Global Power Transitions and Their Implications for the 21st Century*

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This essay presents a theoretical approach toward war and peace, reviews basic conditions for world leadership, discusses four modes of global power transitions, illuminates the likely emergence of the future superpowers, and summarizes the differences and common interests between the United States, the incumbent world leader, and China, a potential contender for the global leadership in the 21st century. The theoretical background is power-transition theory, which predicts war when superpowers are close in power and peace when power preponderance exists. Power parity need be also considered in the context of common interests and preferences of superpowers. Conflict abates when the nations share fundamental rules of the game in world affairs. Four historical modes of transitions – co-dominion, deterrence, confrontation, and cooperation – were identified. Of the four historical transitions, each time, the challenger surpassed the hegemon in economic power, and deterrence and confrontation by the hegemon against the challenger did not prevent the challenger from assuming global leadership in the long term. Among the newly rising nations (BRICs), China is discussed as a potential contender for world leadership. The economic and financial interdependence between the United States and China is currently the driving force in their relations. It shapes their political arrangements, necessitating coordination and cooperation in policy issues. While economic collaboration and interdependence drive the relations between the two, they are not suffi-

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cient conditions for a peaceful transition, until their political and security relations are solidified and their preferences coalesce substantively.

**Key words:** global powers, power transitions, leadership.

**Theoretical Introduction**

The 1911 Xinhai Revolution was a landmark event in Chinese history. China was one of the largest producers of wealth in the world until the 1800s when a period of dramatic decline took place. While the causes for the decline of the late Qing dynasty were complex,1 the economic suffering, military defeats, and political weakness of China around the turn of the century earned the country the nickname “Sick Man of East Asia.” The Revolution aimed at reversing the downward spiral of the nation by establishing a republic and terminating the rule of a long sequence of kings and emperors. In conjunction with its recent ascent, various arguments have been made about the consequences of a powerful China. This article utilizes power-transition theory as a template to explore the implications of China’s reemergence as a major power.

Per power-transition theory, parity between the incumbent leader and a challenger increases the likelihood of war, while a preponderance of power in favor of the incumbent is conducive to peace.2 Countries gain power through economic development and technological innovation, instead of exclusively relying on alliances. Power-transition theory also considers “preferences” which relate to positions on world order, norms, and rules of the game. Even though power-transition theory predicts war resulting from competing and conflicting dyads when the power of the two sides is at or close to parity, it also argues peace may prevail when preferences converge between the “challenger” and the “leader (defender).” For instance, if two countries benefit from the continuation of world order and share the same outlook about international norms and rules, the incentives to use military solutions to solve the problem of a global leadership succession decrease. Given


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the inevitable rise of a challenger, the defender may benefit from cooperating with, rather than fighting against, the challenger.

Table 1 summarizes the implications of power-transition theory. The likelihood of a major war is lowest when a dominant leader shares a great deal of preferences with a weak challenger. The weak challenger has no interest in fighting the leader, as the result of both preferences and capacity. Similarly, if the two nations enjoy significant overlapping preferences, even when they are relatively equal in power, they will not have much interest in going to war with each other. The chance of major conflict also remains low when the challenger is weak relative to the leader, though they may have opposing demands and clashing desires.

The most dangerous juncture is when the challenger and leader disagree on the rules of the game and when they are relatively equal in power. The challenger is in a position to make demands on the leader to change the structure of international relations or norms of commercial activities, and the leader will resist and combat these demands, as they compromise and reduce the leader’s gains from the world system it dictates and manages. The likelihood of major conflict intensifies when the gains perceived by both parties in fighting a war outweigh the losses from relinquishing the use of force. Ex ante, the challenger or the leader make decisions on taking the other to war and seeking solutions by the use of force, as procrastination or compromise may mean the loss of opportunities to preserve their own respective interests.

**Four Modes of Power Transitions**

Historically, peaceful and violent power transitions have occurred. This section identifies four cases of power transitions. From the leader’s perspective, they are: co-dominion (from Portugal to Spain), deterrence (from Spain to the Netherlands), confrontation (from the Netherlands to Great Britain), and cooperation (from the UK to the United States) (Table 2).

**From Portugal to Spain**

One of the earlier transitions took place between Portugal and Spain. With the Portuguese Reconquista accomplished under Alfonso III in 1249 and the victory by João I over the Castilian claim to the throne, the nation embarked upon a golden
age. Under the auspices of Henry the Navigator, son of João I, Portugal emerged as a powerful maritime hegemon. With Henry’s bold vision, financial support, and spiritual blessings, ships under the Portuguese flag sailed across the oceans, reaching North, Middle, and South Africa along the Atlantic Coast, backing up into the Pacific and Indian Ocean, calling on India, navigating through South America and crossing the Malacca Strait. The newly obtained overseas territories added immensely to Portugal’s wealth and power.

Portugal’s rival was its neighbor, Spain, which became unified with the marriage of Isabel of Castile and Fernando of Aragon in 1469. The union defeated the Moors in their last battle at the Nasrid Kingdom of Granada. Compared with the national genes in the Portuguese explorers, the major breakthrough in Spanish seafaring was the result of a foreigner. Christopher Columbus, a native of the Republic of Genoa, approached King John II of Portugal seeking sponsorship of a fleet to search for a western sea route to Asia. Twice, the King sent Columbus’ proposal to a council and twice the proposal was rejected. Had Portugal accepted the proposal, its reign over the oceans and beyond could have lasted longer. The King of Aragon eventually decided to sponsor the exploration after the Queen of Castile initially rejected the proposal. During the same year of the marriage of Isabel of Castile and Fernando of Aragon and of the two powerful kingdoms, Columbus and his ships reached what he mistakenly believed to be India. The discoveries of the new land under the Spanish auspices empowered Spain and buttressed its bid for global hegemony.

The rise of Spain as a superpower did not trigger a war between Portugal and Spain. Following the discovery of the new territories, the two nations sat down, negotiated, and signed the Treaty of Tordesillas on 7 June 1494. The treaty divided overseas lands between Spain and Portugal along a meridian of 370 leagues off Cape Verde. This line was located between the Cape Verde Islands discovered by the Portuguese and the islands discovered by Christopher Columbus for Spain on his first voyage, allocating the areas east of the line to Portugal and the territories west of the line to Spain.3

3. The extension of the line on the other side of the globe was negotiated a few decades later in the Treaty of Zaragossa, signed on 22 April 1529. The two treaties largely assigned Asia and Africa to Portugal and the Americas to Spain. While Spain gained much of South America, Portugal occupied

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From Spain to the Netherlands

The co-dominion of Spain and Portugal under the Treaty of Tordesillas increasingly found their overseas territories challenged by France and England, the two rising powers. The decisive blow to the Spanish Empire, however, was the Dutch War of Independence, also known as the Eighty Years’ War (1568–1648). Unlike Portugal, who compromised with the rising challenger Spain, Spain adopted a strategy of deterrence and suppression against the Netherlands that grew steadily in commercial strength and maritime capacity.

Toward the end of the 16th century, the Dutch navy presented a significant military challenge to the overseas territories of Spain and Portugal as well as their respective ships on the high seas. By this time, the Low Countries were known for their economic performance and commercial quest, fermented with religious zeal. The new republic was poised to become the next global superpower. By contrast, war drained Spain’s national resources, bankrupting the government and triggering national dissent. The Treaty of Westphalia (1648) formally recognized and ratified the Dutch Republic, though self-rule of the Netherlands had already existed. It won de jure independence from Spain in a separate treaty, the Treaty of Münster (1648), signed between the two countries with one party taking an oath with one hand on the Bible and the other with their index and middle fingers in the air.4

The power transition between Spain and the Netherlands was completed in war, because the challenger had very divergent preferences from those of the status quo power. Nothing but complete independence could satisfy the challenger’s interest. The religious and governance differences between them were too wide to be bridged and too deep to be filled. Protestantism provided the Dutch people with the spiritual and practical rationale for freedom of worship, and their rising economic strength and military prowess matched their religious belief and political independence. During the 17th century, the Netherlands’ supremacy was established. It had become the global hegemon, despite the rise of two challengers, Britain and France. As a military power, it had more warships than any other nation and as an economic power, it was the world’s trade center and financial hub. The Golden Age in the 17th century found the Netherlands’s power reaching its zenith with the most powerful navy on the oceans and the most prosperous trade through the East Indian Company (VIC,

the Moluccas in the Pacific; Angola, Mozambique, Guinea-Bissau, and São Tomé and Príncipe in Africa; Goa and Daman and Diu in India; and East Timor and Macau in the Far East. Some exceptions were made to the treaties: crossing the designated meridian, Portugal claimed Brazil and Spain took over the Philippines, without much argument between the two.

4. The two treaties confirmed the principle of sovereignty by the people. The differences between Spain and the Netherlands in terms of divine power and religious conflict were settled in the Treaty, which serves as a framework for the French Revolution and American Independence.

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established in 1602) trading with Asia and the West Indies Company (WIC, founded in 1621) along the Atlantic coast, specializing in trade with Africa and America.

From the Netherlands to Great Britain

The Dutch global order ended in the 18th century when Great Britain replaced the Netherlands as the international hegemon. After defeating Spain, the Netherlands quickly deployed its financial, technological, and military power to consolidate its overseas holdings. The Netherlands’ overseas economic activities marginalized Britain as a sea power. Four wars broke out between England and the Netherlands. England, as a challenger, initiated all of them. The first war was a draw (1652–1654). Neither could claim a decisive victory, and England failed to dislodge the Netherlands from its position of global leadership. The second war (1665–1667) ended in a Dutch victory, despite England’s capture of New Amsterdam in North America in 1664. The third war (1672–1674) ended with no party losing territories. Though England failed to defeat the Netherlands in three wars, it learned from these experiences and continued to strengthen its capacity. The Netherlands found itself saddled with massive public debt, wobbling with declining commercial competitiveness, and bogged down in acute economic crises. The Dutch supported American Independence in an attempt to curtail Britain’s economic growth. In retaliation Britain initiated the fourth and final war against the Dutch (1780–1784). Despite its loss of America, Great Britain defeated the Netherlands and assumed the mantle of global hegemon.

From Great Britain to the United States

The United States caught up with Britain in economic output towards the end of the 19th century. Rather than pursuing global leadership, the United States was content with pursuing its domestic policy of westward expansion and regional hegemony. It was only when Japan, an ally of the Third Reich, attacked Hawaii in World War II that the United States decided to join international affairs in a leadership way. At the conclusion of the war, the United States was not only the strongest amongst the major victorious powers, but also the closest to the outgoing hegemon (i.e., the UK) in terms of culture, history, and religion. Instead of fighting against the new hegemon-to-be, as the Netherlands did with Great Britain, the UK quietly yielded its hegemonic position to the United States and became its strongest supporter.

5. Great Britain’s GNP per capita passed that of the Netherlands around 1780.
6. The United States had no interest in being a world leader at the beginning of WWII, even though its capacity passed that of Britain toward the close of 19th century. During the transition, what is important and relevant in the transition is the common interest and preferences between the United States and the UK.

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Figure 1 summarizes the four modes of power transitions in history using a 3-D graph. When the relative power of Portugal was diminished by Spain, the transition from Portugal to Spain occurred peacefully, as the two nations shared fundamental interests in preserving a strong relationship between them in the domination of the rest. The transition from Spain to the Netherlands was the result of deep religious cleavage and financial conflict; it was concluded in a prolonged war. The transition from the Netherlands to Britain took place violently, despite their historical ties; the two countries had diverging economic interests that dominated other considerations. The transition between the UK and the United States ended with strong support from the outgoing leader to the incoming hegemon, because of their joint interest in maintaining the world order from which both had benefited.

7. This graph was modeled after Brian Efird, Jacek Kugler and Gaspare Genna, “From War to Integration: Generalizing Power Transition Theory,” *International Interactions*, 29-4 (2003), pp. 293–313.
8. An empirical question remains for interconnections, sequences, trade-off among preferences and interests in the political, economic, and security domains. A thorough treatment of this subject would require much further work.
Power Transition in the 21st Century?

The 21st century is witnessing a new round of global leadership transition. A recent report commissioned by the National Intelligence Committee states: “By 2030, no country – whether the United States, China, or any other large country – will be a hegemonic power.” This seems to be an understatement of the inevitable, irreversible, and terminal decline of the United States as an international hegemon.

Which nations will rise to become the new challengers for world leadership in the 21st century if a transition does happen? The group of countries known as the BRIC group (Brazil, Russia, India, and China) is a useful place to start. The first criterion is the size of the economy. According to the World Bank, China is currently ranked second place only to the United States with a total of $7,318,499m, ahead of Brazil (6th place, $2,476,652m), India (9th pace, $2,193,971m) and Russia (10th place, $1,857,770m). China also leads the BRIC group in economic growth for the past 30 years. With respect to population, China is the most populous country in the world, with 1.343 billion (first place), leading India (second place, 1.205 billion), Brazil (fifth place, 0.193 billion) and Russia (ninth place, 0.143 billion).

All four nations possess abundant natural resources, which separate them from some earlier world leaders, such as Portugal, Spain, the Netherlands, and even the UK; the earlier global hegemons had to resort to territorial expansions in order to overcome their domestic shortages in natural resources. Water resources in Brazil, natural gas and petroleum in Russia, and coal and iron ore in India provide these countries with strategically important resources. China ranks first in deposits of twelve minerals: tungsten, antimony, titanium, vanadium, zinc, rare earth elements, magnesite, pyrite, fluorite, barite, plaster stone and graphite; second or third in tin, mercury, asbestos, talcum, coal and molybdenum; and fourth in nickel, lead, iron, manganese, and the platinum family. China’s mineral deposits are rich and diverse. BRIC countries will play an increasingly important role in continued globalization with their worldwide influence augmenting. Their vast domestic resources, sizeable populations, large territories, and solid aggregate outputs indicate that their development has great potential for being internally driven and sustainable. Each is likely to progress steadily in the long run, given a stable internal environment and hospitable international parameters.


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The former Chief Economist of the World Bank has predicted that if China grows at the rate of 8 percent a year for the next 20 years, China’s purchasing power per capita will rise to half of that of the United States in 2030 from the current 21 percent. At that time, China’s population will be 4.5 times that of the United States. This prediction suggests that China’s output will be twice as large as that of the United States by 2030. According to a former International Monetary Fund expert, based on purchasing power parity, China already became the largest economy in 2010, during which year China’s purchasing-power-parity-based GDP reached $14.8 trillion, exceeding the United States’ $14.6 trillion.

This essay focuses on China as a contender for world leadership. China is reemerging as an economic superpower. It used to be the dominant economic power in the world for over 1,500 years before its decline in the mid-1800s. As a nation, it has learned much from poverty, foreign invasions, and political suppression since then. From 1949 to 1978, China’s revolutionary momentum, generated from the warfare, civil and anti-Japanese, continued to dominate the political agenda of the nation through numerous campaigns, such as the Anti-rightist Movement and the Great Leap Forward, culminating in the Cultural Revolution. Despite the political direction of Mao, the country was ready for a fundamental change in the economic arena upon his death. It was like a volcano waiting for the final push for a powerful eruption. For China, the pent-up desire for economic development was finally released under Deng Xiaoping who re-emerged in the power center in 1978 and became the supreme architect for the nation’s next long march. Under Deng and a new generation of leaders after him, China has embarked on a journey searching for economic growth and material prosperity. The government that used to politicize the nation now has become the one that de-politicizes society. To get rich is glorious. A multitude of people left poverty behind and ascended to the Chinese middle class, which now numbers over 300 million, larger than the entire population of the United States.

Among the top ten busiest ports in the world, China owns seven, with Shanghai leading others. Beijing is now the second busiest airport in the world, trailing Atlanta, rising from eighth in 2008. As of 2011, China had the highest number of Internet users (512 million), ahead of the United States (243 million) and India.

(120 million).\textsuperscript{18} In percentage of population, the rank order is the United States (78 percent), China (38 percent) and India (10 percent). In 2013, China also possesses the highest number of mobile phones, 1,150,000,000, compared with 861,660,000 in India and 327,577,529 in the United States.\textsuperscript{19} In 2009, China sold 13.5 million cars, overtaking the United States where 10.4 million cars were sold, as the world’s largest automobile market, and this trend will likely continue.\textsuperscript{20} As of 2011, China has the world’s longest high-speed rail network with 8,358 km of tracks. On 25 December 2012, the country opened the world’s longest high-speed rail line, running 2,208 km (1,372 miles) from Beijing in the north to Shenzhen in the southern coast. The US high-speed train network is only between Washington DC and Boston through New York City, which “lacks a dedicated high-speed rail line, and runs on regular lines which limit its average speed, although it does reach a maximum speed of 240 km/h (149 mph) on a small section of its route through Rhode Island and Massachusetts.”\textsuperscript{21}

Another benchmark statistic is the manufacturing sector. In 2009, the products manufactured in China reached $1.6 trillion, 0.1 trillion short of the first-place manufacturing nation, the United States. In 2010, China surpassed the United States to become the world’s new largest manufacturer and increased the gap between the first and second largest manufacturing economies since. “According to the latest research from the UN, China has further outpaced its competitors in world manufacturing, generating $2.9 trillion in output annually versus $2.43 trillion from the U.S., the world’s second-largest manufacturing economy. Over the last two years, China’s manufacturing sector has made strong gains, while the United States has been mired in economic and political doldrums.”\textsuperscript{22} The United States surpassed the UK in the absolute size of manufacturing toward the end of the 19th century, ushering in a new global leader. When that happened, the US population was much larger than that of UK; the population of the United States was about 76 million around 1900 and the population of the UK was only 38 million. On a per capita basis, the living standard in the UK remained much higher

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\textsuperscript{21} Wikipedia, at <http://en.wikipedia.org/wiki/High-speed_rail> (searched date: May 25 2013). High-speed rail is defined as public transport by rail at speeds of at least 200 km/h (125 mph) for updated tracks and 250 km/h (160 mph) or faster for new tracks.

than that of the United States at the time when the latter States passed the former in total output. The same scenario seems to be happening between the United States and China in the 21st century.

A true world leader must also be a leader in technology and innovation. Shipbuilding technology propelled Portugal and the Netherlands to become maritime superpowers. The Industrial Revolution in Britain spanning the 18th and 19th century underscored its rise. New textile technology (patented in 1769) and new iron-making methods (patented in the 1780s), along with steam power (patented in 1775), enhanced Britain as the world leader in the 18th and 19th century. The rise of the United States toward the end of the 19th century was part of the same process of industrial revolution that had started in England. The United States’ vast expanse sharpened its need for the building and expansion of transportation and communications. Railroad and telegraph networks emerged as answers. The US invention of, and subsequent innovation in, light bulbs, telephones, and automobiles solidified its position as the world’s predominant industrial power. The momentum accelerated and expanded with talents emigrating out of Europe as the result of wars. Toward the end of the last century, the United States led in the computer and digital revolution powered by Internet technology.

China is catching up and doing so at an impressive speed. Not content with the idea of being the largest producer of toys, tables, and television sets, it has been seeking changes in its comparative advantage while using its labor-intensive products to power and sustain growth. The transformation of its traditional industrial structure and compositions as well as upgrading of the value chain in the productive process has been the core of Chinese economic development strategy.

China’s focus on the improvement of higher education is an attempt to advance the nation’s aggregate capacity for innovations and technological breakthroughs. At the centennial anniversary of Peking University on 4 May 1998, President Jiang Zemin announced Project 985 (short for Project May 1998), promoting the Chinese higher education system with the infusion of large quantities of priority funds to leading universities to improve the research infrastructure, faculty quality, productivity, visibility and reputation. The initial group of the nine beneficiaries has been expanded to include China’s 39 elite universities. Another educational project, Project 211, aims at promoting 100 universities in China as world-class institutions in the 21st century. Among China’s 1,700 universities and colleges, the 985 and 211 groups are the mainstay for China’s research and graduate education. There still remains a very significant gap between China and the United States in higher education. The latter country boasts the majority of the highest-ranked top universities in the world on the lists of Quacquarelli Symonds World University Rankings and of Shanghai Jiao Tong University’s Academic Ranking of World Universities (ARWU). Over recent years, the Chinese government has funded a multitude of visiting scholars or visiting doctoral students to the West and at the same time, has vigorously launched campaigns, such as the “Thousand-Person Initiative” to attract Chinese overseas scholars and professionals to return to China.
Concurrently, publication in peer-reviewed journals has become the standard metric of evaluation and reward for university faculties. Financial resources are earmarked for those who publish in top journals in the United States and China. According to a recent report, Chinese researchers published 112,000 articles in 2008, a tremendous increase from 20,000 research papers in 1998, passing Japan, Britain, and Germany in 2006. Noticeably, their publications were concentrated in the physical sciences and technology, particularly, materials science, chemistry, and physics. During the same period, US researchers’ output rose from 265,000 to 340,000 publications a year. The report concludes, “China’s expanding regional collaborations send another signal. Asia-Pacific nations are entirely happy to work with another’s excellent research bases now. They no longer depend on links to traditional G8 partners to help their knowledge development. When Europe and the United States visit China they can only do so as equal partners. The question that may then be put to them is what they can bring to the partnership to make it worth China’s while.”

China’s catch-up in research receives confirmation in the increase of the number of patents the country has registered with the Patent Cooperation Treaty (PCT). The US files more patent applications than any other country, but China has risen to fourth place in the number of applications filed with PCT, following the United States, Japan, and Germany, ahead of Canada, France, Italy, the Netherlands, South Korea, Sweden, Switzerland, and the UK. In 2012, China submitted 18,627 applications to the PCT, which amounts to 9.6 percent of all applications of the year, rising from its share of 2.6 percent in 2006. For the same period of time, the United States’ share decreased from 34.3 percent to 26.3 percent and Germany’s decreased from 11.18 percent to 9.7 percent while Japan’s rose from 18.06 percent to 22.5 percent.

There have been many forecasts and predictions about China’s economic prospects. Some point to a meltdown, if not a collapse. So far, the Chinese economy has defied conventional economic wisdom. For the past three decades, the country’s economy has grown at an average rate of close to 10 percent a year until lately, when the country’s growth slowed down; for the year 2012, its growth rate was 7.8 percent. Much of Chinese economic growth has been generated by international trade and domestic investment. Global crises, such as the Asian financial crisis of 1997 and the economic recession of Western countries (2008–present), have not...
been able to fundamentally derail the economic growth and expansion of China. Meanwhile, China has been investing in its infrastructure, including highways, railroads, high-speed trains, airports, seaports, wireless communications, Internet capacities, etc. Economic recessions as the result of “over-investment” have not happened in China. Not yet. The boom-to-bust cycle has been by-passed miraculously and such experience has seen no parallel in any other country or any other time.25

Of course, there have been and there will continue to be questions about important underlying assumptions. The Chinese government admits many negative factors causing problems for China’s future. The leadership of China has openly declared that corruption is a serious problem. The Party and the State have made income distribution a centerpiece of the country’s priorities, emphasizing a “harmonious society.” Karlin catalogues some adverse issues on which many of China’s critics have been riveting: regional disparities, income inequality, environmental degradation, bad loans, aging population, export dependency, social instability, and autocracy.26 To this list, critics may readily supplement security threats to neighboring nations, human rights, foreign exchange manipulation, and corruption.

If these issues are indeed associated with the process of China’s transformation of itself into a superpower, then one of the most intriguing and ultimate questions is regarding the world order that the country will uphold for the rest of the world in the future if it does emerge as a hegemon. The power transition cases discussed above all occurred among the Western powers where religions, histories and cultures tend to converge, compared with those between the Western and Eastern hemispheres. Some observers state that China has been playing by the rules of the game of the West and its rise will not threaten the status quo.27 Some argued that China’s political and cultural system will not likely converge to the western value, for instance, liberal democracy.28 Still some others believe that China will dominate the world with its unique political processes and supreme economic power.29 As China evolves and changes, such debate will continue.

25. There have been two sides to arguments about China’s investment-driven economic growth. Positive arguments about such strategy could be represented by Robyn Meredith, The Elephant and the Dragon: The Rise of India and China and What It Means for All of Us (New York: W.W. Norton, 2007). Serious warnings about the dangers of state-led investments in China can be found in Jianping Lang and Jin Sun, Chinese Economy Has Reached the Edge of the Most Dangerous Ground (Beijing: The Oriental Press, 2012).
The Sino–US Relations in the Power Transition Context

Many factors determine whether a nation will want to become a global leader, regardless of whether or not it is qualified to be one. Economic supremacy is a necessary condition for assuming world leadership, but it is not a sufficient condition. The United States surpassed the UK in economic output toward the end of the 19th century, but had no intention of taking on global leadership. The Soviet Union wanted to be an international leader, but its economic foundation was not supportive of its ambition. The reasons for becoming global leaders are multidimensional, including both domestic and international factors. Given that China’s economic prowess continues to increase, putting the nation into a position for assuming world leadership, will there be war or other forms of major conflict between the United States, the current leader, and China, the upcoming candidate?

This essay does not predict war or otherwise between the leader and the challenger, but aims at providing a framework of thinking about the meaning of a Sino–US power transition. Given the theoretical context and historical occurrences of power transitions, peace or war may ensue between the two nations in transition. It is a matter of national and political choice, conditioned by the preferences and capacity of the countries. In the US–China case, China is acquiring the economic and technological strength necessary to become a world leader, consequently the degree of convergence and divergences between China and the United States’ fundamental interests will shape the likelihood of conflict during the Sino–US power transition. Their respective and joint positions in the existing and evolving world orders will determine the mode of a transition.

China’s rise has been the result of both international trade and foreign investment, with the United States contributing to and benefitting from this outcome. Currently, the United States has the largest economy and China the second largest. The United States is the second-largest exporting country and China is the largest. The United States is the number one importer and China is number two. The United States is the third-largest automobile producer and China is the largest. The United States is the second largest automobile market and China is the largest. The United States has the largest highway system, followed by China. The United States remains the largest recipient of foreign direct investment and China occupies ninth place. China holds more foreign exchange reserves than any other country while the United States has the 17th largest foreign reserve in the world.

The differences in the economic and demographic structure between the two countries have made the two economies complementary rather than competitive. The economic theory of comparative advantage determines the pattern of a country’s imports and exports. As a labor-abundant economy, China exports the products that use its abundant factor intensively, for instance, textile, toys, and furniture in exchange for products that it does not produce efficiently, such as airplanes, submarines, and pharmaceutical products. By comparison, the United States exports capital-intensive products, such as high-technology goods and knowhow,
in exchange for those that it does not manufacture efficiently. The United States is China’s largest trade partner, leading Japan, Hong Kong, South Korea, Taiwan and Germany. China is the United States’ second largest trade partner, following Canada, but ahead of Mexico, Japan, Germany, the UK, and South Korea. China’s exports to the United States include electricity machinery and equipment, power generation equipment, apparel, toys and games, furniture, and iron and steel. Its main imports from the United States are electrical machinery and equipment, oil seeds and oleaginous fruits, power generation equipment, air- and spacecraft, plastics, optics, medical equipment, iron and steel, pulp and paperboard, organic chemicals and vehicles (excluding railway).

The United States and Chinese economies are complementary for now. Although China is considered the world center of manufacturing, its position is not at the upper end of the value chain, compared with the United States, Japan and Germany. The value China adds to the goods it sends to other countries is not as high as where the goods are typically sold. In the vertical integration model, the high-value generation (research and development for instance) resides in the home country of the technologically advanced company while low-value-added assembly or production of components is located in developing countries or emerging economies. For example, China’s role in the production of Amazon’s Kindle Fire is to integrate and assemble components. Out of a shipping price of $201.70, a China-based company is responsible only for $7.10, or 3.5 percent of the shipping price. In other words, per $1 value, the Chinese are making only 3.5 cents. What makes China the number-one exporter in the world has been largely the result of volume, rather than technological content, of its exports. The large buyers of advanced economies, such as Wal-Mart, also help depress the prices of the imports from emerging markets. By importing products from China at relatively low prices, the United States is able to keep domestic prices and inflation low, benefiting its consumers.

Foreign exchange reserves also play a role in the US–China economic relationship. China holds about $1.2 trillion US treasury bonds, higher than any other country. China’s reserves reach $3.44 trillion, “roughly the size of German economy.” Such a large holding presents a dilemma for China, accentuated with

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the devaluation of the US dollar and appreciation of the RMB. The US economy, however, still represents many advantageous and attractive qualities due to its sophisticated technology, large consumer market, vast resources, and stable political environment, all of which makes the holding of the US currency worthwhile. A large depreciation in the US dollar will hurt the financial interests of both the United States and China. In addition, US consumers benefit from the Chinese buying treasury bonds; the Chinese possession of them helps to keep down interest rates in the United States, making housing and other large item purchases affordable. Thus, the United States and China are intertwined in their trade relationships and are joined in their financial interests. The two imbalances – trade and foreign reserves – are two sides of the same coin. They speak volumes of the interdependence of the two economies and spell the parameters of the common and shared strategic and pragmatic economic and financial interests between the two nations. The preferences for the liberal economic order by the United States and China are substantively consistent and convergent.

However, for security and political reasons, the United States withholds many high technology products from China, particularly those that have direct or indirect applications to military use, contributing to the huge trade deficits between the United States and China. The United States is also wary of China’s investment in the United States. In June 2005, the China National Offshore Oil Corporation Group (CNOOC) made an $18.5bn cash offer to buy out US oil company Unocal Corporation, beating the bid by ChevronTexaco. This attempt by CNOOC encountered broad opposition from both Democrats and Republicans in Congress, emphasizing security concerns on the basis of potential dual use of exploration and drilling technology.35 The intervention of US Congress was the main cause for the withdrawal of the bid by CNOOC. Six years later, the same CNOOC successfully took over Nexen, a Canadian company, with a $15.1 billion bid, which is the largest ever takeover by a Chinese company and grants CNOOC a stake in Canada’s largest oil sands project and the biggest position in the Buzzard oil field in the UK’s North Sea. By contrast, prior to the CNOOC–Nexen deal in December 2012, the White House issued an injunction in September 2012 to the purchase of four wind farm projects in Oregon by Ralls Corp on the ground of security concerns. In addition, during October 2012, a congressional panel found Chinese telecom firms Huawei and ZTE posing a security threat to the United States and according to a House Intelligence Committee report, the two firms should be banned from any US mergers and acquisitions. Unlike Canada, the United States acted as a hegemon and its reaction to China’s economic expansion into the United States is consistent with such status. Convergences in the economic sphere are not automatically sufficient for the creation of shared interests in other domains, such as security and politics.


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Compared with mutual economic benefits and intertwined Sino–US financial relations, the two countries have a lot of distance to cover in their political and security relationships. Clearly, some common grounds have been built in areas such as anti-terrorism and the nuclear issues regarding North Korea, though each has inerasable differences with the other. In terms of the principles of foreign policies, the two countries fundamentally differ about sovereignty. For instance, the United States has taken direct action to rectify what it perceived as violation of human rights in other countries while China would leave domestic issues, including violence, to be resolved by domestic forces.\textsuperscript{36} In regards to security strategies, they differ on the first use of nuclear weapons. With respect to universal values, they disagree on the definition of human rights.

Economic and financial cooperation between any two countries may lay a working foundation for further collaboration between them in the political and security arenas. Meanwhile, the benefits from exchanges of goods, capital, and services cannot be consolidated, expanded, and sustained unless in the context of healthy political and policy coordination between the two governments. Though the United States and China have a lot of common financial and economic interests, there are still uncertainties, anxieties, and worries about each other in political, security, and even economic domains. Their differences in the political system, cultural heritage, and social structure make the management of their strategic relations a daunting challenge. Under these conditions, it is only natural to find that despite the growing interdependence of their economic and financial ties, their political and security relations leave a lot of room for improvement.\textsuperscript{37} In the context of power transitions, they evidence significant differences in their preferences driven by domestic processes as well as their respective positions in the world system. Given the prospect of China’s economic and military growth, it is not far-fetched to say that the management of the Sino–US relations will be among the most important tasks for the world in the 21st century.

The management of the Sino–US relations will call for three interrelated components. They are context, substance, and infrastructure. First, both countries need to increase mutual understanding, particularly considering the vast differences in their cultures that make the context in which the two peoples and two governments interact. Misunderstanding and misreading of each other’s intent and action can result in severe judgment errors with grave and material consequences. Second, in substance, it will be in their interest to enlarge common ground. Particularly, further efforts are warranted to extend mutual interests beyond the economic and financial domains into political and security relations. Though economic exchanges by trade

\textsuperscript{36} Chris Connolly and Jörn-Carsten Gottwald discuss the unique principles and positions of China’s foreign policy in “The Long Quest for An International Order with Chinese Characteristics: A Cultural Perspective on Modern China’s Foreign Policies,” in this issue.

\textsuperscript{37} In “A Normalized Dragon: Constructing China’s Security Identity” (in this issue) Chris Ogden focuses on norms and identities related to China’s security. When norms or preferences converge between China and the United States, their coordination will improve.
and investment are the central theme in the shared interests between the United States and China, one strategic common subject between them is anti-terrorism. The United States has made anti-terrorism the ballast of its foreign policy, and China faces the irredentists’ security threats in its western region. Third, in addition to the context and substance of shared interests, the infrastructure for the deepening and enlarging of these interests requires improvement. The leader and the challenger can institutionalize rules and norms to facilitate the expansion and consolidation of common interests. The China–US Strategic and Economic Dialogue is a perfect example. This high-level exchange of views facilitates expressions of joint positions, discussions of disagreements and differences, and expansions of cooperation between the leader and the potential challenger.

In any world leadership transition, a rising power will have to reconcile its new identities with the external environment and may also take action to modify the international order in its own interest, as Jones correctly points out.38 Mutual prosperity will ensue if the revision of the international system results in gains to both parties, but severe conflict will stem from a zero-sum game that benefits one party at the cost of the other.

Concluding Remarks

This essay presents a theoretical approach toward war and peace, reviews basic conditions for world leadership, discusses four modes of global power transitions, illuminates the likely emergence of the future superpowers, and summarizes the differences and common interests between the United States, the incumbent world leader, and China, a potential contender for the global leadership in the 21st century.

Of the four modes of transitions that have happened throughout history – co-domination, cooperation, confrontation, and deterrence – the one that will ensue between the United States and China will depend on two sets of variables – power parity and preference convergence. Confrontation and deterrence may be successfully applied by the hegemon in the early stage of a challenger emerging and when the shared interest between the leader and the challenger is very limited. The United States confronted and deterred the Soviet Union, but the power of the challenger was never close to that of the leader, based on national output. The implosion and collapse of the challenger was the result of the inefficient political and economic systems in the Soviet Union and its costly race against and pressure from the world leader.

Of the successful transitions, each time, the challenger surpassed the hegemon in economic power. Deterrence and confrontation by the hegemon against the challenger did not prevent the challenger from assuming global leadership in the

long term. It took the Netherlands 80 years spanning two centuries to declare a
definitive triumph over Spain, though its de facto victory had been earned many
decades earlier. It cost Britain three wars in the 17th century against the Nether-
lands to prepare its decisive victory in a fourth war during the following century.
The historical trajectory would not be reversed, though the process of power
transition might be prolonged.

The modes of co-dominion and cooperation are certainly less brutal and less
bloody than those of deterrence and confrontation; the hegemon may choose to
battle against the challenger and the challenger may go to war during its rise. For
the incumbent and the challenger to agree to a peaceful path of power transitions,
there normally exists a great deal of overlap of interests and preferences between
them. The common interest and preferences between Portugal and Spain in divid-
ing the world led to their cooperative settlement over claims overseas. The shared
ideology and world outlook cemented the peaceful leadership transition from the
UK to the United States.

The economic and financial interdependence between the United States and
China is currently the driving force in their relations. It shapes the political
relations, necessitating coordination and cooperation in policy issues. The notion
of China as a “responsible stakeholder” is a strategic recognition of China as a
non-enemy, at least potentially, pointing to the possibility of co-domination, if not
cooperation, as a potential mode for the next transition. On the other hand, the
differences in values and cultures, along with economic gains and losses, between
the two, will not preclude possibilities of severe conflict in the transition.

Critical issues remain in the security domain. While economic collaboration and
interdependence drive the political relations between the two, they have not mol-
lified some fundamental barriers in their political and security relations. Until their
political relations are solidified and their preferences coalesce substantively, secu-
rity will remain a treacherous area where caution, anxiety, and fear tend to be the
main currency and misjudgment, suboptimal decisions, and premature action the
unfortunate product.

Under the liberal market framework, the economic relationship between the two
countries will likely continue to grow. However, globalization does create winners
and losers within respective nations, as well as among nations. The economic
rivalry between Britain and the Netherlands resulted in four wars between the 17th
and 18th centuries, though they shared a lot of common ground in religion and
political institutions. It would be highly speculative to project the degree of con-
vergence of the interests between the United States and China. However, it can be
said almost with certainty that the difference in their political and value systems
will be far deeper than that of the dyads in the four transitions in history. It should

39. Deputy Secretary of State Robert Zoellick’s speech to the National Committee on US–China
Relations on 21 September 2005 introduced the concept of China as a “responsible stakeholder.”
also be emphasized that their relations with other countries and their respective overseas interests will also define the nature of the transition, if there is one, in the 21st century.

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