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

Dr. Tellis noted that he believed the most useful way to handle the topic of Chinese-US relations would be to focus on the structural issues involved rather than on the process or day-to-day diplomatic concerns. Concentrating on the structural issues would be more important because they would not be going away. Both process and diplomatic issues are likely to change over time.

The central issue is how Washington can manage sustaining a good, mutually beneficial economic relationship while still addressing the diplomatic issues that inevitably come up. Maintaining the globalization system serves both sides quite well, even when not everything that comes out of that relationship can be categorized as good.

This discussion will take three paths:
1. The Rise of China continues as the manifestation of the Asian miracle
2. The challenges that China’s rise present to the US
3. A reflection on how the US can cope with growing Chinese power

#1. The Rise of China as the specific manifestation of the Asian Miracle
- The Asian Miracle was really created as a result of American power along with certain strategic decision made by Asian leaders
- After WWII the US did two important things:
  - It provided security guarantees to Asian states reducing the security problems they had with their neighbors, especially Russia
  - While the US was protecting the security of Asian states this allowed them to concentrate on development of their economies and provided markets
    - US actually gave them asymmetric market access
- This allowed the Asians to greatly expand their economies
- Asian leaders at the same time made key decisions about their internal structures and chose to focus their economies on exports
- Result: the Asian Miracle

First Wave of US involvement with Asia
- Unambiguous success initially
- Pushed back the Soviet Union as a threat
• Created a relative decline for the US as Asian economies expanded
• Everything was based on containment of the Soviets and expanding interdependence of Asian allies
  • Worrying about enemies put off worrying about business concerns
  • Asian states became stronger and became friends to the US – not security threats

2nd Wave involved expanding Asia’s free trade area to be worldwide
• China previously had been outside the world’s trade system
• It was a gamble to bring China into the World Trade Organization to expand the success of the First Wave
• One big difference in the outcomes of the two waves:
  • In the 2nd Wave China and then India started to present themselves as secondary power centers to the US
  • By the 1990s it looked like this might be a poisoned chalice for the US
• Expansion continues to go on especially the building of economic interdependence, but there are more issues developing
  • Issue of relative gains – not just that all are rising but how many are rising how much faster than all the others
  • In this second wave, is the US creating its own geo-political competitors?
    • Is it nourishing new rivals and challengers?
    • This becomes an acute issue with China
• Since about 1993 China has been interested in more than just expansion and is now interested in becoming a Great Power – again after hundreds of years
  • China is not there yet but it has the capacity to be a Great Power
  • China has the land mass / resources / willingness
  • China can think strategically so that if everything comes together the right way, it can rise to be a new rival to the US as a Great Power
  • China will first challenge the US for primacy in Asia and then take on the challenge for world-wide recognition

Given all of the above, disputes about process and diplomatic issues, the US must determine whether the price of sustaining global interdependency is too high since that price includes creating a new Great Power that could overturn the position of the US.

The previous section of the talk provides background for the following sections.

#2 The Challenges China May Pose for the US
Concerns are not only about China’s economic expansion
• There has been a transformation of an underdeveloped country
• China wants to get back to the Great Power status it held a thousand years ago
• An agricultural economy became a modern society and was lead there by an export economy
• Economists would use an S-shaped curve to describe China’s growth
  o China grew faster than its peers at first even though they were more mature economies
  o China has had “volcanic” growth in the last few years
  o Since 1600 the world has not seen such double digit growth last for so long
• There are some peculiarities in Chinese economic growth
  o There is always a competition between the Center and the provinces
  o Both sides want to maximize their gains by creating large industrial systems
  o The governments control both resources and the means of production so that they are able to choose to enlarge their enterprises
  o Such arrangements are not likely in a normal economy
  o Example: China uses ten times more input to get a specific output than would be the case in the US
    ▪ China needs three times as much input as India to make the same output
• Such situations could lead to:
  o A slowing down of growth and maybe even an implosion
    ▪ There are limits to what can be wrung out of the old Communist system
    ▪ China could run out of what it needs for inputs
    ▪ And it all could happen at a very bad time
  o Alternatively, China might realize that it cannot sustain this system to maintain the high growth rate
    ▪ They might slowly start transferring away from the old structure
    ▪ Moving away from the old ways of handling commodities and other factors involved in production
    ▪ They could make prices reflect the scarcity of given commodities
    ▪ The outcome would be slowly mutating to another type of intensive growth strategy
      • Responding to needs for efficiency would produce better results

A slowdown in growth or an implosion would be very bad for China but not that bad for the rest of the world
• The problems for China might include some difficult social choices
• However, the situation might be better geo-politically

What is China’s strategy in all of this? It was called Peaceful Rise
• Now a discredited term
  o If you accept the concept of a peaceful rise, that would mean there was another, opposite kind of rise, too
  o The possibility of a non-peaceful rise would make China’s neighbors and others worry
• China is now using the term Peaceful Development
  o Not an adequate term
  o It leaves out the concept of rising which is very important

As China works its way through this public relations problem:
1. It needs to restrain from such high levels of economic growth to protect its international social contract
   • Chinese people have given up personal freedom and the right to chose their own regime to allow this to happen
   • The people have been compensated with growing levels of wealth
   • All of this is done to keep the Communists in power
2. As China’s economy grows it is constantly tying itself more closely to the economies of those on its periphery while still depending on US markets for buyers
   • As a result here are incentives for the neighbors not to challenge China
   • Their own well-being depends on the good atmosphere around China
   • China wants a bandwagon approach among its neighbors, not efforts to balance against it
   • There is also a mutual hostage relationship with the US
     o China provides financing for the US by buying Treasury bills (T-bills)
     o US provides markets through its overconsumption habits
       ▪ T-Bills provide the capital to keep this going
3. China must preserve external peace to the maximum possible without compromising its territorial integrity
   • China can’t be bothered by regional rivalries and wars
     o Asia must be peaceful to be as productive as China needs it to be
     o Question: Can China keep this up?
   • China has not acquiesced on any incipient balancing efforts
4. China must slow the build-up of its military capabilities
   • Mostly it has concentrated on defense of the homeland which includes Taiwan
   • China is also increasing developing other interests around the world, primarily related to energy resources
5. China made a deliberate decision for taking a free ride on the global provision of public goods like freedom of the seas
   • Such public goods are not excludable
   • China prefers that someone else bear the burden of paying for these costs
   • Lucky for China that the US wants that job and has been willing to pay for it
   • This is not a malicious decision on the part of the Chinese – it is rational
   • The Chinese do see the benefits of what the US provides

China’s Three Types of Challenges to the US

Economic Challenges
• China’s growth is causing significant and on-going de-industrialization of the US
  o It is cheaper to off-shore manufacturing
  o Capital and technology are moving elsewhere in the world
  o Most items that were made here for world consumption are now being made elsewhere
• Rise of America’s dependency on Chinese capital
  o A peculiar model of capitalistic production
  o First China creates surpluses and then it finances them
  o This circular arrangement can keep going until some leaders change their minds
    ▪ No one knows when this situation might come to an end
  o US is still the world leader in innovation
    ▪ This is not cost free
    ▪ Any change is disruptive and adjustment costs must be paid
    ▪ Not easy to shift US workers from shop floor jobs to jobs developing software

Geo-political Challenges
• All the peripheral states are tightly bound to China and could provide China a sphere of influence
• Regional economic integration is moving toward this sphere of influence
• Could reach a point where Asia is outside the US sphere of influence

Military Challenges
• Grow out of the other two sets of challenges above
• China is growing beyond normal protective needs
• This will cause problems for the US eventually
• China modernization focuses on anti-access capabilities
  o This could challenge the US control of the commons

The three types of challenges are slowly evolving
• This is not happening because China has a World Conquest Plan
• This is a natural evolution China’s growing strength
  o Nevertheless, it makes problems for others
  o An especially urgent problem for the US

How the US Could Cope with Chinese Challenges

Exactly what the challenges are depends on how you see China’s future
• If you think there will be a slow down or an implosion, then you will expect challenges that are different from those you would expect without the slow down
  • Significantly slowing down could cause social unrest and humanitarian issues
  • The challenge would be to help China to stay together
• If things go well for China, then you can expect to deal with geo-political challenges
• Challenges created by slowdowns could be dealt with using existing tools
• Challenges created by the continuing growth of China would be a brave new world
  • Would involve the future of globalization
    ▪ Globalization might actually atrophy and fall apart
  • As China grows, the US could choose to reduce the importance of producing global public goods
    ▪ Happened to Britain when they retrenched their contributions after WWI when it could no longer sustain its obligations
  • It might be possible that such obligations would not atrophy
    ▪ As the US drops some obligation, China might be willing to pick it up as the US did when Britain stepped back
    ▪ But that would lead to a China-centric world

The situation may also not go either way permanently
• First the US contributes until it is no longer deemed worth the cost
• Then China picks up those obligations
• But then China will find a need to drop back somewhat for its own needs
• Result: a sine wave of obligations and power as has happened before
• Globalization could degenerate into regionalization
  • Each country only worries about its own area
  • For China it would only be interested in Asia

One good thing about the rise of China: there are more countries closer to China than to the US
Japan, India, and Russia would be very interested in what China was building up to
- They could develop both internal and external balancing efforts
- India and Japan are already quietly talking about the need for such efforts
Russia is even having second thoughts about all the technology it has exported to China
- Fear that the aircraft they sold the Chinese could be used against them someday
- Beginning to respond to growing Chinese military strength
Result would be that the US would not have the luxury of handling the situation as a peer strategy
- In the past the US could say: we will contain the Soviet Union
  - Did not have to relate that to any others’ interests since there was not much connectivity between Soviet and allies’ economies
- Now with China there will be a need for a mixed strategy
  - Will be hard to implement
  - Will need nuance and balance

There is a view that China will naturally grow into a responsible stakeholder in world affairs
- They will not be doing that in a system run by someone else
- Countries become responsible stakeholders only in their own best interests
- China will only become a responsible stakeholder when it reaches the level of a Great Power, which is its objective
  - In the meantime it will try to accumulate power without causing alarm
  - China wants to preempt any efforts at balancing against it

Choices for the US
1. The Machiavellian Choice – preventative war
  - Might need to strangle a potential adversary in the crib if see power continuing to rise
2. Comprehensive containment – would involve internal and external balancing
3. Somewhere between 1 & 2 – basic liberalism concept
  - Promote interdependencies and export democracy
Bottomline: The US should not bet the farm on the concept of getting along nor on preventative war, nor on comprehensive containment (à la Kennan)

The US should have a mixed strategy to deal with China
- Must not walk back from inter-dependency
  - Strengthen and shape it
  - Build Chinese economic growth which is good for the US, too
- Don’t forget about the power of being a Great Power
  - Without it, you would dissolve the glue that holds interdependency together
  - Everyone must know that someone has a big stick
  - US needs to sustain its own capabilities

Components of US Capabilities
- Expand trading globally
  - More linkages are useful – especially with friends
- Deepen engagement with China
  - Don’t make an enemy of them before it is time to do so
• Build partnerships all around them
• Build constructive relationships that would tend toward constraining them

• Look inward to strengthen US power
• Must not hollow out US power
• Need economic renewal
  ▪ Look at the economic model to determine what needs to be maintained
• If the US can sustain the world’s most dynamic economy, it will stay on top
• Need improved science and technology and better educational resources to do so

• Must also maintain American military power
• The US will be comparatively the most powerful for a long time
• But the US can no longer sustain its enormous military budget
  ▪ US must get smarter about procurement and jointness
  ▪ Must avoid situations where weapons development costs three times what had been planned for

• Most important – all these efforts must be worked together
• US cannot only work on the engagement effort with China
• US cannot work on engagement one year and then neglect those efforts the next year
• Must have balance among them
• Efforts must be simultaneous

• Very important: the US must stay on top until there is more strategic clarity about China

QUESTION & ANSWER SESSION

China’s Extensive Growth Strategy
• To support its enormous growth China throws in everything it needs without paying attention to the costs of the inputs
  o Example: the water table has been dropping dramatically in some regions without any planning for future shortages
  o Only two ways to handle such shortages
    1. Find new technologies to reduce the need for a given commodity
    2. Take a look at what commodities neighbors may have

• Problems:
  o Can’t depend on option 1 solving the problem
  o Option 2 tends to make the neighbors nervous
  o The Chinese could change the way they do business but that is difficult to do
  o They lack prices on their commodities to alert them to how they are doing

• Communist party is not buying into the idea that things need to change

Taiwan
• In about 1995-96 China was at least comfortable with the Taiwan status situation
  o They could live with the type of de facto independence Taiwan was operating under
• More recently China has been moving away from this position
  o The number of native born Taiwanese is beginning to outnumber those who came from the mainland
  o Native-born Taiwanese don’t think of themselves as part of China and have less emotional ties to the mainland
China’s strategic problem – it wants to be unified
  o Status quo is basically de facto independence but that could be as bad as real independence
  o Some leader may come along and decide China can no longer accept the risk
    ▪ Not going to happen in the next 3-5 years
    ▪ Beyond 5-10 years look at problems caused by demographic shifts
  o Can China wait much longer?

Bottomline:
  o Sooner or later China will need to act so must build up its military capability to do so
  o China would also have to worry about the possible American reaction, so it must also build up their anti-access capabilities
  o But, if the Taiwan problem gets resolved peacefully, China will have all those built up forces available for use elsewhere

Strategic Interests and Attitudes
• Countries must be prepared to protect their strategic interests, otherwise others will walk all over them
• We should expect to see the Chinese stand up more for their own interests in coming years
  o Look at their attitudes before and after the recent financial crisis – afterwards more confident, if not quite strident
  o But a problem: the only reason they survived the crisis as well as they did was based on conditions that will prove to be a time bomb in the future
• If you think your growth curve is sloping up, then you will behave differently than if you think it is sloping downward

International Organizations
• Not particularly good view of them, but they can be useful occasionally
• It might be a good idea to emphasize international organizations more for the Chinese, to keep them more engaged
  o Example: The International Energy Administration does not include the two biggest consumers of energy
• However, it will be hard to get the Chinese to engage more in such organizations

Google Pullout
• Somewhat hard to understand exactly why Google has threatened to pull out of China
  o Maybe they were not making as much money has they had thought they would
• Nevertheless, there are still many others willing to stay
• China could play one company against another
• Whether the outcome will be good or not depends on whether Google’s departure is the leading edge of a wave of departures
  o If it is not, then Google’s leaving won’t mean much
  o If it is, then it will be a good decision on Google’s part
• This may show that capitalism does have a logic of profit – do what you need to do to make a profit
  o Moral reservations will fall in the face of declining profits
• Interestingly, China got Western companies to do the dirty work of censoring for them
Energy
- It is a bad strategy to depend on special arrangements to acquire needed commodities
- In the best of worlds, there would be only an efficient market to regulate the flow
- If there was such an efficient market, then the Chinese would not be doing what they have been doing
- Economic security comes from the demand and supply system, but the Chinese don’t see that yet
  - If you rely on the international market, failures can cause the price to go up
  - Otherwise, you need a significant military force to be available to read the riot act occasionally to recalcitrants or to keep open the seas
  - The tail end of mercantilism is military expansion
- Where their current strategy is taking them is probably the worst way to go
  - Someone needs to teach the Chinese leadership about Macro-economics 101

North Korea
- Almost an embarrassment to China now, where it once was useful
  - Helped make sure that the US was not quite so entrenched in Asia
- A case where market understanding is winning out
- The Chinese want to keep North Korea alive to avoid the repercussions of a collapse
- Keeping North Korea where it is, does help some with handling South Korea and the US

Commodities
- The general rule has been that given a really strategic metal, the Chinese would try to lock up the market
- To handle shortages they could build up their supplies of the scarce commodity or develop technologies to make the best use of limited supplies
- There is a question about whether the Chinese do really have a lock on so many critical commodities since this seems to be something that is often overstated
- Market forces really should be used since there are no magic bullets
- Few commodities are really in short supply – most situations have work-arounds

War
- War is not obsolete where China is concerned
- Must remember: China’s definition of national security includes territory they do not control
  - Situation is different between Tibet (which they do control) trying to secede, and Taiwan (which they do not control) trying for independence
- Because war is not obsolete to the Chinese, they can see some situations where war with the US might be possible
- Because the Chinese are building up their military capacities to prepare for this possible situation, its neighbors are beginning to worry
  - Particularly when missiles are involved
  - India and Japan are particularly concerned

Getting Support for Global Issues
- There is a major problem with getting other countries to help pay for what needs to be done to stand up to the growing Chinese military build-up
o When there was a single common threat (the Soviets) it was easier because the Soviets were so scary
o It also helped that the US was much richer – coming out of WWII much better off than anyone else
• It would be difficult to match those two situations
  o Now allies do not have the same view of threats as does the US
    ▪ For Europe China is too far away to worry about
    ▪ Europe also sees its economic interests competing with those of the US
  o During the Cold War it was relatively easy to protect critical technologies from being shared with the Soviets
  o Now, if the US does not sell the Chinese something, the Europeans or Israelis will
    ▪ They are not as worried about the Chinese as they had been about the Soviets
• There will be no satisfactory solution to this problem until there is better strategic clarity about where China will be going
  o If China does grow more confident, will that make others worry enough to be willing to help the US handle China?
  o Problems will continue to include both:
    ▪ Managing China
    ▪ Managing our allies about relations with China