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## Power Transition and China–US Conflicts

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The United States places at risk its opportunity to remain the world's pre-eminent nation by focusing all of its energy, time and capabilities on the war against terrorism and on its ancillary action in Iraq, despite compelling reasons otherwise. This myopia, conditioned by unambiguous security threats and the emotion of the moment, is abetted by a stubborn resistance to the maintenance of a long-term focus in foreign policy. Thus a combination of forces, imposed internally and externally, handicap American leadership and threaten the United States' strategic interests.

The attacks of 9/11 and subsequent events in the Middle East have created a condition of immediacy in US foreign policy. The *crisis de jure* atmosphere dominates our attention and concentrates our intellectual resources. Short-term benefits do exist; for example, as a nation, America has been resilient in its response to the terrorist threat. However, the other pre-occupation, the debate over Iraq, has been notably near-term in its content. The strategic consequences of this action are being understood only now.<sup>1</sup>

Behind the façade of these all-consuming national priorities, American strategic thinking has grown stale. This is partly the result of the Cold War generation of policy makers failing to anticipate the new world, and finding their core concepts to be useless both in the war on terrorism and in the broader effort to maintain US leadership. It is also the fault of the supporting strategy-making community and its failure to provide fresh insight, continuity and focus.

The potential consequences of this lapse in attention and intellectual insight could not be more severe. A great challenge for the United States and the world lies not in terrorism or even in regional conflict. Instead, it lies in the longer-term collision of interests between the US and an emerging, powerful China. Appreciation of that fact should force policy makers to recalculate and reanalyse current crises from a strategic perspective. Events in the Middle East, South Asia and East Asia are important not for what they are

<sup>1</sup> Jacek Kugler et al., 'Integrating Theory and Policy: Global Implications of the War in Iraq', *International Studies Review*, Vol. 6, No. 4 (2004), pp. 163–79.

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but for what they will demonstrate about American leadership in the ultimate contest to come, as Asia becomes the focal point of world politics.<sup>2</sup>

## Theoretical Framework through a Policy Lens

A snapshot of world power structures reveals a hierarchical structure implicitly recognized by national leaders. In the past, hierarchies were constructed around nation states, but in this global environment they also include powerful soft power non-national actors such as corporations, interest groups and non-governmental organizations (NGOs). This global hierarchy is constantly in flux, reflecting variations in relative power driven by differential nation-state growth rates and movements of capital and resources across frontiers. In today's hierarchy, the US dominance is unchallenged, but US pre-eminence is declining in relative terms, and will in two to four decades eventually dissipate.<sup>3</sup> This article focuses on the lack of a US long-range strategy; the absence of a plan to bring key nations and stakeholders into a US-led coalition of satisfied nations. It is a significant omission because such a coalition will be necessary when there are ominous challenges to US power.

The United States, though the single largest military superpower, is not a global hegemon. It maintains dominance only by assembling and managing a coalition of nations with congruent preferences. Within their regional environments, Brazil, China or India play similar roles. Nations satisfied with the *status quo* accept the rules the pre-eminent nation creates, manages and defends, because they share the resulting stability, prosperity and peace. Some nations remain outside the leading coalition because they challenge or reject existing international rules and norms.

Occasionally, these dissatisfied nations become powerful enough to challenge the pre-eminent nation for leadership of the global system. In such rare circumstances, world wars of massive devastation and scope reorder the global hierarchy. A similar process evolves in the periphery among members of regional hierarchies. Regional wars—evident in the Middle East today—alter the local distribution of power and reorder regional hierarchies but **do not** change the structure of world politics. This is where current strategic thinking has gone awry: the outcomes of the

<sup>2</sup> This article gives recognition to various collaborative research efforts conducted by Ron Tammen, Jacek Kugler, Doug Lemke, Brian Efirid and Siddarth Swamingthan including articles in *Asian Perspective*, *International Studies Review* and *International Interactions*, which published articles from the Power Transition Conference held in August 2003 in Carmel, CA. Analysis of the Taiwan situation is a continuation of the logic outlined in *Power Transitions* and an extension of an article and series of lectures given by Ron Tammen in Taiwan in 2004. See Ronald Tammen et al., *Power Transitions: Strategies for the 21st Century* (Chatham: Chatham House, 2000).

<sup>3</sup> National Intelligence Council, *Mapping the Global Future* (Washington, DC: GPO, 2004); Ronald Tammen et al., *Power Transitions*.

Afghanistan and Iraq conflicts may alter the face of terrorism and reshape the Middle East hierarchy, but will not fundamentally change the relations among contenders in the global hierarchy or ensure long-term stability for the United States. A new strategic vision must address these twin challenges.<sup>4</sup>

The *sine qua non* of the pre-eminent global power's foreign policy is global stability. Determined US stewardship over the last half century has forged a stable international political and economic system and a global regime that promotes, but does not absolutely insist upon, democracy, human rights, free press and open economic practices. These fundamental institutional structures tend to quell radical elements and help prevent tyranny by a minority or majority, regardless of ideological or religious preferences. The US liberal economic and political leadership is designed to utilize incentives (economic, financial and political) or, less often and less successfully, sanctions to align other nations' interests to those of our own. Where those interests cannot be aligned and a threat to global stability is evident, the United States exercises the use of force. Force tends to be the last resort as it is expensive.

When force is used effectively, it has fundamental consequences for the global system. For example, following World War II, the United States recast the international system in a much more successful manner than the British did following the previous great war, solidifying the role of the United States in the world during the 20th century. Military occupation and the resulting change in political and economic systems, aided in the transitions of Germany, Italy and Japan into stable democratic members of the international community. Today, Germany is one of the leading nations of the European Union (EU), and Japan is a major economic player in Asia and beyond. The United States altered the political preferences and goals of populations in these countries to one more consistent with the international norms instituted for the global hierarchy led by the United States. The Cold War evidenced a similar end: the Soviet challenge was halted not because of ideological or military confrontation, but because the Soviet Union dissolved due to its internal bankruptcy and adopted an open market economy and an elementary democratic system. Experience demonstrates that changing preferences is the path to stability and prosperity.

<sup>4</sup> The key concepts for strategic vision include variations in power, commitment to the *status quo*, population, productivity and political capacity. Variation in the components of power—population, productivity and political capacity—are important to decision makers because they provide the preconditions to war, peace and integration. The propensity to engage in either war or policy integration is driven in part by the relative power among nations and in part by the degree of compliance or rejection of norms and rules that compose the *status quo*. Dominant nations cannot effectively control differential growth rates in the output of other nations, but their foreign policy can generate political satisfaction or dissatisfaction with existing rules in the hierarchy.

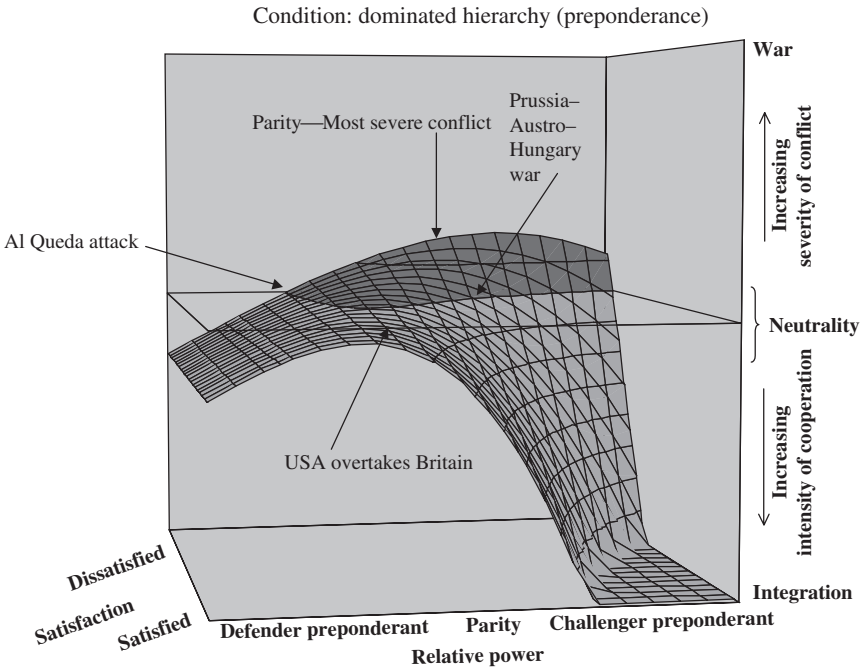


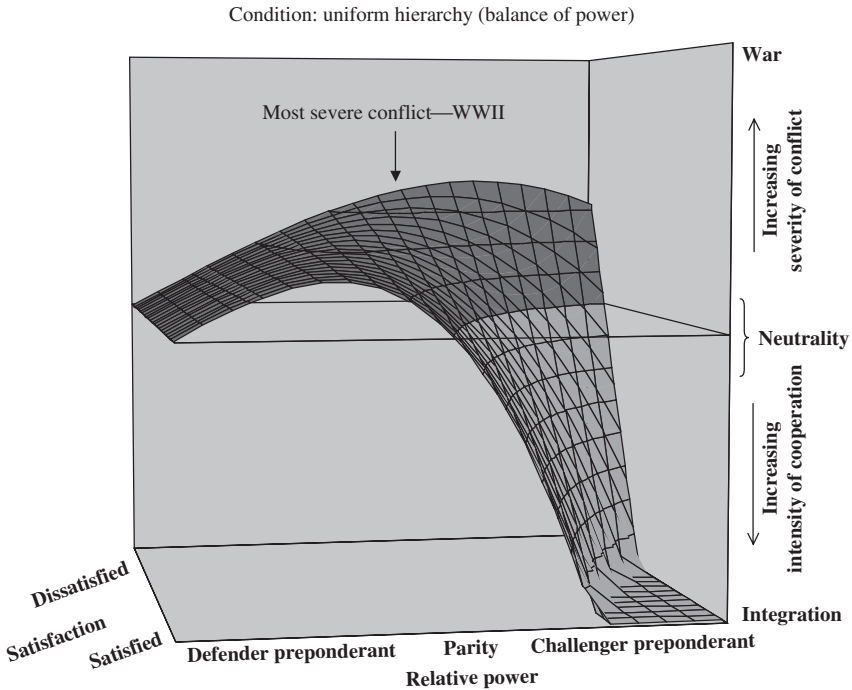
Fig. 1 Dynamics of power distributions.

A unified strategic framework would provide a guide to the future of a complex evolutionary process. Such a framework could lead to understanding world structures, because it allows decision makers to anticipate periods of confrontation and cooperation. Knowing the likely threats permits policy prioritization and timing. This kind of framework has been absent from US foreign policy since the end of the Cold War. This article represents a first step towards using empirically tested propositions to frame future world politics within a strategic perspective.

### Dynamics of the Theoretical Framework

Figure 1 integrates and relates in a dynamic fashion the central variables of our strategic argument: power, hierarchy, satisfaction and the probability of war or peace. It illustrates interactions among the three key variables under the condition that the international hierarchy is dominated by one recognized preponderant power.<sup>5</sup>

<sup>5</sup> Four dimensions pose certain display limitations.



**Fig. 2** Dynamics of power distributions.

This theoretical framework, described in policy terms in the earlier paragraphs, draws many conclusions, but one in particular stands out in its strategic importance: wars (in *dark grey*) occur at the global level when a dissatisfied challenger sees an opportunity to take on the pre-eminent international leader. Under an equal distribution of power, peace and integration (in *light grey*) may take place, but only when major global participants all agree on the set of norms and rules that govern world politics. From this perspective, the democratic peace—among Germany, Britain and France after the World War II and the subsequent evolution of the EU—emerged precisely because the United States imposed a common set of democratic institutions on Europe and forced the emergence of ‘liberal’ democracies. Thus, even though the power distribution in Europe was similar to that preceding World Wars I and II, peace broke out and integration followed because nations shared common institutions and norms as established by the United States. Following the collapse of the Soviet Union it became clear, albeit slowly, that the theoretical proposition that a balance of power guaranteed peace was inconsistent with the structural reality of the international system. Global peace is maintained when there is one overwhelmingly powerful dominant country. Figure 1 intellectually

turns the balance of power concept on its head.<sup>6</sup> In Figure 2, by comparison, the region of cooperation and integration is vastly expanded. This ‘preponderant’ view of the world is now accepted explicitly by those who measure the probability of wars, and implicitly by many in the policy community.<sup>7</sup>

The basic argument of power parity is that key contenders in the international system challenge one another for dominance when they anticipate that the prospects of overtaking the regime leader are credible. An important new insight emerges from Figure 1. Conflict can still take place despite strong power asymmetry, but its severity will be much reduced. This deduction is supported by empirical evidence.

When the global hierarchy was uniform, the United States and its allies were engaged in World War II. After 1945, the United States emerged as the preponderant power. It continued to wage wars in Korea, Vietnam, Kuwait and Iraq, but these wars produced limited casualties (compared to World Wars), as did the attack on the US by Al Qaeda. Despite US preponderance, these wars were not deterred but losses were reduced. This formally derived figure also accounts for what Bueno de Mesquita and Lalman identify as a seeming contradiction; the Seven Weeks’ War between Austria and Prussia occurred at parity, but both nations were jointly *satisfied* producing a conflict of low intensity among contenders. The probability of conflict under parity is high, thus the conflict, but the structural constraints imposed by satisfaction kept the severity of that war limited.<sup>8</sup>

This new representation of the parity model also offers a formal answer to the argument of Choucri and North that the theory is inconsistent in failing to account for the peaceful transfer of control over the world hierarchy from England to the United States.<sup>9</sup> As Figure 1 indicates, the condition required for peaceful overtaking between two major powers includes agreement on the rules that guide the hierarchy. It is not just power relations—as realists would argue—that lead nations to wage conflict. Agreement or

<sup>6</sup> Under balance of power, relative power equilibrium insures the peace. Under power parity or power transition, relative power equilibrium increases the probability of war. Figure 2 is a graphical display of the balance of power concept for comparison with the preponderance model in Figure 1.

<sup>7</sup> A.F.K. Organski, *World Politics 2nd Edition* (New York: Alfred A. Knopf, 1968); Jacek Kugler and Douglas Lemke eds, *Parity and War: Evaluations and Extensions of the War Ledger* (Ann Arbor: University of Michigan Press, 1996); Ronald Tammen et al., *Power Transitions*.

<sup>8</sup> Like in elections within a single party, two satisfied nations may wage a war of low severity, but under similar circumstances, like in elections across parties, two dissatisfied nations will wage total war of high severity.

<sup>9</sup> Nazli Choucri and Robert North, *Nations in Conflict: National Growth and International Violence* (San Francisco: Freeman, 1983).

disagreement with preferences, in coordination with parity, leads to war and peace.<sup>10</sup>

This leads us to the final unexpected implication of the graphic that informs our political strategy. At the bottom left corner, Figure 1 accounts for the process of integration. Integration is the most important new phenomenon emerging since World War II. A comparison of Figures 1 and 2 shows that this process is most likely in a post-overtaking asymmetric period. Deutsch et al. independently observed such a pattern in 1957. They indicated that integration did not take place when nations were at parity. Rather, integration occurred around ‘cores of strength’ where a dominant nation provided the ‘nucleus’ for integration.<sup>11</sup>

A hierarchy dominated by a preponderant nation imposes high costs for conflict on smaller challengers and reduces costs for integration. This produces a bias towards stability. The dominant power desires to maintain the *status quo*. As Keohane correctly infers, preponderant powers have the ability to absorb the costs of integration and allow smaller nations to ‘free ride’ because their actions are consistent with stable economic growth.<sup>12</sup> In a uniform hierarchy (Figure 2), the probability of conflict and escalation to severe war increases, while prospects for integrations are reduced. No single party is willing to carry the burden of integration, and concurrently each member of the hierarchy is able to enhance individual growth by avoiding the costs of the collective good. Thus, rather than supporting trade opportunities that lead to expansion among all, large nations that can affect the market price of goods impose tariffs in a selfish attempt to advance their own growth.<sup>13</sup>

## Policy Implications

The internal mobilization of resources, and effective alliance formation or neutralization, can be manipulated in response to policy changes. A reliable strategic perspective is needed to make choices in world politics, particularly for the United States, as key decisions can sway the balance in favour of either global stability or instability.

<sup>10</sup> John Mearsheimer, *The Tragedy of Great Power Politics*, (New York: W. Norton, 2001).

<sup>11</sup> Karl Deutsch et al., *Political Community and the North Atlantic Area* (Princeton: Princeton University Press, 1957), pp. 28–38. Such arguments are also constant with expectations of Black’s median voter theorem where a dominant party should prompt smaller organizations to join a large winning coalition.

<sup>12</sup> Robert Keohane, *After Hegemony* (Princeton: Princeton University Press, 1984).

<sup>13</sup> Feng Yi, *Democracy, Governance, and Economic Performance: Theory, Data Analysis, and Case Studies* (Boston: MIT Press, 2003).



There is substantial empirical support for the power parity proposition throughout the conflict literature.<sup>14</sup> In other research environments, such formal and empirical evidence would have been sufficient to challenge the fundamental assertion that a parity or 'balance of power' preserves peace. However, given the widely held belief among practitioners and academics that the underlying logic of balance of power is correct, these two research directions continue to develop side by side. The collapse of the Soviet Union is one such critical test that has awakened the need to reformulate long-held beliefs.

No one can argue today that Russia presents a direct threat to the Western world or that another challenger of a similar magnitude is already in place; yet stability increased after the decline of the Soviet Union. Further, the emergence of asymmetry in nuclear weapons combined with the re-targeting of such weapons by both the United States and Russia make it difficult to argue that Mutual Assured Destruction continues to preserve the existing stability in the international system.

## Probability of Conflict at the Global Level

Power parity provides the structural conditions for conflict and cooperation. While power is central to the deductions of balance of power and

<sup>14</sup> Organski and Kugler, using the record of major wars among the main Western powers, show that power parity and transition set the necessary conditions for major wars waged between 1870 and 1970. See A.F.K. Organski and Jacek Kugler, *The War Ledger* (Chicago: Chicago University Press, 1980). Likewise, Woosang Kim, Houweling and Siccama, and Bremer and Cusack show that in the last two centuries parity is a pre-condition for the most severe confrontation in the international system. Moreover, Werner and Kugler show that if one considers all protracted crises emerging from the presence of a festering dispute, parity accounts for almost all the incidences of major power war recorded in the last two centuries when a challenger manages to outspend the defender in military preparedness. See Jacek Kugler and Douglas Lemke eds, *Parity and War*.

An important extension of the power parity perspective by Lemke demonstrates that the same principles that hold true among the major powers at the global level also hold true among regional leaders. Lemke's contribution is essential because he shows that severe conflicts of all types follow conditions of power parity. His empirical tests, based on very diverse regions of Latin America, the Middle East and Africa, demonstrate that the same conditions that lead to major confrontations among the largest nations in the international system hold true for major competitors in key regions. See Douglas Lemke, *Regions of War and Peace* (Cambridge: Cambridge University Press, 2002).

Finally, Bueno de Mesquita and Lalman use a sophisticated bounded rationality approach to show formally that while conditions for conflict and peace in the balance of power are inconsistent, the conditions identified by power parity are consistent with the prevailing evidence. See Bueno de Mesquita and David Lalman, *War and Reason: Domestic and International Imperatives* (New Haven: Yale University Press, 1992). Extensions of this approach to nuclear deterrence demonstrate the consistency of the parity argument with post-war behaviour, but indicate that Mutual Assured Destruction is logically a tenuous strategy as deterrence may fail when risk propensity is high and prone to instability, see Jacek Kugler and Frank Zagare, *The Stability of Deterrence* (Boulder: Lynne Rienner Publishers, 1987); Frank Zagare, 'Reconciling Rationality with Deterrence: A Re-Examination of the Logical Foundations of Deterrence Theory', *Journal of Theoretical Politics*, Vol.16, No. 2. (2004).



power parity, the conditions that lead to war and peace are very distinct. Moreover, each perspective provides different substantive policy advice. The parity approach allows contenders to anticipate the choice of peace or war. When there is an extended dispute—in particular, a lasting territorial dispute—that creates the underlying condition required for a serious confrontation. Military buildups and arms races are predictors of the willingness of contenders to choose war over peace when both parity and an extended dispute are present. Werner and Kugler show that these conditions are associated historically with the overwhelming number of choices to wage major war.<sup>15</sup>

## Empirical Implications: The Asian Challenge

Applying the power parity logic to the Asian region permits us to determine which interactions have the potential to escalate to a serious confrontation and possibly a major war. These interactions, while being potentially dangerous, are not deterministically conflictual and can be resolved peacefully even though they appear threatening at this time.

Figure 3 presents the relative power and income of the main international competitors compared with that of the United States from 1950 extrapolated to 2070. The conditions for parity are met when a challenger has over 80% of the capabilities of the dominant nation and cease when the challenger has exceeded the dominant nation's capability by 20%—when it becomes the dominant nation. Previous research strongly suggests that the period of greatest danger is when the challenger manages to overtake the dominant nation and traverses the region between 100 and 120%.<sup>16</sup> In order to address the Asian region, first we will detail the global context in terms of structural power relations.<sup>17</sup>

At the global level, the *lack* of an open confrontation between the United States and Russia, so feared by most analysts during the Cold War, is completely consistent with the power parity perspective. The Cold War did not become 'hot' because the USSR never approached parity with the United States. Between 1945 and 1989, despite arms buildups and ideological confrontations, the USSR did not approach or overcome US preponderance. Furthermore, following the breakup of the Soviet Union the prospects for such an overtaking are remote. This means the probability

<sup>15</sup> Suzanne Werner and Jacek Kugler, 'Power Transitions and Military Buildups: Resolving the Relationship between Arms Buildups and War', in Jacek Kugler and Douglas Lemke eds, *Parity and War*, pp. 187–207.

<sup>16</sup> See A.F.K. Organski and Jacek Kugler, *The War Ledger*; Jacek Kugler and Douglas Lemke eds, *Parity and War*.

<sup>17</sup> National Intelligence Council, *Mapping the Global Future*.

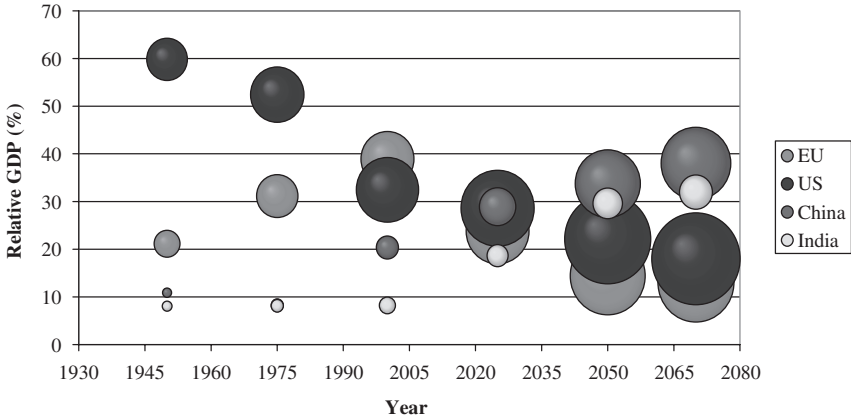


Fig. 3 Relative power and incomes of major contenders (1950–2070).

of war between the US and Russia well into the future is quite remote even if they have significant policy disputes.

Next consider the US–European relationship. No challenger to the US is expected to arise here. No single nation in Europe—Germany, UK, Italy or France—has sufficient resources to become a contender. The largest, Germany, even after re-unification only approaches the size of Japan. Again, given the population base of major European nations, none can overcome the United States in the foreseeable future, or challenge China or India. Thus, the probability of a confrontation between any European country and the United States is very small and such a conflict would not be severe.

The same can be said of the EU. The EU is not yet a united political unit capable of action at the global level, but if a major drift away from the United States takes place, NATO collapses and the EU moves towards a federated state, the possibility of conflict will increase. If all these very unlikely events take place, the conflict between the United States and the EU could be severe.

From our strategic perspective, therefore, the outcome of the Iraq war is far less important for American security than the resulting impact on relations with Europe. If this conflict continues to divide the Western Allies and affects the working of NATO and the expansion of the EU, a fundamental challenge to American security could follow.

If differences are patched up, the major loss is an opportunity to help accelerate the integration of Europe, in particular the incorporation of Russia into the Western Alliance. Building a strong coalition between Japan, Russia and the EU is necessary for the maintenance of United States as the dominant nation among the main contenders in the next half century. The Asian challenge may not be avoidable, but it can be postponed and more

effectively managed only with a strong Western Alliance that attracts Russia and maintains Japan within its fold.<sup>18</sup> These conclusions have meaning for the East Asia region.

## The Rise of China

The arguments outlined above cast a clear and unambiguous focus on Asia, and in particular on China. The United States and China are locked in a long-term competition for economic primacy. China, today the smaller challenger, is growing at a much faster rate than the more mature economic engine of the United States. This dynamic change is generating the conditions for an overtaking in the future, anticipated to be between 2025 and 2035. From our strategic perspective, this places China into the zone of parity and potential transition with the United States. Our empirical work shows that under conditions of parity, peace is achieved when both parties are satisfied. But if the challenger is dissatisfied, the probability of war increases dramatically.<sup>19</sup>

Unlike the contest with the USSR, Figure 3 indicates that over time China could overtake the United States in terms of GDP. If this happens, with its huge population, China's resulting economic parity likely will metamorphose into military superiority. Figure 3 also indicates that if China grows to its full potential, it would become the leading nation in the international system by 2075.<sup>20</sup> Take the case of nuclear weapons as an example. Both nations now have nuclear weapons. Currently, the US arsenal 'assures' the destruction of China under all circumstances, while China has a minimum deterrent. At some point in the future, however, China will achieve a Mutual Assured Destruction level equivalence with the United States. When that happens, the conditions for a potential confrontation will re-emerge. This fact has not escaped the attention of the intelligence community and a number of academics.<sup>21</sup>

<sup>18</sup> A.F.K. Organski et al., 'The Mosaic of International Power: Reflections on General Trends', in Bouda Etamad et al., eds, *Towards and International Economic and Social History: Essays in Honor of Paul Bairoch* (Geneva, 1995); Ronald Tammen et al., *Power Transitions*.

<sup>19</sup> Jacek Kugler and Douglas Lemke eds, *Parity and War*.

<sup>20</sup> We hedge our conclusion here as a courtesy to the arguments that (a) China may collapse internally such as the USSR; (b) China may decentralize and the provinces will withhold revenues from the central government; (c) China will self destruct economically or face a severe economic downturn that could disrupt its current growth trajectory and (d) China will become a practicing democracy and fall victim to the democratic peace proposition. We find all of these alternatives as being less likely than our previous primary conclusion.

<sup>21</sup> National Intelligence Council, *Mapping the Global Future*; Mearsheimer (2004) unpublished paper; Jacek Kugler and Ronald L. Tammen, 'Regional Challenge: China's Rise to Power' in J. Rolfe (ed). *The Asia-Pacific; a Region in Transition*, Asia Pacific Center for Security Studies.

The key question from a parity perspective is not whether China will be the dominant nation in world politics by the end of the century, but whether a dominant China would openly challenge the existing international regimes or join and lead the pre-existing international community. History provides examples of each.<sup>22</sup> The British were overtaken by the United States, but transferred the mantle of world leadership peacefully early in the 20th century and have maintained a cooperative stance ever since. On the other hand, the UK, when overtaken by Germany early in the 20th century, was forced to wage two World Wars to decide dominance over the world hierarchy. Only after the precursor to the EU shifted political attitudes did Germany overtake Britain in peace. The key to stability is the challenger's satisfaction with the *status quo*.

### China: Satisfied or Dissatisfied?

The weight of our theoretical and policy argument falls squarely on one question: Is China now and will it be in the future a satisfied nation? If so, the probability of war between China and any regional or global competitors falls precipitously. Therefore, how do we test for satisfaction and its corollary dissatisfaction? In the following paragraphs we propose several preliminary cuts at how to frame an answer.

First, given our predisposition to scientific inquiry, we will look at the role of territorial disputes that are strongly associated with dissatisfaction and war.<sup>23</sup> Is there a territorial dispute between the United States and China?

The United States and China have engaged in conflictual activities with territorial implications in three circumstances: Korea, Vietnam and Taiwan.<sup>24</sup> Korea produced a direct engagement on the battlefield. Vietnam was fought indirectly via surrogates. Taiwan has been episodic, involving a show of force with US naval forces from time to time. At this stage, Taiwan, seen by China as part of its core territory, represents the most

<sup>22</sup> Realists—particularly Mearsheimer (2004)—argue, following the logic of the tragedy of the great powers, that a conflict between the US and China is all but inevitable.

<sup>23</sup> John A. Vasquez, *The War Puzzle*, (Cambridge: Cambridge University Press, 1993); Paul R. Hensel, 'Charting a Course to Conflict: Territorial Issues and Interstate Conflict, 1816–1992', *Conflict Management and Peace Science* Vol. 15, No. 1 (1996), pp. 43–73; Paul Huth, *Standing Your Ground* (Ann Arbor: University of Michigan Press, 1996); Michelle Benson, *The Ties that Bind: Status Quo Preferences, Democracy and Conflict*, PhD Dissertation, Claremont Graduate University, 1999.

<sup>24</sup> Not including activities associated with World War II.

ominous example of a territorial dispute.<sup>25</sup> Given the periodic tensions over Taiwan, the growing power of the Chinese military, unambiguous statements by Chinese leaders, provocative statements by Taiwanese leaders, some evidence of increasing nationalism and the possibility of miscalculation either in Beijing, Taipei or Washington, DC, the prospect of war over Taiwan must be taken seriously.

Second, a very reliable predictor of dissatisfaction is the buildup of armaments aimed at each other.<sup>26</sup> Are China and the United States engaging in an arms buildup leading to an arms race?

China is increasing its defence expenditure and now may rank third in the world behind the United States and Russia. Intelligence estimates anticipate that they will become the second largest defence producer in another decade. Annual increases exceed the national rate of growth of the economy. Most of the Chinese military spending is off budget—not disclosed in official budget documents. Of particular interest is the Chinese concentration of over 700 modern ballistic missiles in the Nanjing region across

<sup>25</sup> Three distinct options loom in the future.

Option 1: Taiwan seeks independence. Timing here is crucial. We believe that the time when Taiwan can seek independence with US support and without a military reaction by China has passed. Independence cannot now be achieved without immediate military confrontation and even if the United States intervenes and wins that localized conflict over Taiwan, the long-term consequences would be severe. Following a military loss, China would have every reason to be a permanently dissatisfied power and when it reaches parity, the prospects for global war would be increased significantly. In the longer run, as China grows in power and reaches parity with the United States, and the existing alliances are restructured in response to declining US dominance, the possibility for a peaceful accommodation over Taiwan diminishes. The danger in the independence calculation resides in the stipulation that Taiwan's allies in the United States will force the administration in power to come to its aid if attacked after a declaration of independence. This calculation represents the highest stakes of any global game and is based on a series of complex assumptions that cannot be confirmed in advance.

Option 2: Taiwan is incorporated into China. Such reunification could take place in a 'smooth' and 'evolutionary' manner. Incorporation could result from direct or indirect negotiations between the two parties with or without the participation of the United States. We hesitate to suggest the terms of this complex issue but undoubtedly there will have to be specific guarantees reinforced perhaps by some outside body (United Nations or regional security complex) dealing specifically with local economic, social and political freedoms at the expense of relinquishing foreign policy jurisdiction to Beijing and some long-term arrangement for shared national security obligations. An incorporation or merger or joint venture, call it what you like, would help preserve the international peace by eliminating a territorial flash point between China and the United States.

Option 3: Continuing the *status quo*. Tensions over Taiwan most likely will continue with repeated crises between China and the United States resulting in periods of high drama and perhaps increasing frustration on the Chinese side. Nationalism probably will increase during the Chinese developmental cycle. Under such conditions, as China approaches power parity with the United States sometime in the period 2020–2050, an attempt by China to use coercive means to re-incorporate Taiwan into China would force the US to make either of the two difficult choices. It could choose to look the other way and not intervene to protect Taiwan or it could commit its military to the defence of that island. In the former case, it would represent a *de facto* passing of the mantle of pre-eminence from the United States to China. In the latter case, it would represent the prospect of a severe war.

<sup>26</sup> Suzanne Werner and Jacek Kugler, 'Power Transitions and Military Buildups'.

from Taiwan. The Chinese are also purchasing and attempting to secure co-production rights for advanced weaponry from Russia. Such arrangements include the Sukhoi fighter, surface to air missiles and submarines with antiship missiles. Chinese shipyards are pumping out new Chinese design destroyers, and there is increasing evidence of an interest in and emphasis on precision-guided munitions, information warfare and other asymmetrical strategies.

Does this constitute an arms buildup? Not necessarily. The vast majority of Chinese military units remain under-trained and ill-equipped. Without discounting recent advances, the Chinese strategy appears transparent—to design and deploy forces specifically to deter and defeat if necessary US forces in and around Taiwan.

From the US side of the equation, defence expenditure is rising, but not as a result of an arms race with China. US military budgets have increased after a short-lived decline following the collapse of the USSR. Some of this new expenditure—specifically the Anti-Ballistic Missile deployment—could be interpreted by China as an attempt to thwart their ability to achieve Mutual Assured Destruction. The majority of US arms buildups, however, have been in direct reaction to the 9/11 attacks and Iraq. Spending on homeland defence, Special Forces, intelligence gathering and conventional capabilities are targeted towards terrorism and nations that harbour such activities far more than they are targeted at China. Despite an increase in military spending, with the one exception of the deployment of anti-ballistic missile systems designed, the US claims, against limited and accidental attacks—there is little indication at this time that an arms race is looming. China's actions support the argument that there is no ongoing arms race. There is no doubt that China could, if it so desired, dramatically increase its defence budget. The cost would be several percentage points of economic growth and any associated worker unrest.

The fact that large military increases have not been opted for by the potential challenger indicates a major opportunity for the United States to build trust and incorporate China further into the satisfied camp. Such cooperation must be built with a proactive and purposeful foreign policy. US efforts under the Clinton administration allowed China to join the World Trade Organization (WTO), perhaps, at bargain rates. This process established the principle that growing international economic transactions by China would be ruled by the norms of the international community. These promising initiatives have not proceeded evenly or with authority; before 9/11, the controversy over the US spy plane damaged diplomatic activities; after 9/11, while relations with China have been stabilized, and there are direct and indirect signs of quiet cooperation, there is no evidence of any long-term plan on the US side. Time is passing.

Third, is China dissatisfied with the international rules of the road? Acknowledging the growing influence of China regionally and globally,



China's leaders depict their ascendance as 'peaceful rising'. When combined with a Chinese foreign policy of 'noninterference' in the domestic affairs of other countries, they portray China as a benign giant on the rise. Regionally, China engages in both bilateral and multilateral initiatives. Economic expansion has allowed China to push aside the United States as the largest export market for Japan, South Korea and Taiwan. China has become the economic centre of Asia and with that comes multiple interlocking relationships. Though once slow to join regional organizations, China is now more willing to participate in the economic and security organizations throughout Asia. This represents a new level of comfort and a new sense of confidence in their long-term strategy for regional influence.

Globally, China picks and chooses its organizational affiliations carefully. Entrance to the WTO in December 2001, contrasts with Chinese refusal to fully cooperate with international treaties and organizations dealing with proliferation of weapons of mass destruction and associated delivery systems. Libya, Pakistan, Iran and North Korea have all benefited from covert Chinese proliferation. These activities signal a degree of dissatisfaction with prevailing international norms under US leadership.<sup>27</sup> When confronted, Chinese leaders have been slow to modify their proliferation behaviour but some positive change has been recently forthcoming.

Fourth, are there strong ideological disputes between the United States and China? The great experiment in China balances political controls with economic freedoms. State-sponsored and enforced ideology is the required price of limited personal freedoms. This set of ideological beliefs experiences upheaval at regular intervals, but the enforcement mechanisms of the State and its insistence on Party primacy have been consistent.

Certainly the two ideological systems represented by the United States and China are at odds over the fundamental role of the individual in the political arena. The lingering history of Western incursions in China, the feeling among some Chinese leaders that the West historically has treated China with contempt and the idea that China has been forced to swallow bitterness at the hands of the West complicates this picture. Coupled with rising nationalism, these anti-Western, perhaps even xenophobic attitudes, create an ambiguous disposition within the Chinese political elite. This ambiguity allows China to move either towards cooperation or conflict without contradiction. The development of internal interest groups in China, representing the business community and countless other building blocks of a civil society, could be a key component of shifting domestic preferences away from nationalism towards a global perspective. If such shifts are achieved, elites that support norms and rules in the world community would

<sup>27</sup> An alternate explanation would be systematic corruption at the highest levels. Or the behind the scenes influence of the People's Liberation Army (PLA)—bureaucratic warfare and the flexing of political muscle.



gain ground leading to adjustments acceptable to the old and the now evolving set of world rules.

Fifth, are there binding patterns of trade and cooperation between the United States and China? The economic ties binding the United States and China are substantial; from an economic perspective, the Chinese side now embraces some of the free market philosophy that underpins Western thought. Economic interdependence is also rising. Whether it is China becoming the third largest trading partner of the United States, China representing the largest ever bilateral trade deficit with the United States or Chinese students representing the second largest international group studying in the United States (after India), the economic ties between the two countries are so deep that both sides express concern when economic conditions in either falter. This condition contrasts vividly with the economic ties between the United States and the USSR during the height of the Cold War when there were very few reciprocal economic relationships between the two adversaries, and thus few opportunities for the economic elites on either side to moderate national policy. The prospects that cooperation will rise as a consequence of economic convergence are positive.

### The Prospects for Conflict with China

The conditions identified here describe the United States–China dyad as one of the only geographic arenas where we believe a major war may be waged. As Figure 4 indicates, the probabilities of conflict are real and rise substantially in mid-century. This alone makes the Taiwan situation pivotal for its citizens on both sides of the straits and the larger world community. Taiwan sits at the crossroads of history.

Figure 4 indicates that the United States and China can still choose between conflict and cooperation—even integration, if decision makers so choose. China and the United States could eliminate their disagreement over Taiwan by inaction on both sides, quiet capitulation by one or the other, or by a negotiated agreement. Whatever means are used, a peaceful resolution of the Taiwan issue would enhance the opportunity for China to grow into a global role within current international rules. Arms races can be avoided, internationalism promoted, nationalism moderated, trade and mutual interests further developed. All of these variables are susceptible to policy manipulation.

The challenge for the United States, and for forward-thinking leaders in China, will be to manoeuvre China through the growing pains on the steep part of the growth curve—a time of heightened nationalism and power exuberance. This means avoiding situations that would cause China to become dissatisfied, but does not mean any form of appeasement. Rather, it is a strategy that recognizes the importance of reciprocal, interlocking, self-interested, binding ties. Major issues of concern will include negotiations

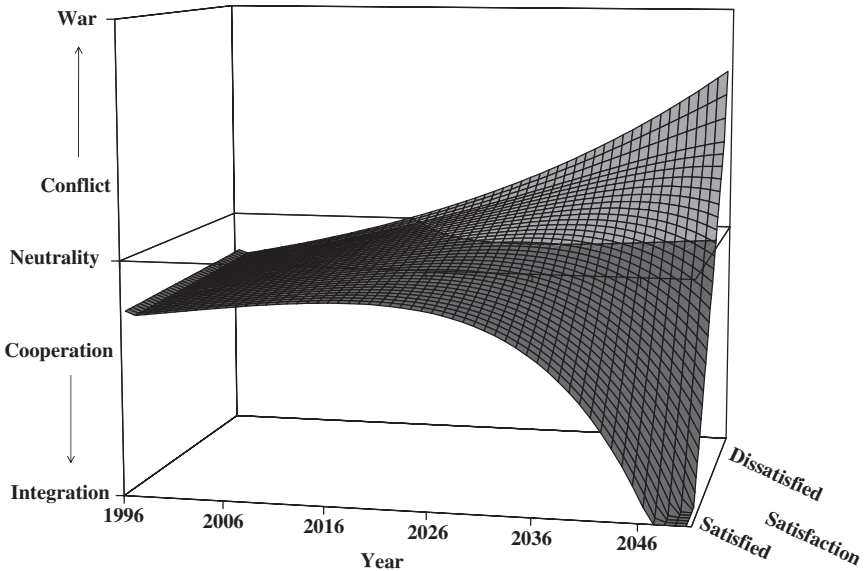


Fig. 4 Forecast for US–China conflict or cooperation, 1996–2050.

over patents and copyright laws, fiscal openness, the dollar-based international standard, exchange rate controls, access to markets, subsidies for domestic producers, legitimate legal redress, internal and external migration patterns, environmental concerns and labour standards. Many of these topics also dominated the debate between the United States and the EU, but here both sides had achieved equivalent levels of economic productivity. With China, these problems will be more intense and will have to be resolved when there is still a wide gap between the individual productivity of China's labour and that of the United States. This very difficult task will require the attention of top decision makers and a well thought out strategy to achieve successful resolution.

Should this strategy fail the alternative for the United States is to change the timing of parity; structural change can delay or avoid a possible confrontation. The expansion of NATO, or a similar new organization, to include Russia, Japan and India would add to the power base of the Western Alliance and postpone parity with China for a substantial period of time. It is even imaginable that China could be induced to join a NATO-like international structure although we find this option, given Chinese foreign policy and geopolitical interests, very difficult to envision. Should China, and eventually India, be coaxed into this option, however, it would ensure great-power peace at the global level.

The ultimate goal of US policy in this century is to ensure global peace by helping to create in China an elite ruling class that is satisfied with the international structure and the corresponding rules of the road.

### Short-Term Opportunities

Despite our view that power is shifting from the United States to China in this century and all that means for the US–China relationship, short-term trends indicate what may be a unique opportunity for cooperation rather than conflict. This relates to the *perception* that the United States has widened the power gap with all the other countries. The perceptual evidence for this conclusion flows from expert analysis in various countries suggesting that US military prowess, as demonstrated in Iraqi War I, Bosnia and Iraqi War II, has leapfrogged a generation or two ahead of all other great powers.

The combination of technological leadership, new military tactics and bold innovation has created the assessment, backed by reality on the ground and in the air, that the United States has created a near insurmountable lead in military capability. No one element of this new generation of capabilities is most impressive, rather it is the systematic integration and coordination that results when they are employed jointly.

Military leaders in China and most of the rest of the world were quietly impressed, if not alarmed, by the first Iraqi War which demonstrated the ability to marshal a diverse allied force, rapidly build up an overwhelming ground force, employ air power in an unprecedented way and an operational plan that utilized speed, deception and massive mobile firepower to win a staggeringly swift victory against a seasoned and large military force—albeit one weakened by a decade of war.

Only shortly afterwards, these same foreign military analysts were forced to come to grips with a revolutionary development in Bosnia. Here the United States, against all prevailing military doctrine and experience, carried out an air campaign, without ground force support, which accomplished the full range of war objectives at a near minimum loss of personnel and material. An astounding military accomplishment that fostered admiration, fear and anxiety among strategic planners in foreign capitals.

The Second Iraqi War only heightened these concerns. Again breaking the tradition, the US military machine went to war without the traditional recourse of overwhelming numbers, substituting battlefield awareness, information dominance and reckless speed for the older formula. The willingness to experiment, to integrate unproven technologies, to operate jointly as a total military force, again shocked military planners.

While it is impossible to detail how these three campaigns were internalized in Beijing, the reaction of the military establishment has been instructive. China has come to recognize that the traditional reliance on its most abundant asset, manpower, no longer provides the strategic edge

it requires in the modern world. Yet, because as a nation it has made a significant, though perhaps temporary, strategic choice to favour the development of the economy over that of the military, much as did the US in the pre- and post-World War I period and again following the collapse of the USSR, the Chinese military establishment must now reassess its strategy and find ways to mirror progress in the West. As a result, we have seen an increasing interest in and emphasis on information warfare and other cutting edge concepts that, they hope, will provide a platform to redress the imbalance.

It is this perception of imbalance that we find most important in our analysis. We believe that this imbalance is a temporary condition that will be eroded over time. As China develops the internal structures and technologies to compete on the battlefield tensions may once more rise. For the time being, the world ‘feels’ differently than before, the demonstrations of US capabilities have been impressive and strategic planners undoubtedly have more reason to be cautious when dealing with the US. This, we believe, provides the window of opportunity that will well serve the United States and China.<sup>28</sup>

This window of opportunity is limited. As China demonstrates its technological expertise, the manned space launch being just the first significant example, the perception of US leadership will be replaced with a heightened nationalism. This pride of accomplishment may or may not be based on fact. But the perception gap will be closed and the opportunity to find a solution for the long-term US–China equation may be lost. Indeed, this period should be viewed as a fleeting but real ‘moment in history’ which could and should be exploited to change the structural relationship between China and the United States.

### Policy Opportunities

From the perspective of the United States, time does not bring more favourable conditions to respond to the approaching challenge from China and Asia. To avoid the potential of a clash somewhere in mid-century, the United States must take the lead in finding ways to integrate China into the world community, thereby having it accept the prevailing rules and norms. Within China, the development of internal interest groups representing the business community and countless other building blocks of a civil society, is a key component. Any actions by the United States to support the business community or local interest groups could be seen as hostile intervention, making this a highly sensitive topic. Thus, this strategy must

<sup>28</sup> We have made the case in other places that it is too late for Taiwan to declare its independence. Our previous analyses have indicated that Taiwan’s position was eroding with the relative change of capabilities of the United States and China. We still maintain that is the case. See Tammen, Ronald et al., *Power Transitions*.

not depend on governmental actions: these building blocks of a civil society must be constructed one by one, from many sources and without linkage to official US policies.

China's willingness to engage its neighbours and participate in regional organizations is a significant opportunity to begin the process of integrating China into the world community. The more China can be encouraged by non-US actors to join, participate in and give leadership to regional and international organizations, the greater the possibilities of internal diversity within China. The international business community has a significant role in this strategy. China has fallen in love with the Western business model. The more that Chinese law and institutions harmonize with common business practices, the greater influence these entities will have on domestic Chinese politics. But the responsibility of the world community does not rest there. Every organization with an international mission, large and small, can play a significant role in the modernization of Chinese society. They can do so by bringing with them to China the concepts of tolerance for diverse ideas, equal treatment under the law, local governance for local interests and the responsibility of world citizenship.

We have some evidence that the rich provinces of China already have some bargaining leverage with the central government on taxes. We know that a substantial black market economy fueled by corrupt officials and military leaders has forced top party leaders to take corrective action. Western businesses are pressurizing the government for a uniform set of commercial laws and effective means of redress. Tourists are flocking to China from all over the world, bringing with them infectious ideas. Attempts to control the internet have been only partly successful. Thirty-five percent of Chinese exports are going to the United States. Soft power, the lure of Western culture, the fall out from a more educated population is changing China in small incremental units. Should these combined impulses outweigh the growing nationalism of a nation on the move, then the Chinese elite will view the world as an opportunity rather than an obstacle, and the probability of war will recede.

On the other side of the equation, China's smooth path and easy landing may not be assured. Chinese leaders have unleashed forces that they may not be able to control. They are caught between the national imperative to develop rapidly, the prospect of an overheated economy at one end of the scale and the fear of an economy without jobs for millions of rural to urban migrants at the other. The vast floating work force that now gives the Chinese economy so much flexibility also has the potential to create political instability. Chinese officials recognize that government-owned state enterprises are highly inefficient and that their banking system is plagued with non-performing loans, but they need these loans to satisfy non-market demands for a stable political system. They are attempting to use credit

controls to slow down the expansion. If their control mechanisms fail and the Chinese economy enters a free fall, undoubtedly there will be those leaders who would redirect the resulting fear and frustration towards the United States. Taiwan is likely to be used as an excuse—thus its early resolution is critical for both sides. Should China enter an intense stage of revivalist nationalism, only a strengthened Western alliance composed of the US, Western Europe, India and Japan would be powerful enough to avert conflict and even then the world may find the consequences exceedingly unpleasant.