

# China and America: A new game in a new era<sup>1</sup>

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It's a great honor to be here today with officers and supporters of the Naval War College Foundation, who do so much for our country. I'm here to be helpful by provoking you with some broad, sometimes controversial, perspectives.

My key messages are:

- We have serious conflicts with China, but also enormous common interests.
- Military conflict is far from inevitable.
- China is not a demon and our allies are not angels.
- We need to live in the world as it is, not as we wish it to be.
- To continue as world leader, we must use all instruments of national power.

Because of time constraints, I'm not going to address two potential game changers, Taiwan and Hong Kong. I'll enthusiastically address those during Q&A if asked.

Let me start with a telling anecdote. In April 1995 Hong Kong faced a crisis. China's Premier Li Peng had announced that he would not confirm the structure of Hong

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Kong's top court until after the transfer of sovereignty. Hong Kong's vitality required continuity of the legal system. A group of Hong Kong Chinese tycoons plus myself went to Beijing to confront Li Peng with the likelihood of an economic crash if he didn't reverse himself. The tycoons were afraid to confront the man known as the Butcher of Tiananmen Square, so they asked me to do it. I did so, enthusiastically. Li Peng responded, testily, your job as businessmen is to build roads and ports and telecommunications and my job is to decide about courts. You do your job and I'll do mine. He and I had a quite vigorous exchange and then he angrily dismissed us. But the next morning the Beijing newspaper carried an article about our visit, headlined: Premier calls for early decision on Court of Final Appeal. Hong Kong's British legal system continues to thrive.

My point is that dealing with Beijing can be unpleasant but also fruitful.

### [We have a complex relationship with China](#)

With China there are some issues we have to confront firmly, for instance the scale of intellectual property theft.

At the same time we have enormous mutual interests. For instance, China is much more open to our trade and investment than allies Japan and South Korea. Among

many other things that enabled us to save a failing General Motors and a huge number of jobs.

Effective Sino-American economic collaboration has led to the greatest reduction of poverty in human history. And for the first time in 315,000 years of human existence mankind has more basic goods—clothes, shoes, toys, food, much else—than we actually need. There are immense unpublicized national security benefits from the resulting stabilization and reduced terrorism.

You'd never know that from our politicians, of both parties, who like to blame China for our own failure to adjust to a world of automation. Our society was severely stressed by losing 3 million manufacturing jobs in a decade, but when China lost 45 million state enterprise jobs in a decade, mostly in manufacturing, their leaders helped their people find new jobs, mostly in services, rather than blaming us.

### [Is war with China inevitable?](#)

A common baseline view of the U.S.-China relationship is the Thucydides Trap. From the time of ancient Greece through World War II, when a rising power met an established power, war resulted about three out of every four times.

True, but remember there was that fourth time. Moreover, political scientists have been unwilling to confront the way things have changed since World War II.

From ancient Greece through World War II, important conflicts were typically between neighbors, with each power using its military to grab territory from its neighbors: Athens and Sparta; Germany and France.

Post-WWII conflicts are not like that. Two things have changed:

- We've learned how to grow economies much faster.
- And military technology has become hugely more destructive. Both sides are likely to lose if they pursue the traditional path to big power leadership.

As a result the path to becoming, or remaining, a great power has been primarily economic.

In the Cold War, we of course needed a superior military. But it was our economic strategy that won. Aid to Greece and Turkey made it possible for us to defend Germany's border without having the countries behind that line disintegrate. With Western Europe defended, we helped rejuvenate Japan and Western Europe. Then, using the Bretton Woods system organized around the World Bank, the IMF, and the WTO, we created a global network of development centered on ourselves, uplifting friends and allies in a way that was sustainable and continually growing. In contrast, the Soviet Union poured all its resources into the military and to

maintaining a traditional empire and bankrupted itself. For us this was an *economic* victory.

### What about others?

Japan became a big power without much of a military.

South Korea, initially inferior economically, militarily, and in political stability to its northern opponent, changed its bet from military to economic priorities and is now about 50 times larger economically than North Korea.

Indonesia until the 1960s claimed all of Southeast Asia but was a hapless home to more violent Islamic jihadis than the rest of the world combined. It refocused on economic development and, having stabilized, became the unquestioned leader of Southeast Asia.

In China, Deng Xiaoping cut back the military from 16 percent of GDP to 3 percent and the subsequent economic takeoff made China a major power well before the current military buildup began.

So the path to becoming a big power has become an economic strategy protected by a strong military—or an ally with a strong military. Economic strategies differ from military strategies in that both sides can win. That is a vital aspect of US-China rivalry.

Moreover, China is 8000 miles away; US-China territorial issues are trivial.

If we behave like a pre-World War II power, we can make the Thucydides Trap a self-fulfilling prediction. But it is not a law of history, particularly post-World War II history.

### How about maritime issues with our allies?

These are important but complicated. Chinese behavior in the East and South China Seas, particularly its militarization of rocks there, are destabilizing. China broke its promise not to militarize the area. It broke its promise to withdraw from Scarborough Shoal. China signed the Law of the Seas agreement, then violated it. We must oppose some of this behavior and must be prepared to use force. But there are some other things we must keep in mind too:

- China's behavior pretty much reflects our friends and allies' previous behavior. China is just late and on a Chinese scale.
- The claims of smaller Japan cover twice as much of the ocean as China.
- The model for Chinese island building is Japan's earlier buildup of Okinotorishima, halfway between Taiwan & Guam. Japan's territorial claims of 400,000 sq. km. around it are more expansive than China's around any South China Sea rock.

- If you apply the Hague standards to the Senkaku/Diaoyu islands they are rocks, not islands, and Japan should not claim an exclusive economic zone around them.
- U.S. policy for decades acknowledged that China's claims to those rocks have the same legal status as Japan's.
- In 2012 Japan's government ignored our warning and bought the Senkakus from a private owner, thereby breaking a 40 year peace understanding with China. We turned around and backed Japan emphatically, but that breaks traditional U.S. evenhanded policy in Asia.
- Our base in Diego Garcia rests on British control, which offends international standards roughly as much as China's island claims do.
- U.S. use of surveillance vessels to provoke and read Chinese defenses evokes deep Chinese fears from a century of predation by Western maritime powers. China's reaction is the exact counterpart of how we feel about their militarization of South China Sea rocks. Strategists like the late Zbigniew Brzezinski have long protested that such actions are counterproductive. Our allies plead for our protection but also plead that we should not provoke China. Too often we hear the first part but mute the second part.

So we have serious legitimate grievances about Chinese behavior but we live in a glass house and need to aim cautiously when we throw stones.

### How do we manage relations with this rising power?

Start with some perspectives.

First, China will not collapse. Unlike the Soviet Union & Russia, it has a competitive, self-sustaining economy. Moreover, it has taken care of its people to a degree that countries like India can't even imagine doing. The number of Chinese families who own a home is double the number of Indian families who lacked a toilet in 2015. China's economy and social system are sustainable.

Second, China is not destined for fast growth indefinitely. Its current administration is seriously mismanaging China's economy. The things our politicians denounce most should actually make them happy; China is making the same mistakes Japan made, turning inward and conceding power to giant, inefficient traditional industries. Moreover, this Chinese administration is giving the Party committees—politicians—final say over strategic business decisions in every company. Imagine if we gave a politician a veto over every business's strategic decisions.

China's growth is slowing, weaker than official figures, and destined to slow more. Decades of surplus resources have given Chinese leaders a bull market mentality

that will lead to tears. China is destined to have the biggest economy but far from the most advanced or innovative economy.

Third, within a few years China will change dramatically. Its political strategy of maximizing control is at war with its economic strategy of marketization. China's political tides are shifting against Xi Jinping. China's decades of rapid growth have made generational change extremely sharp. Each decade, a new generation brings fundamental change to China's economic and political structure. Generational change is now overdue.

China will experience fundamental change. It might get much better. It might get much worse. It will not remain the same.

We therefore need to position our country for rapid adaptation to a wide range of possible outcomes. We must be ready for an even nastier authoritarianism and an effort to subdue Taiwan. We also need to be ready for the possibility of a much more friendly, restrained, liberal China. We cannot ensure a good outcome, but if we lock ourselves into an institutionalized Cold War mentality we can ensure a bad outcome.

## Can we live with the China Model?

Many U.S. commentators argue that we can't live with another big power that has a different system.

This lesson was learned from the depredations of Nazi Germany and the Soviet Union. But, unlike those dictatorships, China is not trying to impose its system on other countries. Unlike Russia, it has not sought to destabilize democracies. China sees its system as unique. Although that is wrong, because China mainly emulates lessons from South Korea, Taiwan, Japan and Singapore, it contradicts any temptation to impose a China Model everywhere. Beijing's mantra is that every country should have the right to choose its own path without foreign pressure.

While China's doesn't impose or proselytize its model, China's success in improving the lives of its people, compared to India and the Philippines, challenges our insistence that our system always works best for every country at every level of development. We can't beat that argument by force or subversion or economic incentives. We have to find ways to make democracy work better than it has in places like India. That's a fundamental challenge, but that's our problem and India's, not a Chinese threat.

Where does this leave us? For the foreseeable future, we can't defeat or dominate China and they can't defeat or dominate us. We have a peer competitor. That peer competitor is not seeking war. The alternative to living with it is nuclear war.

A world in which multiple systems coexist is normal in history. For several decades we have been spoiled by a world where we were not only the dominant economic and military power but also where we have expected that every country would follow our example. China's success, together with the 2008 Global Financial Crisis and recent political developments in the major democracies, have made it clear that we are in a quite different world. If we eschew nuclear war, we have to live in the world that is, not the world of our dreams.

### [The world we live in is a world of geoeconomics](#)

In the Cold War era, we won the geopolitical game with a geoeconomic strategy: the Bretton Woods system, whose core was the World Bank that funded infrastructure, together with the IMF and the WTO, which set standards. Economic success stabilized, energized and unified our alliance system. Again, military superiority was necessary but not sufficient; the core game was economic.

Having won the Cold War, we allowed the Bretton Woods institutions to atrophy. A stingy Congress refused to increase the capital of the World Bank and IMF—even though that capital ultimately costs us nothing. Congress did not want to reform the governance of those institutions to conform to the world economy of today, rather than the world of the 1940s; that would have meant ceding some authority to rising powers, especially China. We also gutted the State Department budget, eliminated U.S. Information Service, and truncated our aid programs.

More recently we have reacted against the constraints and price of global leadership. Sometimes in dealings with allies we paid a *price* for leadership; often a leader must give more than it gets. But the *prize* of leadership was the most powerful position in world history.

This effort to constrain China to a disproportionately small role created a vacuum, for instance a deficit of \$12 trillion needed for infrastructure investment but also more recently a vacuum of leadership on international economic integration, environmental improvement, and amelioration of climate change.

Into that vacuum China has moved. The Belt and Road Initiative, abbreviated as BRI, is now the big game. It emulates our Bretton Woods system: development banks to build infrastructure, systematic efforts to create common standards (in railroads,

Customs clearance procedures, IT standards, and much else), plus institutions to liberalize trade and investment. Moreover, China is now the leader in every form of green energy, while we abandon leadership and subsidize a declining coal industry.

BRI is an inspiring vision—as it was when it was our vision. In Africa, China convenes four dozen heads of state to make development plans, then delivers funding and roads. In contrast, our country provides Special Forces teams to fight terrorism plus an offshore naval and air presence. If that is the game of competition for influence, China wins. Our greatest recent source of influence in Africa has been President George W. Bush’s HIV initiative. Even on terrorism, we win local battles but more importantly BRI successes contain terrorism in the long run.

The U.S. has three potential responses to BRI.

First, we can compete. This is our game. We’re good at it. But we largely withdrew from the field. The Japanese do compete successfully. China negotiates a power deal in Indonesia, offering second rate technology and high prices, and demanding a government guarantee. Japan enters, offering first rate technology, reasonable prices, a record of reliability, and feasibility studies that eliminate the need for a state guarantee. Japan wins. Indonesia wins.

Second, we can compete and coopt, as we did when we faced the same situation with Japan. Japan was competing unfairly in exactly the same ways as China today. We gradually negotiated some common standards. We and the Japanese both won. Above all, countries like Indonesia won. The same is possible with China. The key new Chinese institution, the Asia Infrastructure Investment Bank, accepts the basic standards of our Bretton Woods institutions, the World Bank and the Asian Development Bank. Its leader is a respected veteran of both, and many of its projects coinvest with the World Bank and Asian Development Bank.

Third, we can stand on the sidelines and whine. So far, this third option has been our main response.

Not only is this a competition we can win if we engage. We win even when BRI succeeds.

When successful, Bretton Woods or BRI stabilizes countries, reducing the risk of war or terrorism. In the 1960s, Indonesia had more violent Islamic jihadis than the rest of the world combined. With Japanese-American help the growth of the Indonesian economy gave almost everyone a stake in society and jihadism mostly evaporated.

Likewise, in the 1970s everyone knew that Bangladesh was going to be a failed state. It should have turned into a gigantic jungle Somalia, spewing terrorists. Instead, the textile industry spilled over from China, employing millions, and stabilized the country. While the factories moved from China, the largest ownership of those factories was American. Bangladesh's stability is a joint Chinese-American success.

Not long ago Ethiopia had six violent Leninist parties fighting for control, along with a great famine. But more recently it has been the world's fastest growing country and its politics is more stable. The largest foreign contributor to this success is China.

As a rough rule of thumb, each of these successes saves us \$1 trillion of anti-terrorism efforts. We need to compete against, and collaborate with, China to spread such successes. BRI mostly services the parts of the world least affected by Bretton Woods successes: Central Asia, the Middle East, Africa.

### Competition and cooperation

In national security this combination of competition and shared interests mirrors the economics. You know the conflicts. They are very important. But also:

- The world's greatest threat of nuclear war is North Korea and there the Chinese goal of denuclearization overlaps 90-95 percent with ours.

- Middle East stability matters even more to China than to us, because China is far more dependent on Middle East oil.
- We combine our efforts to counteract piracy.
- The greatest long-run threats to us are environmental degradation and climate change. China is now the world leader in those areas.
- Chinese leaders are very conscious of common interests and do not seek to destabilize the U.S. and EU democracies the way Russia does.

### What are the overarching issues?

If we want to live in a peaceful world, we Americans have to accept that we have a peer competitor. We can manage that or choose nuclear war. China wants to be number one but is not trying to destroy us. We can no longer rule the seas to the beaches of Fujian. We can no longer dominate space by ourselves. We can no longer make all the trade and investment rules or set all the IT standards. No strategy will get us to some dominant end state; the future is just competition forever. That is a really difficult adjustment for us Americans. Whenever we have tried to confine China to a disproportionately small role, we have harmed ourselves and created a vacuum that actually strengthened China. We have to live in the world as it is.

China's challenge is that it must grow up. If it wants to be a big power leader, it can no longer aggrandize the South China Sea as if it were the Philippines. If it is a great power, then it can no longer exploit its century of weakness to play the victim. If it has four of the world's ten largest banks, it may no longer use infant industry arguments to protect its banks. If it wants Huawei to have the opportunity to run the world's 5G network, then it can no longer exclude foreign firms from playing a similarly large role in China.

While the U.S. can coexist with China, it must still compete successfully. General Motors can win while Toyota and Tesla are winning too, but the competition is fierce. In the Cold War, we integrated all the elements of national power—Diplomatic, Information, Military, Economic, or DIME in war college terminology. Now we have world history's finest military, but we have allowed the other instruments to atrophy. We have a military budget as large as the next eight powers, but it's never enough. We always feel exhausted. We don't lose but we don't win. We can only succeed if we revert to integrated use of all the instruments of national power.

General Mattis said, "If you don't fund the State Department fully, then I need to buy more ammunition." If we don't reengage all the instruments of national power,

then we're not just going to spend ammunition. We're going to spend our soldiers' lives. And many of their sacrifices could be wasted.

Who will restore a strategy that combines all the elements of national power? A reasonable and proper military officer's answer is: That's not our job. Our job is to deter and defend and win. But nobody else is doing this job. Today we have no Henry Kissingers or Zbigniew Brzezinskis or Jim Bakers. Our recent Presidents and most candidates lack knowledge of foreign policy and national security. Our military must prepare to engage, and perhaps lead, the other arms of government in articulating a national strategy. You can uphold the legacy of General George Washington, General George Marshall and General Dwight. D. Eisenhower—great officers who became great national strategists.