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Managing Change

China and the United States in 2025

Harold Brown

This is the text of the presentation made by Dr. Harold Brown at a dinner held in Santa Monica, California, on June 28–29, 2005, during the 8th annual conference between the RAND Corporation and the China Reform Forum (CRF). These joint conferences, focusing on key economic and security issues of mutual interest to both China and the United States, were initiated in Beijing in 1998, and their venues have alternated in subsequent years between Santa Monica and Beijing.

Dr. Brown’s lecture succinctly and authoritatively addresses many of the major economic and security issues with which the annual RAND–CRF conferences have been and continue to be concerned.

A current member of the RAND Corporation Board of Trustees and a partner in the investment banking firm of Warburg Pincus, Dr. Brown served as both Secretary of Defense (1977–1981) and Secretary of the Air Force (1965–1969), as well as president of the California Institute of Technology (1969–1977).

After-dinner address, June 28, 2005, 8th Annual RAND–China Reform Forum Conference

It is a pleasure to be with you at this RAND–China Reform Forum Conference. There are a great many issues confronting the world and each of our countries—many of them not directly bilateral ones. I need only mention, and will come back to, Islamic extremism, weapons of mass destruction, global climate change, demography. But both global and bilateral issues will be strongly influenced by what I see as the major new force in international relations in the first half of the 21st century: the modernization and rise of China and its effect on relations between China and the United States. (Needless to say, we should not underestimate the rise of India either.)

At meetings like this, we often concentrate on immediate and pressing issues. Moreover, American policymakers have a deserved reputation

for thinking only in terms of the next presidential or congressional election, which is never more than two years away. Chinese policymakers, on the other hand, have a reputation for thinking in terms of two centuries, famously illustrated by the 1972 remark attributed to Premier Zhou Enlai about the meaning of the French Revolution of 1789. (“It’s too soon to tell.”) Looking ahead 200 years is beyond me but, as I am outside of government, I don’t have to worry about the next election. Thus I have chosen to look 20 years ahead and ask what U.S.–China relations may look like in the year 2025. But I will also address how what happens in the next few years will affect that.

Of course, we don’t know what either country will look like in 2025. A natural, though risky, approach is to take as a base case an extrapolation

of present trends, modified by accepting economist Herb Stein's observation that trends that can't go on will stop.¹ Keeping that in mind, a reasonable way of predicting U.S. gross domestic product in the year 2025 is to assume continued annual productivity growth of 2.5 percent and labor force growth, fueled by immigration, of 1 percent. That corresponds to GDP of about \$25 trillion at exchange rates in 2005 dollars, population of nearly 375 million, and a per capita income of \$65,000 a year. As to China, I take its GDP growth to continue at an 8 percent annual level in real terms for the next 20 years. The 8 percent is the sum of its real growth rate in renminbi terms and the rate of appreciation of the renminbi against the dollar. Then China would have a GDP of about \$7.5 trillion in 2005 dollars, a population somewhat greater than at present (roughly 1.5 billion people), and a per capita GDP of about \$5,000 in 2005 dollars at the then exchange rate. The purchasing power parity factor should be less than it is now, as has been the experience with other countries that have moved into full industrialization, so that purchasing power parity income per capita in China might be \$12,000 to \$15,000 a year.

Much could go wrong with these projections, both of which are probably overoptimistic. In the case of the United States, a continued increase in the current account deficit as a percentage of GDP clearly cannot continue through this period, though in principle it could sustainably continue at the 6 percent ratio. A substantial increase in the percentage of GDP devoted to health care and retirement benefits is inevitable but, without changes

in the present systems, would almost surely get out of hand. Each of these situations will force an increase in savings that in the short run could curb GDP growth but in the long run, if appropriately invested, would sustain it. Separately, further terrorist attacks on the U.S. homeland could disrupt the economy, as could measures to defend against them.

China also could face difficulties in reaching the projected GDP number as a result of weaknesses in the banking and financial system, demographic changes embodied in an aging population, stresses created by geographical and sectoral imbalances and conflicts, or other factors outlined in earlier RAND reports.² But again, the projected numbers are not unreasonable.

Protectionism and disruption of world capital flows and trade would badly damage GDP growth in both China and the United States. Indeed, whether globalization continues or is reversed is the greatest economic uncertainty in this forecast. Some global natural disaster or a major conflict could be even more disruptive.

As to the rest of the world, an extrapolation of present trends put Europe and Japan at 30 percent or 40 percent higher GDP than now (that is, \$16 trillion and \$7 trillion, respectively). Russia may become stronger economically, but equally could fall into a demographic decline. The Middle East and Persian Gulf will still be in turmoil, Africa very poor, and Latin America still struggling.

¹ Stein, Herbert, "Unfamiliar Quotations: On Money, Madness, and Making Mistakes," *slate.msn.com*, May 16, 1997, 12:30 a.m. PT. Online at <http://slate.msn.com/id/2561/> (as of September 29, 2005). Stein's Law, first pronounced in the 1980s: "If something cannot go on forever, it will stop."

² Chen, Shuxun, and Charles Wolf, Jr., eds., *China, the United States, and the Global Economy*, Santa Monica: Calif.: RAND Corporation, MR-1300-RC, 2001; Zheng, Bijian, and Charles Wolf, Jr., eds., *Proceedings of the 6th Annual RAND-China Reform Forum Conference, August 28-29, 2003*, Santa Monica, Calif.: RAND Corporation, CF-195-PAF/NSRD/ARD, 2003.

“On the assumption of continued globalization, China, even more than at present, is likely to be the world’s leading manufacturing center.”

On the assumption of continued globalization, China, even more than at present, is likely to be the world’s leading manufacturing center, though by 2025 wage rates there will have increased to a point where competition from other parts of developing Asia is likely to be more severe. India in particular will in my judgment become a substantial manufacturing competitor, and Indonesia may well follow. But, barring trade wars or political competition leading to security crises, all of which are possible, trade and capital flows between the United States and China are likely to be several times what they are now, although more balanced. Unless the United States stumbles badly, it is likely to remain the world’s leader in technology and corresponding services, though China’s own ranking by that standard will have climbed substantially. In that regard, I would note that as nations move up the scale in per capita GDP, the mix of the economy moves toward services. In the United States, manufacturing constitutes only 18 percent or so of the GDP; services (including government services) make up practically all of the rest.

As to military capabilities, a great deal can happen in 20 years, though it must be remembered that development and deployment of major military systems can easily take more than a decade. By 2025, China will very likely be the strongest indigenous military power in Asia, though if Japan were to abandon its limit of 1 percent of GDP on military expenditures it could present significant competition. But, as a report by an independent task force on Chinese military power that I chaired for the Council on Foreign Relations two years ago concluded, “If the United States continues to dedicate significant resources to improving its military forces, as expected, the balance between the United States and China,

both globally and in Asia, is likely to remain decisively in America’s favor beyond the next twenty years.”³ The report noted, however, that in a localized action on or close to the Asian mainland, the outcome of a particular military engagement might go either way.

These factors will be part of the more general regional and global political and security context. Regionally, China is likely to be an even stronger influence than it is now. Japan and India will also be major Asian powers. Europe may or may not be more integrated politically than it is now, but will still not be a unitary military or foreign policy force. Russia will probably continue to be a significant military power, though it is not at all clear whether its economy will have modernized sufficiently to make it a major world economic power.

In short, most likely the United States will still be the leading power in the world system as it then exists, and China, even more clearly than is now the case, the rising power. That will make the relations between China and the United States the key dynamic bilateral factor in the world of 2025, recognizing that a lot can happen between now and then to change that prediction.

What are the prospects for those relations? The story of interactions between the leading power in the existing system and the rising power is not an encouraging one. Zheng Bijian wrote in April 2004 that the history of “rising through fighting for hegemony is a road that China does not intend

³ Brown, Harold, Joseph W. Prueher, and Adam Segal, *Chinese Military Power*, New York: Council on Foreign Relations, 2003, p. vi.

“A shooting war between major nuclear powers, especially ones that have no border disputes, is surely inhibited by the substantial probability of escalation to mutual nuclear destruction.”

to follow.”⁴ In that history, within Europe, beginning in the 16th century, first Spain, then France, then the UK became dominant over a period of four centuries. Major and protracted military conflict accompanied each transition. Moreover, though these were European powers, the conflicts and effects were in many cases global. For example, during the Seven Years War of 1756–1763 (part of the transition from French to British dominance), military conflict between the two and resulting political change occurred in North America, the Caribbean, and India, as well as in Europe. The peaceful exception among transitions was that between the UK and the United States from about 1890 to the early 1940s. It was not without its tensions, even after 1870, by which time it was clear that the United States was the rising power. But it was a special case, in part because the United States was in language, culture, and political structure largely an outgrowth, though by no means a clone, of Britain.

Should we be more optimistic about the case of the United States and China as regards not necessarily a transition in world leadership (which some in China anticipate, and some in the United States fear) but at least an accommodation to a substantially greater influence by the rising power? American observers often characterize this latter process as an incorporation of China into the existing world system. But it is understandable for Chinese to consider that a somewhat condescending view. To be admitted to a club whose rules you had little to do with formulating is one

thing; to become a partner in a reformulated enterprise is another.

In any event, there are differences in the case of China and the United States from the events of the 16th through 19th centuries, as well as from those of the 20th century that saw Germany, then Japan, then the Soviet Union challenge the existing order. Some of these factors are positive with respect to expectations of avoiding confrontation, at least in its extreme forms. Some are negative. Some cut both ways.

Perhaps what will most inhibit direct armed conflict is the existence of weapons of mass destruction, especially nuclear weapons, because of the fear of escalation. This factor clearly operated in the case of the Cold War between the United States and the Soviet Union. That didn't and wouldn't prevent combat with or between clients. But a shooting war between major nuclear powers, especially ones that have no border disputes, is surely inhibited by the substantial probability of escalation to mutual nuclear destruction.

Both the United States and China have engaged in military incursions in their own neighborhoods during the 20th century. The United States has done so in the Caribbean, for example. But U.S. territorial boundaries have been fixed since early in the 20th century. U.S. wars since then have been, and are likely to continue to be, the result either of attacks on the United States or its allies, or the result of Wilsonian ideology or *realpolitik*; i.e., perceived U.S. national interest. By contrast, the history of interference by foreign powers in China during the hundred years from the middle of the 19th century has given China much more concern for its territorial sovereignty. Looking forward,

⁴Draft, “China’s Peaceful Rise and Opportunities for the Asia-Pacific Region,” *Roundtable Meeting Between the Bo’ao Forum for Asia and the China Reform Forum (April 18, 2004)*, unpublished.

therefore, its possible use of force, as in the case of the border war with Vietnam in 1979, is more likely to be motivated by nationalistic rather than ideological sources. But whatever the reason, the leadership of each country runs a risk, by exciting the corresponding popular sentiments, of being unable to control them when they create a danger of conflict.

It is an encouraging factor that, unlike the Soviet Union or Nazi Germany, China no longer has an ideology and political system that it proposes to spread across the world. The United States periodically allows the wish to spread its own brand of democracy throughout the world—whether by rhetorical, cultural, political, or other pressure—to outweigh realpolitik considerations of national interest. Both elements always coexist in U.S. policy, however, and my own expectation is that the case of Iraq, even if the result is partial success, will prove sufficiently disappointing to reverse the missionary trend in its extreme form during the period I am discussing. Moreover, the history of U.S. involvement in world affairs beginning in the 1920s is that the Wilsonian impulse was not the cause of U.S. direct military confrontation with a major power.

What could lead, nevertheless, to strong friction or even confrontation between the United States and China? I can think of several issues.

First: Though economic relations will continue to be very close (and that should, on balance, be a positive factor), they involve some real risks. One way or another, painfully or gradually, the flow of trade and investment between the United States and China will have to become more balanced by 2025. Concern about U.S. job losses in some

sectors, even though the overall result of the economic relationship is positive for the United States, will continue to engender counterproductive policy proposals. An example is the congressional threat to raise tariffs unless China “upvalues” the renminbi by 25 percent. Such protectionist pressures could damage the economic relationship and both economies. So could Chinese failure to enforce contract law and intellectual property rights.

Second: The growth of the regional power projection capability of the Chinese military, though to be expected as part of China’s overall rise, can excite concerns among its neighbors. These concerns would intensify if the United States indicated a reduced commitment to the stability of the western Pacific region by major withdrawals of military forces or abandonment of security arrangements. How Japan, South Korea, or Vietnam (or India) might respond is not certain, but a U.S. withdrawal, followed by turbulence in the region and then a U.S. return, is an imaginable scenario for an adversarial turn in U.S.–China relations.

Third: Competition for energy resources or about global climate change represents another possible point of contention between China and the United States. China’s energy requirements will continue to grow at a very rapid pace. China could well take the position that, as the advanced industrialized countries are responsible for the present level of carbon dioxide (CO₂), it should not be required to pay to avoid making an equal contribution to atmospheric CO₂. But other countries are unlikely to subsidize reduction and sequestration of China’s CO₂ emissions. Furthermore, as China is apparently following the passenger car model of transportation already established by the existing industrialized countries, its requirements for

oil will skyrocket. That explains current efforts to lock up oil supplies in producing countries. This is unlikely to work because of the fungibility of oil. In times of shortage, everyone pays more. And if contractual prices or ownership arrangements of foreign oil exist, they are unlikely to be honored for very long. Nevertheless, competition for oil resources, already evident in Western Pacific waters even in places where there appears to be more competition than oil, is a sign of potential friction over energy resources. That same factor is likely to exacerbate political competition in Central Asia, where Russia, Turkey, Iran, and Arab nations, as well as China and the United States, have interests.

But of all the issues, Taiwan remains the most likely cause of a serious confrontation between the United States and China, and is likely to continue to be so for much of the next 20 years. A clash of arms over unification would set the clock of U.S.–China relations back 50 years. Though authorities on both sides of the strait consider the present situation unacceptable, they need to think about the consequences of trying now to change the status quo, and the high probability that those consequences would be even less acceptable, indeed extremely damaging, to all concerned (i.e., Beijing and Taipei, and Washington as well). Time and change on both sides of the strait are the best bet to produce their own peaceful solution, and to avoid a catastrophic turn for the worse in U.S.–China relations.

What should be the strongest inhibitor of conflict between the United States and China, aside from the risk of escalation to nuclear warfare, is the existence of a set of common interests in the face of a set of concerns I mentioned at the outset. These include, among others, the outcome

of the civil war within Islam; the prevention of the spread, let alone the use, of weapons of mass destruction; global risks of terrorism; adverse climate change; the spread of pandemic disease; and the possibility of global economic disruption through the failure of market mechanisms or financial institutions. Yet there are also, as I have indicated, surely reasons for competition between the United States and China, for economic advantage as well as for political influence, regionally and globally. And outright conflict, including even military conflict, though far from inevitable, is not excluded. The outcome will depend on leadership policies and public attitudes.

That makes the next few years' behavior at all levels very important. And during those years, issues about Taiwan; Korea; energy supply; and trade policy, including tariffs, exchange rates, and intellectual property, will—depending upon how they are managed—move U.S.–China relations, perhaps irrevocably, down a path that leads in either a positive or a negative direction. Not only explicit policies but statements (as well as actions) by officials on both sides that characterize the other side as an adversary or an enemy can excite their respective publics, elicit escalating counter-statements or actions from the other side, and make solutions more difficult. And there have been such statements from individuals on both sides.

In my view, three factors loom large in determining the future state of the relationship: one in the next few months, the second in the next few years, the third in the next couple of decades. The first is Korea. The second is Taiwan; specifically, whether the use of force can be avoided, with each side of the strait accepting the status quo in the belief that time and change will bring an accept-

“We have arrived at a point where reversing North Korean and preventing Iranian nuclear weapons programs is as high a priority as I can imagine.”

able solution where none now exists. The third is political evolution in China that will—in what direction we cannot be sure—certainly follow on the economic, technological, and social revolutions that have been under way since the third plenum of the Eleventh Party Congress in 1979. As to the effect of that evolution, there is a lesson from history. Unlike previous (or indeed subsequent) relations between leading and rising powers, the UK–U.S. relation was eased not only by the historical and cultural connections between the two but by the fact that both had relatively open and participatory political systems.

I can't help but return to the issue of weapons of mass destruction. China's record on proliferation has sometimes been another point of friction with the United States: long-range missiles to Saudi Arabia; nuclear and missile assistance to Pakistan and, by that route, to Iran. Now we have arrived at a point where reversing North Korean and preventing Iranian nuclear weapons programs is as high a priority as I can imagine. In both cases, China's

active engagement is crucial in seeking that end. Specifically, a peacefully accomplished denuclearization of the Korean peninsula brought about through the cooperative efforts of China and the United States would have an enormous positive effect on future U.S.–China relations as well as on other efforts to prevent proliferation of weapons of mass destruction. And the six-party talks (or at least five of the parties) could constitute the beginnings of a regional security structure that is in my view a necessary part of a solution to the nuclear and other Korean issues.

I have given several examples of situations in which cooperation between China and the United States will be central, as it will be for any international security structure in 2025. Policies and actions by both should, now and during the next years, consider not merely short-term national advantage. They should be governed by whether they make an adversarial or cooperative relationship between the United States and China more likely in 2025. ■

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