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## **US-China: Competing Amidst Two Transitions**

*By Rajesh Basrur*

### **Synopsis**

*Power transition is the standard explanation for current US-China tensions. But another – more fundamental – transition remains unaddressed.*

### **Commentary**

LAST WEEK the US Navy's guided-missile destroyer, the USS Stethem, sailed to within 12 nautical miles of Triton Island in the China-controlled Paracel Islands, inviting Beijing's condemnation of American "provocation". Such incidents are by no means new. In December 2013, a confrontation between Chinese vessels accompanying the carrier *Liaoning* and the American cruiser *Cowpens* brought them perilously close to a collision in the South China Sea.

In December 2016, a Chinese naval ship seized an American undersea drone even as the USS Bowditch, a naval oceanographic vessel, was in the process of recovering it some 50 nautical miles off Subic Bay in the Philippines. The drone was returned, but incidents of the kind have become more frequent since then and raised the strategic temperature between the United States and China. In mid-May this year, Chinese Su30 aircraft intercepted an American WC-135 Constant Phoenix radiation detection aircraft over the East China Sea. A week later, two Chinese fighters intercepted a US P3-Orion surveillance aircraft over the South China Sea.

### **Power Transition or More?**

If the repeated low-level strategic face-offs seem familiar, it is because they follow a pattern characteristic of the Cold War era: frictions over geopolitical space, hostile rhetoric, periodic gamesmanship, and the looming shadow of crisis. An additional

dimension to the growing tension – absent during the Cold War – is the increasing economic tension between the two big players, especially with China’s economy having outpaced that of the US: China’s gross domestic product (GDP) in purchasing power parity terms stood at US\$21.14 trillion in 2016 as compared to the US figure of US\$18.56 trillion. Are these symptoms of a new cold war in the making, as some influential commentators warn?

To be sure, there is a sense of “power transition” occurring with the rise of China, but, something more is happening. Even as strategic frictions have grown, the US-China relationship has become enmeshed in a web of economic exchange. Both countries are increasingly dependent on trade. Trade as a percentage of GDP was just 9% in 1960 for both; by 2015, it was a substantial 28% for the United States and as much as 40% for China. For both, the other is a major trading partner: according to International Monetary Fund data, US trade with China in 2016 constituted 15.9% of its total trade; likewise, China’s trade with the US was 14% of its total trade.

Similarly, notwithstanding strategic tensions, US Trade Representative (USTR) data show US services exports to China touched US\$53.5 billion in 2016, a rise of 353% from 2001. Likewise, US services imports from China rose by 350% in the same years, reaching US\$ 16 billion last year. Even more dramatic are the figures for foreign direct investment (FDI): the USTR reports that American FDI in China in 2015 stood at US\$74.6 billion, a growth of 10.5% from 2014, when tensions in the South and East China Seas were clearly intensifying; while Chinese FDI in the US during the same time frame skyrocketed, touching US\$14.8 billion – a growth of as much as 50.6%.

### **Competitive Strategic Politics**

In short, despite frictions over the seas and over wider issues such as American concerns over China’s anti-access/area denial (A2/AD) strategy in the Western Pacific and Chinese objections to the US building of a missile defence system in East Asia, a more fundamental transition has been occurring. With rising economic interdependence, the incentive to fight has receded sharply for both the “hegemon” and the “challenger”.

If that were not enough, any thought of serious armed conflict is ruled out by the far more intense interdependence created by nuclear weapons. True, the US has a much larger arsenal, but the distribution of nuclear weapons capacity has never meant much, which is why the US has not – and will not – come close to attempting a surgical strike on North Korea’s fledgling capabilities. Yet, each incident of confrontation feeds on the next and, over time, the risk of unanticipated catastrophe grows.

That interdependence sharply constrains policy choices is not a lesson easily learned. Despite the stark lessons of the Berlin and Cuban crises in 1961 and 1962 and the desire never to go to war in a nuclear world, Washington and Moscow continued to build superfluous arsenals, reaching the astronomical total of 61,682 nuclear warheads in 1986 toward the end of the Cold War era. Nuclear rivals throughout the last seven decades have engaged in confrontation before reverting to some sort of uncertain stability.

The current confrontations between Washington and Beijing represent a well-established pattern of competitive strategic politics despite the interdependence of the players. On the military side, we see a growing maritime contest in the Western Pacific, competing military capabilities, with conventional and nuclear modernisations proceeding apace, and regular incidents of (thus far limited) brinkmanship.

On the economic side, the litany of complaints about trade imbalances, protectionism and currency manipulation – much the same as we saw four decades ago when Japan threatened American economic dominance – aggravates the strategic tensions between the big two today. As a result, the United States and China drift uneasily over an increasingly turbulent sea without a clear chart for stability. Neither wants war, but uncontrolled aggravation of tensions remains an ever-present possibility.

### **Lessons Unlearned**

Why do the lessons of the past – that trade wars and nuclear wars are not viable options – remain poorly learned? Two reasons come to mind. First, there is the problem of strategic habit: the kind of thinking typical of an anarchic, “self-help system” – where power and self-interest are prioritised – continues even as the world changes profoundly. The real “Thucydides trap” is to persist in thinking as that great historian did in a world that has fundamentally changed.

Second, policymakers simultaneously address audiences that seem to require more of the same: adversaries who must be shown resolve; allies looking for assurance; and domestic publics needing to be convinced that their loyalty to leaders must remain unshaken. Perhaps too, leaders themselves need constantly to boost self-images troubled by uncertainty.

The inevitable outcome is a preference for competitive policies and their manifestation in the kind of risk-taking we see today, with the attendant prospect of sliding down a slippery slope to conflict. Can Washington and Beijing come to terms? If history is any guide, not easily. Well-meaning policy recommendations are in themselves unlikely to bring the required wisdom. It will take a serious economic or military crisis for them to come together to avert impending disaster.

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