**Rethinking National Security**  
in an Era of Declining Budgets Seminar Series

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Dr. David Lai  
Research Professor of Asian Security Studies, Strategic Studies Institute, US Army War College  
*The United States and China in Power Transition*

**Notes:**  
1. Below are informal notes taken by a JHU/APL staff member at the Seminar.

**Introduction**  
Dr. Lai began by discussing the Obama Administration’s concept of rebalancing US foreign policy towards Asia in general and China in particular. He noted that his first reaction was that the US lacked the funding to adequately make such a shift. His second thought was that the US should get China to pay for this shift. Assuring the audience that this was not a joke, Dr. Lai noted that China as the largest foreign holder of US Treasury bonds could have been financing the Iraq and Afghan wars to the tune of about $150 billion a year. Dr. Lai expects that China will still continue to buy American bonds at about the same rate, which would provide funding needed for the pivot toward Asia.

**Nature of the US/China Relationship**  
To understand this relationship, there is a need to look at two questions:  
- What are the driving forces behind the relationship?  
- What does the future hold?

If policy makers have a good grasp of these two questions then they would not have to act like firefighters always running off to put out another small fire  
- As for the future, we can assume that we know how the US will behave (or can we?)  
- The later part of this presentation will explore the type of strategic thinking that the Chinese can be expected to use in the future

President Obama two months ago released a *Strategic Guidance* document that recognized that the US was at a point of major transitioning  
- Dr. Lai explores just this point in his book *The United States and China in Power Transition*  
  - Maybe the President read it; some of the concepts show up in the *Strategic Guidance*  
- The concept of transition was central to the Guidance because:  
  - 10 years of war are now ending  
  - The economic downturn, while not at an end, is at least showing better indicators  
  - Americans, having shed blood and treasure, want to rebalance – a necessity  
- The *Strategic Guidance* rebalanced US foreign policy toward the Pacific making China the focus  
  - Big questions: Why and with what resources?
Answer to Why: Big forces below the surface indicate an ongoing transfer of power from the US to China

The overall international system is depicted in the chart to the right (taken from Slide 3)

- The dominant nation creates an international order to meet its needs
- Secondary powers support the system for their own purposes
- Most states fall into the categories of Middle or Small Powers
  - They are usually content as long as those at the top maintain the system
- If Great Powers stay together the system works well
  - There will be conflicts below but won’t be disruptive to the system
- Trouble starts in the shaded portion of Great Powers segment
  - Some want to move up to the top of the pyramid

States that are experiencing significant economic development may want to move from Great Power status to Dominant position in the system

- Will want to alter the international system because they believe it is stacked against them
- Result: international conflict

Secondary states like Iran or North Korea cannot really upset the international system

- They can make life miserable for others in the system but not destroy it
- However, more important countries could bring about change to the system (Slide 4)
How Power Transitions Happen (slide above)

- Mature powers grow about 2-3% a year – very smooth rise
- Challengers suddenly grow at a much faster rate
- Eventually the challenger’s growth rate line crosses that of the mature powers
  - Result: a tendency to initiate a conflict – but only a possibility, not a certainty
- If the challenger reaches the pinnacle of the pyramid, then there is a new world order
  - Challenger then sets up system to meet its requirements

Looking at History since the Fall of Napoleon (1816-1945)

- After Napoleon, the UK held about 35% of world power and was able to keep the peace for about 50 years, then its power declined
- During this Pax Britannica:
  - Germany managed to unify itself and began to grow in power
  - The US survived its Civil War and started growing
- By 1900 the US and Germany matched and overtook the UK creating a power imbalance
  - Germany caused the conflict of World War I
  - The US contributed significantly to WWI but then retreated into isolationism
- Result: World War II which caused the US to return to lead and set up a new system
- US power declined over time as that of the USSR increased until the Soviets were generally considered ahead in the 1970s
  - But the USSR was not overwhelmingly in the lead resulting in détente efforts
- Détente of sorts lasted until the USSR fell apart; Russia dropped to a secondary power

Big Questions: Is there another such transition in the making? If so, who will be in the contenders?

- Possible challengers include the Great Powers of the past plus India, China, and Brazil
• Must look to see which states have both the capability and the intention to challenge
  o UK no longer has the ambition to lead the world and remains loyal to the US
  o France will always make a little trouble for the US but remains a friend
  o Germany and Japan still have some people who harbor ambitions but the necessary capabilities are really not there
    ▪ They have no intention of challenging US leadership
  o Russia as the more powerful USSR tried but failed; now it still can’t be ignored but it no longer offers a viable alternative system
  o India, as largest democracy, can work easily with the US system and has enormous problems of its own especially with Pakistan that may be insurmountable
  o Brazil happy to remain in the current system as the major stakeholder in South America

• After eliminating all the other possible Great Powers, China remains
  o Has been moving toward leadership for 30 years since it began economic development
  o Looking at a number of factors already puts China in or near second place
    ▪ Already No. 2 in energy consumption (a good indicator of economic development) and foreign trade
    ▪ Beating Japan in GDP
    ▪ Military spending is still much smaller than that of the US but it is at No. 2 and is expected to grow significantly
    ▪ In space the US and Russia with so many assets are No. 1 and 2 respectively but China’s program is growing and can expect to surpass that of Russia eventually

China has been under consideration as a threat by US policy makers for 20 years
• Debates began and leaders on both sides became aware of the power transition going on
  o These debates have had an impact on US foreign policy for decades
  o Chinese leaders see power transition question as complicating US/China relations
• US analysts point out the power transition process
  o China is upset about being considered a threat but give unconvincing arguments about why China is peaceful
  o Call on Confucius principles and even almost claim to be different animals
• 10 years ago the Central Party School offered a new theory, the Peaceful Rise, which later became less threatening as Peaceful Development
  o Accepted the power transition concept but would not be challenging US supremacy
  o Acknowledged the need for more resources to continue development but unlike the past great powers it would not go to war for them
    ▪ Would buy what it needed on the open market
    ▪ Therefore, China could be seen as a peaceful developer
• Chinese leaders then came to US and asked that China be given a chance to develop peacefully
  o Two years later the US responded asking China to become a “responsible stakeholder”
    ▪ Said that 30 years before US was instrumental in bringing China out of its self-imposed isolation
    ▪ US also adjusted laws that opened markets enough to allow Chinese to start their economic development
  o Asked China to help preserve the existing international system
• For the first time in history rather than going to war:
  o A rising power actually addressed the concept of power transition
  o A sitting power leader acknowledged the transition process and worked for peace
What the Future Holds for US/China Relations

Consider the development of this transition rather like the development of a child before birth

- First trimester of power transition: 1978-2008, culminates with Olympics held in Beijing
- Second trimester: the next 30 years

Currently, China’s per capita income is 96th in the world but must look at other numbers

- Start with any number and multiply by 1.3 billion people and you get a big problem
  - But if you divide a number by 1.3 billion, the result will look very small
- In 30 years China wants to get to the top 20 in per capita income to be a true Great Power
  - But the math is against it even though they can expect significant development
- Expectation: China will muddle through and development will continue to some extent

Options for US-Chinese Relations over the Next 30 Years

1. **Deadly contest** – not likely since against laws of physics where both sides have too much to lose
2. **Change of Guard** (peacefully like the one between the UK and the US) – not likely
   - China has been holding back on political reforms to push economic reforms
   - Eventually will have to be more democratic, but China will only be a reluctant convert to democracy, not a leader of the free world
3. **Uneasy accommodation**
   - China cannot offer an alternative economic system so it will become part of the existing system
   - China doesn’t even have another Communism or other ideology to offer

Why an “uneasy” accommodation?

- There are significant ideological divides between the US and China
- Neither will take the other’s word on faith
- China’s global reach will be expanding naturally and when it does it will always run into American interests already there making things uncomfortable – especially in Asia
- China, the oldest civilization, is about the youngest nation with much unfinished nation-building
- US is involved in all aspects of what China sees as its core interests
- Result could be an unwanted war despite underlying good will
- Example: China wants the US out of the South China Sea
  - Says it will allow *innocent passage*: requiring subs to travel on the surface, etc.
  - US claims the freedom of the seas and continues to go through the region to prove it
  - US and China have different interpretations of open sea concepts
- US interest in Taiwan could also cause conflicts
- Can expect more confrontations as China gets more powerful
  - China’s view: Now that we are powerful we do not need the US here anymore
- China’s engagement policy has involved engaging and hedging
  - Result: China and the US could be at odds over many issues but not go to war about them

How to Deal with China

- Must assume that the US knows what it will do
- Must learn what China would do
• It will take a lot of effort for China to continue its rise
  • See China’s two-prong approach as detailed in Sun-Tzu’s “winning without fighting” concept
    o Attack opponent’s strategy until there is no will to fight
    o Destroy opponents alliances so the opponent has no support

Dr. Lai provided a detailed tutorial on the basic elements of the Chinese strategy game of Go and how understanding it would help the US leadership understand China’s long-term strategy. Neither that portion of the video nor his slides are available on line. However, Dr. Lai will publish a book on the subject of Chinese strategy and the game of Go.

To understand Chinese strategic thinking look at the Chinese Game of “Go”
• Go focuses on elements of a richly developed strategy and operational art
• Dr. Lai’s work describing Chinese strategy in these terms noted by Henry Kissinger
  o Kissinger used some of these concepts in his most recent book
• Games in general are cultural artifacts and many are proxies for war
  o Even the Olympics started as contests or forms of conflict
• In the West, all are aware of chess even if they do not play it
  o SecDef Rumsfeld’s comment that you go to war with the army you have comes from the idea that your forces are set as at the beginning of a chess game
  o Chess is all about balancing hierarchies as indicated by the relative strengths of the various pieces
    ▪ In the end, the winner is the one with the strongest pieces left
• The Game of Go uses an open grid board where capabilities are added as needed (very different from Chess)
  o The pieces have no pecking order – just black or white round “stones” (very different from Chess)
  o Power comes from how the pieces are positioned and how they are played
  o The winner is the one who acquires the most territory (very different from Chess)
  o Pieces control spheres of influence – not total control
    ▪ The other side must respond
  o Much like nations vying for the control of borders
• Clausewitz called for identifying the center of gravity in the battle
  o But is that political or military?
  o Sun-Tzu calls for identifying the opponent’s strategy
  o Always want to set the stage for the next move
• Consider differences compared to football: each time the ball is turned over a different force (offense or defense) is brought in

Following the Go tutorial, Dr. Lai superimposed the game board he was using to explain the concepts on a map of Asia (at about the 1:00 hour point on the video). He described how the concepts he explained in the tutorial could also describe Chinese strategic thinking about US involvement in Asia.
• A piece was put on the location of India because it could be expected to be an issue in 20 years
  o This would be the equivalent of thinking dozens of moves ahead in the game
• Since the options in chess are a limited number, it was possible to design a computer program that could beat humans at the game
  o The enormous options in Go do not lend themselves to such computations
Chinese leaders are concerned that the US will try to reduce the extent of Chinese influence
- So China puts forces in various locations to make it more difficult to do so as in the game
- Chinese leaders will also follow a principle of Mao: You fight your way and I’ll fight mine
- Go also explains how Taiwan can become a flashpoint
  - China understands that Taiwan only exists because the US supports it
    - China is happy for now with the status quo
    - Eventually, China will be able to put pressure on the US to back away
  - China also takes the fight to Australia and the Philippines
    - Using economic and diplomatic efforts to tie them to China
    - Both are allies but not necessarily partners
    - The idea is that Taiwan in the future will have nowhere to go for help

Conclusion: Understanding the Chinese Way of War
- Big underlying forces are driving relations on both sides
- China has a subtle system behind its strategy
- It would be best if US leaders understood the Game of Go
- China is good at strategy and understands that without power, its strategy would be hollow

Bottomline: China tries not to overreact to US moves and the US should do the same – put its own economy back in order and learn from the stones (in the game of Go)

QUESTION & ANSWER SESSION

Regarding the recent US Policy of Pivoting to the Pacific
- US has never really left Asia even though Bush was more focused on the MidEast
- What the US sees as building new relationships around Asia looks like encirclement to China
- Big issue: Faltering US domestic situation – both in economics and research & development
  - Technology has its own logic and the tables can turn
  - It used to be the most talented people in the world came to the US for new opportunities
  - Now going to China where the rules are more lax and opportunities are greater
- For thriving R&D the US needs the input of new immigrants and more resources
- US economy has been corrupted where for each dollar earned, two or three are spent
- China is now offering a lot of funding for R&D
  - Even developed a Green Card system to encourage talented people to move there
  - Technological innovators there beginning to be equal to or surpass the US
- US may talk about expanding its forces in the Pacific but it doesn’t have the resources to do so
- In education – US graduating more lawyers than anywhere else in the world while China is graduating many more engineers
- While the pivot to Asia policy may be the right one, China believes the US should fix its domestic and economic problems first
  - If US can’t get its own house in order, it cannot be the world leader

Regarding Taiwan
- Its geo-strategic position is not good being so close to China
  - In the Game of Go it is not good to have pieces near a large landmass
  - Similarly, Taiwan has no place to go
• US generally rejects this idea but if that landmass gets more powerful, Taiwan will likely lose

• Need to look far down the road
  o Ten years ago it would have been impossible for China to ask the US to leave its EEZ (Exclusive Economic Zone) at sea
  o As China gets more powerful it is approaching a time when it can make such demands

• Expect to see less US support for Taiwan over time
  o US has been saying that it would support Taiwan if China took offensive action
  o However, the situation would be different if Taiwan provoked China
  o But US must have adequate power to uphold even this approach

Regarding Chinese Relations with Sudan and other Trouble Spots

• China now has global interests and must protect them

• In 2004 the Chinese president stated there would be a new mission for a new century
  o Forces would be allowed to go beyond China’s boundaries to protect its interests
  o While stating this as a principle, China may not yet be strong enough to do so
  o When they get strong they will talk more like Americans about protecting interests

• In the meantime China will take some steps in that direction
  o As part of the learning process China may act as part of a UN mission
  o Could let Russia take the lead and bear the brunt of world opinion with Chinese support

• China will not be taking the lead or at least will be very reluctant to do so
  o Eventually, China will have to start dealing with these issues

Regarding China’s Enormous Internal Problems that Need to be Overcome

• Only in the second trimester of development but all assume that China will continue to grow

• China wants to make just enough changes to preserve the Party’s monopoly
  o China’s leaders now assume that they can stay in power
  o China is expected to muddle through somehow and continue growing
  o Middle class now invested in the Party’s system — not ideologically, but for own reasons

• Corruption remains a big problem for China
  o Well-documented in a Heritage Foundation and other studies; they say:
    o Things are improving – people can make fun of Party officials on the internet, but
can not make jokes about the Party itself
  o Chinese netizens make fun of China’s corrupted officials by saying:
    ▪ if you shoot randomly into a crowd of Communist Party officials, you would hurt a few innocents
    ▪ But if you shoot every other one, you would miss a lot of trouble-makers
  o If an official effort goes after an individual, it is usually a political struggle among the Chinese leaders
  o Corruption is different in the US – all done within legal boundaries
    ▪ No such boundaries in China
  o US Congress acts as a legalized corrupt body as Fareed Zakaria puts it in his Time article:
    ▪ Always doing things good only for its own constituents resulting in deadlocks
  o Actions to cut corruption in China may sometimes be fights among princelings

• The world is now watching how China will handle its high profile status
  o China in the past would kill off its trouble makers
  o Now controlling the situations with a rule-based method - so China is learning

• Using the on-going power transition concept, can see that it is impossible for the US to stop
China’s rise from the outside but it is possible to work with the rising power

Regarding Singapore
- Must consider the whole Southeast Asia regional perspective
- To a certain extent Singapore plays China and the US off against each other
  - Certainly supports Chinese economic development
  - Wants the US to stick around for security reasons
  - Definitely doesn’t want a war between China and the US
- Attitudes may change over time if China develops a blue water navy
  - China could actually start sharing the regional security burden
  - Works at getting the most out of each side without upsetting the other side

Regarding China’s Policy Changes and Structural Changes with New Leadership
- Need to wait to see what is really going to happen with new leaders
- Current and likely future leaders are well-disciplined Chinese politicians
  - This means they don’t blow their own horns
  - They consider a low-profile as best – don’t present a threat to other politicians
  - It is the way of Chinese politics
- Expect a generally orderly transition such as the last transition
  - Now there is a track record to follow and this is a good sign
- Military policy likely to remain the same
- Continuity is actually better in China than in the US
  - China wants to get to 2050
  - There may be adjustments internally but unlikely to change when dealing with the US
- Military will continue to advance with improved hardware and the effort to learn overseas operations to protect China’s interests when necessary

Regarding the Spratlys and South China Sea
- Recommend the detailed discussion in his book *The United States and China in Power Transition*
  - Not seen anywhere else
  - The Chinese would see that they are to be blamed for losing control of the South China Sea territory
- How this became a problem and the US lost the opportunity to improve the situation
  - SecState Clinton at the Asia conference two years ago called for things that were attacks on Chinese principles and strategies
  - The Chinese were very upset and responded immediately – very unusual
  - Foreign Ministry posted a direct response on the internet – also very unusual
  - Clinton’s remarks made the US part of the issue
    - Almost developed a new US foreign policy “Doctrine” like the Monroe or Truman or Carter Doctrines
    - Would make the US a South China Sea power
- Ministry of Oceanic Affairs is building large numbers of huge ships which will patrol region
  - Specialized ocean observation civilian ships designed for patrolling and admin tasks
  - Will be making Chinese presence felt in the region
  - International law says a country must have effective control over a claimed region
    - History doesn’t matter
    - In the next several years China will increase patrols with hundreds of ships
• Will provide them with a record of effective control over the region
• Won’t matter that some of the islands are claimed by Vietnam and others
  o If they used military vessels, it would be a big international issue
  o But not so with merely administrative, oceanographic vessels
• Using the same tactic of patrolling around a Japanese claimed island
  o Japan had its own patrols circling the island
  o China put another ring of patrolling ships outside the Japanese patrol ring
  o This could become an incident if relations between China and Japan deteriorate

Regarding a Reluctant Accommodation of Chinese Rise
• There is no agreement about the concept of Power Transition
  o Does it really exist?
  o Does it really exist for China? Can the Chinese measure up?
• Must not consider the concept as a snapshot – need to look long term
  o It took Germany 70 years to rise once it started coming together
  o Japan took at least 50 years of development before it challenged the world order
  o China has really only be developing for about 30 years
    ▪ Next 30 years could be the real power transition
    ▪ What will happen in the third trimester?
• China will definitely become more mature
• China will get closer to the level of power that the US has – unlikely to become an overwhelming power
• End state is not clear
  o It will be difficult for the US and China to accommodate each other
  o Neither side would be willing to give in
• China unlikely to be able to tell the US Navy to stay out of its EEZ
  o But it may make more and more well-documented patrols in the area
• A fight over ideology will go on but it will not be as bad as the fight between American and Soviet ideologies
  o Expect that the two sides will not to see eye-to-eye
• Chinese leaders want to build up a blue water navy for maritime power purposes
  o Recognize that navy has been ignored too long
  o Will run into the US Navy anywhere it goes
  o Happened with the Soviets in the 1970s so US signed an Incidents at Sea Agreement
    ▪ Don’t need one yet with China because they are not operating worldwide
    ▪ Agreement makes rules that allow for situations like following each other
    ▪ Ensures reckless acts are not conducted (to avoid another EP-3 incident)
    ▪ China will need to show that it can follow rules
• On every advance that China makes, it will run into an already established US
  o US will need to decide how to handle each situation
• In some cases, (i.e., island disputes) history or other interests get in the way of simple policies

Bottomline: US/Chinese relations will be a matter of political skills
• The two sides need to be able to trust one another to avoid going to war
• Developing new agreements does not guarantee peace
• There is hope since President Hu and President Obama in Seoul recently said that both their countries would try to not overreact when encountering each other in the region