

A GRAND STRATEGY ESSAY

# Dealing with China

by Francis Fukuyama

Working Group on Foreign Policy and Grand Strategy

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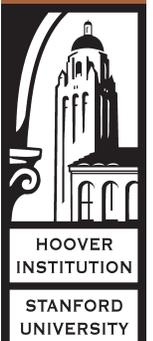
How do we deal strategically with China's rise, now that we are in a phase when China has dropped its "smile diplomacy" and is making increasingly belligerent and assertive territorial claims all over East Asia?

I believe that the analogies between China and pre-WWI Wilhelmine Germany, while obviously oversimplified, are correct in one essential sense. Like Germany after 1871 but unlike either Nazi Germany or the former Soviet Union, present-day China is not an imperialist power with unlimited global ambitions, nor is it driven by a millenarian, universalistic ideology. It is, however, a very big and rapidly rising power, and adjusting to such a dramatic rise is one of the most difficult things for an international system to accomplish.

This is the problem that Britain and France faced with Germany prior to August 1914. Many people believe that the problem leading to that war was that the Triple Entente failed to adequately deter Germany from executing the younger Moltke's plan. But given the realities after 1871, there was no way that Germany would *not* exercise greater influence throughout Europe, and there is a competing school of historiography that suggests the problem was the Entente's failure to adequately accommodate Germany's increasing influence. I think that the truth comprises parts of both views: Germany needed to understand the costs of invading Belgium and France, but also needed recognition of its growing power, perhaps in the colonial world where boundaries were more fluid. In any event, it would be hard to make the case that the war that unfolded served the interests of any of the belligerents involved.

These lessons from the European experience of the early twentieth century may prove instructive in dealing with present-day China. Set to overtake the United States perhaps within a decade as the world's largest economy, China simply will

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exercise greater influence—not just in its region but throughout the world. In a way, this is already happening: China is the largest and fastest-growing export market and investor in sub-Saharan Africa and Latin America. Any American response has to include elements of both deterrence and accommodation.

### **Red Herrings**

Before proceeding to examine what such a strategy might consist of, we need to deal with the question of China's internal development and its implications for foreign policy. I believe that neither the Chinese economic nor political models are sustainable in the long run, but also that this fact is *completely irrelevant* to present-day US foreign policy in the Pacific region. We need to assume that China will remain on its current growth trajectory and will be increasingly assertive over the next decade. We cannot assume a *deus ex machina* solution to our present problem.

China's economic model will be severely tested over the next decade and a half. As the *China 2030* report by the World Bank and the Chinese Central Bank notes, the problems of moving from middle-income to high-income status are very great and require very different policies from the ones that have dominated in the past generation. The Chinese leadership seems to believe that they have a labor surplus in the 500 million or so people still living in the countryside. They do not: Scott Rozelle estimates that there are *zero* mobilizable workers there, and notes that for working-age rural residents approximately six years of education is the average.<sup>1</sup> In shifting from export to internal demand, the Chinese leaders seem to think that they can simply put peasants in apartment blocks in newly urbanizing cities, but it is not clear what useful work there will be for them to do. Global demand for their output will remain limited. China's leadership is projecting that the country's growth will remain around 7.5% per annum through 2020, resulting in a doubling of national output from 2010 to 2020. I don't know of many Western economists who think this is possible; it seems much more likely that growth will gradually sag over the next decade to something in the 5% to 6% range. And this assumes that China will not suffer a major financial meltdown in the short run from its overextended local governments and rapidly deflating property markets.

The other big liability is political. China has a middle class of perhaps 300 million to 400 million people, and produces more than 6 million new university graduates every year. The unemployment rate for middle-class Chinese is now worse than

for low-skilled workers, and there are big questions about the quality of Chinese higher education outside of the elite universities like Beida and Tsinghua. The government's earlier pursuit of growth at all costs has left a heavy legacy of hidden liabilities, not just dirty air but the one-fifth of agricultural land that the government's own environmental protection agency says is too poisoned for growing food. At some point in the future, falling rates of job creation are going to collide with the expectations of that middle class and produce political instability. I believe, however, that it would be extremely foolish to base US foreign policy on an assumption that China will either collapse politically, or even less probably, democratize. At the moment, middle-class Chinese, whatever their complaints and hedging in the short run, seem to be very supportive of continued rule by the Communist Party (CCP).<sup>2</sup> An instability scenario would have to follow a period of much slower economic growth, and the government has lots of resources to put that off.

More importantly, we underestimate how much legitimacy the government gets as a result of rising Chinese nationalism. The CCP has been very explicit about that fact that it alone is responsible for reversing the hundred years of humiliation and making China a great power again. This is something that most Chinese seem to accept and take great pride in. The degree of nationalism among younger people in China today (as well as in Japan and Korea) is truly alarming. Moreover, if the economic model starts faltering in the near term—say, through a sudden collapse of property markets—the CCP will be more likely to turn to nationalism to secure its own legitimacy. This will lead to more rather than less assertiveness abroad. So we have to deal with China as it actually exists today, rather than as we may hope it will be in the future.

### **Asian Multilateralism**

I do not want to address the operational aspects of a China-centered strategy, except to say that we have a big problem. During the Cold War, we developed quite a number of canonical scenarios for how the USSR might use its conventional and nuclear forces, and we designed our forces around a series of escalation ladders that were largely agreed upon.

In the Pacific theater today, we do not have consensus on a similar set of canonical scenarios, except for a North Korean invasion of South Korea (ROK), or a cross-straits invasion of Taiwan. In particular, we do not have a clear understanding of how conflicts over China's various territorial claims in the

South and East China seas may develop, how they may escalate, and what forces would therefore be needed to meet these contingencies.

For example, a couple of recent Rand studies have shown that Chinese medium-range ballistic missile capabilities could be quite effective in shutting down the Pacific Air Forces' ability to forward deploy throughout East Asia in the first 72 hours of a general war. The problem is, under what conditions do we think that China would be ready to launch missiles at airbases like Kadena and Misawa, or the ones in Korea? What would the Japanese and Korean reactions to such attacks be? Similarly, the United States could respond to Chinese aggression in the East or South China seas not in the immediate theater, but by doing things like interdicting Chinese passage through sea lines of communication all the way out to the Persian Gulf, and at one extreme by going after airbases and missile sites on mainland China. But again, under what escalatory scenarios do we believe we would undertake such operations? I'm sure that the United States Pacific Command has gamed many of these out. But do the president and the National Security Council have a good sense of what their options are in the event of military conflict in the eastern Pacific? We do not want these scenarios to be laid on the table at the last moment, when the crisis has already started.

Beyond the operational side of a Pacific strategy, I believe the central near-term issue confronting the United States is how to build a multilateral framework for dealing with China.

Over the past 25 years, a complex game has been playing out between the United States and China over the design of the overall political architecture of East Asia.<sup>3</sup> The US position, of course, is based on its legacy hub-and-spoke alliance system, whose most important components are the bilateral treaties with Japan, the ROK, Australia, and the Philippines. China for its part has been trying to organize an East Asia community that excluded the Western powers. This began with Mahathir's proposal for an East Asian Economic Community back in 1989, which he pushed at China's behest. The Bush 41 administration batted this down with Japan's help in the early 1990s, but the proposal has kept coming back in different forms: ASEAN Plus Three, and the East Asian Summit. China's purpose has been to organize the region around itself, and to keep the United States out. In addition, it has added to the spaghetti bowl of East Asian bilateral trade agreements, which have a strategic as much as an economic purpose.

Since the 2008 financial crisis, China has largely abandoned its multilateral approach, and has increasingly demanded that the countries of East Asia deal with it on a purely bilateral basis. It has rejected demands that territorial issues be discussed in multilateral settings like ASEAN. This is a matter of pure power politics: the small states of Southeast Asia are largely powerless when dealing with China bilaterally. The United States, for its part, has increasingly promoted the multilateral discussion of the island disputes. Some of Hillary Clinton's most important actions as secretary of state involved attending ASEAN post-ministerial summits (something that Condoleezza Rice repeatedly failed to do), and, more generally, giving strong political support to Vietnam, the Philippines, and other countries in their disputes with China.

This mechanism has broken down, however. The last two ASEAN summits led to no general criticisms of China. The Phnom Penh and Naypyidaw summits each saw the host countries nix a common statement due to Chinese pressure. Japan's dispute with China over the Senkaku/Diaoyu islands, of course, has not been addressed in a multilateral fashion because Japan's position on the historical record has been toxic to other countries (e.g., the ROK) that might be sympathetic to such an approach.

Moreover, it is not clear whether the Obama administration remains committed to the "rebalancing" strategy in its second term. In a major address at West Point in May 2014, the president laid out a framework for US foreign policy and asserted that force should be used only in the case of "direct threats" to US national interests. Obama went on to say that the only direct threat we faced was that posed by terrorism. He did not mention Asia, China, or the rebalancing of power in the Pacific region a single time in the course of the speech.

I believe that any future US strategy building on the rebalancing needs to put creation and promotion of a multilateral framework for dealing with China's territorial claims front and center. This means that the United States needs to bolster whatever existing institutions are out there, like ASEAN. Unfortunately, the region is full of weak multilateral organizations such as the East Asia Summit and APEC that will not help in this regard. So perhaps the time has come to think about differently organizing countries threatened by China's rising power. What this would look like I'm not sure. However, it seems pretty clear that if the countries in the region don't hang together, they will hang separately.

Both military rebalancing and a multilateral structure only address the deterrence side of the general strategy I outlined, and not the accommodation side. What the latter should consist of I'm not sure. For example, while I think we need to bolster deterrence in the short run, it is not at all clear that it is in the US interest to get into a war with China over its territorial claims. How to square this circle I leave for a future think piece.

## Notes

1 Scott Rozelle, Xiaobing Wang, et al., "The Challenges Facing Young Workers During Rural Labor Transition," *China Agricultural Economic Review* 2, 2010: 185–199.

2 Sources include AsiaBarometer ([asiabarometer.org](http://asiabarometer.org)), among others. See also Pew Research Center's numbers on Chinese public opinion (<http://www.pewglobal.org/2011/03/31/upbeat-chinese-public-may-not-be-primed-for-a-jasmine-revolution> and <http://www.pewglobal.org/database/indicator/69/country/45>).

3 Much of this history is covered in Francis Fukuyama and Kent Calder, eds., *East Asian Multilateralism: Prospects for Regional Stability* (Baltimore: Johns Hopkins University Press, 2008).

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## Foreign Policy and Grand Strategy Working Group

The certainties of the Cold War, such as they were, have disappeared. The United States now confronts several historically unique challenges, including the rise of a potential peer competitor, a rate of technological change unseen since the 19th century, the proliferation of nuclear and biological capabilities, and the possible joining of these capabilities with transnational terrorist movements. There has been no consensus on a grand strategy or even a set of principles to address specific problems. Reactive and ad hoc measures are not adequate.

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