

Balancing without Containment: A U.S. Strategy for Confronting China's Rise

China's rise constitutes the most serious geopolitical challenge facing the United States today. On current trends, China could—many say will—develop a national economy larger than that of the United States as early as the end of this decade, at least when measured in purchasing power parity terms.¹ China's national ambitions too are clear: at the very least, Beijing seeks to recover the centrality it enjoyed in Asian geopolitics until the coming of colonialism.² Its economic renaissance since the 1980s has now positioned it to play a major global role that was simply unimaginable some thirty years ago. With its extraordinary military modernization program, Beijing has also made tremendous strides toward holding at risk the United States' forward-deployed and forward-operating forces in the western Pacific, thereby raising the costs of implementing U.S. security guarantees to its partners in the region. Its unique characteristics—being a continental-sized power, possessing a gigantic and technologically improving economy, having a strategically advantageous location, and rapidly acquiring formidable military capabilities—add up quickly to make China a consequential rival to the United States, even if it differs from previous challengers in character, aims, and ambitions.

China's rise, which is but part and parcel of the larger rise of Asia, has been engendered in great measure by the permissive benefits of U.S. hegemony since World War II. The U.S.-backed guarantee of open global commons, especially in the Asia-Pacific region, the creation of stable multilateral exchange arrangements, and the maintenance of the dollar as an international reserve currency have all together produced inordinate gains for regional actors and the international economy alike. As a result, China could actually grow not by the autarkic processes that drove the rise of

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previous great powers, but by exploiting the interdependence arising from deliberate U.S. investments in producing an open international trading system.³ The structural contradiction between the United States and China is thus defined by the awkward reality that Washington sustains an international economic order that, although producing great benefits for itself and others, simultaneously fuels the growth of what could be its most significant geopolitical antagonist over time.

Shorn of all subtlety, Beijing's rise poses a special problem for U.S. interests because it threatens a possible power transition at the core of the global system. Preserving American preeminence and by extension the current global system itself, accordingly, remains the central task for U.S. policymakers today. This will prove difficult: China's deep integration with the international economy, to include the United States, implies that the obvious containment strategies that worked so effectively vis-à-vis the preceding rival, the Soviet Union, are unlikely to be successfully replicated this time around.

Forget Containment, not Balancing

Containing China—defined as attempting to suppress its growth by isolating Beijing from its neighbors and the world—cannot work, for several reasons. For one thing, China has deep economic ties with the United States and the international community, and all countries enmeshed in these economic interactions profit from them—even if China accrues greater gains than most. No state, therefore, would willingly forego its own absolute gains deriving from trade with China. Even though China's neighbors in particular recognize that they are contributing to growing Chinese power, and consequently are most anxious about Beijing's expanding military capabilities, they are reluctant to limit their trading relations with China so long as Beijing does not present an intolerable danger to them and so long as non-military instruments, such as diplomatic engagement and regional institutions, continue to offer some hope of constraining China peacefully.

The U.S. benefits from its ties to China in absolute terms, but loses in relative terms.

China's incipient centrality has thus resulted in its neighbors seeking to avoid any stark choices between China and the United States—a preference that could persist even in the event of conflict between these two powers. A Cold War-style containment strategy is therefore likely to find little traction with key Asian states, and could in fact backfire if they are presented with the intolerable binary of aligning with either Washington or Beijing. The net result of globalization, therefore, is that rising, more powerful states, such as China, can exploit the phenomenon of interdependence to increase their power and autonomy,

even as their weaker partners become more reluctant to cut off their trading ties for fear of losing out in absolute terms.

This dynamic will persist so long as U.S. military might suffices to protect the Asian security system, a system that U.S. power has long underwritten. It is not clear, however, whether this will continue to be the case once Beijing acquires the capacity to

decisively undermine Washington's extended deterrence capabilities in the Asian theater.

Further complicating matters, the strong Sino-U.S. trading relationship (one that was completely absent between the United States and the Soviet Union during their rivalry's heyday), China's emerging role as an important U.S. creditor, and the political power of key U.S. constituencies that profit from strong ties with China all combine to frustrate any attempt by the United States to restrain the growth of Chinese capabilities by cutting off Beijing's economic links with itself or with other states.

The United States thus finds itself locked in a conundrum: it is tied to China through dense economic links that have value because of their absolute gains, but it is threatened by the fact that the relative gains from this relationship are arguably greater for Beijing and are increasingly used to build up Chinese military forces in a way that threatens the security of the United States and its closest Asian allies. This problem has no easy solutions. What alone is certain is that containment is infeasible today, even if it may be most needed as a device for limiting Chinese power.

This is why balancing becomes essential—China's rising power cannot go unchecked. Even if Beijing's intentions are peaceful today, there is no assurance that they will remain so in perpetuity. China's rapid growth has already elevated regional anxieties because of the dramatic shifts in the local "correlation of forces"; it has weakened the credibility of U.S. security guarantees to the littoral states, thanks to its ability to produce strategic instruments capable of inflicting great damage on U.S. military assets deployed around the Indo-Pacific; and it has threatened the traditional U.S. command of the commons as a result of its growing capacity to deny the United States unfettered use of the seas, space, cyberspace, and the electromagnetic spectrum. These realities combine to generate a serious and deepening challenge to U.S. power projection in Asia and, by extended implication, to U.S. primacy itself. If the United States is to protect its global position amidst these challenges, it cannot afford *not* to balance China, even if it must implement this response subtly and politely, garbed in the language of "strategic partnership."

Given these circumstances, the United States must pursue a balancing strategy of the kind that has not been attempted before. The core objective must be to protect, and wherever possible to expand, the extant U.S. advantages in relative power, but without incorporating those components that would spell containment. These components include cutting China's access to the global trading regime; integrating China's neighbors into a unified alliance system against Beijing; developing collective defense strategies against China; and pursuing an ideological campaign aimed at delegitimizing the Chinese state and its governing regime. Safeguarding U.S. hegemony requires instead a four-pronged strategy

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that Washington must pursue concertedly in order to balance against growing Chinese power: first, it must support the rise of other Asian powers located along China's periphery; second, it must deepen globalization in specific ways to procure enhanced gains for itself and its friends; third, it must invest in preserving its extant military superiority; and, finally, it must revitalize the U.S. economy to sustain its dominance in the new leading sectors of the global economy.

Don't Push China Down, Raise Others Up

First initiated by President George W. Bush but now continued purposefully by Barack Obama, the first prong of the evolving U.S. strategy for balancing Beijing aims not at keeping China down, but raising others up—or, to put it differently, to propel the growth of other nations along China's periphery as a way of “weaving the net” that produces a “moderating effect on [Chinese] behavior.”⁴

The logic of the strategy is simple and aptly suited to present circumstances. If the consequential states abutting China—such as Japan, India, Vietnam, Singapore, Indonesia, and Australia, among others—can be aided by U.S. power to realize their strategic potential and to increase their mutual cooperation while deepening their partnership with the United States, the net effect would be to create objective constraints that limit the misuse of Chinese power in Asia. These checks would not materialize because the Asian partners necessarily bandwagon with the United States or even champion all its policies vis-à-vis Beijing. Rather, they would be produced by the growing capabilities of these key nations—aided by the United States—and their increased incentives for collaboration both among themselves and with Washington. These elements, driven by the regional actors' own concerns about China's increasing power, would position the key Asian states in ways fundamentally congruent with U.S. interests, especially the core objective of restraining the potential for Chinese aggressiveness, while at the same time providing “the necessary cushion that prevents [their] tightened commercial interdependence [with China] from disrupting the delicate balance between economic gains and geopolitical risks.”⁵

Such a regional equilibrium offers the potential for balancing China—and inducing good behavior on the part of Beijing—without any necessity for containment, let alone conflict. The success of this approach, however, hinges on the ability of the United States to pay consistent attention to the critical states abutting China, while at the same time keeping diplomatic relations with Beijing on an even keel.⁶

Consequently, the United States (and its friends) ought to engage China at multiple levels, both bilaterally and multilaterally, avoiding single-issue politics whenever possible. Disagreement over issues like human rights, political freedoms, the treatment of minorities, nonproliferation, or military modernization should be handled tactfully. Such an approach does not require the West to paper over what may be troublesome Chinese domestic, foreign, or strategic policies, nor to shy away from visible and public confrontations if egregious Chinese lapses demand it, but rather to ensure that all such responses are sensitive to context, proportionality, and effectiveness. Put simply, the goal of deepened political engagement with China ought to be encouraging it to stay committed to peaceful development both within and without. To the degree that such engagement requires creating new inter-societal linkages or new fora for bilateral and regional cooperation, these avenues should be explored.

To their credit, recent U.S. administrations have more or less successfully pursued this emphasis on sustaining productive relations with China. Such a focus, however, cannot be allowed to eclipse—as it often does in Washington—the equally vital objective of strengthening U.S. ties with the key power centers located along China's immediate and extended outskirts. Since 2001, for example, the United States has made a special effort to transform its ties with India, the other rising Asian giant whose large continental size, great economic and demographic potential, significant military capabilities, and sturdy commitment to democracy—not to mention its own ongoing rivalry with China—make it a particularly attractive partner for Washington. This rapprochement with India should extend to other critical Southeast Asian states.

Such an effort will require considerable political attention at high levels in Washington—and a remarkable degree of consistency that in the past has often been the exception, not the norm. The endeavor is admittedly challenging: the number of states that Washington must engage successfully is large; the partners themselves are remarkably diverse in national capabilities and differ in alliance status; they each pursue varying strategic objectives; and their capacity to respond to U.S. overtures is dissimilar as well. Because they are all individually weaker than China, they are at times easy to overlook; nevertheless, their role cannot go underestimated.

For that reason, U.S. policymakers should continually strengthen the national power of these littoral entities even when they cannot or will not reciprocate U.S. initiatives as fulsomely as may be desired. And if these nations do reach their strategic potential as a result of preferential U.S. assistance, they would effectively serve as a powerful constraint on China's freedom of action in Asia. This would not only limit Beijing's capacity to dominate important centers of the global economy, but would bring China's entire outer periphery under the influence of nations friendly to the United States. Thus, U.S. hegemony would gain another, more local level of protection—and in so doing will buttress U.S. primacy for longer, and more cheaply, compared to many other alternatives.

This approach generates a positive converse as well. If U.S. assistance strengthens the regional powers, their incentives to expand economic interdependence with China would grow; they would have no reason to fear that the material gains accruing to Beijing could be used to threaten their security. The persistence of such a positive-sum game all around, then, mitigates interstate rivalry and its potential for undermining larger gains in prosperity. The strategy of nurturing the growth of major powers along the Asian periphery in order to balance China without containing it, therefore, provides the regional system with the best of both worlds: an opportunity to limit Beijing's capacity for malevolence without sacrificing the common prosperity arising from trade and interdependence.

A Asian major power growth would limit Beijing's capacity for malevolence without sacrificing interdependence.

Deepen Globalization Selectively

Nurturing the critical states on China's periphery cannot occur without increasing economic growth all around. Although economic decisions in these countries will

remain the most important factor affecting growth, the choices pertaining to trade probably come in a close second. Any grand strategy that seeks to protect U.S. hegemony, therefore, must focus on how further expansion of global trade might strengthen U.S. power. Because the object of this effort is balancing China, not containing it, the investments made toward expanding the international trading regime must simultaneously yield enhanced absolute gains as well as improved relative gains for the United States—despite any inherent tensions that may exist between these goals.

Expanding the absolute gains from trade enjoyed by Washington requires that the United States and its friends and allies continue to deepen their existing civilian trade with China and with one another. Deepening interdependence in this way provides all the trading partners with an opportunity to intensify their respective comparative advantages and, by so doing, to increase their growth rates to satisfy both welfare and strategic goals. A tighter trade relationship could yield important political gains as well. If deepened interdependence helps to entice China into becoming a “trading state”⁷*a fortiori*—so that even as it progressively grows in power, it sees that its expanding ambitions are better served through internal development and growing external markets rather than any militarist alternative—then, more robust economic integration will have served to advance critical U.S. geopolitical interests. This integration could even help to ease existing security dilemmas.

One of the best ways to deepen trade links is to expand the global trading system. The global economy has largely outgrown the post-war system initially established by the General Agreement on Tariffs and Trade (GATT), which operated under the assumption that developing countries were too poor and too economically closed to pique the interest of developed countries. Now, however, the developing world is a huge market—increasingly the motor of the global economy. The United States needs to tap into these markets. This implies securing tariff reductions and the removal of non-tariff barriers in the developing economies. The most effective means for doing so is by further expanding the multilateral trading system under the auspices of the World Trade Organization (WTO), the successor to GATT.

Unfortunately, the WTO’s Doha Round of negotiations—which focuses on a wide, but not yet comprehensive set of trade liberalization issues—appears moribund since at least 2011. Both developed and developing states cannot agree on issues ranging from agriculture to subsidies. Despite this paralysis, the United States should not abandon hope in the process.

But the real gains will mainly come from elsewhere. Consequently, U.S. policymakers should invest heavily in concluding bilateral or regional free-trade agreements (FTAs) with friends and allies, especially those states lying along China’s immediate and extended periphery. Such accords would be mutually beneficial in multiple ways: the regional partners would have enhanced access to the huge U.S. market for their products, while at the same time availing of U.S. capital, high-value added services,

and high-technology goods. This would raise growth rates in both directions through arrangements that have the advantage of specifically excluding China. Because the

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benefits would be distributed only within a fraternal cohort, such FTAs provide Washington with improved relative gains vis-à-vis Beijing, the *sine qua non* for maintaining U.S. primacy in a competitive international system.

The two FTAs that matter most in this connection are the Trans-Pacific Partnership (TPP)—involving Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam—and the Transatlantic Trade and Investment Partnership (TTIP), the proposed free-trade area between the United States and the European Union. The TPP is critical because the Asia-Pacific region is already important to the U.S. economy, absorbing some 60 percent of its exported goods, 72 percent of its agricultural products, and 39 percent of its private services.⁸ Rapidly concluding the TPP should therefore represent an urgent policy goal for Washington. In fact, the United States should aim to expand this negotiating community to include India, both because of its large domestic market and because knitting it into a high-quality regional trading arrangement would not only accelerate its economic reforms at home but would increase its national power more effectively compared to many other alternatives. The TTIP is also vital in this context because the United States and the Atlantic community represent the two biggest concentrations of economic power in the global system.⁹ Its conclusion would consequently boost overall trade between these blocs by as much as 50 percent, increase growth rates on both sides of the Atlantic by at least one percentage point annually, and consolidate the economic and technological power of the West vis-à-vis China for at least another generation, if not longer.¹⁰

The dangers inherent in China's rise cannot go unaddressed, and mitigating them through an economic strategy represents an optimal approach. Its success, however, will hinge entirely on keeping China out of these regional FTAs for as long as possible or at least until their negotiation is successfully completed—a policy that the United States should pursue without apology, given China's own pursuit of similar agreements that exclude the United States.

As the United States limits China's economic involvement in these emerging arrangements, it should also strengthen the existing restraints on China's access to advanced weaponry and militarily critical technologies. Deepening globalization increases Beijing's access to sophisticated weaponry, which can undermine the U.S. success in balancing China's rise. China's demonstrated ability and willingness to engage in cyber espionage and cyber theft to secure military technologies only heightens the urgency of this issue. Thus, the United States and its allies desperately need new forms of cooperation to ensure the protection of their critical military technologies. All U.S. partners must understand that the necessity for expanding civilian trade with China cannot carry over to defense technology commerce and cooperation because, while the expansion of international trade is laudable, it should not be carried to the point where it actually undermines U.S. power and erodes its ability to discharge its vital obligation of guaranteeing Asian and global security.

Preserve U.S. Military Superiority

Neither the objective of strengthening key states on China's periphery nor the aim of deepening globalization, even if only selectively, can advance if the United States cannot maintain its extant military superiority indefinitely. The possession of surpassing

military capabilities enables the United States to act as the ultimate guarantor of both Asian security and Asian prosperity, compensating for the strategic inadequacies of China's neighbors while simultaneously providing them with the assurance that their tightening economic links with China will not increase their vulnerability to growing Chinese power. The continued deepening of globalization in Asia and elsewhere thus depends on Washington's ability to preserve U.S. military superiority writ large, which remains a critical component of any strategy centered on balancing without containment.

The U.S. armed forces face some serious challenges in this context. The most obvious problem, and one that receives publicity currently because of frayed politics in Washington, is the impact of sequestration. Even apart from the dangers of these slash-and-burn cuts, the larger question still remains: what should the defense budget focus on? Confronted by dangers such as global terrorism, failing states, weapons of mass destruction, conventional warfare, and the evolving Chinese challenge, U.S. policymakers have attempted to confront these hazards in parallel rather than by creating an ordered hierarchy. They have failed to lay out key strategic priorities around which other, subsidiary policies could revolve. Other problems include the growing costs of major weapons systems (which often limit capacity), rising personnel expenses (especially involving healthcare), improving administrative practices and lessening bureaucracy, and eliminating redundancies in military capability across the armed services while concurrently emphasizing their technological transformation.¹¹

Even as the United States grapples with these larger issues, it faces the more pressing challenge of dealing with the "asymmetric threats" posed by China in the Asia-Pacific region. Such asymmetric threats include investments in "anti-access/area-denial" (A2/AD) capabilities, manifested in the formidable land-based "reconnaissance-strike complex" that China has assiduously built during the last two decades. This complex is anchored in an extensive intelligence, surveillance, and reconnaissance (ISR) system that includes terrestrial and space-based sensors to detect, track, and target mobile U.S. military systems operating at great distances from Chinese territory, as well as activities at fixed U.S. bases throughout the Pacific. The resulting information, supplemented by other intelligence collected by Chinese naval and air elements, is then disseminated to various offensive components—land-based ballistic and cruise missile regiments, land-based (and eventually sea-based) airpower, and surface and subsurface naval platforms—through a national command-and-control grid. Both targeting data and weapons are thus combined to support the different kinds of attacks on U.S. and allied terrestrial, maritime, and airborne targets that would materialize in times of war. Beijing's current military modernization has thus been explicitly designed to keep the United States entirely out of its "near seas." By controlling access to their farther approaches through a variety of stand-off attacks, Beijing aims to transform the western Pacific into a contained enclosure where Chinese dominance is assured because of its ability to neutralize U.S. military power.

Even as Beijing has steadily improved its capacity to meet this goal, it has sustained a wider military modernization aimed at improving its larger warfighting capabilities. This is true across all combat arms (land, air, and sea) and in every dimension (manpower, technology, training, doctrine, organization, logistics, and command and control). China has also demonstrated dramatic improvements at

utilizing critical enablers: space, electronic warfare, cyberwarfare, and nuclear weaponry and their associated delivery systems.

As the U.S. Department of Defense warned as early as 2005, these investments “provide China with a force capable of prosecuting a range of military operations in Asia—well beyond Taiwan—potentially posing a credible threat to modern militaries operating in the region.”¹² China’s ongoing military modernization therefore not only “put[s] regional military balances at risk,”¹³ but just as problematically threatens the U.S. military’s ability to operate in proximity to the Asian land mass. This potentially decouples the United States from its regional friends and undermines the larger structure of post-World War II regional stability, which was built on U.S. hegemony. The United States cannot lose its ability to protect its allies in this region, which represents the material core of the evolving international order.

The immediate task facing the United States in regards to preserving its military superiority, therefore, is to defeat the Chinese effort to stymie U.S. power projection in Asia. Unfortunately, several things will make this difficult. To begin with, the U.S. fiscal situation does not allow for many investments that could help cope with the Chinese threat. For example, the U.S. attack submarine force—the one warfighting capability fundamentally immune to Chinese A2/AD weaponry—is dropping in numbers and remains at levels below what commanders demand as a precondition for success.¹⁴ U.S. partners in the Asia-Pacific worry that Washington’s budgetary constraints will prevent it from making the increased investments required to defang China’s rising coercive power, beyond simply transferring some additional U.S. forces to the region from other out-of-area commands.

Exacerbating this concern, many military instruments used in U.S. power projection are vulnerable to emerging A2/AD weapons.¹⁵ For instance, U.S. carrier battle groups—or any platform operating on the surface—are, and will for the foreseeable future be, vulnerable to novel threats such as China’s new anti-ship ballistic missile, not to mention its growing inventory of ever longer-ranged cruise missiles and smart torpedoes.¹⁶ The finest U.S. tactical aviation platforms, both land- and sea-based, are also excessively short-legged and not particularly optimized for operations across the gigantic Pacific Ocean. Moreover, both land and sea bases are increasingly vulnerable to Chinese precision attacks. Even if these problems were overcome, only a small number of the stealthiest U.S. aviation platforms would enjoy a tactical air combat advantage in the face of China’s increasingly sophisticated air force, whose fighters now carry longer-ranged air-to-air weapons than those carried by their U.S. counterparts. Furthermore, the U.S. stealth bomber force is too small in size, and even if its permanent bases in the continental United States are sacrosanct, the same will not be true of its forward operating facilities in the Pacific.

Finally, the military solutions for neutralizing Beijing’s threats appear to rely heavily on land attacks targeting command-and-control nodes. While preparing for such eventualities is obviously necessary and prudent, it is unwise to emphasize homeland attacks (no matter how selective) as the primary mechanism for dealing with the

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Chinese A2/AD threat. Threatening to attack the homeland of any nuclear-armed state, especially a powerful entity like China, is a fraught proposition. Consequently, the U.S. military faces the even more burdensome task of neutralizing A2/AD threats through only defensive means or, at most, tactically offensive actions. These responses may not suffice to ensure operational success. U.S. war planning must therefore incorporate the alternative of discrete attacks on the Chinese homeland (just as China is actively pursuing options for attacking U.S. bases in the U.S.–Pacific), but should not consider it as a primary option or even a preferred one, even though U.S. declaratory doctrine may posit just the opposite in order to strengthen pre-war deterrence.

This contingency highlights the need to reconsider an important arena: nuclear operations. Any disputation with China will require the United States to carefully think through the requirements for both nuclear deterrence and escalation dominance, as it did in yesteryears vis-à-vis the Soviet Union. This includes reexamining U.S. nuclear force requirements in the context of China’s expanding nuclear arsenal, reconsidering its arms control agenda with Russia to incorporate challenges involving China, and restraining its nuclear abolitionist impulses to forge a more coherent strategy that allows it to secure all the benefits of deterrence. Such actions are critical as the United States moves into the coming era of strategic competition with China.

The totality of the above tasks indicates why preserving the extant U.S. military superiority in the face of growing Chinese power will prove onerous. Yet, it is necessary if the United States wishes to maintain its ability both to operate freely along the Asian littorals and to defend its allies, should they come under threat. In other words, completing these tasks is necessary to maintain U.S. hegemonic order in Asia. This order has thus far prevented the rise of any major continental challengers, dampened intra-regional competition as well as nuclear proliferation, and sustained a robust economic transformation that has come to serve as the motor for U.S. and global growth. The imperatives of maintaining U.S. power are therefore absolute. This task is not beyond the technological or innovative capacity of the United States, but it will be resource-intensive and require a clear-eyed political commitment.

Revitalize the U.S. Economy

None of the preceding stratagems for balancing China—strengthening its neighbors, selectively expanding the trading order, and maintaining U.S. military superiority—can be achieved successfully without a lasting revitalization of the U.S. economy.¹⁷ Fortifying the productive base of the nation would not only provide the resources necessary to achieve the other complementary objectives, but it also remains (along with

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preserving military power) a task that is fundamentally under Washington’s own control and not dependent on choices made by other countries.

There are two keys to renewing the U.S. economy. The first is to facilitate what Joseph Schumpeter once described as the “gales of creative destruction,” which drive revolutionary transformations that replace old inventories, ideas, skills, organizations, technologies, and equipment.¹⁸ Success in breeding such disruptive innovations leads to the creation of new “leading

sectors” nationally and in the global system, which provide super-normal growth spurts. Second, technical progress is what will fundamentally stimulate the growth of any leading sectors. Contemporary growth theory has indeed concluded that technology—with its intrinsic links to both human capital and entrepreneurship—is actually another “endogenous” factor of production, like physical capital and labor, in the growth process.¹⁹

The United States has an excellent track record in technological innovation, which has significantly contributed to its rise as a world power. Similarly, the United States is better positioned than most other countries to sustain Schumpeterian revolutions. (This is because it can still accumulate capital, sustain labor-force growth, and stimulate technological change far more easily than its peers.) However, to successfully balance China, the United States should focus not simply on patterns that will sustain current growth; it should also encourage areas that will push growth higher. Five areas come to mind: policy choices should ensure high levels of capital formation, provide for labor force growth, sustain technological progress, increase the efficiency with which these inputs are productively combined, and limit the adverse consequences of its fractious political system on economic growth.

Capital Formation

Capital formation is absolutely necessary to drive economic growth. In principle, it derives from the rate of savings in an economy which, together with foreign borrowing, determines the national rate of investment. Investment, in turn, positively impacts growth. Compared to many fast growing developing countries, the United States has been an abysmally low saver.²⁰ However, its foreign borrowing is high, especially from China. The United States has thus been able to sustain its economic growth because it benefits from the willingness of foreigners to inject large quantities of foreign capital into the country without letting up.

Is this sustainable? Actually yes, for several reasons. First, the fact that China and others are willing to underwrite U.S. consumption over long periods of time—some 55 years and counting—is a tribute to the attractiveness of the United States as a safe and reliable investment destination. Furthermore, data suggest that foreign nations running trade surpluses are often content to invest in U.S. Treasury bonds because of their absolute security and liquidity. Finally, the dollar still enjoys preeminence as the international reserve currency. So, the question is not whether foreign creditors will suddenly look elsewhere for investment—this is bound to happen gradually anyway, as growing economies develop further, increase domestic consumption, and restrict available capital. The key is that this will happen gradually, allowing Americans time to adjust their saving and spending habits. Excessive reliance on foreign borrowing is thus not a decisive handicap for the capital formation necessary to sustain long-term U.S. growth.

The problem, however, arises from how the United States uses its foreign borrowings. Much of it goes toward either sustaining current consumption or paying for previously incurred social obligations, instead of creating physical, social, and human capital investments which could generate high returns over time. The opportunity to build a productive base for sustaining innovation—through increased spending on infrastructure, education, and research and development—is thus lost. The current

approach, therefore, not only privileges the present over the future, but does so in a most unsustainable way. This is the real danger inherent in the current U.S. dependence on foreign capital. Consequently, the critical issue that Washington must face is not reducing foreign borrowings or domestic debt *per se*, but rather increasing its national investments to sustain disruptive innovations instead of simply meeting ever-expanding social obligations.

Labor Force Growth

There is perhaps no variable of greater importance for increasing national power than expanding the labor force participation rate and improving its quality.²¹ With the world's third-largest population, the United States undoubtedly enjoys the capacity to fuel economic growth for a long time to come. However, its population is aging; the classic population pyramid, with the youngest representing a trunk at the base and the oldest an apex at the top, is slowly shifting into a rectangle. As the dependent population increases, it will burden the already poor national savings rates and further accelerate expenditures on entitlements.

On the other hand, the situation in China is far worse. The country's one-child policy and preference for male children has yielded an asymmetric gender ratio and, thus, smaller families and a smaller proportion of working-age individuals. This deterioration makes it likely that China will grow old long before it grows rich. China simply cannot sustain high growth rates over the secular period if its labor force contracts inexorably, as it promises to do over the next few decades.

This implies that the United States will have a renewed opportunity to redress the weaknesses in its growth performance *vis-à-vis* China, and by implication in the years to come arrest the deterioration in its relative power. Several areas need strengthening. First, the United States must restructure its entitlement programs to accommodate demographic and fiscal realities. A few sensible proposals, among others, are to raise the retirement age, institute price indexing, and introduce voucher programs. Second, immigration policies need re-evaluation. Immigrants can mitigate the deficits in labor force growth quickly and, depending on their skill sets, can do so with minimal disruption to the existing social fabric. Third, the United States must do more to promote education—and thus improve the quality of human capital. Higher education has seen a steady decrease in public expenditure, and compared to its peers in Organization for Economic Cooperation and Development (OECD) countries, U.S. student performance in primary and secondary school varies from mediocre to poor in virtually every international assessment.²² This trend is both dangerous and shortsighted. Unless reversed, it will weaken the U.S. comparative advantage in human capital growth, which historically has accounted disproportionately for the increases in aggregate output.

Technological Progress

The United States has the best national innovation system in the world. But most innovations are usually incremental, not radical. Radical innovations (also called disruptive innovations) are important because they foment the creation of new sectors that disrupt or displace earlier ones, yielding disproportionate returns that will decisively

advantage the United States in the great power game. There is room for improvement in two areas.

First, innovations are fundamentally science-driven, coming especially from universities and federal laboratories. The United States therefore needs to increase public funding for such projects and improve the policy framework to assist the transformation from research into products. This highlights a second area of improvement: while the United States is good at basic research and inventions, and can produce and distribute new technology efficiently, it is less effective at bridging these two. Policies need to enable effective early-stage development, when ideas have to overcome high business and technical risks that may cause strictly private-sector actors to balk. These steps will augment the contribution of technology to GNP growth and, in the process, sustain the U.S. lead over its geopolitical competitors.²³

Total Factor Productivity

Building on this, the United States needs to improve its efficiency in combining the “inputs” to the production process. In economic jargon, this is called total factor productivity (TFP). Historically, U.S. TFP growth has hovered somewhere between 1-3 percent, with spikes during the 20 years after WWI and again in the mid-1990s.²⁴ China, meanwhile, has had a considerably higher TFP growth of 3.62 percent from 1978–2007.²⁵

However, evidence reveals that this higher percentage, especially after the mid-1990s, comes not from efficiency increases in utilizing inputs, but from increasing the levels of inputs themselves. In other words, China's economic distension comes from input expansion (primarily increased capital injections) rather than increased efficiency.²⁶ This has three implications for the United States: first, Beijing will find it difficult to sustain high growth rates if it cannot improve efficiency; second, fostering disruptive innovations remains the best way for the United States to maintain an advantage; and third, the United States must therefore continue to strengthen its larger enabling environment to increase productivity, especially by upgrading its physical infrastructure, deepening its national internet connectivity, and exploiting new domestic energy sources.

Political Coherence

The final chore in revitalizing the economy is to limit the consequences of fractious politics on growth. The Cold War provides an example of how the United States was able to actualize its internal resources without sacrificing liberties at home: both parties stood unified against the Soviet threat, and thus a national consensus emerged on how to manage economic and domestic policy, how to allocate resources for defense and social programs, and how the United States would conduct itself with both its allies and adversaries. A strong center held, allowing the nation to pursue a relatively coherent strategy.

Today, this center has eroded. At present, it is difficult to discern a common U.S. perspective on what China's rise means for U.S. international standing. This is partially because the nation is distracted by domestic troubles. There are no easy solutions here, but repairing public finances offers an excellent place to start.

The Essence of Balancing

Thanks to the contributions of the United States in the post-war period, the emerging Asian century undoubtedly represents a great opportunity for sustaining both U.S. and global prosperity. Allies and competitors are now inextricably entwined in a dense web of transactions, which increases absolute gains. However, the United States and its partners face many more challenges in maintaining a stable geopolitical order. Washington, in particular, must ensure that the globalization it has fostered continues to thrive, but does so without nurturing the rise of new competitors who might use their growing economic power to levy serious military threats on their neighbors and, most importantly, on the United States itself. This problem, manifested most clearly by China today, cannot be defeated through a strategy of containment. Confining China by limiting trade would not command support from U.S. allies or citizens, given that it would reduce the wealth and welfare gains accruing to all entities.

The persistence of this dilemma necessitates recourse to an alternative strategy, that of balancing China without containing it. This approach would focus fundamentally on limiting China's ability to threaten its neighbors or undermine U.S. military power, while at the same time strengthening the economic and trading links which have brought prosperity to all the nations concerned. A balancing strategy that attains these goals consists of four components. The first is to deliberately support the rise of countervailing powers along China's periphery; second, to deepen globalization by universally expanding the trading system, but also increase certain trade gains via arrangements that consciously exclude China; third, to expand U.S. military capabilities to defeat Chinese attempts to impair U.S. power projection in Asia; and fourth, to reinvigorate the U.S. economy to permit it to unleash Schumpeterian revolutions that will foster innovation and accelerated growth.

The success of this balancing strategy will derive fundamentally from Washington's ability to pursue every one of these four components consistently and symmetrically, not privileging any one at the expense of the other. Any lopsided implementation would undermine the strategy dangerously. The approach must also simultaneously be carried out against the backdrop of growing Chinese ties both with its Asian neighbors and with the United States; otherwise, it might veer into containment.

Maintaining the present international order requires preserving a propitious U.S. balance of power.

The greatest danger to the success of the balancing strategy may in fact be fuzzy thinking—specifically, the notion that somehow the present international order can continue without preserving a propitious balance of power (or, put another way, preserving a balance of power that benefits the United States). The U.S. regime in place since World War II has protected its interests and those of its allies very effectively; no other system can presently offer so much. Thus, its preservation should be paramount. This requires the implementation of some kind of balancing strategy vis-à-vis Beijing. As the greatest

beneficiary of the current global order—and as its hegemonic guardian—only the United States can take the lead in carrying it out.

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