities, and sturdy commitment to democracy—not to mention its own ongoing rivalry with China—make it a particularly attractive partner for Washington.

While this renovation was epochal and long overdue, it cannot subsist in splendid isolation. Rather, the same kind of foresight and strategic investment that drove the rapprochement with India must be extended toward bolstering the other Asian states on the Chinese periphery, particularly Japan, Indonesia, Singapore, Vietnam, and the other critical Southeast Asian states as well as Australia. Embarking on such an effort will require considerable political attention at high levels in Washington—and a remarkable degree of consistency that in the past has often been the exception, not the norm. The experience in transforming the U.S.-Indian relationship, which has now spanned both Republican and Democratic administrations, suggests that challenges are never in short supply in either Washington or the partner capital. In Washington in particular, constancy of effort and sustaining high-level attention remain major shortcomings, as does the perennial problem of forgetting why such strategic partnerships are vital in the first place even though this issue goes to the heart of grand strategy. Moreover, the segmented and fractious nature of the U.S. government, the singular importance—and impermanence—of key personalities in policymaking, and the unending series of distractions imposed by crises all coalesce to ensure that even the critical bilateral relationships necessary to shape the rise of Chinese power often do not receive the constant attention they deserve from senior American officials.

This endeavor is admittedly challenging. The number of states that Washington must engage successfully is large, and the partners themselves are remarkably diverse in national capabilities and differ in alliance status. They each pursue varying strategic objectives and have unique national ambitions that are not always perfectly congruent with those of the United States, and their capacity to respond to American overtures is dissimilar as well. Because these partner states are all individually weaker than China, it is sometimes easy to lapse into invidious comparisons centered on declarations, such as U.S. Vice President Joseph Biden’s, that there is “no more important relationship”⁸⁴ than the one between the United States and China. Although such claims are not entirely without merit—though it should be remembered that similar assertions were bandied in regard to Japan not very long ago—they should not be pressed to the point where the critical role of the outlying Asian nations in the success of U.S. balancing vis-à-vis China is either overlooked or underestimated.⁸⁵

For this reason, U.S. policymakers should continually strengthen the national power of these littoral entities even when these states cannot or will not reciprocate American initiatives as

fulsomely as may be desired. If the goal of the United States in Asia is, as Daniel Twining put it, to preserve “Washington’s strategic position in the region by facilitating the ascent of friendly Asian centers of power that will both constrain any Chinese bid for hegemony and allow the United States to retain its position as Asia’s decisive strategic actor,”⁸⁶ then unilaterally bolstering the growth of the key states abutting China—even if unrequited—remains fundamentally in the interests of the United States. After all, if these nations do reach their strategic potential as a result of preferential American assistance, they will effectively serve as a powerful constraint on China’s freedom of action in Asia. Such a sturdy arc of countervailing power on China’s maritime periphery would not only limit Beijing’s capacity to dominate important centers of the global economy but also bring all the geographic outlets that China requires to connect with the wider world under the influence of nations supported by the United States. Aiding the growth of these outlying states as part and parcel of Washington’s larger, more comprehensive “rebalancing” toward Asia would thus provide American hegemony with another, more local, level of protection and buttress U.S. primacy for a longer duration and at a lower cost compared to many other alternatives.

If this strategy succeeds in the manner intended, China must be expected to employ all the instruments that other great powers have used throughout history to defeat prospective balancing efforts whenever they threatened to materialize. The first set of tactics involves masking the country’s increases in power capability, continuously reemphasizing its peaceful intentions, and proclaiming its still-chronic deficits in multiple areas to defuse the perception of a new national threat that is gaining ground in Asia and beyond. The second stratagem includes making political and economic “side payments” to some pivotal states to neutralize the emerging efforts at external balancing. The third and final set of tactics is based on pursuing temporarily accommodative policies, either selectively or overall, to preempt cooperation among the countervailing balancers from reaching troublesome limits until the rising state decisively crosses certain thresholds of power accumulation.

Contemporary Chinese discussions suggest that elites in Beijing are aware of all these stratagems, and the record of the last ten years or so indicates that China’s leaders are in fact capable of using these approaches quite skillfully when they so desire.⁸⁷ Not surprisingly, then, Beijing has persisted with its traditional emphasis on economic transformation through deeper international enmeshment while redoubling its efforts at limiting the effectiveness of U.S.-led balancing in the Indo-Pacific. To this end, it has explicitly integrated a series of new doctrinal frameworks centered on notions like “peaceful rise” and “harmonious society” that are all intended to affirm Beijing’s “permanently” pacific intentions. At the same time, it has emphasized targeted good-neighborly policies designed to wean key actors, especially adjacent ones such as Taiwan, India, Russia, and Singapore, away from potential balancing behaviors or coalitions (even as it has simultaneously attempted to intimidate other regional states such as Japan, Vietnam, and the Philippines in an effort to avert what Beijing perceives as important territorial losses in the interim). In

addition, China has endeavored to leverage its growing economic strength and access to its market to increase dependency on the part of potential rivals and neutrals throughout East, Southeast, South, Central, and North Asia—all while demonstrating a willingness to appease the reigning hegemon, the United States, at least until Beijing can more effectively cope with American power independently. Until that time, China will continue to exploit any Asian dissatisfaction with Washington to enhance its own counterbalancing goals.

As China grows in national strength, the necessity of using such alliance-breaking strategies would diminish in theory because Beijing's greater amassed power would provide it with more direct coercive options, should it choose to utilize them. The benefits of using intimidation transparently, however, will always provoke careful and continuous review. Use, or overuse, of coercive tactics could in fact tip the scales to generate the very opposing coalitions that Beijing has sought to preempt.⁸⁸ Mindful of the fact that a rival United States—whether it is declining or holding on to its relative power—would be interested in orchestrating more effective strategic balances should the growth of Chinese power increase further over time, China would likely choose to use its substantial (and increasing) resources to engage in alliance-breaking efforts whenever it concluded that its military instruments were either too expensive or incapable of achieving its political goals.

The United States simply cannot afford to be complacent in assuming that an effective coalition against Chinese power will readily form merely because Beijing one day manages to accumulate threatening levels of national power relative to its neighbors and the international system. Balancing is invariably a costly exercise, and its fruits are never enjoyed symmetrically by all its beneficiaries. Hence, there is a constant temptation among actors in balancing coalitions to “free ride” and, as a result, under-produce the very goods that may be critical to common security.⁸⁹

This danger cannot be eliminated, but it can be mitigated. And the best hope for doing so lies in Washington pursuing a subtle and indulgent policy centered on the critical goal of building up the national power of China's neighbors. This policy should have three complementary features: First, the American attempt at strengthening the capabilities of the key Asian states must be undertaken for its own sake, without coupling it to any demand that these powers reciprocate as a condition of or as recompense for such backing. Second, the Asian states so supported should be encouraged to develop multiple forms of economic, diplomatic, and strategic cooperation among themselves, outside of any collaboration they may engage in bilaterally or multilaterally with Washington. And third, the regional states, especially the larger partners such as India, Japan, and Australia, should be aided and encouraged to take on deeper security responsibilities in the Indo-Pacific, bilaterally whenever possible and independently whenever necessary, so that they are capable of protecting their own interests as well as those of their neighbors in case they face a crisis in which U.S. military capabilities are thin or delayed. In this way, a policy that empowers China's

neighbors would do more than limit Beijing's capacity to abuse its growing power. By being respectful of the partner states' autonomy as well as their own national interests, such an approach would also help build habits of cooperation that advance Washington's present aims while laying the foundations for constructing a formal coalition against China should its future behaviors justify such an evolution.

This approach generates a positive converse as well. Since deliberate U.S. assistance (complemented by the U.S. military forces present in the region) would strengthen the littoral powers, these states would have increased incentives to sustain economic interdependence with China because they would have no reason to fear that the material gains accruing to Beijing from their trading relationship could be used to threaten their security. The persistence of such a positive-sum game mitigates interstate rivalry and its potential for undermining larger gains in prosperity. At its best, therefore, deepening economic interdependence attenuates the prospect of vicious security competition while creating the conditions for further increases in cooperation. And the overarching U.S. approach simultaneously ensures that should any strategic dangers materialize, the key regional powers, in concert with the United States or independently, would be able to effectively neutralize these hazards. The strategy of nurturing the growth of major powers along the Asian periphery to balance China without containing it, therefore, provides the regional system with the best of both worlds: an opportunity to limit Beijing's capacity for malevolence without sacrificing the common prosperity arising from trade and interdependence.

DEEPEN GLOBALIZATION SELECTIVELY

Nurturing the critical states on China's periphery is a first step in protecting American primacy, but this objective cannot be advanced without increasing economic growth all around. Although national decisions in regard to managing the economy domestically will be the most important factor affecting growth, the choices pertaining to trade probably come in a close second. Any grand strategy that seeks to protect American hegemony, therefore, must focus on how a further expansion of global trade might advance the aim of strengthening the material foundations of U.S. power. Because the object of this effort is balancing China, not containing it, the investments made toward expanding the international trading regime must simultaneously yield enhanced absolute gains and improved relative gains for the United States, irrespective of the inherent tensions between these objectives.⁹⁰

Expanding Washington's absolute gains from trade—the fruits of its decades-long leadership in maintaining a liberal international economic order—requires that the United States and its friends and allies continue to deepen their existing civilian trade (to include investment) with China and with one another. Deepening interdependence in this way will

provide all the trading partners with an opportunity to further specialize in accordance with their respective comparative advantages and, by so doing, to increase their growth rates to satisfy both welfare and strategic goals. The history of the postwar period suggests that expanding trade remains perhaps the most effective external instrument for building comprehensive national power. And given that the successful American balancing of China requires the continued expansion of the U.S. economy, enlarging Washington's commercial ties with its friends and allies—as well as with China—provides a particularly efficient route to securing those absolute gains on which increased prosperity depends.

The gigantic need for foreign capital in modernizing U.S. infrastructure today provides another golden opportunity for deepening interdependence between the United States and other resource-rich states, such as China, the traditional petroleum exporters in the Arab world, and the highly developed East Asian states, such as Japan, Taiwan, South Korea, and Singapore, whose huge foreign exchange reserves can be employed remuneratively through increased investments in the United States. So long as these transactions do not compromise U.S. national security, they have the potential to help Washington meet its own demanding infrastructure recapitalization goals while simultaneously providing safe and lucrative returns to its trading partners.⁹¹

Beyond these specifically economic benefits, a tighter set of trading links with all states, and especially with China, could yield important political gains as well. If deepened interdependence helps transform China into a “trading state” *a fortiori*,⁹² so that even as Beijing progressively grows in power it sees that its expanding ambitions are better served by internal development and robust external markets than by any militarist alternatives, then increased economic integration will have served to advance critical American geopolitical interests. While this process would undoubtedly result in Beijing becoming further enmeshed economically with its neighbors and rivals—including the United States—the benefits of such expanded intertwining would be invaluable if they helped mitigate the existing security dilemmas that otherwise threaten both regional peace and economic cooperation. To be sure, there is no guarantee that these political gains will ever be realized. But even if the strategic rewards prove elusive, the increased absolute gains that greater economic integration would yield to the states concerned would still make it worthwhile.

Pursuing larger absolute gains through deepening trade links, therefore, is a sensible strategy for the United States to augment its national power. The best means for doing so, at least to begin with, is by further expanding the global trading system. The necessity for such enlargement today derives fundamentally from the changing character of the global economy itself, which has largely outgrown the system established early in the postwar period by the 1947 General Agreement on Tariffs and Trade (GATT). When the United States underwrote the creation of the GATT as part of its efforts to build a new, open international order, it was motivated in large part by the twin objectives of rapidly rebuilding

the war-torn economies of its allies, which it wanted to resuscitate for the struggles against Communism, and preventing the rise of new national autarkies. It was convinced that high tariffs, quotas, and exchange restrictions could lead, as they did during the 1930s, to new global rivalries and conflict.⁹³

The international system at the time included numerous developing countries. The GATT permitted these states to maintain relatively high tariffs because these duties were ostensibly necessary to protect their infant industries. Although the presence of such trade barriers ran counter to the ambitions of the GATT, the developing world was too poor to participate in the system without them and, at any rate, did not constitute a significant market for American goods and services. Consequently, its relatively closed economies failed to win the attention of the United States, which concentrated on reducing tariffs to expand trade mainly with its European partners.

Today, the developing world is both a huge market and, increasingly, the motor of the global economy. Developing countries have relatively higher growth rates compared to the mature Western economies, so the U.S. quest for absolute gains must inevitably move it toward securing greater access to these markets. This, in turn, implies securing tariff reductions and the removal of non-tariff barriers in developing economies. The most effective means for doing so is through a further expansion of the multilateral trading system under the auspices of the WTO, the successor to the GATT. Unfortunately, the Doha Round of WTO negotiations—which focuses on a wide, but not yet comprehensive, set of trade liberalization issues—has been paralyzed for a long time because of the failure of both developed and developing states to arrive at a mutually advantageous bargain on issues ranging from agriculture to subsidies.

But the success of the ninth ministerial conference of the WTO, held in Bali in December 2013, has now opened the door to resolving the developing world's demands for special and differential treatment. This meeting saw the conclusion of the first multilateral agreement negotiated by all 159 WTO member nations, which, however modest, holds out new hope for continuing the expansion of the multilateral trading system.⁹⁴ The achievement of the so-called Bali package implicitly validated the earlier U.S. decision to avoid either taking what was on the table and concluding the Doha Round negotiations prematurely or simply aborting the round altogether because of its myriad difficulties.⁹⁵ Neither outcome would have advanced the U.S. goals of increasing the absolute gains necessary to strengthen Washington's capacity to balance Beijing, deepening U.S.-China economic ties, and increasing American trade with the key Asian states outside of China.

This final objective is critical to mitigating the potentially unfavorable geopolitical consequences of intra-Asian trade exceeding that with geographic outsiders. Since this trend already promises to gather steam—making a closed Asian economic system dominated by China a future possibility—the United States must “start leading,” as Evan Feigenbaum

and Robert Manning have sensibly recommended, “not least by presenting the region in a consultative manner with new ideas, including for ad hoc multilateral cooperation.”⁹⁶

The United States, accordingly, should now run with the Bali package and redouble its efforts to successfully conclude the Doha Round. Yet, any victory for Washington here implies only a lowest-common-denominator advance in expanding global trade that could yield simultaneously bigger advantages for Beijing because, among other reasons, China’s trade-to-GDP ratio is almost double that of the United States. As a result, U.S. policy-makers today should focus as much on securing increased relative gains for the country as on expanding absolute benefits. The best way to secure these dividends is to invest heavily in concluding bilateral or regional free-trade agreements with America’s friends and allies, especially those states lying along China’s immediate and extended periphery, which Washington seeks to strengthen anyway for its larger geopolitical purposes. Such accords would be mutually beneficial in multiple ways: the regional partners would have enhanced access to the huge American market for their products while at the same time availing of U.S. capital, high-value-added services, and high-technology goods, thus raising growth rates in both directions through arrangements that incidentally, and at least for now, have the advantage of excluding China.

Regional free-trade agreements that incorporate this specific benefit might be even more valuable to Washington because, to the degree that they genuinely reduce non-tariff and behind-the-border trade barriers, they offer heightened relative gains to the United States and its allies. Washington, accordingly, ought to concentrate on three priorities relating to partial free-trade agreements in the near-term: its home continent, which encompasses the North American Free Trade Area (NAFTA) subsuming Canada, the United States, and Mexico; the Transatlantic Trade and Investment Partnership (TTIP), the proposed free-trade area between the United States and the European Union; and the Trans-Pacific Partnership (TPP) involving Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.

It is often easy to overlook the fact that North America contains the world’s largest trading bloc, providing immense benefits for the United States and also tying together three huge nations that are geographically contiguous and pose no security threats to one another. This region is presently the second-largest source of U.S. imports (some 27 percent) and the largest destination for American exports (also 27 percent), amply justifying the argument advanced by Robert Zoellick that Washington should concentrate on building “a strong continental base through deeper North American integration.”⁹⁷ As Zoellick elaborated, “Consider the global weight of three democracies, of almost 500 million people, with energy self-sufficiency and exports, more integrated infrastructure, complementary manufacturing and service industries, and a shared effort to develop human capital—through education, linked to workforce skills, and pro-growth immigration policies.”⁹⁸

The potential for deepened North American integration to accentuate the relative gains enjoyed by the United States vis-à-vis China is, therefore, great. Exploiting this benefit requires the simultaneous reform and expansion of NAFTA. The agreement has been very successful in lowering tariffs, liberalizing foreign investment, expanding trade in services, and setting robust intellectual property rules. But it has not yet fulfilled all the promises made in its preamble, including generating a convergence in incomes, wages, and standards; to the contrary, it has actually exacerbated economic and regulatory asymmetries that existed on the continent prior to its negotiation. The gigantic size of the U.S. economy, interposed between Canada and Mexico, has in fact resulted in greater U.S.-Canadian and U.S.-Mexican trade separately rather than a uniform expansion of intra-firm and intra-industry exchange across all three countries.⁹⁹

Because the North American base is so vital for the prosperity and power of the United States, especially amid the rise of new competitors such as China, remedying NAFTA's limitations should be a high priority in Washington. Negotiating common product standards, reducing regulatory impediments, and reforming the inspection regime for traded goods (to move checks away from the borders), would help to expand trade greatly. But, as argued by a 2009 task force report on reforming NAFTA from Boston University's Frederick S. Pardee Center for the Study of the Longer-Range Future, even more ambitious policy corrections in regard to investment, manufacturing, and agriculture—not to mention a better and more coherent national development strategy, especially in Mexico—will be needed if NAFTA is to become a transformative engine that raises growth rates throughout the continent while increasing the relative gains enjoyed by the United States from trade overall vis-à-vis China.¹⁰⁰

Given the importance of this final objective, U.S. policymakers ought to examine whether it is worth resurrecting an older and even more ambitious initiative that was pursued by the George W. Bush administration, namely, the creation of a hemispheric-wide Free Trade Area of the Americas (FTAA).¹⁰¹ The burdens of the trade agenda currently pursued by the administration of U.S. President Barack Obama, such as simultaneously negotiating several complex multilateral accords without congressional trade promotion authority, make reopening discussions about an FTAA right now a bridge too far.¹⁰² Depending on how the other trade negotiations evolve, however, the United States should keep open the option of resuscitating consideration of the FTAA, given that the Americas writ large still remain the largest single destination globally for U.S. imports (some 34 percent) and exports (almost 38 percent), exceeding even the importance otherwise accorded to the Pacific Rim.¹⁰³ The American hemisphere is populated by states that are still growing rapidly, can profit from U.S. capital, technology, and expertise, remain large markets for U.S. goods as well as efficient producers of raw materials and primary products for the U.S. market—while at the same time posing no meaningful security threats to the United States. Washington thus ought to at least maintain the ambition of one day unifying the entire region through the

FTAA, particularly if its efforts to enlarge the multilateral trading system (or other partial free-trade agreements) run into continuing difficulties.

While deepening American economic integration should remain the foundation upon which U.S. relative gains can be improved, concluding the TTIP expeditiously is a close second priority. The TTIP is vital in this context because the United States and the Atlantic community represent the two biggest concentrations of economic power in the global system.¹⁰⁴ As Daniel Hamilton and Joseph Quinlan of the Center for Transatlantic Relations summarized it, “there is no commercial artery in the world as large as the one binding the United States and Europe together. The transatlantic economy still accounts for over 50 percent of world GDP in terms of value and 41 percent in terms of purchasing power, is the largest and wealthiest market in the world, is at the forefront of global ... [research and development], and drives global foreign direct investment and global mergers and acquisitions activity.”¹⁰⁵ Several studies have indicated that the conclusion of a comprehensive transatlantic trade pact would boost overall trade between the United States and Europe by as much as 50 percent (at a value of over \$200 billion annually) and increase growth rates in the eurozone by roughly 0.9 percent while elevating American GDP by 0.8 percent annually. It would also raise disposable incomes by some \$750 annually for a European family of four while making its American counterpart wealthier to the tune of some \$900 every year. Such performance, moreover, would stimulate global incomes as well, leading to an increase of some \$140 billion annually.¹⁰⁶

Concluding the TTIP as quickly as possible should therefore be an American priority. Although Europe as a whole remains only the third most important U.S. trading partner—after the North American continent and the Pacific Rim—the conventional impediments to trade across the Atlantic are for the most part already small. The biggest challenge pertains to agriculture, but if both parties make the accommodations necessary over access, regulatory harmonization, and the reduction of non-tariff barriers, the resulting gains will be significant for both the United States and Europe. In fact, the reduction in non-tariff barriers alone promises to bequeath as much as 80 percent of the total gains accruing from the TTIP, thanks to the cost savings arising from rationalized regulations pertaining to health and safety, environmental protection, consumer protection, and liberalized trade in services and government procurement.¹⁰⁷ The argument for closing on the TTIP speedily—“on one tank of gas,”¹⁰⁸ as U.S. Trade Representative Michael Froman so charmingly put it—is thus eminently sound.

And beyond all the economic advantages of the TTIP lie the hard realities of power politics. Most of the key European states involved in negotiating this agreement happen to be America’s strongest allies. As Theo Sommer, editor of the German newspaper *Die Zeit*, put it, the TTIP would thus turn “the world’s premier security alliance into the world’s premier economic pact.”¹⁰⁹ More robust economic integration between these states could increase

absolute gains for all parties without creating any of the corrosive problems normally associated with the disparities in relative gains when trade occurs among competitors. Thanks to the sturdy alliance between the United States and Europe, all the increased absolute gains Washington would incur through the deeper economic integration promised by the TTIP would also elevate its relative gains vis-à-vis the rest of the world, especially its rising competitors such as China. Bringing the TTIP to fruition speedily should, therefore, be a priority second only to deepening North American integration (or, if possible, creating the FTAA). These processes in tandem offer the hope of consolidating the economic and technological power of the West and the United States for at least another generation, if not longer.

What may be equally attractive is the fact that a speedy conclusion of the TTIP would serve as a cudgel with which Washington could force the consummation of the more difficult negotiations associated with the TPP, despite the progress recently made in the latter. A successful TTIP would reduce mostly non-tariff barriers, so Asian states, unlikely to accept weak trans-Pacific economic integration at a time when their Atlantic peers enjoy enhanced trading gains, could be spurred toward realizing the TPP's promise of addressing both tariff and non-tariff obstacles.

Successfully negotiating the TPP is important because the Asia-Pacific region is already vital to the U.S. economy, absorbing some 60 percent of its exported goods, 72 percent of its agricultural products, and 39 percent of its private services.¹¹⁰ Pacific Rim countries presently supply almost 34 percent of American imports and absorb about 22 percent of its exports. The region's importance to the well-being of the United States is, accordingly, undeniable. But the complexity of negotiating a high-quality free-trade agreement with eleven countries characterized by widely varying levels of development and deeply variegated tariff and non-tariff barriers cannot be overestimated. Yet U.S. policymakers ought to persist in bringing a trans-Pacific trade pact to completion despite competing obligations because many of the countries involved in the TPP are among the world's fastest-growing economies, are located in places that are strategically significant for the United States, and promise Washington important—though more modest—improvements in its own absolute gains from expanded trade in comparison to the TTIP.

Many TPP partners still possess relatively protected economies, so the biggest gains to the United States would derive from prying open their hitherto closed markets. International economists, such as Peter Petri and Michael Plummer, for example, have assessed that the gains to the United States from a successfully concluded TPP agreement by 2025 would be 0.4 percent of its GDP in that year, the bulk of which would accrue from Japan's liberalization of its services sector.¹¹¹ This improvement in American welfare is obviously smaller than the gains estimated to accrue from a high-quality trans-Atlantic TTIP, but in a competitive political universe where the United States participates as a mature economy, even a 0.4 percent increase in GDP is not something to be scoffed at—especially when

U.S. competitors benefiting from their relative underdevelopment, such as China, chalk up much higher rates of growth.

Consequently, the Obama administration, to its credit, has already indicated that negotiating the TPP remains a priority, all the difficulties notwithstanding. In fact, given U.S. strategic objectives in Asia and the necessity of strengthening the power of states located along China's periphery, Washington should aim to include India in the TPP as well. Admitting New Delhi into the negotiations related to this free-trade agreement would be beneficial for the trans-Pacific states because of the large size of India's domestic market and the gains to be accrued from its growth strategy, which centers on expanding not exports but domestic consumption. It would be simultaneously profitable for New Delhi because being knitted into a high-quality trading arrangement would compel it to accelerate its economic reforms at home while also increasing its national power more effectively compared to many other alternatives. Not surprisingly, then, Indian policymakers have recently expressed interest in exploring membership in the TPP.

On balance, the utility of all these enhanced economic partnerships—a North American economic union, the TTIP, and the TPP—derives from the prospect that they will sharply increase U.S. gains from trade and elevate the overall growth rates enjoyed by the United States and its friends. To the degree that these preferential agreements fulfill this promise, they will help buttress American hegemony, in effect amplifying the payoffs arising from what will hopefully be smart economic decisions at home. Most importantly, however, because these benefits are slated to be distributed only within a fraternal cohort that presently excludes China, they will provide Washington with improved relative gains vis-à-vis Beijing, the *sine qua non* for maintaining American primacy in a competitive international system.

Admittedly, as neoclassical economists would correctly argue, such regional free-trade agreements are less efficient than their universal counterparts for increasing overall growth, both because of their trade diversion effects—which distort the patterns of comparative advantage—and because they make some, but not all, states better off in comparison to the alternative of not trading.¹¹² Yet these agreements represent the only alternative at a time when the multilateral trading system is failing to produce the maximum possible gains in regard to either free or fair trade, ironically because of an excess of democracy in the negotiating regime.¹¹³ In a pure economic sense, therefore, it is useful to conceptualize these limited free-trade agreements as transitional endeavors that, by stimulating greater trade, would promote a competitive liberalization that eventually would result in enlarging the global system of exchange itself.

Whether this vision is ultimately realized or not, regional free-trade agreements among America's friends and allies offer an important benefit in the interim to the United States vis-à-vis China. They are superb geopolitical instruments precisely because they enable Washington to enjoy superior gains from trade deriving from higher-quality transactions

within a closed set of friends. These agreements either debar competitors or compel them to engage in trade liberalization that eliminates any asymmetric advantages as a precondition for joining. Thus, they permit Washington to garner greater relative gains from trade vis-à-vis Beijing than it could under a universal agreement—in effect aiding the United States in increasing its growth rates relative to China and thereby allowing it to enjoy the advantages necessary to preserve its primacy in the face of rising Chinese power.

The limited bilateral and regional free-trade agreements Washington is currently pursuing should therefore be viewed as representing a strategic opportunity for the United States in present circumstances. For starters, they include the most important trading nations globally outside of China, entities that also happen to be close friends and allies of Washington. A tighter economic embrace among these states not only boosts their national power relative to their competitors but also reinforces the political bonds that already exist among these strategic partners. In the final analysis, however, the real value of creating these new, more restricted trading arrangements is that it enables Washington to ameliorate the losses in relative gains accruing to the United States as a result of its support for China's integration into the global trading system, thereby mitigating an important problem associated with growing Chinese power.

There is no doubt that Beijing's inclusion in the liberal international economic order has constituted what Arvind Subramanian has called “a huge structural trade shock”¹¹⁴ that has not only upturned the traditional patterns of commerce involving China but actually propelled its rise as a new American competitor. To its credit, the United States has not responded to this challenge through protectionist instruments as it has done with other competitors in the past. Yet the dangers posed by China's rise cannot go unaddressed. Responding to them through an economic strategy centered on maximizing relative gains through expanded trade relations among a closed circle of American allies currently represents an optimal approach to balancing economic opportunities and strategic necessities, even as the United States pursues further absolute gains through whatever openings present themselves at future WTO negotiations.

The success of this approach, however, will hinge entirely on keeping China out of these regional free-trade agreements for as long as possible—or at least until the United States can retrieve its economic position, the specter of Chinese ascendancy recedes in significance as a strategic threat, or China agrees to forego the disproportionate advantages it has enjoyed as a result of its consciously imperfect integration into the liberal trading system. If U.S. policymakers are to pursue the selective deepening of globalization as a means of elevating American growth in the prospective future—with a view to simultaneously incurring both improved absolute gains and superior relative gains—they will have to reject presently any Chinese overtures about joining high-quality free-trade agreements such as the TPP. To date, U.S. officials have equivocated, stating blandly as National Security

Adviser Susan Rice recently did that Washington “welcome[s] any nation that is willing to live up to the high-standards of this agreement to join and share in the benefits of the TPP, and that includes China.”¹¹⁵ While the diplomatic necessity for appearing inclusive is understandable, the strategic necessity for excluding China is overwhelming if Washington is to enjoy improved relative gains vis-à-vis Beijing.

Because the objective of protecting American hegemony requires no less, the critical questions of whether, when, and how China is to be integrated into the TPP require careful consideration. China’s own position on this issue is not yet fully settled. Beijing initially viewed the TPP with unambiguous anxiety, perceiving it, in Bai Gao’s description, as a “securitization of trade policy” driven by the U.S. intention to contain China.¹¹⁶ Since then, Chinese attitudes have evolved in the direction of schizophrenia, judging the TPP sometimes as a thinly veiled instrument of containment and on other occasions as a beckoning cornucopia. Despite this persistent ambivalence, Beijing now appears to be steadily but quietly gravitating toward the TPP. This is hardly surprising. As one analysis has demonstrated, trade diversion would cost China over \$100 billion in lost annual income and exports were it to be excluded from this grouping, not to mention the disadvantage of being shut out of a consortium that could evolve into the nucleus of future U.S. containment of China.¹¹⁷

The gains China would accumulate by joining the TPP are thus obvious. But the risks to Washington of Beijing’s entry as a negotiating partner before the TPP is fully concluded are also great. To begin with, the diversity of nations that are already part of the negotiating community makes it extremely hard to conclude a truly high-quality agreement that would benefit the United States given the significant tariff and non-tariff barriers currently present in Pacific Asia. Including China in this mix right now—in the face of its still-substantial structural protectionism—would likely lead to a “Swiss cheese” agreement so full of holes as to deny the United States the high marginal gains that can arise only from a genuinely ambitious trade accord.

Given this danger, Washington should keep China out of all TPP negotiations until an exemplary pact is negotiated. Irrespective of what China does at that point, the United States would still come out ahead: If China declines to participate on the grounds that it cannot acquiesce to an agreement that it was not involved in negotiating, Washington would still enjoy enhanced relative gains vis-à-vis Beijing because it would continue to profit from increased commerce with its closed set of friends. If China chooses to join a high-quality TPP that was concluded in its absence, Washington would likely obtain even greater relative gains vis-à-vis Beijing because the comprehensive trade liberalization that would be required as a precondition for China’s membership in the accord would eliminate all Beijing’s current asymmetrical advantages while giving the United States enhanced access to a large and hopefully growing market.

While there is no need for U.S. policymakers to advertise any reluctance to admit China into TPP negotiations, they should certainly desist from proffering invitations or welcoming Beijing's participation until a final agreement is reached. Most importantly, they ought to at least be clear in their own minds about why strategic logic demands China's current exclusion from these negotiations, given the importance of constituting new, comprehensive free-trade agreements for increasing U.S. relative gains in the context of balancing rising Chinese power. And the United States can pursue such a policy without apology since China itself has long been involved in seeking similar agreements that exclude the United States. The most important of these partial agreements are the China-Japan-South Korea agreement and the Regional Comprehensive Economic Partnership (RCEP), which promises to be especially significant. The RCEP involves sixteen countries, including major economies such as Japan, India, South Korea, Australia, and Singapore. Six potential RCEP participants are also part of TPP negotiations, and the agreement offers China the promise of increasing its exports annually by over \$600 billion.¹¹⁸ Given the wide range of Chinese activities in orchestrating alternative free-trade agreements in Asia that for now exclude the United States, Washington should have no compunctions about keeping China out of TPP negotiations until a suitable agreement is concluded.

Even as the United States thus juggles expanding the multilateral trading system and negotiating more restrictive regional covenants, it ought to pay increased attention to another issue that has unfortunately declined in salience since the end of the Cold War: limiting China's access to advanced weaponry and militarily critical technologies. The virtues of enhanced trade with China must not obscure the reality that deepening globalization increases Beijing's access to sophisticated weaponry and its associated technologies. Such acquisitions can undermine any American success in balancing China's rise with decisive and dangerous consequences.

Since at least 2007, if not earlier, China has established several intricate networks of institutions focused on acquiring key foreign and domestic technologies for transfer to various military and dual-use systems. The agencies integrated into the network include Chinese universities, private Chinese firms, joint venture operations with Western partners, national laboratories, major state-owned enterprises, and key ministries in the Chinese government. Under China's technology-transfer promotion plans, the networks subsuming these entities have focused systematically on acquiring various critical technologies, both military and civilian, from domestic and, more importantly, foreign sources. These technologies are intended to either nurture indigenous programs that will eventually compete with external suppliers or be absorbed into national initiatives aimed at developing different kinds of advanced weaponry. China's demonstrated ability and willingness to engage in cyberespionage and cybertheft to secure whatever technologies it cannot procure through legitimate trade only heightens the importance of maintaining continued controls on the strategic systems, components, and know-how Beijing desires.¹¹⁹

Today, such capabilities do not reside solely in the United States—they can be found in many nations, especially America’s European and Asian allies. It is past time that these countries developed a coordinated approach to constrict China’s access to all technologies that can inflict “high leverage strategic harm,” which a 1990 U.S. Department of Defense policy persuasively argued should be the benchmark for deciding whether a particular military technology should be considered destabilizing.¹²⁰ This issue, however, does not simply implicate the direct sales of advanced weaponry. The purchase of these end-items is relatively easy to monitor and control. But China’s increasingly significant outward foreign direct investment, when combined with the new realities of “hyperglobalization”—where trade in goods is not only increasingly organized within global value chains but is also dramatically supplemented by trade in disembodied services—implies that Beijing will be able to more easily access advanced technologies at varying stages of development through different means beyond direct purchases. These include mergers and acquisitions, greenfield investments abroad, joint ventures with distressed foreign firms, and licensing agreements. These forms of access are harder to control (or sometimes even to detect, given the high degree of opacity about the linkages between many Chinese firms and the Chinese state).

The Committee on Foreign Investment in the United States (CFIUS), the interagency body tasked with reviewing foreign direct investment transactions that could undermine U.S. national security, does an excellent job in general of scrutinizing mergers and acquisitions that often involve China.¹²¹ But many Western allies that possess critical or cutting-edge strategic technologies do not have national mechanisms similar to CFIUS, making them especially vulnerable to Chinese attempts at procuring these resources. Even more consequentially, much of the strategic technology leakage from the West to China that occurs today takes place outside of activity related to formal mergers and acquisition that is susceptible to regulation. Rather, it transpires through channels such as angel investing, in which wealthy and often shadowy entities that provide capital for business start-ups—where most of the breakthrough innovations tend to be commercialized—secure access to advanced technology through surreptitious means even though their formal involvement is restricted solely to the acquisition of convertible debt or ownership equity. Even the best CFIUS-like safeguards fail to limit the technology loss occurring through such channels. This reality only underscores the point that because the open international trading system will provide China with new avenues of access to militarily critical Western technologies, the United States and its allies urgently need to cooperate to protect their critical military technologies from China.

Unfortunately, the portents on this score are not promising. Although the European Union’s arms embargo on China, which has been in place since the 1989 massacre in Tiananmen Square, has curbed the sales of major European weapon systems to China, there have been periodic efforts made by American allies, such as France and Germany, to either repeal the embargo or replace it with alternative instruments of uncertain efficacy.¹²² Although these

attempts at loosening extant controls have been driven by either pecuniary reasons or the desire to support their proponents' national defense industries, it is vital that Washington's partners understand the effects these changes would have on the United States. Any significant military or defense technology acquisitions by Beijing could sharply increase the risk to American forces at a time when conflict with China is not impossible—and when China is already advantaged by its access to many sophisticated Russian military systems, which Moscow continues to sell to Beijing either due to the penury of Russia's own military-industrial complex, the self-serving calculations of Russia's current leadership, or Russian President Vladimir Putin's deep antipathy toward the United States.¹²³

Even the United States itself is not immune to such pressures. As a former U.S. Department of Defense official, Joseph A. Bosco, has complained, “despite growing recognition that the security threat from China is real and increasing, the U.S. government is lowering its guard by facilitating the sale of technology that can enhance Chinese military capabilities—beyond what China has already stolen through conventional and cyber espionage.”¹²⁴ In most cases, the pressure to develop “normal” relations with China, coupled with the financial benefits accruing from expanded high-technology sales to Beijing, has been the culprit. European and American perceptions are thus aligned in their view of China's rise as an economic opportunity, but the United States needs to remind its Western partners about the significance of Beijing's geopolitical challenge—an issue that some American allies may insufficiently appreciate, given Washington's own failings in regard to controlling technology transfers to China.¹²⁵

Should this mismatch produce a loosening of Western restrictions on the sales of militarily critical technologies to China or a failure to put such constrictions on firm regulatory foundations, it could make the American task of guaranteeing global—to include European—security far more hazardous, with serious risks to the continued success of globalization on which the common welfare of the West depends. For this reason, the necessity for expanding civilian trade with China cannot carry over to defense technology commerce and cooperation. And while the United States certainly should lead the West in expanding international trade in whatever way possible, this policy ought not to be extended to the point where it actually undermines American power and erodes Washington's ability to discharge its vital obligation of guaranteeing Asian and global security.

PRESERVE U.S. MILITARY SUPERIORITY

The United States must maintain its extant military superiority indefinitely in order to advance its other objectives, including strengthening key states on China's periphery and selectively deepening globalization. The possession of surpassing military capabilities

enables the United States to act as the ultimate guarantor of Asian security and prosperity, compensating for the strategic inadequacies of China's neighbors while simultaneously providing them with the assurance that their tightening economic links with China will not increase their vulnerability to growing Chinese power. The preservation of U.S. military superiority writ large thus remains a critical component of any strategy centered on balancing without containment.¹²⁶

Requiring that Washington refocus its attention on national defense may appear odd at first given that the U.S. military is superior to all others by many metrics of comparison. After all, it is a common observation that the United States spends more on defense than the ten countries with the next-highest defense budgets combined.¹²⁷ Yet the ensuing inference that the U.S. defense budget is more than adequate is fallacious because it compares military expenditures among a set of countries without reference to their political goals instead of assessing the sufficiency of U.S. allocations relative to U.S. strategic objectives.

The ultimate aim of American grand strategy must be to preserve the country's international hegemony for the sake of protecting its security and maximizing its political autonomy. Its defense budgets, then, will be satisfactory only to the degree that they enable the fielding of a military force that is capable of securing three critical objectives: safeguarding the United States by being able to defeat its adversaries at a distance, satisfactorily discharging the security obligations owed to American allies around the world, and providing the global public goods that not only advance universal interests but also cement American primacy internationally. A military force that can accomplish these aims must of necessity be able to effectively project power anywhere in the world, especially in the most critical regions—that is, it must be able to deploy forward-operating elements capable of mounting sustained military operations against opposition across the globe. It is against this criterion that the adequacy of U.S. defense budgets must be judged. If the resources allocated to defense prove insufficient by this standard, then both American security and prosperity will be in jeopardy. While the risk to U.S. security is intuitively easy to understand, the risk to U.S. prosperity is just as important. The processes of globalization on which American well-being increasingly depend will simply be unsustainable without the superior military capabilities that protect the global system and enforce its rules.¹²⁸

When American military power is assessed from this perspective, it becomes clear that the U.S. armed services are hobbled by serious challenges. The most obvious problem, and one that receives publicity currently because of the frayed politics in Washington, is the impact of sequestration on the top line of the defense budget. Even apart from the dangers of these slash-and-burn cuts, however, the larger question of what the defense budget ought to be after a decade of extended wars in Southwest Asia remains.¹²⁹ This issue is particularly nettlesome because policymakers have not yet clearly prioritized the multiple threats facing the United States. Confronted by dangers such as global terrorism, failing states, weapons

of mass destruction, conventional warfare, and the evolving Chinese challenge, U.S. decisionmakers have attempted to confront these hazards in parallel rather than through the creation of an ordered hierarchy.

If the principal geopolitical test facing the United States in the current century is managing the rise of Chinese power, then reorienting the armed forces to deal with the dangers posed by an ascendant Beijing deserves greater—and clear—priority. There is a compelling case to be made that only the proliferation of nuclear weapons and the threats of conventional warfare emerging from regional challengers similarly threaten the U.S. ability to effectively defend itself at a distance, endanger U.S. allies unacceptably, and imperil the global commons. Accordingly, American defense investments ought to be metered to deal first with these three contingencies, with all other hazards treated as residuals. Growing Chinese military capabilities are in fact such an encompassing challenge that one of the few windfalls is that many of the solutions designed to neutralize this problem would be applicable to both the hazards of counterproliferation and conventional war against regional threats.

In the current budgetary environment defined by diminishing defense resources, Washington faces the immediate challenge of rebalancing U.S. forces so as to permit the country to be able to protect its most important equities in the Indo-Pacific while still limiting the risks arising from dangers elsewhere across the globe. The Center for Strategic and Budgetary Assessments (CSBA) in Washington, DC, has undertaken a series of insightful exercises intended to examine how transformations across all the services might be effected, keeping in mind the tradeoffs between preserving readiness versus conserving force structure, protecting current capabilities versus deepening future investments, and safeguarding heavy land forces versus enhancing global expeditionary components.¹³⁰

While these debates will undoubtedly continue for some time, the CSBA exercises indicate that if preparing to meet the incipient challenge posed by China is the pacing threat for the country's armed services, there is a strong case to be made for a strategy of aggressive rebalancing. Such an approach would require reducing the U.S. Army's heavy brigade combat teams and shifting many of their capabilities into the reserves on the assumption that the United States is unlikely to be engaged in any major land wars in Asia or globally (on the scale of Iraq and Afghanistan) any time soon. Since the requirement for "boots on the ground" will always persist because of the contingency of stability operations, this approach would maintain the U.S. Marine Corps as a quick-reaction force while relying on the U.S. Army's beefed-up reserve components to provide heavier backup should it be necessary.

Power projection forces, however, would be heavily emphasized, with a renewed focus on protecting lethality, survivability, and reach. This would require increasing the size of the submarine force and the stealth bomber components at the expense of low-capability surface warfare platforms and short-range tactical aviation. It would also require increasing resources for space, cyberspace operations, and communications, developing new manned

and unmanned stealthy platforms for long-distance and endurance operations, improving missile defense capabilities by using directed-energy weapons, boosting investments in science and technology, and investing more in upgrading the defense capabilities of U.S. friends and allies, especially in Asia but also around the world.¹³¹

A bold rebalancing along these lines would provide the United States with the means to protect its military advantages in the face of the challenges posed by rising competitors and still discharge the routine security obligations on which the stability of the international system depends. Even if the resource constraints facing the U.S. Department of Defense were to ease over the medium term, restructuring the U.S. armed services in this way would provide the nation with the most effective capabilities for addressing its most nettlesome threats. While the finer details of any force-structure rebalancing may differ, the important point is that the United States should protect those capabilities that enable it to project power effectively against opposition. This implies increasing its investments in stealth technologies, advanced munitions, and information superiority, irrespective of how these are incorporated in specific platforms.

Beyond the immediate question of how the United States should rebalance its armed services to comport with its new strategic priorities, U.S. policymakers must also confront other problems that bear upon the goal of preserving American military superiority. Continuing escalation in the costs of major weapon systems, for example, will force policymakers to either reduce acquisitions, which will limit war-fighting capacity, or maintain planned purchases at the cost of severe budgetary stress. Rising personnel expenses, especially involving healthcare, will limit both procurement possibilities and investments in future capabilities through increased research, development, testing, and evaluation. At the same time, enduring difficulties in improving defense-acquisition practices, program management, and system engineering skills in both government and the defense industry, especially when compared to other private enterprises more generally, will continue to impose higher costs on the defense budget as a whole. Policymakers will also be confronted by the need to rationalize the force structure to eliminate redundancies in military capability across the armed services while concurrently emphasizing the technological transformation of these war-fighting arms to enable them to outmatch the nation's adversaries. And then there is the uncomfortable task of thinning the bloated officer corps—especially general and flag officers—in all three services, along with the concomitant challenge of paring personnel in the headquarters of the various defense agencies, offices, and commands.¹³²

Even as the United States confronts these larger issues, it faces the pressing challenge of responding to China's growing military capabilities. There is perhaps no other state in the international system that has experienced such meteoric growth in its defense expenditures in recent years. On current trends, the Chinese defense budget would likely approximate present U.S. defense expenditures sometime around the year 2025, providing Beijing with

a huge pool of resources that would enable the pursuit of ambitious political goals going beyond Asia itself. Moreover, unlike many of its neighbors, China enjoys the advantage of having its rising defense budgets embedded in successful economic performance both in absolute terms and relative to its local and more distant competitors.¹³³

With these advantages, it is not surprising that China is engaged in a comprehensive modernization of its war-fighting capabilities (albeit from a relatively low base). Eventually, this transformation will yield a Chinese force that is capable of dominating U.S. allies and important neutrals in Asia while successfully challenging the United States in several specific combat domains irrespective of distance. And these trends toward greater military capacity are unlikely to abate. As the then deputy director of national intelligence, Michael Hayden, noted in a 2006 hearing before the Senate Armed Services Committee, “There is almost a momentum in Chinese thinking that great powers . . . need certain things, and they are not necessarily tied to a specific military event, either proposed or expected, but simply become the trappings of . . . their global legitimacy.”¹³⁴

What complicates matters further is the fact that China is embroiled in significant disputes with major neighbors such as Taiwan, Japan, and India as well as with the smaller states of Southeast Asia. Because these disputes often threaten free passage in the global commons and intimidate formal U.S. allies, they could end up precipitating a conflict that pits the United States against China.

All told, then, Washington has to face up to the prospect that Beijing’s ongoing military modernization could produce in the not-too-distant future—certainly by the third or fourth decade of this century, if China’s economic success sustains itself—a bipolar military rivalry with the United States. Recognizing the likelihood of such an eventuality, American strategic planners, however adroitly they may attempt to disguise the fact, invariably end up treating China in all evaluations, ranging from budgetary to operational, as the most demanding contingency for which U.S. military forces must plan.¹³⁵

Fearing the entrenchment of such thinking, one of the most respected China experts in the United States, Richard Bush, has cautioned that “the trajectory of China’s military modernization is so gradual that it will not have the ability to challenge the United States on a *global* basis for a long, long time. It simply lacks the ability to project power the way the U.S. military has done for decades.”¹³⁶ This judgment is indeed accurate. When assessed today by the standard conception of power projection, no country, including China, comes close to having the expeditionary capabilities possessed by the United States.¹³⁷

This fact, however, should not obscure the reality that China’s military research, development, and acquisition programs are steadily oriented toward acquiring the wherewithal to apply power at progressively greater distances from its continental base. Given its current pace, for example, China’s People’s Liberation Army (PLA) will possess all the capabilities

necessary to conduct unrestricted military operations within its “near seas,” the area bounded by the first island chain, by the end of this decade. It will be able to levy significant conventional threats across multiple dimensions in the “middle seas,” that is, the area extending out to the second island chain (to include attacks on Guam and Hawaii), by the early 2020s. And it will be able to maintain a meaningful military presence in the “distant seas,” to include both the Indian Ocean and the Eastern Pacific, by the third decade of this century. This capability will permit China to conduct not merely peacetime operations, such as noncombatant evacuation, humanitarian assistance, and disaster relief, at short notice but also wartime missions associated with protecting its sea lines of communications and exercising some limited forms of sea control. If the PLA’s current investments in acquiring amphibious vessels and strategic lift capabilities are sustained, China should be capable of deploying a division-sized formation anywhere in the Indian Ocean rimlands. So long as Beijing is not involved in high-intensity combat operations against a major regional state, it will be able to sustain this deployment for an extended period of time.¹³⁸

As this spatial extension of China’s strategic reach gradually unfolds, several of Beijing’s military programs are already registering an impact on the global level. Chinese nuclear and missile modernization efforts, for example, are extensive and will soon enable the country to range its farthest adversaries with sophisticated delivery systems. Although the bulk of Beijing’s missile development efforts are oriented toward developing advanced short-, medium-, and intermediate-range systems, it has not neglected land- and sea-based intercontinental-range weapons, some of which will likely carry multiple independently targetable warheads.¹³⁹

China’s space programs too are remarkably diverse and give it global reach. Today, Beijing has over 100 satellites of different kinds in orbit, enabling it to use space for all the force enhancement missions with which the U.S. armed services, for example, are familiar. The number of these systems in all areas, including communications, meteorology, precision navigation and timing, and intelligence, surveillance, and reconnaissance (ISR), will likely double by the first quarter of the century. More disturbingly, however, these capabilities will be supplemented by a varied and capable—not to mention exotic—arsenal of counterspace systems intended fundamentally to deny the United States in particular the advantages it currently accrues from possessing the world’s most advanced and encompassing space architecture.¹⁴⁰

Finally, China has a military instrument that couples singularly disruptive impact with planetary reach: its cyberwarfare capabilities. Chinese investments in this domain are aimed not merely at intruding into U.S. computer systems for purposes of exfiltrating data of interest—although this occurs on an extensive scale—but also at engaging in network attacks in order to hinder U.S. military operations. As James Mulvenon summarized the threat, “behind all the rhetoric and hype, ... [cyberwarfare] presents the Chinese with a potentially potent, if circumscribed, asymmetric weapon. Defined carefully, it could give the PLA a longer-range power projection capability against U.S. forces that its conventional forces cannot currently hope to match.”¹⁴¹

Beyond these dangers, which exemplify China's incipient global reach today, many other military programs are in various stages of development. These programs currently have more limited range but nonetheless promise to increase Beijing's influence well beyond its immediate environs. These capabilities include China's new aircraft carriers and their associated advanced escorts, amphibious landing ships, improved land warfare systems, heavy transport aircraft and tankers, stealthy unmanned aerial vehicles, advanced tactical combat aircraft and cruise missiles, and a host of sophisticated combat-support platforms such as airborne warning and control systems as well as dedicated electronic warfare, long-range maritime reconnaissance, and antisubmarine warfare aircraft. These improvements in technology, which aim to renovate China's larger war-fighting capabilities across all combat arms, are also complemented by advances in other important dimensions: manpower, training, doctrine, organization, logistics, and command and control.

While this transformed military force will be visible before the first quarter of this century and will magnify the Chinese strategic challenge to the United States beyond the Asian continent, the most pressing issue facing the U.S. armed services right now are the "asymmetric threats" China poses in the Asia-Pacific region.¹⁴² Despite the problematic nature of this locution, the fact remains that, left unaddressed, these threats would completely undermine the ability of the United States to protect its allies in the most important geostrategic area of the world. By extension, they would vitiate the current security environment that sustains both growth and globalization. Several studies of the military balances in the East and Southeast Asian littorals, in fact, suggest that the capacity of the United States to operate freely in these areas is already under serious threat.¹⁴³ Defusing these dangers must remain a critical priority for U.S. defense planning because all the trend lines suggest that the hazards associated with securing free access to the Asian rimlands will only get worse over time.

The rising constraints on the U.S. ability to effortlessly project power into Pacific Asia derive from the conscious Chinese effort, under way since at least 1996, to hold at risk the strategic umbilicals connecting the United States to its Asian allies. The impetus for creating instruments that would undermine U.S. extended deterrence in this way derived initially from the Sino-American wrangling over Taiwan, especially during the Third Taiwan Strait Crisis. In 1995 and 1996, diplomatic tensions prompted China to conduct a series of missile tests in the waters surrounding Taiwan. This dispute, and especially the fact that America responded with a massive show of force in support of Taiwan, exacerbated Beijing's fears that Taipei would one day assert *de jure* independence under the political cover offered by U.S. military protection. To ward off this possibility, China has progressively reoriented its armed forces toward servicing two critical objectives: overwhelming the island's defenses by force, if necessary, in order to preclude a conclusive break with the mainland and preventing the United States from bringing rearward reinforcements to bear in support of Taiwan and operating in its defense.

These investments in “anti-access/area-denial” (A2/AD) capabilities have been manifested in the formidable land-based “reconnaissance-strike complex” that China has assiduously built over the last two decades.¹⁴⁴ This complex is anchored in an extensive ISR system that includes terrestrial and space-based sensors to detect, track, and target both mobile U.S. military systems operating at great distances from Chinese territory and activities at fixed U.S. bases throughout the Pacific. The resulting information, supplemented by other intelligence collected by Chinese ground, naval, and air elements, is then disseminated to various war-fighting components—land-based ballistic and cruise missile regiments, land-based (and eventually sea-based) airpower, surface and subsurface naval platforms, and entities involved in computer network attack operations—through a national command-and-control grid called *Qu Dian*.¹⁴⁵ Both targeting data and weapons are thus combined to orchestrate different kinds of attacks on those U.S. and allied terrestrial, maritime, and airborne targets perceived to be threatening China. Beijing’s current military modernization has thus been explicitly designed to keep the United States entirely out of its near seas by controlling access to them through a variety of standoff attacks that, if successful, would transform the Western Pacific into a contained enclosure in which China’s dominance is assured because of its ability to neutralize U.S. military power.

As the U.S. Department of Defense warned as early as 2005, these investments “provide China with a force capable of prosecuting a range of military operations in Asia—well beyond Taiwan—potentially posing a credible threat to modern militaries operating in the region.”¹⁴⁶ China’s ongoing military modernization therefore not only “put[s] regional military balances at risk” but also, just as problematically, threatens the U.S. military’s ability to operate in proximity to the Asian landmass.¹⁴⁷ China’s success in realizing this objective, consequently, leads inevitably to decoupling the United States from its regional friends and allies, in the process undermining the larger structure of regional stability that since the Second World War has been built upon American hegemony. The fact that Chinese military influence will be felt most strongly in Pacific Asia, at least for now, should not provide excessive consolation even to those scholars who argue that China “is not . . . capable of projecting military power on a global scale” because this region remains the center of gravity in the evolving international order.¹⁴⁸ Consequently, any Chinese hegemony over even this delimited space decisively advantages Beijing in any future struggle for control of the world system.

Ever since the defeat of German and Japanese power in 1945, U.S. grand strategy has been driven by the fundamental objective of ensuring that the Eurasian landmass cannot be dominated by any regional hegemon that could deny Washington unfettered economic, political, and military access to this part of the globe. China’s emerging military capabilities threaten to undermine that objective and could in time lead to Beijing concentrating the region’s resources to support a global challenge to U.S. power and influence, even if that threat assumes a different form from that posed by the former Soviet Union. Precluding this outcome remains the single most important reason for the current

American pivot to Asia, the central constituent task of which, insofar as preserving U.S. military superiority is concerned, is defeating the Chinese effort to stymie American power projection around the continent.

Unfortunately, this undertaking will not prove to be particularly easy. To begin with, the U.S. fiscal situation does not permit the Department of Defense sufficient latitude to make the major new investments required to cope quickly with the Chinese threat. For example, the U.S. attack submarine force—the one war-fighting capability that is fundamentally immune to Chinese A2/AD weaponry and that exploits the still-stark Chinese weaknesses in antisubmarine warfare—is dropping in numbers and remains at levels far below what U.S. military commanders demand as a precondition for success.¹⁴⁹ Raising the numbers of attack submarines to meet the requirements of regional war plans, without sacrificing the presence necessary in other parts of the world, is a capital-intensive endeavor requiring significant additional resources that are presently unavailable to the U.S. military. Similarly, the stealth bomber contingent, the one element of the air-breathing leg of the total U.S. military force that possesses the payload, range, and penetrative capability to hold at risk critical Chinese targets, is too small in size. The air force's efforts to acquire a new bomber have been repeatedly delayed in no mean part because of budgetary pressures.¹⁵⁰

The much-touted U.S. “rebalancing” to the Asia-Pacific is thus hobbled, first and foremost, by fiscal constraints. Although all the regional states fervently hope that the U.S. pivot to their part of the world will succeed, they are deeply concerned that Washington's apparent lack of resources will prevent it from making the increased investments required to defang China's rising coercive power beyond simply transferring some additional U.S. forces to the region from other out-of-area commands.

This discomfort is only exacerbated by the reality that many of the military instruments essential for the success of American power projection, presence, and reassurance in the region are conspicuously vulnerable to emerging Chinese A2/AD weapons.¹⁵¹ U.S. carrier battle groups, for instance—in fact, any platform that operates on the surface—are, and will be for the foreseeable future, vulnerable to novel threats such as China's new antiship ballistic missile, not to mention its growing inventory of ever-longer-range cruise missiles and smart torpedoes. The finest U.S. tactical aviation platforms, both land- and sea-based, including the new F-35 Lightning, which is slated to become the workhorse combatant for the U.S. Air Force, Navy, and Marine Corps, are also excessively short-legged and not particularly optimized for operations across the gigantic Pacific Ocean.

Moreover, U.S. and allied land and sea bases are increasingly vulnerable to Chinese precision attacks by highly accurate ballistic and cruise missiles.¹⁵² Even if these problems were to be overcome, only a small number of America's stealthiest fighters would enjoy unchallenged tactical air combat advantages in the face of China's increasingly sophisticated air

force, which is now equipped with late fourth- and fifth-generation fighters sporting even longer-range active air-to-air weapons than those carried by their American counterparts, advanced digital radio frequency memory-based electronic warfare systems, and the capability of executing advanced air combat tactics that were hard to imagine even a decade ago. Most unfortunately, in this context, the stealth bomber force that constitutes the deadliest penetrating U.S. air asset is also hobbled by the threats to its operating bases—even if its permanent bases in the continental United States are secure, the same will not be true of its forward-operating facilities in the Pacific in the event of a conflict.

Recognizing the dangers posed by stealthy aircraft such as the B-2, F-22, and F-35, China has embarked on a concerted effort to detect low-observable aircraft by emphasizing the development of very low-frequency radars, bistatic and multistatic sensors, and other passive detection systems, complemented by increased investments in high-speed data processing and integration.

Perhaps the most consequential of all Chinese efforts in the A2/AD realm, however, is its determination to deny the United States its traditional information superiority at the operational level. Toward this end, China has developed a variety of jamming platforms intended to cover the entire electromagnetic spectrum, with dedicated systems focused on every high-value American ISR asset. These investments in soft suppression intensify the challenges already posed by Chinese active defenses, both aircraft and surface-to-air missiles. As then U.S. deputy chief of staff for ISR David Deptula put it, these Chinese defenses, when employed against unarmed American surveillance assets, could result in the U.S. systems “falling from the sky like rain.”¹⁵³

Finally, the military solutions that have been suggested for neutralizing Beijing’s threats to U.S. power projection appear to rely, almost by default, on options that require significant attacks on the Chinese homeland. Thanks to the pioneering work done on the Air-Sea Battle concept at CSBA,¹⁵⁴ all the U.S. armed services, but especially the navy and the air force, have focused resolutely on what would be required to sustain successful U.S. power projection in Asia despite the huge Chinese investment in A2/AD capabilities. While the Pentagon has been careful to avoid publicly identifying China as a particular target for reasons of diplomatic sensitivity, Beijing looms large in all U.S. efforts at defeating the A2/AD challenge. As outlined in the two critical Department of Defense documents pertaining to this issue, “Air-Sea Battle: Service Collaboration to Address Anti-Access and Area Denial Challenges” and the “Joint Operational Access Concept,” the fundamental solution for neutralizing Chinese counterintervention capabilities consists of being able to “develop networked, integrated forces capable of attack-in-depth to disrupt, destroy and defeat adversary forces.”¹⁵⁵ As the Air-Sea Battle document elaborates, this “vision of networked, integrated, and attack-in-depth . . . operations requires the application of cross-domain operations across all the interdependent war-fighting domains (air, maritime, land,

space, and cyberspace), to disrupt, destroy, and defeat... A2/AD capabilities and provide maximum operational advantage to friendly joint and coalition forces.”¹⁵⁶

The various operational plans now being developed to deal with China’s A2/AD threats incorporate this vision because it remains the most mission-effective solution that can be devised in a purely technical sense. The economical way to disrupt the “kill chain” of the principal Chinese weapons employed against U.S. power projection forces is to concentrate on destroying Beijing’s theater ISR sensors and their integral command, control, and communications networks. The targets included in this set are relatively fewer in number compared to the alternatives of destroying all the associated launch platforms and their weapons. They also offer the advantage of denying the Chinese military the targeting information necessary to hold at risk America’s intervening forces. Interdicting the information net, thus, avoids the messier and tactically more dangerous combat operations that would be required if the United States were to target each of the discrete Chinese A2/AD weapons individually. But this approach comes with a catch: it requires attacks at varying depths on the Chinese heartland.

Preparing for such operations is necessary and prudent because none of the alternative approaches suggested for dealing with the Chinese A2/AD threat is satisfactory. The most widely discussed substitutes, the Offshore Control strategy advanced by T. X. Hammes, and the War at Sea option articulated by Jeffrey Kline and Wayne Hughes, require the United States to enforce a distant blockade of China that, over a long period of time, might have the effect of eventually undermining any regional aggression by Beijing.¹⁵⁷ The problem with any such strategy, however, is that it can be successful only in a protracted conflict.¹⁵⁸

Unfortunately, any strategy based on a distant, long-term blockade of China would expose America’s regional allies to unacceptable dangers in the interim—perils that could cause them to lose their physical security and political autonomy while the United States gradually throttled China by steadily whittling down or constricting its military forces and commercial assets operating on the high seas. This war-fighting strategy would expose America’s Asian allies to acute dangers because the United States would avoid robustly contesting any initial attacks by China on the premise that it could succeed in rolling back Beijing’s aggression eventually by indirect strategies of strangulation. Such an approach would provoke a meltdown of U.S. alliances in Asia, a search for alternatives on the part of the regional states that would inevitably lead to the creation of independent nuclear deterrents, and the further erosion of American primacy in the Asian system.

The motivation for preferring strategies such as Offshore Control or War at Sea—the desire to avoid attacks on the Chinese homeland—is understandable. Unfortunately, these alternatives cannot deliver on the core promise of U.S. extended deterrence, namely, the guarantee that Washington will employ all the power at its disposal to prevent its allies from becoming victims of aggression in the first place. If thwarting such an offensive requires

China to contemplate the possibility that it would become a target of significant American military attack, not to mention the other associated costs of conflict, the threats to Chinese territory portended by the Air-Sea Battle concept will have served the cause of preventing an assault by Beijing to begin with.

While the benefits of such a declaratory policy are great, however, it is admittedly unwise to emphasize extensive homeland attacks as the primary mechanism for dealing with the Chinese A2/AD threat at the level of operational planning. Threatening to attack the homeland of any nuclear-armed state, especially a powerful entity like China, is a fraught proposition. Consequently, the U.S. military is confronted by the even more burdensome task of neutralizing the Chinese A2/AD threat to U.S. power projection through either defensive means or, at most, tactically offensive actions. The Chinese reconnaissance-strike complex could possibly be overcome by denying it the appropriate targeting information through means that do not require the physical destruction of its theater ISR network, but it is not yet clear that the United States has invested sufficiently in this option. There is a wide range of techniques, including deceptive operational maneuver, emission control, the use of obscurants, and advanced electronic warfare, that offer the hope of defeating both Chinese sensors and their weapon seekers sufficiently to permit U.S. military forces to operate in close vicinity of the Asian rimland—without having to undertake prior kinetic attacks of any intensity aimed at Chinese territory.¹⁵⁹

As a complement to this effort, the United States ought to also invest in improving its active defenses. Sea- and land-based theater missile defense systems capable of intercepting antiship ballistic missiles before they enter the more survivable maneuvering phase of their flight, better air defenses capable of intercepting and deceiving especially supersonic cruise missiles, capable torpedo warning systems and anti-torpedo countermeasures, more effective mine warfare systems, and a robust cooperative engagement capability would all go a long way toward enabling the U.S. military to project power close to Asian shores despite the presence of Chinese A2/AD threats.

Because these palliatives may not suffice to ensure operational success, the alternative of unleashing discrete attacks on the Chinese homeland must be incorporated into U.S. war planning, just as Beijing has already incorporated options for attacks on allied and U.S. bases throughout the Indo-Pacific.¹⁶⁰ But it should not be considered either as a primary option or as a preferred one, even though U.S. declaratory doctrine may posit just the opposite for purposes of strengthening prewar deterrence.

In any case, this contingency only resurrects the need to take seriously another arena that in recent years has been dreadfully neglected: nuclear operations. Any contestation with China will require the United States to carefully think through the requirements for both nuclear deterrence and escalation dominance, as it did in years past vis-à-vis the Soviet

Union. Washington must reexamine its nuclear force requirements in the context of China's expanding nuclear arsenal and reconcile both its arms control agenda with Russia and its nuclear abolitionist impulses into a more coherent strategy. This approach should allow the United States to secure all the benefits of deterrence as it moves into the uncertain coming era of strategic competition with China.¹⁶¹ To date, the United States has been neglectful of how the conventional deterrence of China must be integrated with the demands of nuclear deterrence and especially escalation dominance. As Dan Blumenthal has noted cogently,

In the Sino-American competition, a strategy that includes nuclear weapons could provide the United States with two advantages. First, it would add a degree of uncertainty in the minds of Chinese planners, which would increase the strength of deterrence. Second, such a strategy could allow Washington to control escalation. If a U.S. president decides to attack China in depth, he or she will also need to deter a nuclear response by China. This can only be done with nuclear weapons.¹⁶²

Preserving America's extant military superiority in the face of growing Chinese power will be an onerous endeavor. Yet the task is inescapable if the United States seeks to prevent the atrophy of the most important operational precondition—the U.S. ability to operate freely along the Asian littorals and defend its allies should they be threatened—for maintaining the American hegemonic order in Asia. This order has been responsible thus far for deterring major continental challengers, dampening intra-regional competition and nuclear proliferation, and sustaining a robust economic transformation that has come to serve as the motor of American and global growth.

The imperatives of preserving U.S. military superiority and its freedom of maneuver in Asia are, therefore, absolute. They require that Washington make the requisite investments to maintain its mastery over all the principal military domains—air, sea, space, cyberspace, and the electronic spectrum—despite various current and emerging threats. The United States must also ensure its ability to wrest back control of any “contested zones” that China sets up along its periphery. At the same time, it must preserve the capacity to punish and weaken any aggressor that challenges American primacy in Asia and preserve a range of options that enable the United States to retain control of escalation in case of any conflict.¹⁶³ Satisfying these aims is not beyond the technological capacity of the United States or the innovative capacity of its armed forces. But it will be resource intensive and will require, at the very least, a clear-eyed political commitment to doing whatever is necessary if Washington is to realize the objective of balancing China without containing it.

REVITALIZE THE AMERICAN ECONOMY

Without a lasting revitalization of the American economy, the United States will be unable to strengthen China's neighbors, selectively expand the trading order, or maintain U.S. military superiority. Fortifying the productive base of the nation would provide the resources necessary to achieve the other complementary objectives. And, like preserving military power, it is a task that is fundamentally under Washington's own control and not dependent on the choices made by other countries.¹⁶⁴

The key to renewing the U.S. economy lies in facilitating what Joseph Alois Schumpeter once described as the "gales of creative destruction," which are caused when revolutionary transformations make obsolete old inventories, ideas, skills, organizations, technologies, and equipment.¹⁶⁵ Only these Schumpeterian revolutions are capable of providing the United States with the means of generating the sort of supernormal growth spurts that will permit it to enlarge globalization to its advantage and dominate whatever forms of deeper integration ensue.¹⁶⁶ Success in breeding such disruptive innovations leads to the creation of new leading sectors nationally and in the global system.¹⁶⁷

The growth of these leading sectors is stimulated fundamentally by technical progress. Although the classical economists emphasized the importance of increasing capital and labor, their modern successors have highlighted the significance of technological change as a critical driver of long-term growth. Because the iron law of diminishing returns applies to all material inputs, including capital, the continual development of new technology provides one avenue to escape from what would otherwise be the tyranny of the steady state economy marked by stable production and consumption but no progress. Contemporary economics has indeed concluded that technology—with its intrinsic links to human capital, knowledge, and entrepreneurship—is actually another endogenous factor of production, like physical capital and labor, in the growth process.¹⁶⁸ It is not surprising, therefore, that the technological innovativeness of the United States has been a major contributor to its rise as a world power.¹⁶⁹

Sustaining the highest velocity of technical change possible across the spectrum of civilian to military endeavors, accordingly, remains the key to U.S. global superiority. To the degree that the United States continually breeds ever-more-disruptive innovations, it will enjoy increasing returns that will bolster its economic strength relative to its competitors. These returns will also underwrite the superior military capabilities necessary to produce and maintain the international order that disproportionately advantages the United States.

By the canons of contemporary growth accounting, the United States, despite its current problems, is better positioned than most other countries to sustain the Schumpeterian revolutions necessary to maintain its global dominance over the long term. This is because it can still accumulate capital, sustain labor-force growth, and stimulate technological

change far more easily than its peers thanks to several inherent strengths—its large size and vast natural resources, its favorable demographic profile and access to immigration, its great wealth and material well-being across the population at large, its open economic and political system, and above all its social and institutional adaptability.¹⁷⁰ These strengths, if amplified through wise public policy choices, should enable the United States to maintain a steady rate of economic growth and potentially one that is higher than the secular growth rate of its competitors.

The emphasis on secular growth rates, abstracted from shorter-term cycles, is important to preclude any facile extrapolations between the currently high growth rates of developing countries like China and the lower growth rates of mature economies like the United States. As the Chinese economy develops over time, it is reasonable to expect that the durable constraints of diminishing returns will depress its presently high rates of growth, which in any case already appear to be tapering.¹⁷¹ Consequently, the economic requirements for balancing China are best assessed by comparing not simply prevailing growth rates but rather the prospects for sustaining higher growth over the secular period.

If Washington is to successfully dominate the coming long cycle in international politics, its policy choices will have to ensure high levels of capital formation, provide for an adequate labor force of sufficient quality, sustain technological progress, increase the efficiency with which these inputs are productively combined, and limit the adverse consequences of its fractious political system on economic growth. Success on these five fronts will enable the United States to retain the capacity to breed those disruptive innovations that are the lasting source of its international preeminence. The nation already has enormous advantages on all these counts—but also major and as-yet-unresolved challenges that must be addressed with urgency.

Capital Formation

As economic theory has long understood, increasing the stock of capital is critical for sustaining high levels of economic growth. Other things being equal, greater amounts of capital available relative to labor enhance the latter's productivity in the creative process.¹⁷² Capital formation in principle derives from the rate of savings in an economy that, together with foreign borrowing, determines the national rate of investment. Compared to many fast-growing developing countries, the United States has an abysmally low savings rate. From 1960 to roughly 1980, the U.S. savings rate remained stable at about 11 percent, dropping steadily until it reached about 1 percent in 2005 before crossing into negative range in 2006—the first time that has happened since 1932–1933, when the country struggled with the huge job contraction brought about by the Great Depression. In contrast, India's savings rate is roughly about 25 percent, South Korea and Japan's savings rates vary typically from the high 20s to the mid-30s, and China's savings rate is a staggering 50 percent.¹⁷³

While China's high savings rate is obviously a virtue from the perspective of driving growth, it obscures some serious shortcomings within the Chinese economy and its future prospects. One of the major reasons for China's elevated savings rate has been the absence of any national social security system. This lacuna forces Chinese citizens to save at abnormally lofty rates to provide for their own well-being in retirement and during emergencies.¹⁷⁴ The attendant suppression of domestic consumption is further reinforced by deliberate national policies that emphasize investment in order to produce manufactured goods for export—in other words, for consumption abroad rather than at home.¹⁷⁵ The huge dollar surpluses accumulated through such exports are then recycled by, among other things, the purchase of U.S. debt instruments, which enable the United States to continually consume on the strength of cheap and easy foreign borrowings. This ready availability of foreign capital in turn eliminates the incentives for Americans to save any significant fraction of their own incomes because, as long as the national debt is repaid regularly by citizens today or their descendants tomorrow, the current symbiosis between the United States and China can continue indefinitely.¹⁷⁶

The United States has thus been able to sustain its economic growth by benefitting from the willingness of foreigners to inject large quantities of foreign capital into America without letting up. The critical question from a strategic perspective, however, is whether this dynamic necessarily prevents the United States from sustaining the requisite growth rates essential to balance China and thereby preserve its international hegemony. Fortunately, the answer to that question, with one qualification, is no. The fact that the Chinese, among others, are willing to underwrite American consumption over long periods of time—some fifty-five years and counting—is first and foremost a tribute to the attractiveness of the United States as a safe and reliable investment destination. In fact, the data suggest that foreign nations running trade surpluses are often content to invest in U.S. Treasury bonds, despite their much lower rates of return in comparison to alternative investments at home, because of the absolute security and liquidity of these instruments.¹⁷⁷ The allure of the United States and, more importantly, the fact that the dollar remains the international reserve currency—that most visible manifestation of extant hegemony—compensate for the nation's lower savings. These advantages constitute "America's exorbitant privilege"¹⁷⁸—the description used by former French president Charles de Gaulle at a landmark press conference in 1965—which enables Washington to run up sustained deficits that would have wrecked any lesser country.

The good news, therefore, is that U.S. external deficits can be sustained for a long time to come so long as the core conditions—the attractiveness of the U.S. economy, excessive foreign liquidity, and the international preeminence of the dollar—continue to hold. But this situation does produce a critical long-term challenge from the perspective of enhancing national power, although it does not stem from the commonly cited fear that open-ended foreign borrowing could cause a serious crisis in the global economy if U.S. creditors were to

suddenly shift to alternative strategies of fueling their own national growth through increased domestic consumption and thereby constrict the amounts of capital available to the United States. In fact, this is bound to happen over time as the major exporters enjoying trade surpluses today, like China, continue to develop further and have smaller and more aging populations. The contraction of capital available for foreign lending as a result of these processes, however, will be gradual, giving the U.S. economy sufficient time to adjust. The aftermath of the global financial crisis has already demonstrated that Americans, like all other rational actors, do respond to changing incentives, increasing their savings when external resources appear scarce just as flexibly as they reduce them in the presence of easy foreign money.¹⁷⁹

Another oft-discussed problem that could materialize is a sudden crisis of confidence in the dollar precipitating a sharp fall in its value. But this situation is also unlikely, given both the current difficulties afflicting the eurozone and the simple absence of any other alternative, including the renminbi, that could serve as a genuine international reserve currency. The renminbi undoubtedly will increase in acceptance as a medium of exchange, especially in Asia. But continuing controls on China's capital account, which will persist for a while longer—coupled with the brute fact that the U.S. dollar still accounts for over 60 percent of global central bank reserves, which indicates the still-extraordinary international trust in the United States—suggests that the U.S. dollar will remain the preferred international reserve currency for some time to come because it is still, on balance, the best store of value.¹⁸⁰

So, all things considered, the excessive reliance on foreign borrowing is not a decisive handicap for the capital formation necessary to sustain long-term U.S. growth. To be sure, it would be desirable if Americans could raise their savings rates or if the economy as a whole could shift toward more indigenous means of accumulating capital, but it would be unreasonable to expect either to occur if the structural incentives for doing so do not exist. Moreover, it could be argued that there is no compelling reason for jettisoning the current model of capital formation. After all, U.S. indebtedness has not constrained its geopolitical freedom of maneuver even vis-à-vis China—in fact, the political inhibitions of American leaders have proved far more constraining—and therefore the conventional limitations that inhibit smaller debtors do not apply to the United States.¹⁸¹ Even on economic grounds, it is possible to contend that the United States still enjoys the better end of the bargain: it trades paper “IOUs,” debt instruments that represent future foreign claims upon the borrower, for either real assets created today or real consumption enjoyed currently as a result of foreign lending.¹⁸²

Thinking about the challenge in this way illustrates the real problem with the current American model of capital formation that must be addressed if the advantage of easy access to cheap foreign capital is to be better exploited for national purposes. Foreign borrowings per se would pose few problems—indeed, would be eminently worth it—if they were used to create physical, social, and human capital investments that embody the potential of

generating high returns over time. However, much foreign borrowing goes toward either sustaining current consumption or paying for previously incurred social program obligations. Because imported capital is dissipated in this way, the United States loses the opportunity to build a productive base for sustaining innovation through increased spending on infrastructure, education, and research and development.

The current approach, therefore, not only privileges the present over the future but also does so in a most unsustainable way: by expending borrowed resources that must be eventually repaid on consumption that yields immediate fulfillment at the cost of investments that would produce lasting gains. This is the real danger in the current U.S. dependence on foreign capital. Consequently, the critical issue that Washington must face with respect to capital formation is not reducing foreign borrowings or domestic debt per se, but rather increasing its national investments to sustain the foundations for generating disruptive innovations, irrespective of whether these investments are engendered through growing domestic savings or expanded external liabilities.

Labor Force Growth

While it by no means faces an irremediable crisis vis-à-vis China where capital formation is concerned, Washington nonetheless has its work cut out for it in regard to making better national investments that generate higher returns over the long term. The same is equally true with respect to ensuring the availability of an effective labor force. There is perhaps no variable of greater importance for increasing national power than expanding the labor force participation rate and improving its quality. All activities that matter in an economy—from savings to productivity to technical change—ultimately hinge on human contributions, which, as the classical economists understood all too well, remain the ultimate source of value.

With the world's third-largest population, the United States undoubtedly enjoys the capacity to fuel economic growth for a long time to come, a circumstance that Nicholas Eberstadt has characterized in a masterful survey as “demographic exceptionalism.”¹⁸³ The quality of life enjoyed by the American people, as measured by per capita income, is very high, with beneficial consequences for both economic growth and productivity. But compared to many emerging powers (although not China), the American population is slowly aging. In the United States in 1950, for example, 34 percent of the population was between zero and nineteen years old, almost 58 percent was between twenty and sixty-five, and about 8 percent was sixty-five or older—a classic Christmas tree–like population pyramid that was designed to fuel national economic expansion.¹⁸⁴ By 2050, however, this pyramid is projected to become more rectangular, with 26 percent of the population under nineteen years old, a little more than 55 percent between twenty and sixty-five, and slightly more than 20 percent of the total population over age sixty-five.¹⁸⁵

This transformation is not set in stone. These distributions could change depending on U.S. immigration policies, and the impact on growth could be further modified thanks to the possibility of healthy aging and the further technological evolution of the workplace. The current trend nevertheless suggests that the productive cohort in the United States will contract in size over time, thereby burdening the already-poor national savings rate and further accelerating expenditures on entitlements because of the increasing numbers of the dependent segment of the populace.

The situation in China, however, is far worse. The widespread Chinese practice of sex-selective abortion and the nation's one-child policy, which for years was upheld as an example of how Third World countries ought to control their populations, now threaten to short-circuit the country's future economic growth. The highly asymmetric sex ratio at birth in China has produced, according to Eberstadt, "a 'marriage squeeze' of monumental proportions."¹⁸⁶ And the country's history of coercive family planning has resulted in a smaller proportion of working-age individuals at precisely the time when the dependency ratio—the number of people of non-working age, both young and old, as a proportion of those of working age—is certain to almost double. Projections indicate that approximately the same proportion of Chinese citizens as Americans will fall in the twenty to sixty-five age bracket in 2050, but about 18 percent of China's population will be under twenty years old and nearly 27 percent will be over age sixty-five. Even among those of working age, China's population is expected to skew older: 41 percent of working-age Chinese will be over age fifty versus just 32 percent of working-age Americans.¹⁸⁷ By contrast, in 1950, China was reasonably well poised for high growth, with just under 44 percent of its population under age twenty, about 52 percent between the ages of twenty and sixty-five, and a mere 4 percent over sixty-five.¹⁸⁸

While these data are not intended to suggest the inevitability of depressed economic outcomes, the changing demographic profile they portray indicates that China will grow old long before it grows rich, at least in per capita terms. In fact, by United Nations definitions, China already is an aging society. Beijing can undoubtedly attempt to mitigate this problem, either by importing capital or labor or by increasing its rate of innovation in order to sustain its hitherto high growth rates (although all these alternatives would be challenging). But there is simply no way for China to sustain high growth rates over the secular period if its labor force contracts inexorably, as it promises to do over the next few decades.

The current Chinese leadership understands this problem full well, as is evident in its recent decision to relax the historic one-child policy. Even this directive, however, is not particularly transformative. As Minxin Pei accurately assessed, "the new regulations allow couples to have a second child [only] if one of the parents is an only child. This decision will, at best, have a modest impact on boosting births (by about 1 to 2 million new births a year). Given China's dire demographics, Beijing needs to go further."¹⁸⁹ The continuing

Chinese hesitancy in regard to reforming its population policy will afford the United States a renewed opportunity to redress the weaknesses in its growth performance vis-à-vis China. By implication, Washington will have a chance to arrest the deterioration in its relative power in the years to come if U.S. policymakers move quickly to confront three important challenges that affect American well-being today.

First, the challenges of dealing with an aging population will demand new solutions to funding critical programs like Social Security, Medicare, and Medicaid, which the Congressional Budget Office projects will grow by more than 5 percent of GDP over the next twenty-five years.¹⁹⁰ The programs' increased costs cannot be met by higher taxes, which would have to be both steeper and broader in incidence than is politically acceptable. Nor can they be offset by cuts in defense budgets because the projected increase in entitlement costs is likely to be greater than total defense spending. And they certainly cannot be met by increased growth, since a mature economy like the United States will not grow at the highly elevated levels consistently required to produce the revenues necessary to sustain such expenditures.¹⁹¹

There is, therefore, no alternative but to restructure various entitlement programs to protect current and prospective retirees while instituting changes that accommodate America's demographic and fiscal realities. Among the several sensible proposals that merit consideration are raising the retirement age, instituting price indexing, and introducing voucher programs. But while addressing the more immediate problem of solvency remains the principal reason for engaging in entitlement reform right away, policymakers should not lose sight of the larger calculations. Fixing entitlement programs would be an efficient way of reinserting millions of individuals into the workforce, especially those who have left the labor market simply for lack of opportunity or because, as Eberstadt contends, "not working at all is neither unthinkable nor unaffordable these days, even for adults in the prime of life."¹⁹² While dealing with this behavioral challenge will require more than simply macro-economic tools, addressing the burdens of unsustainable entitlements engages at least part of the problem. A 2010 report issued by the National Committee on Fiscal Responsibility and Reform contains a wealth of sensible ideas designed to attack this challenge along multiple dimensions and remains, even at this juncture, worthy of the administration's consideration.¹⁹³ Given the larger strategic objective of buttressing American power, it is essential, at any rate, to attack the cost growth of the various entitlement programs that crowds out investments in those "sunrise" sectors that engender the disruptive innovations that can restore U.S. dominance in the global economy.¹⁹⁴

Second, the prospective thinning of the most productive cohort in the American economy calls for renewed attention to the issue of immigration. The reputation of the United States as a country that welcomes immigrants has always been a safety valve from the perspective of maintaining an effective labor force: immigrants can mitigate the deficits in labor

force growth quickly and, depending on their skill sets, can do so with minimal disruption to the existing social fabric. Thanks to both its ethos and its socioeconomic system, the United States has perfected, more than any other country, the art of absorbing and socializing vast numbers of immigrants of diverse national origins, economic strata, cultures, and languages—receiving them, while simultaneously transforming them, into a new nation.¹⁹⁵

Unfortunately, in recent years, due to the tragedy of 9/11, the vicissitudes of domestic politics, and the pressures of economic crises, the United States has been unable to devise a rational immigration policy that serves its national interests. Although some progress has been made recently in attracting skilled immigrants, it is still not clear whether the current legislation will suffice to entice highly educated and highly entrepreneurial individuals to make the United States their home. Virtually no progress has been made in respect to managing the importation of unskilled and transient laborers, including those who are in the country illegally. Addressing the labor constraints affecting those sectors of the economy in which native Americans either cannot or will not work is equally important from the perspective of assuring the nation's long-term growth.¹⁹⁶ Where immigration is concerned, the evidence demonstrates convincingly that open and welcoming policies across the economy as a whole create substantially more winners than losers. These findings justify comprehensive reform that advances the American ability to maintain the labor force growth required for economic success.¹⁹⁷

There is in fact no alternative but to think boldly about immigration as a solution to the challenges of sustaining U.S. economic expansion. Consider the following scenario: If the United States were to embark on a generous immigration policy that aimed to expand the American population appropriately, it could end up with a labor force that produces national growth rates comparable to those enjoyed by a slowing China. If it were assumed, for example, that the Chinese economy would slow to about 4 percent growth some twenty years hence, an appropriately sized U.S. labor force growing at about 2 percent annually, with productivity expanding in tandem at some 1.5 percent annually, would enable the U.S. economy to grow at quantitative levels comparable to China—while still enjoying all the advantages of greater capital intensity and a still-superior technological base. Aiming for such performance, however, would require the United States to exploit its national attractiveness and its traditional hospitality toward immigration with a vengeance, admitting some five times more immigrants than the million or so individuals granted legal immigration each year.¹⁹⁸ Only the United States, of all the major powers, has both the carrying capacity and the ethos to sustain such high levels of immigration. Washington should embrace this sort of bold immigration precisely because it offers the nation a rapid way of boosting secular economic growth and, by implication, American power for the long term.

The third challenge policymakers must address involves the quality of the future American labor force, which is critical if the country is to maintain its international dominance.

There is a substantial body of knowledge demonstrating that, as important as physical capital is for national growth, the quality and quantity of human capital may be even more critical.¹⁹⁹ The importance of education is particularly significant in this regard because it bears directly on a country's capacity for knowledge production. Since knowledge is the new axial principle on which the postindustrial age is built, the resources invested in human beings for the creation, codification, and assimilation of knowledge have become critical not only for the maintenance of a given society but also for the production of national power vis-à-vis other states.²⁰⁰

Unfortunately, the United States does not do as well as it should where progress in primary and secondary education is concerned. Compared to statistics from other Organization for Economic Cooperation and Development (OECD) countries, the performance of American students varies from mediocre to poor in virtually every international assessment of academic proficiency.²⁰¹ The substantial inequities in achievement across the country and the huge performance gap between the most and least proficient students in the United States only make things worse. Conspicuous weaknesses in students' reading, scientific, and mathematical literacy, not to mention dangerous lacunae in problem-solving skills, all imply that future generations of Americans will be unable to contribute to producing the levels of national power necessary to assure continued international hegemony.²⁰²

In such circumstances, the United States will have to rely even more heavily on immigration for the supply of skilled labor "to create and apply the 'actionable knowledge' that produces high-technology and higher-value-added products" essential for economic dominance.²⁰³ A critical stimulus for attracting individuals of this kind is America's higher education system, which still draws larger numbers of foreign students than that of any other country. The entry rates of American residents into university education are also relatively high—about 75 percent. In fact, these rates are much higher than in China, where the enrollment level is less than 20 percent. The attainment rates for tertiary education in the United States, which at over 40 percent are also higher than the OECD average and much higher than the rates in China, which are less than 10 percent, will be superseded, however, by many U.S. OECD peers in coming years if current trends continue.²⁰⁴

These largely positive data nevertheless obscure the more worrisome reality that the number of degrees awarded in the natural sciences and engineering to undergraduates in the United States is diminishing. Dominance in these disciplines is essential for the production of national power, which today is overly knowledge and technology intensive. Given this fact, the low U.S. share of global natural sciences and engineering degrees in comparison to China's in recent years is unsettling; since 2008, the United States has awarded fewer than 7 percent of all degrees in natural sciences and engineering in comparison to China's 26 percent, with well above half of all such degrees now being earned in Asia. The record in regard to advanced degrees in these subjects is just as troubling. Since 2008, China has

awarded more doctorates in these fields than the United States, which also happens to confer a large proportion of its degrees to foreign citizens. As one authoritative analysis has detailed, “temporary visa holders, not counting foreign students with permanent visas, have earned 39 percent to 48 percent of U.S. natural sciences and engineering doctorates since 2000. More than half of these students are from China, India, and South Korea.”²⁰⁵ Such trends testify to the need for a renewed emphasis on rebuilding national programs in science and technology if the long-term prospects for strengthening American power are to be improved.

One major weakness in U.S. higher education is declining public expenditure. Increasing budget stringency at both the national and state levels has resulted in significant cuts in investment in higher education, especially at America’s major research universities.²⁰⁶ This trend is both dangerous and shortsighted. Unless reversed, it will result in the weakening of the American comparative advantage in human capital growth, which historically has accounted disproportionately for the increases achieved in aggregate output. Investing in higher education therefore has an important bearing on whether the United States will be able to maintain its technological edge over time and, by implication, its political hegemony relative to other rising powers.

Technological Progress

Preserving U.S. technological leadership requires sustaining, if not improving, what is already the best national innovation system in the world. The majority of American innovations, however, are incremental ones. These innovations, which derive from the marginal improvements in goods, organization, and markets that are constantly occurring in response to the pressures of a competitive marketplace, undoubtedly contribute to most of the economic growth that occurs routinely. As long as this rate of change is sustained, the United States will maintain its current lead over other states. But incremental innovations occur regularly throughout the international economy, creating opportunities for other nations to progressively catch up with the United States. What will therefore decisively advantage Washington in the great-power game and allow it to enjoy higher secular growth rates relative to others are not incremental innovations but rather radical innovations. These foment the creation of new sunrise sectors that yield the disproportionate returns the United States needs to preserve its primacy.²⁰⁷

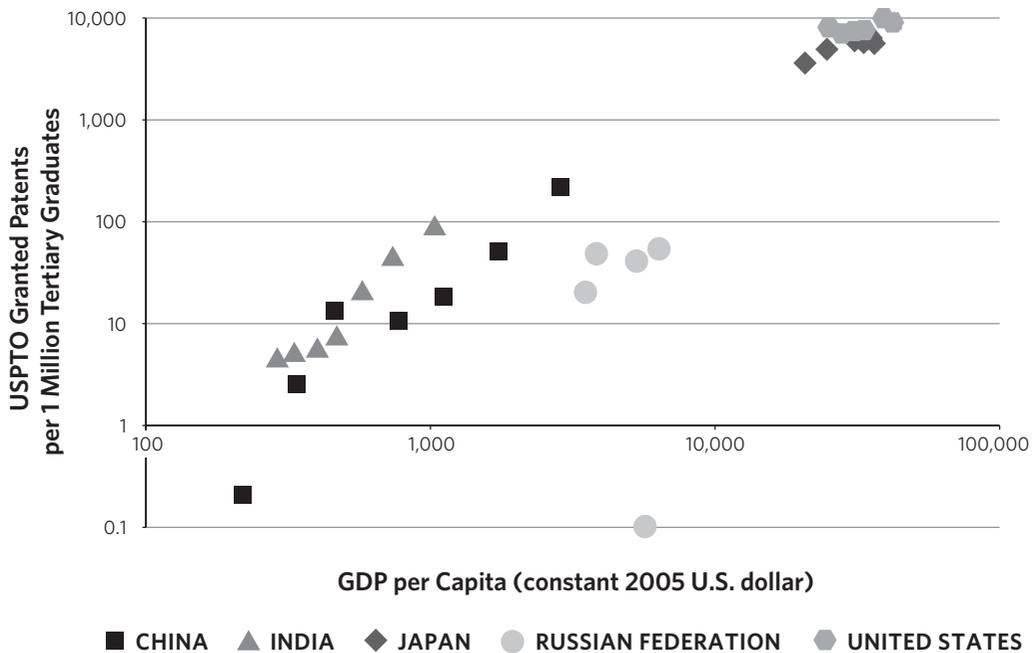
Such innovations are fundamentally science driven and in the United States are incubated as much in the private sector as through government-funded research and development. The changing trends, however, deserve careful notice. Increasingly, it appears that autonomous private-sector investments account for much smaller shares of critical innovations in contrast to collaborations involving spin-offs from universities and federal laboratories. Furthermore, the number of innovations that derive from federal funding has increased dramatically.

These realities suggest that at least sustaining, if not increasing, the level of public funding for science and technology and improving the policy framework to assist the transformation of advanced research into breakthrough products that can rapidly reach the market will be absolutely necessary—even in an era dominated otherwise by budget constraints.²⁰⁸

The United States as a country retains a solid lead in producing new technology, as evidenced by its innovation rankings internationally. It ranks fifth among all nations surveyed in the 2013 Global Innovation Index, a collaborative project of the World Intellectual Property Organization, Cornell University, and INSEAD, a global graduate business school. China, conversely, ranks thirty-fifth.²⁰⁹ When knowledge production, as measured by the number of patents granted per university graduate relative to a country’s per capita GDP, is examined, as Eberstadt has done for the years 1980–2010, the superiority of the United States stands out in sharp relief (see figure 1).

FIGURE 1. KNOWLEDGE PRODUCTION

China, India, Russia, 1980–2010: GDP per Capita vs. USPTO Patents per 1 Million Tertiary Graduates



Sources: Patent data: “Number of Patents Granted as Distributed by Year of Patent Grant, 1963–2012,” U.S. Patent and Trademark Office, Patent Technology Monitoring Team, December 2012; Education: International Institute for Applied Systems Analysis, February 8, 2012, www.nationsencyclopedia.com/WorldStats/Edu-iiasa-years-schooling-15-44-female.html; GDP per capita: World Bank, World DataBank, World Development Indicators: <http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=world-development-indicators>. The author is grateful to Nicholas Eberstadt for his permission to reproduce this data.

A broad examination of the U.S. national innovation system suggests that the country is especially good at basic research and inventions. It does equally well in producing and distributing new technologies efficiently, thanks to its highly efficient private sector. What it does less effectively is bridge these two bookends by enabling effective early-state technology development when novel, innovative ideas must overcome extraordinarily high business and technical risks before they can be transformed into end products that can be manufactured en masse and distributed through conventional means in the national and global marketplace. Improving the nation's capacity to sustain early-state technology development for radical innovations by maintaining fluid capital markets, deepening innovator access to private equity pools, and appropriately expanding the role of the federal government all constitute critical steps the United States could take to improve the contribution technology makes to its GNP growth and, in the process, sustain the U.S. lead over its geopolitical competitors.²¹⁰

Although these competitors, especially China, are increasingly demonstrating the capacity to innovate in ways that bequeath either technological or economic advantages, the United States still dominates where the development of disruptive technologies is concerned. A recent study by the McKinsey Global Institute, for example, identified the twelve most promising disruptive innovations on the horizon: the mobile Internet, automation of knowledge work, the Internet of things, cloud technology, advanced robotics, autonomous and near-autonomous vehicles, next-generation genomics, energy storage, three-dimensional printing, advanced materials, advanced oil and gas exploration and recovery, and renewable energy.²¹¹ Even a cursory review of these achievements confirms that every one of them originated in the United States and that almost all (with the possible exception of renewable energy and cloud technology) are likely to produce greater economic benefits for developed economies such as America's than for developing ones such as China's. Of the five potentially disruptive technologies that did not make the list—next-generation nuclear fission, nuclear fusion power, carbon sequestration, advanced water purification, and quantum computing—all except possibly water purification promise disproportionately greater advantages to the United States than to its competitors.

These realities, however, should not breed complacency. The historical evidence also suggests that the leading sectors created as a result of such breakthroughs are never permanent or timeless. Diffusion, imitation, and competitive innovations occurring elsewhere will combine with the ubiquitous phenomenon of diminishing returns to spur the decline of existing economic leaders and the rise of new commercial rivals. Because these dynamics are already visible globally—and in the case of Beijing are accelerated by both the Gerschenkronian advantages of backwardness and China's desire to reach the technological summit through licit and illicit means—the United States has no choice but to consciously nurture the fecundity of its national innovation system if it seeks to maintain its position

as the global hegemon. The U.S. Department of Commerce report *The Competitiveness and Innovative Capacity of the United States* summed it up well:

The challenges are great, but the United States has a strong base on which to build and to rise to these challenges. There are clear actions that can help this nation regain its innovative and competitive footing. To succeed, we must have the will to implement and to sustain the policies that will prepare the United States to continue to be an economic leader in the 21st century.²¹²

Total Factor Productivity

Adopting policies that encourage the growth of national output at the highest possible rate over time, increasing the quantity of capital and labor, and accelerating technological progress will go a long way toward reinvigorating the material foundations of American national power. But other intervening variables are also relevant, the most important of which is improving the efficiency with which the “inputs” to the production process—the total factor productivity (TFP) in economic jargon—are combined.

When viewed in historical perspective, TFP growth in the United States has generally hovered between 1 and 3 percent, with sharp spikes in performance during the twenty years after the First World War and again in the mid-1990s. After the First World War, innovations such as electricity, the internal combustion engine, chemicals, and telecommunications drove TFP growth to historic highs of some 3 percent annually. TFP growth tapered thereafter for several decades but enjoyed a remarkable resurgence beginning in the mid-1990s, reaching some 2 percent per year.²¹³ The sources of this recent spasm in productivity growth are still contested, with some studies attributing it to the information technology investments of the previous decade and others suggesting that changes in labor market performance might be responsible.²¹⁴ Even those who favor the labor-performance argument, however, concede that information technology provided the means for improving labor productivity in an environment characterized by deregulation, increased competitiveness, and flexible labor markets.

In any event, this spike in U.S. productivity growth has slowed since about 2005. Most emerging markets, by contrast, appear to have performed impressively on average during this time. One meta-analysis surveying 151 studies that examined TFP growth in China from 1978 to 2007, for example, concluded that the mean rate of TFP growth during this period was 3.62 percent, considerably higher than the average TFP growth rate in the United States at the time.²¹⁵ Although these calculations depend greatly on diverse assumptions and different models—and, hence, any numerical estimate of Chinese TFP growth

must be treated with caution—the general conclusion that China has experienced faster TFP growth than the United States in recent times is not particularly controversial.

This fact, by itself, should not be dispiriting—or surprising—for several reasons. Being a developing country, where the ratio of the other factors of production (especially capital) to labor is still low compared to the levels in the West, means that these other factors yield greater marginal returns in China and, as a result, increase its labor productivity more. In contrast, the United States is already a highly efficient economy—in fact, one whose efficiency defines the global technological frontier. Consequently, the contributions made by each increment of various factors of production yield proportionately fewer returns. This is the reason why the European and Japanese economies experienced higher TFP growth in comparison to the United States in the immediate postwar period. Now that all three economies are mature, U.S., Japanese, and European TFP growth levels are broadly comparable.²¹⁶

Since China is so far from the global technological frontier defined by the United States, its TFP growth will likely remain nominally higher for some time to come. But even this apparently positive reality is less reassuring to Beijing than it first appears, highlighting important advantages that the United States still enjoys with respect to the production of national power. Although the data suggest that Chinese TFP growth has been higher than that of the United States during the reform period (at least until 2007), the evidence also indicates that, at least since 1995, the high levels of overall Chinese economic growth have been driven less by efficiency increases in how the inputs have been utilized than by increases in the levels of inputs in the production process.²¹⁷ In other words, the fact that TFP growth, even at the relatively high average level of 3.62 percent, has contributed only one-third of the average Chinese growth rates in recent years implies that China's economic distension has been driven mainly by input expansion rather than increased efficiency. This kind of “extensive growth” has been fostered by the incomplete liberalization of the Chinese economy—the freeing of commodity prices but not factor prices, among other things—and the continuing control of the Chinese Communist Party over all important economic decisions, especially in the provinces. These elements have resulted in extreme levels of inefficiency that are masked by the country's hitherto high rates of economic growth.²¹⁸

The Chinese record in respect to TFP growth yields three important implications for the United States where reforming its own economy is concerned. First, Beijing will find it increasingly difficult to sustain high rates of growth in comparison to the United States over the secular period if its TFP improvements continue to derive mainly from input expansion rather than efficiency increases. A continuation of this process will only produce further misallocations of all factors of production and even greater environmental despoliation than is occurring currently, weakening China's capacity to compete with the United States over the long term.²¹⁹

Second, the historical record demonstrates that incubating disruptive innovations remains the most vital instrument for improving TFP growth in the United States and widening its advantages vis-à-vis China. Lifting productivity growth without lapsing into extensive growth strategies of the kind pursued by Beijing remains the best means of increasing American standards of living in the long run. This will require Washington to continually strengthen its national markets so that any sources of distortion that contribute to the mispricing of scarce inputs are confronted and eliminated. But increasing investments in both education and infrastructure probably comes a close second in importance. All these elements together will increase efficiency—and the more efficient the U.S. economic system is, the greater the probability that it will breed disruptive innovations that increase factor productivity. The McKinsey Global Institute has in fact argued that the United States already has five “game-changing” opportunities within reach: shale gas and oil production; knowledge-intensive manufactured goods; big data analytics; increased investment in infrastructure; and increased investments in primary and secondary as well as postsecondary education.²²⁰ Given the unique American comparative advantages in many of these areas, improving the institutional, regulatory, and financial environments to permit their advance is highly desirable.

Third, strengthening the major U.S. research universities and federal laboratories, especially those working at the cutting edge of basic and applied research in critical technologies, is essential for generating the disruptive innovations that sustain TFP growth. The institutions involved in advanced defense research and development require especially sustained support not only because they have been responsible for a long line of significant innovations—including civilian spin-offs—in the postwar period but also because the research and development budgets of the major private U.S. defense firms have been steadily declining.²²¹ Even more dangerously, the spending on research and development by the U.S. Department of Defense has itself been shrinking as a percentage of gross GDP: from about 1 percent of GDP spent since the 1960s, that figure has dropped to about 0.25 percent of GDP today.²²² Although the U.S. military presently continues to benefit disproportionately from the technologies developed in the civilian economy, the larger contraction in federal research and development spending bodes ill for America’s long-term prospects.

This problem is only magnified by the fact that U.S. national spending on research and development—although still the world’s largest—has slowed markedly since 2008, permitting spending in the critical “Asian-10” countries (China, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan, and Thailand) to catch up with Washington’s spending for the first time in 2009. In contrast to the United States, where national expenditures have held fairly steady at 2.5–2.8 percent of GDP between 1996 and 2012, China’s comparable ratios have almost tripled during this same period—increasing from 0.6 percent of GDP in 1996 to 1.6 percent in 2012—making it today

the world's second-largest investor in research and development. If the United States is to maintain the capacity to generate those Schumpeterian innovations that fuel further improvements in TFP to the benefit of its national economy as a whole, there is no alternative but to consistently invest 3 percent of its GDP in research and development—a figure the European Union has already designated as its long-term target given that international expenditures on knowledge production over the past decade have grown faster than the expansion of global GDP itself.²²³

Paying conscious attention to improving TFP in the United States is essential because several recent studies have suggested that productivity growth will likely continue to slow in the coming decades due to constrained population growth, reduced gains from technological improvements, diminishing research and development spending, weaknesses in education, increases in inequality, pressures of globalization, the problems associated with the environment, and the overhang of consumer and government debt.²²⁴ If unaddressed, one assessment noted that these factors cumulatively could reduce the “long-run growth potential of the US economy... to around 1.75 percent,” which “if realized... would be the lowest of the post-World War II era.” Since “as recently as the late 1990s, potential growth in the United States was estimated to be around 3.5 percent,”²²⁵ such a contraction in long-term growth would have dangerous power-political implications for the emerging American competition with China. Obviously, these studies do not examine U.S. and Chinese prospects synoptically, nor do they incorporate the unanticipated improvements in TFP that would be brought about by any future disruptive innovations. But at the very least they do highlight the problem areas that must be addressed through state action as well as the imperative for continued Schumpeterian revolutions if the United States is to preserve its extant hegemony. The silver lining, therefore, is that they serve, in James Pethokoukis's apt conclusion, “as a warning of a less prosperous future that may be—but doesn't have to be.”²²⁶

Political Coherence

The final in the long list of tasks facing the United States in regard to revitalizing its national economy is refocusing its political system toward sustaining the high rates of secular growth necessary for the successful balancing of China. The American political system, admittedly, was designed in the first instance for the protection of individual liberties rather than the maximization of international power. America's system of limited and divided government, its emphasis on popular sovereignty, and its federal structure were all intended by the Founders to prevent the rise of domestic tyrannies. The multiplicity and competition of interests protected by the constitution were meant to prevent any unhealthy accumulation of power in the hands of the few, while the slow and deliberative decision-making encouraged by its structures of government was intended to prevent the country from becoming hostage to the whims and pursuits of demagogues. Where mobilizing the

state in pursuit of national ambitions is concerned, liberal democracy as practiced in the United States therefore has some distinct disadvantages in comparison to authoritarian regimes, such as China.²²⁷

Yet the history of the United States as an independent nation has demonstrated that the country is more than capable of pursuing its national interests, including competing on the international stage, equally or more effectively than many authoritarian regimes. The Cold War, for instance, represented an inspiring example of how the United States was able to actualize its internal resources without sacrificing its liberties at home. It was able to do so because both political parties at the helm during various moments in this struggle were unified in their conviction about the necessity of neutralizing the Soviet threat. As a result, a national consensus emerged on how Washington should manage the economy and the domestic polity, allocate resources for defense and social programs, and conduct itself in the world vis-à-vis both its allies and its adversaries. To be sure, there were perpetual debates on all these issues stemming from differences in party affiliations, class, and ideological convictions. But a broad center held, permitting the nation to pursue a relatively coherent policy toward its competitor, the Soviet Union, for close to half a century while preserving a vibrant market democracy that ultimately defeated its authoritarian rival.²²⁸

The strength of this center has decayed in the post-Cold War period. At the present moment, it is hard to discern a common American perspective on what the rise of China means for U.S. international standing or a consensus on how America's domestic challenges ought to be addressed. The debate on internal problems has in fact become increasingly polarized in recent years, in part because of the deepening political divide within the country itself, with grave consequences for the ability of the United States to maximize its national power and sustain its global primacy.²²⁹

There is no easy or comprehensive solution to this problem, but repairing America's public finances is perhaps a good place to start. In this arena, the solutions are at least clear in principle and have already been elaborated, for instance, by the National Commission on Fiscal Responsibility and Reform in its excellent report, *The Moment of Truth*, which President Obama somewhat mystifyingly disregarded.²³⁰ Moreover, the two parties can forge a consensus on issues pertaining to government revenues and expenditures if each side controls the extremists in its midst. And, finally, the implications of success here are far-reaching not only for the restoration of self-sustaining long-term growth but also for the country's standing as a world power. As former Australian foreign minister Robert Carr put it, "The United States is one budget deal away from restoring its global preeminence."²³¹

Therefore, if the United States can overcome, or even attenuate, its current political incoherence in regard to three issues—the importance of preserving American hegemony globally, responding to the challenges posed by a rising China, and doing what is necessary to revitalize the U.S. economy for superior long-term growth—the country has all the other

institutional prerequisites for success that most other countries, including China, still lack. For example, the United States enjoys a robust tradition of protecting property rights, an unchallenged commitment to the rule of law, a strong and functioning competitive market system, transparency in administration and rule enforcement, a conspicuous absence of corruption, high levels of social trust, a legal-rational institutional culture, and, finally, an ethos that, paraphrasing Hannah Arendt, deeply embodies the conscious human aspirations to enlarge material power.²³² With such strengths, the United States stands a much better chance of preserving its hegemony, even in the face of growing Chinese power, than is often realized—but only if it can summon the will to rectify the challenging, though in the scheme of things still modest, impediments that currently stand in its way.

REMAINING THE “INDISPENSABLE NATION”

Thanks to the contributions of the United States in the postwar period, the emerging Asian century undoubtedly represents a great opportunity for sustaining both American and global prosperity. However, U.S. allies and competitors are now inextricably entwined in a dense web of transactions that increase absolute gains but do so unevenly. As a result, the United States and its partners face many challenges in maintaining a stable geopolitical order.

Washington, in particular, is confronted by the specific, daunting challenge of ensuring that the global order it has fostered continues to thrive—meaning that it continues to produce the absolute gains that increase the welfare of all the participants—without nurturing the rise of new competitors that can use their growing economic power to levy serious military threats on their neighbors and, most importantly, on the United States itself. This problem, manifested most clearly by China today, cannot be defeated presently through a strategy of containment—any approach that involves confining China and constraining its growth by limiting trade and other forms of economic intercourse with Beijing. Such a strategy would not command support from U.S. allies and American citizens given that it would reduce the wealth and welfare gains accruing to all entities in the global system, including the United States.

The persistence of this dilemma necessitates recourse to an alternative strategy, that of balancing China without containing it. This approach would focus fundamentally on limiting a growing China’s ability to threaten its neighbors, undermine the U.S. ability to bring military power to bear along the Asian rimlands, and endanger the wider interests of the United States and other significant countries in the Indo-Pacific region. At the same time,

it would strengthen the economic and trading links that have brought prosperity to all. An investment in balancing that attains these goals would involve a deliberate American strategy to accomplish four aims:

- assist the rise of countervailing powers along China's periphery
- enlarge the global trading system, at the very least selectively, to increase the gains from trade accruing to the United States and its allies by creating new segmented trading arrangements that either consciously exclude China or include it only upon a genuine and comprehensive opening of its markets
- expand U.S. military capabilities to defeat all Chinese attempts at stymieing Washington's ability to project power into Asia
- reinvigorate the U.S. economy so that it can unleash the new Schumpeterian innovations that will ultimately strengthen U.S. dominance in the global economy

The success of this balancing strategy will derive fundamentally from Washington's ability to pursue these four components consistently and without privileging any one at the expense of the others. Any lopsided implementation of these four objectives—in a situation where American and Asian economic and political ties with Beijing are certain to grow deeper—would undermine the strategy dangerously. Just as surely, this approach would veer problematically into containment if it were not executed against the backdrop of growing Chinese links with its Asian neighbors and with the United States.

The symmetric and consistent emphasis on all four components of the balancing strategy is thus essential for its success. Such action will allow Washington to preserve a global balance of power that advantages the United States—or, as former U.S. secretary of state Condoleezza Rice phrased it more poetically, “a balance of power that favors freedom.”²³³

The necessity for balancing Beijing is not driven by the inevitability of China's rise as a global hegemon but by the mere possibility. Because China's continued ascendancy is conceivable despite all its internal challenges, it behooves the United States, “seeing inconveniences from afar,”²³⁴ in the words of Niccolò Machiavelli, to prudently mitigate the risks inherent in that prospect. The strategy of balancing offers a solution that walks the fine line between simply letting political evolution take its course and an overly abrasive response that alienates U.S. partners, sacrifices the gains from trade, and ultimately diminishes America's own power. In fact, the proper implementation of the balancing strategy would end up deepening Asian and global economic integration to the benefit of China, the United States, and all their trading partners—while concomitantly protecting American national security interests and contributing to the invigoration of extant U.S. hegemony.

Washington can pursue such a strategy with utmost confidence. As former U.S. under secretary of defense for policy Eric S. Edelman recently concluded, not only has “the history of straight-line projections of economic growth and the rise of challengers to the dominance of the United States . . . not been kind to those who have previously predicted U.S. decline” but, even more importantly, the “underappreciated strengths” of the United States, relative to all other competitors, including China, actually provide a sturdy foundation “to bolster and extend U.S. predominance.”²³⁵ Consequently, the prospects for avoiding a brave new world centered on foreign hegemony, bipolarity, multipolarity, or nonpolarity are in fact brighter than is usually believed but will require, as Edelman concludes, “resolve to maintain the United States’ role as the ‘indispensable nation’ and a strategy for doing so.”

While it may appear as if the Obama administration is pursuing at least some elements of a comprehensive strategy for balancing China, these initiatives, even in their totality, have thus far fallen short of constituting an integrated design. If his preelection speeches provide any indication, former president George W. Bush had intended to implement such a strategy, but the tragedy of 9/11 and the problematic wars that followed unfortunately derailed this pursuit. Obama came into office intent on remedying the weakening foundations of American power, but between managing the global economic crisis and dealing with the virulent political opposition to his signature healthcare reform, he too appears to have lost traction on this score.

As Jeffrey Bader has described in his authoritative history of Obama’s China policy, the administration sensibly recognized that “containment in the style of U.S. policy toward the Soviet Union after the Second World War was not a plausible option” for managing China’s rise. But, just as significantly, Bader emphasized that “the president and his spokespersons were not focused on the balance of power or Realpolitik.”²³⁶ Instead, according to Bader, the administration has pursued a policy centered on “three pillars: (1) a welcoming approach to China’s emergence, influence, and legitimate expanded role; (2) a resolve to see that its rise is consistent with international norms and law; and (3) an endeavor to shape the Asia-Pacific environment to ensure that China’s rise is stabilizing rather than disruptive.”²³⁷

This vision is indeed laudable. But in the absence of an integrated strategy aimed at advancing the fundamental objective of preserving American hegemony by nurturing a balance of power that favors the United States, any expectation that China will be socialized into accepting “international norms” will be disappointed for the simple reason that, as Henry Kissinger noted, such presumptions are “grating to a country that regards itself as adjusting to membership in an international system designed in its absence on the basis of programs it did not participate in developing.”²³⁸

The conclusion that the Obama administration “never formulated a coherent, consistent, proactive China strategy,”²³⁹ as Amitai Etzioni recently charged, is corroborated, first and

foremost, by its continuing failure to articulate a national strategy, akin to that formulated in NSC-68, for coping with Beijing's rise—despite the utterly realistic possibility that China will turn into a significant rival to the United States in the global arena over the next two decades. This lacuna, however, is reflected less by the absence of a document—its troublesome bureaucratic consequences notwithstanding—and more by the administration's failure to conceive of China's continuing ascendancy as a cardinal problem that might have to be confronted sooner or later by the United States through some kind of competitive strategies.²⁴⁰

Furthermore, successive U.S. administrations, including Obama's, have failed to integrate their international economic policies with their geopolitical initiatives—even though the rise of China as a competitor is deeply rooted in a U.S.-sponsored economic regime and therefore requires a strategic response that does justice to both the commercial and the coercive components associated with China's evolution as a great power. To this day, the international trade initiatives pursued by the United States have only a passing connection to the geostrategic enterprises pursued by Washington in Asia. The bureaucracies dealing with these disparate matters are like the proverbial ships passing in the night. Their respective goals are never consciously harmonized, so that if the activities of the U.S. Departments of State, Defense, Commerce, and the Office of the United States Trade Representative ever reinforce one another, it is more by accident than by design.

None of this should be particularly surprising given that the U.S. government is still not organizationally structured—either in the State Department or in the National Security Staff in the White House—to deal with China in the larger context of Asia. Although several attempts to remedy this weakness were made during the Bush administration, none of them has proved particularly lasting.

Finally, the greatest danger to the success and perhaps even the possibility of sound strategy remains fuzzy thinking, specifically the notion that somehow the present international order can be maintained without preserving a propitious balance of power or, put another way, an imbalance of power that benefits the United States. Many American scholars and policymakers today tend to believe that the current international system is far more “complex” than the ones preceding it and, as such, does not justify the attention previously bestowed on preserving a felicitous balance of power. The previous secretary of state, Hillary Clinton, for example, gave voice to these sentiments when she declared that

The United States and China are trying to do something that is historically unprecedented, to write a new answer to the age-old question of what happens when an established power and a rising power meet. And for the United States, we see this as an opportunity, not a threat. We look at the future with great optimism. And we believe that neither of us can afford to keep looking at the world through old lenses, whether it's the legacy of

imperialism, the Cold War, or balance-of-power politics. Zero sum thinking will lead to negative sum results. And so instead, what we are trying to do is to build a resilient relationship that allows both of our nations to thrive without unhealthy competition, rivalry, or conflict while meeting our national, regional, and global responsibilities.²⁴¹

In a similar vein, Obama himself declared that “the United States *welcomes* China’s rise as a strong, prosperous and successful member of the community of nations” (italics added).²⁴² Making an effort to reciprocate such sentiments, China’s President Xi Jinping has emphasized the importance of creating a “new type of great-power relationship.” The contents of this relationship, although undefined, presumably involve, in the words of China’s former vice foreign minister (and current ambassador to the United States) Cui Tiankai and his coauthor Pang Hangzhao, institutionalizing a “bilateral relationship featuring cooperation not confrontation, win-win results not ‘zero-sum’ game, and healthy competition not malicious rivalry, namely a new-type relationship between major countries.”²⁴³

While such ambitions are noble and should be entertained, the fine print embedded in this Chinese vision appears to be deeply problematic. It demands U.S. acquiescence to China’s “core interests” against the backdrop of the accusation that “China has never done anything to undermine the U.S. core interests and major concerns” while, in contrast, “what the United States has done in matters concerning China’s core and important interests and major concerns is unsatisfactory.”²⁴⁴ Consistent with this claim, Cui and Pang emphasize the need for the United States to terminate arms sales to Taiwan, cease expressing its concerns about repression in Tibet and Xinjiang, and refrain from involving itself in China’s maritime disputes with its various neighbors. As Michael Chase, in his penetrating commentary on the Chinese desire for a “new type of great-power relationship,” summarized it,

The most problematic aspect of Beijing’s vision of a “new type” of U.S.-China relationship is that it appears to require Washington to accommodate China’s interests and to do so largely on Beijing’s terms—apparently without reciprocal adjustments. Although some of the language that suggests it is the United States alone that needs to change its approach is perhaps intended, at least partly, for domestic consumption, it also seems to reflect China’s estimation of its growing leverage in the relationship. Such an approach will make it much more difficult for Washington to embrace the concept in spite of many shared interests. Seeking a stable and healthy relationship and trying to enhance mutual trust are laudable goals, but suggesting this must take place largely on China’s terms risks making it much harder to realize the “new type of great-power relationship” Beijing has proposed.²⁴⁵

That China would have the audacity to propose such terms of partnership should not be surprising because it is the rising entity—one that seeks to secure the declining state's assent to its claims regarding both status and interests. For the United States to forget that this is all about power, however, is unforgivable. If nothing else, Beijing's conception of the "new type of great-power relationship" should remind all administrations in Washington about the harsh reality that nothing has changed in regard to the deep ordering principles of international politics.

Consequently, Washington can afford to neglect pursuing the "balance of power that favors freedom" only if it truly believes that there are alternative international orders that would protect U.S. interests and those of its allies just as effectively as the American regime that has been in place since the end of the Second World War. If U.S. policymakers do not hold such a conviction, they will have no alternative but to implement some kind of balancing strategy vis-à-vis China, no matter how much they disavow it publicly for the sake of international comity.

Paradoxically, any failure of balancing that results in the demise of U.S. hegemony could threaten China's own ascendancy because the absence of American leadership would result in an unraveling of the global economic regime itself. This outcome would inevitably obtain unless, of course, China were to step up and accept disproportionate responsibility for preserving the system—but in that case, the international regime would slowly evolve in ways that were intended to protect Beijing's, not Washington's, interests. Since such an eventuality cannot be to American advantage, the United States must resolutely pursue balancing with the aim of renewing its own power.

If this course of action proves successful, the United States will have immunized itself against the growing capabilities of yet another major rival for yet another long cycle in world politics. But if it fails, Washington will be faced with the hardest of strategic choices: it will either have to progressively acquiesce to growing Chinese power (which could ultimately eventuate in hegemony) or choose to contest China's rise by shifting to an even more difficult strategy of containment. Because neither Chinese primacy nor a return to genuine bipolarity serves American aims better than continued U.S. hegemony, the United States should seek at all costs to avoid facing this choice. To do so, however, it will need great resolve and sound policies that in current circumstances produce an interim strategy. No matter what it is formally named, this strategy must consist fundamentally of balancing without containment.

NOTES

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