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DONALD TRUMP AND THE CHINA CHALLENGE

Introduction

At the 19th Communist Party National Congress President Xi Jinping proclaimed that China has “[...] become a great power [...]” and that “it is time for us to take centre stage in the world [...]”. He also stated that “[...] socialism with Chinese characteristics [...]” shows that there is “[...] a new choice for other countries [...]”.¹ Moreover, President Xi professed that his country will play an active role as a “[...] constructor of global peace, a contributor to development of global governance, and a protector of international order”.² Thus, the Chinese leader challenged American supremacy in economic and international political affairs, as well as in the soft power. Unlike Nikita Khrushchev’s famous “We will bury you” statement³, Xi Jinping’s proclamation is by no means an idle threat. China

¹ “Xi Jinping: ‘Time for China to Take Centre Stage’”, *BBC News*, 18.10.2017, <http://www.bbc.com/news/world-asia-china-41647872> [accessed: 18.10.2017].

² Son Daekwon, “Xi Jinping Thought Vs. Deng Xiaoping Theory”, *The Diplomat*, 25.10.2017, <https://thediplomat.com/2017/10/xi-jinping-thought-vs-deng-xiaoping-theory/> [accessed: 25.10.2017].

³ “Khrushchev’s ‘We Will Bury You’”, CIA, STATSPEC, 7.02.1962, Approved for release 2002/01/22, <https://www.cia.gov/library/readingroom/docs/CIA-RDP-73B00296R000200040087-1.pdf> [accessed: 10.03.2018].

has a population about four and a half times larger than that of the United States and its economy and military forces are growing at an astonishing pace.

U.S. – China struggle for world dominance

The December 2017 American National Security Strategy, also called an America First National Security Strategy, is the Trump administration's unvarnished response to the challenges that China poses to American national interests. Although the document begins with a declaration that the U.S. will pursue a "[...] beautiful vision [...]" of "[...] a world of strong, sovereign, and independent nations [...] thriving side-by-side in prosperity, freedom, and peace [...]" it immediately follows with the statement that "we will promote a balance of power that favors the United States, our allies, and our partners". The strategy identifies China and Russia as "revisionist powers" that test the influence and interests of the United States – "[...] the world's lone super power [...]".⁴ Further, it states that the struggle between the United States and China, as well as Russia, is of fundamental nature, that China represents values antithetical to those held by the Americans and that China wants to take United States' place in the Indo-Pacific region. To accomplish this China "[...] is building the most capable and well-funded military in the world, after our own".⁵ The military build-up in general, and in the South China Sea in particular, constitutes a threat to international commerce, regional stability and the sovereignty of nations and is an attempt to limit American access to the area.

The authors stress that the United States is ready to cooperate with the revisionist powers in the areas of mutual interests, but also observe that decades-long policies aimed at making China a "trustworthy partner" through its inclusion into international institutions and global commerce have failed; instead, China is attempting to alter the international order in its favor.⁶

The tone of the 2017 national security strategy is in stark contrast to what a similar document penned in February of 2015 said about the Sino-American relations. Although the authors of the 2015 national security strategy noted concerns regarding China's military modernization and growing presence in Asia, it stressed "unprecedented" scope of American collaboration with China and welcomed "the rise of a stable, peaceful, and prosperous China".⁷

⁴ White House, *National Security Strategy of the United States of America*, December 2017, Washington D.C., pp. II, 2, 25, 41, <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf> [accessed: 25.01.2018].

⁵ *Ibidem*, p. 25.

⁶ *Ibidem*, pp. 3, 25, 27, 46.

⁷ White House, *National Security Strategy of the United States of America*, February 2015, Washington D.C., pp. I, II, 24, https://obamawhitehouse.archives.gov/sites/default/files/docs/2015_national_security_strategy_2.pdf [accessed: 25.11.2017].

The new 2017 security strategy aims at accomplishing four major goals, first protecting the homeland and the American way of life; second, promoting American prosperity; third, preserving “peace through strength” which can only be realized by the restoring of the preeminence of the U.S. military, and, fourth, advancing “[...] American influence because a world that supports American interests and reflects our values makes America more secure and prosperous”. To counter the Chinese claims to parity with the United States in ideological matters, the document stresses that “America’s commitment to liberty, democracy, and the rule of law serves as an inspiration for those living under tyranny.”⁸ Also, the strategy points an asymmetry in the ideological struggle resulting from the fact that while the Western world maintains open-access information systems the competing powers protect their information systems from external influences.

To attain the third fundamental strategic goal – the retention of “military overmatch” – not only must the military force grow in size to be able to operate at sufficient scale and over sufficient time to win under a diverse set of scenarios, but also the American economy must reverse the decline in its manufacturing base, including the erosion in critical workforce skills. The strategy notes threats emanating from Chinese foreign investments, especially in infrastructure (the ubiquitous “One Belt and One Road” plan), that are serving not only economic purposes, but also bolster China’s political ambitions.

The strategy concludes that the U.S. still possesses valuable assets. The West accounts for over half of world’s total GDP, far more than that of potential adversaries.⁹ Another major asset is the American leading position in the production of oil and gas – the United States is expected to become an “energy-dominant nation”.¹⁰ This prediction is consistent with independent sources, for instance, the International Energy Agency sees the U.S. overtaking the Saudi Arabia as the second largest oil producer in 2018 and ultimately becoming number one, all thanks to the development of shale deposits.¹¹

Also, collective arrangements, for instance, the quadrilateral cooperation with Japan, Australia, and India offer great opportunities to contain threats to regional and global challenges. The document especially highlights the potential for defense and security cooperation with India; the authors emphasize American support for the strengthening of India’s relationships in the region¹². Nevertheless, the most important asset is soft power, the American commitment to

⁸ White House, *National Security Strategy of the United States of America*, December 2017, *op. cit.*, p. 4.

⁹ *Ibidem*, pp. 28–37.

¹⁰ *Ibidem*, p. 22.

¹¹ International Energy Agency, *Oil Market Report*, 19.01.2018, <https://www.iea.org/media/omrreports/fullissues/2018-01-19.pdf> [accessed: 20.01.2018].

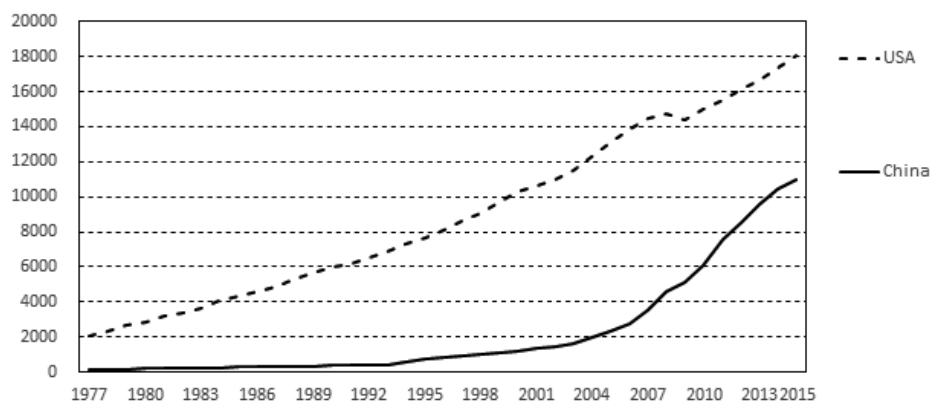
¹² White House, *National Security Strategy of the United States of America*, December 2017, *op. cit.*, pp. 37, 46–47.

“[...] individual liberty, the rule of law, a democratic system of government, tolerance, and opportunity for all”.¹³

U.S.–China relative economic power

In 1978 Deng Xiaoping put an end to Maoism in economic affairs and introduced market-oriented reforms. Ever since then the Chinese economy has been growing at an extraordinary pace. In 1977 the American economy was almost 12 times that of the Chinese, but in 2017, i.e. in 40 years, the ratio declined to just 1.6 to 1.¹⁴ Graph 1 illustrates the relative economic power of the two nations – total GDP at market prices and market exchange rates over the 1977–2017 period.

Graph 1. GDP (nominal prices at current exchange rates, bil. USD)



Source: Data Bank. World Development Indicators, World Bank, <http://databank.worldbank.org/data/> [accessed: 12.08.2018.].

The data presented in Graph 1 provide a basis for the common phrase used regarding China: the second largest economy. According to the Centre for Economics and Business Research estimates, China will become the largest world economy only in 2030 (at the current exchange rate).¹⁵ However, what really matters is real values, real GDP, because price levels in countries can vary a great

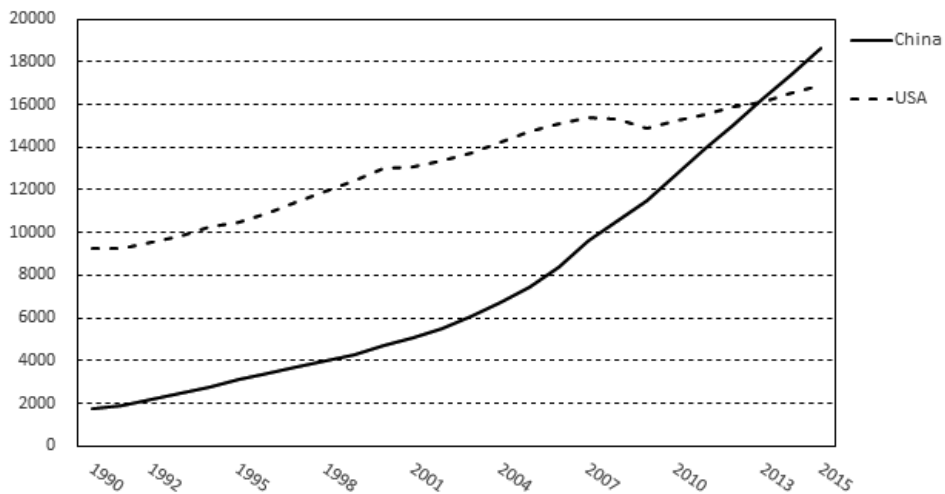
¹³ *Ibidem*, p. 55. Yet India is reluctant to get involved in the South China Sea issues. S. Miglani, “India Plans Closer Southeast Asia Maritime Ties to Counter China”, Reuters, 24.01.2018, <https://www.reuters.com/article/us-india-asean/india-plans-closer-southeast-asia-maritime-ties-to-counter-china-idUSKBN1FD14Z> [accessed: 24.01.2018].

¹⁴ Data Bank. World Development Indicators, World Bank, <http://databank.worldbank.org/data/> [accessed: 12.08.2018].

¹⁵ *World Economic League Table 2018. A World Economic League Table with Forecasts for 192 countries to 2032*, Centre for Economics and Business Research, London 2017.

deal and without taking an adjustment for differences in purchasing power we obtain a biased economic picture. After considering price disparities we get a different relationship; in 2013 the Chinese economy surpassed that of the U.S. and the gap is growing. The CIA estimates that in 2017 the GDP of China and the U.S. at purchasing power parity was \$23.1 billion and \$19.4 billion, respectively.¹⁶ Graph 2 illustrates changes in relative real economic might (calculated in 2011 constant U.S. dollars) over the years 1990–2017.

Graph 2. GDP at purchasing power parity
(bil. of constant 2011 international USD)



Source: Data Bank, *op. cit.*

The relative size of the Chinese economy is best illustrated with the fact that the country makes about half of the world's output of steel, aluminum, glass, and cement.¹⁷ The speed at which the country catches up with the most advanced nations is breath-taking, by some estimates 50% of Chinese infrastructure was made in the period of 2000–2015 and just in the years 2011–2013 China used more cement than the U.S. in the entire twentieth century.¹⁸

¹⁶ The World Factbook. Country Comparison: GDP (Purchasing Power Parity), Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html> [accessed: 12.08.2018].

¹⁷ “Making Sense of Capacity Cuts in China”, *The Economist*, 7.09.2017, <https://www.economist.com/news/leaders/21728640-investors-have-been-cheered-sweeping-cutbacks-they-should-look-more-closely-making-sense> [accessed: 10.09.2017].

¹⁸ A. Swanson, “How China Used More Cement In 3 Years Than the U.S. Did In The Entire 20th Century”, *The Washington Post*, 24.03.2015, https://www.washingtonpost.com/news/wonk/wp/2015/03/24/how-china-used-more-cement-in-3-years-than-the-u-s-did-in-the-entire-20th-century/?utm_term=.73858ee72fc4 [accessed: 15.07.2017].

The “Made in China 2025” strategy

In a seminal 2007 paper, Robert F. Fogel predicted that by the year 2040 China will account for 40% of world’s GDP, the U.S. will produce only 14% of the total output, while Europe will descend into oblivion – its contribution to the global GDP will decline to only 5%.¹⁹ According to Fogel, by that time the center of gravity will move to Asia; the area from Japan to Malaysia and to India will be inhabited by 40% of the total population and will produce two-thirds of global GDP. A more recent analysis predicts that by 2027 China will have a GDP per capita enough to be included into the list of high-income nations.²⁰

Will the Chinese economy manage to meet these predictions? Certainly, the fact that the nation suffered no major economic calamity over a period of forty years is without precedent and to expect that this will continue into the foreseeable future sounds improbable. Yet, standard economic theory supports this hypothesis. China is still a very underdeveloped nation, even at purchasing power parity the GDP per capita in the U.S. is over 3.5 times that of China. So, the catch-up effect, a theory based on the Solow model that suggests an above average rate of economic growth for late-comers is still a valid proposition.²¹ Chinese government planners have little doubt about that, and they foresee China growing at a rate of well above 6% per annum in the coming years for the nation to double its GDP and per capita income in 2020, from the 2010 levels.²²

The “Made in China 2025” strategy aims at supporting innovation and moving the economy up the value chain, particularly into computers, wide-body passenger jets, sensors, high-end ships, and industrial software while reducing the reliance on low-end production.²³ A recent White House report under the title “How China’s Economic Aggression Threatens the Technologies and Intellectual Property of the United States and the World” describes it as an attempt to dominate the industries of the future.²⁴

¹⁹ R.W. Fogel, *Capitalism and Democracy in 2040: Forecasts and Speculations*, NBER Working Paper No. 13184, 2007, <http://www.nber.org/papers/w13184> [accessed: 17.10.2017].

²⁰ E. Curran, “China Will Avoid a Bank Crisis, Reach High Income Status: Morgan Stanley”, Bloomberg, 14.02.2017, <https://www.bloomberg.com/news/articles/2017-02-14/morgan-stanley-says-china-to-avoid-bank-shock-reach-high-income> [accessed: 14.02.2017].

²¹ See for instance: T. Cowen, A. Tabarrok, *Modern Principles of Economics*, 3rd ed., New York 2015, esp. chapter 28, pp. 538-548.

²² “China Signals Slower Growth Is Acceptable to Tackle Debt, Smog”, Bloomberg, 24.12.2017, <https://www.bloomberg.com/news/articles/2017-12-25/china-signals-slower-growth-is-acceptable-to-tackle-debt-smog> [accessed: 24.12.2017].

²³ Zhong Nan, Ren Xiaojin, Jing Shuiyu, “Supply-Side Reform Set to Safeguard Future”, *China Daily*, 24.10.2017, http://www.chinadaily.com.cn/cndy/2017-10/24/content_33636747.htm [accessed: 24.10.2017].

²⁴ White House Office of Trade and Manufacturing Policy, *How China’s Economic Aggression Threatens the Technologies and Intellectual Property of the United States and the World*, June 2018, <https://www.whitehouse.gov/wp-content/uploads/2018/06/FINAL-China-Technology-Report-6.18.18-PDF.pdf> [accessed: 15.08.2018].

In line with this strategy China's economy is restructuring fast. Investment in heavy manufacturing, the sector that in the recent past contributed so much to economic growth is slowing down, while investment and production of high-tech sectors is on the rise as are online sales versus brick and mortar retailing.²⁵

The "Made in China 2025" program announced in 2015 by the nation's State Council was inspired by Germany's "Industry 4.0" plan.²⁶ In a speech made on May 28, 2018 President Xi said that its purpose is to secure China's independence and security through control over core technologies, because the nation could be cut off from those technologies at any time.²⁷ Certainly, the ZTE debacle serves as a case in point.²⁸

The U.S. government views the strategy not as a defensive measure but as a form of economic aggression, "a comprehensive, long-term industrial strategy to ensure its global dominance".²⁹ To accomplish this goal, according to the White House report, China attempts to buy key technologies and intellectual property and uses industrial policy to control industries that will be future economic growth drivers. The paper provides a long list of strategies that China resorts to accomplish this goal, among others, physical and cyber espionage, piracy, forced technology and intellectual property transfer, forced R&D facility placement in China, as well as the use of Chinese nationals studying and working at top American universities and research centers. American authorities are particularly concerned with the "Thousand Talents Plan", a program to recruit both Chinese and non-Chinese top-level scholars with access to key intellectual property and patents and most advanced technologies in areas targeted by the Chinese state. Additionally, China offers more than 300 entrepreneurial parks for foreign educated people who come to China and already more than 24,500 enterprises have been set up in those centers.³⁰

²⁵ Aidan Yao, "Look Beyond the Headline Numbers to See China's Economic Transformation In Progress", *South China Morning Post*, 22.11.2017, <http://www.scmp.com/business/global-economy/article/2120840/look-beyond-headline-numbers-see-chinas-economic> [accessed: 30.12.2017].

²⁶ S. Kennedy, "Made in China 2015", Center for Strategic & International Studies, 1.06.2015, <https://www.csis.org/analysis/made-china-2025> [accessed: 24.10.2017].

²⁷ M. Martina, K. Yao, Yawen Chen, "Exclusive: Facing U.S. Blowback, Beijing Softens 'Made in China 2025' Message", Reuters, 25.06.2018, <https://www.reuters.com/article/us-usa-trade-china-madeinchina2025-exclu/exclusive-facing-u-s-blowback-beijing-softens-made-in-china-2025-message-idUSKBN1JL12U> [accessed: 15.08.2018].

²⁸ See, for instance: K. Freifeld, "U.S. Lifts Ban on Suppliers Selling to China's ZTE", Reuters, 13.06.2018, <https://www.reuters.com/article/us-usa-trade-china-zte/u-s-lifts-ban-on-suppliers-selling-to-chinas-zte-idUSKBN1K32CN> or V. Volcovici, K. Freifeld, "In Concession, Trump Will Help China's ZTE 'Get Back Into Business'", Reuters, 13.05.2018, <https://www.reuters.com/article/us-usa-china-zte/in-concession-trump-will-help-chinas-zte-get-back-into-business-idUSKCN1IE0QI> [accessed: 15.08.2018].

²⁹ White House Office of Trade and Manufacturing Policy, *op. cit.*, p. 1.

³⁰ *Ibidem*.

Even before the introduction of the “Made in China 2025” strategy, China was making tremendous progress on many fronts. Over the years 1996–2016, the level of investment, measured as a percentage of GDP, was very high and the investments were directed towards high-tech industries that were less energy intensive (table 1). Consequently, the proportion of high-technology exports in total manufactured exports more than doubled over the same time span. This should come as little surprise as the share of research and development in GDP almost quadrupled and employment in the area increased by a factor of 2.5 (table 1).

Table 1. Select key economic data

Variable	Country	Year	
		1996	2016
Gross fixed capital formation (% of GDP)	USA	21.3	19.5
	China	32.5	42.8
Energy use (kg of oil eq.) per \$1,000 GDP (constant 2011 PPP)	USA	193.7	134.0*
	China	316.1	175.3*
Hi-tech. exports (% of manufactured exports)	USA	30.8	20.0
	China	12.4	25.2
R&D expenditure (% of GDP)	USA	2.44	2.79**
	China	0.56	2.07**
Researchers in R&D (per mil. people)	USA	3122.6	4232.0*
	China	442.6	1113.1*

* 2014; ** 2015

Source: Data Bank, *op. cit.*

In some fields China’s progress is breathtaking. Despite a ban on sales of the most advanced microprocessors imposed on China by the Obama administration³¹, in 2016 China-built Sunway TaihuLight (based on made-in-China chips) and Tianhe-2 were the two fastest supercomputers, while the best American machine in this respect was ranked only fifth. In mid-2017 the U.S. led China in the top 500 ranking of fastest supercomputers 169 to 160, but by November positions reversed, China led by a margin of 202 to 143.³² However, a year later IBM-made machines regained the top two spots, although, in terms of the overall numbers China increased its lead, it had an edge over the U.S. of 227 (or 45% of the total) to 109 (22% of the total). Nevertheless, supercomputers installed in the U.S. are still significantly more powerful and in terms

³¹ P. Thibodeau, “China Builds World’s Fastest Supercomputer Without U.S. Chips”, *Computerworld*, 20.06.2016, <http://www.computerworld.com/article/3085483/high-performance-computing/china-builds-world-s-fastest-supercomputer-without-u-s-chips.html> [accessed: 11.12.2017].

³² China Pulls Ahead of U.S. in Latest TOP500 List, TOP500, 13.11.2017, <https://www.top500.org/news/china-pulls-ahead-of-us-in-latest-top500-list/> [accessed: 11.12.2017].

of aggregate system performance the U.S. still has a lead of 38% of the world's total compared to 31% by China.³³

Chinese companies have also achieved leading position in some other industries, for instance, Lenovo is the second largest PC maker in the world³⁴, Huawei, OPPO, and Xiaomi place third to fifth on the list of largest smartphone brands.³⁵

China is quickly developing its civilian aircraft industry. COMAC, the state-owned company, is testing C919 aircraft designed to compete with Boeing's 737 and Airbus's A320 jets, and the plane has already attracted orders and commitments for 785 units.³⁶ In cooperation with Russia, China is working on a wide-body jet, a direct challenge to Airbus's A330.³⁷ The airplane will be powered with an engine jointly developed by the two countries.³⁸ China is aiming even higher by making rapid progress in space flights; on January 2, 2019 it landed and deployed a first-ever rover on the dark side of the moon.³⁹ The nation is racing with the U.S. to explore Mars, it plans to send a mission to the Red Planet in 2020; and by 2030 another mission there that would bring back samples of rock.⁴⁰

³³ China Extends Supercomputer Share on TOP500 List, US Dominates in Total Performance, TOP500, November 2018, <https://www.top500.org/news/lists/2018/11/press-release/> [accessed: 10.12.2018].

³⁴ J. Dunn, "Here Are the Companies That Sell the Most PCs Worldwide", Business Insider, 14.04.2017, <http://www.businessinsider.com/top-pc-companies-sales-idc-market-share-chart-2017-4> [accessed: 15.04.2017].

³⁵ Global Market Share Held By Smartphone Vendors From 4th Quarter 2009 to 3rd Quarter 2017, Statista, <https://www.statista.com/statistics/271496/global-market-share-held-by-smartphone-vendors-since-4th-quarter-2009/> [accessed: 5.12.2017].

³⁶ "Second Prototype of China's C919 Jet Conducts Test Flight: state TV", Reuters, 16.12.2017, <https://www.reuters.com/article/us-china-aviation-comac/second-prototype-of-chinas-c919-jet-conducts-test-flight-state-tv-idUSKBN1EB043> [accessed: 30.12.2017].

³⁷ B. Goh, "China, Russia Set Up Wide-Body Jet Firm In New Challenge to Boeing, Airbus", Reuters, 22.05.2017, <https://www.reuters.com/article/us-china-comac-russia/china-russia-set-up-wide-body-jet-firm-in-new-challenge-to-boeing-airbus-idUSKBN1810KZ> [accessed: 24.05.2017].

³⁸ G. Polek, "Russia and China to Partner on Engine for New Widebody", AINonline, 20.09.2017, <https://www.ainonline.com/aviation-news/air-transport/2017-09-20/russia-and-china-partner-engine-new-widebody> [accessed: 30.09.2017].

³⁹ S.L. Myers, Zoe Mou, "'New Chapter' in Space Exploration as China Reaches Far Side of the Moon", *The New York Times*, 2.01.2019, <https://www.nytimes.com/2019/01/02/world/asia/china-change-4-moon.html> [accessed: 2.01.2019].

⁴⁰ J. Bennet, "U.S. and China Both Want to Launch a Mars Sample Return Mission Before 2030", *Popular Mechanics*, 28.12.2017, <http://www.popularmechanics.com/space/moon-mars/a14506608/united-states-china-racing-first-sample-from-mars/> [accessed: 30.12.2017].

Competition in the military sphere

In January of 2018 the Department of Defense presented the National Defense Strategy. The summary of the document that was made public outlines the Pentagon's role in the United States maintaining its global influence. A decades-long period during which the U.S. possessed dominant superiority is over; now American dominance is threatened by strategic competition from the two revisionists powers and the Department of Defense's overriding priority is retaining preeminent military position in the world so that the U.S. can deal with the challenges from a position of strength. To this end, the nation is in the process of establishing a more robust, lethal, and innovating Joint Force and strengthening alliances and partnerships.⁴¹

Although the Defense Strategy is more balanced than the National Security Strategy in evaluating the threats – it perceives both China and Russia as strategic competitors. However, only China is perceived as attempting to achieve global preeminence by first attaining hegemony in the Indo-Pacific region. The document stresses that the U.S. is open to cooperation with the challengers, but, at the same time, it lists the areas where the country must make major investments, from the nuclear triad, to anti-missile defense, to space and cyberspace, to autonomous systems, and to the collaboration with start-up companies and universities, so that the Joint Force possesses “[...] decisive advantage for any likely conflict [...]”.⁴² The Defense Strategy also emphasizes mutually beneficial alliances and partnership in general and the NATO alliance in particular, yet it stresses the need for equitable burden sharing. The United States that enjoys preeminent global position fortified with a dominant Joint Force will be more secure and will experience a higher standard of living because of a better access to markets⁴³, the authors conclude.

China vigorously criticized the tone and contents of the security and defense strategies. It accused the Americans of zero-sum game and Cold War mentalities⁴⁴. The concerns related to China's military build-up were lambasted as being out of touch with reality and likened to “sensational hype”.⁴⁵ However,

⁴¹ J. Mattis, *Summary of the 2018 National Defense Strategy of the United States of America. Sharpening the American Military's Competitive Edge*, Department of Defense, 19.01.2018, pp. 1, 3, <https://www.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf> [accessed: 20.01.2018].

⁴² *Ibidem*, p. 5.

⁴³ *Ibidem*, pp. 8–9, 11.

⁴⁴ Chen Weihua, “China Blasts New US Defense Strategy”, *China Daily*, 20.01.2018, <http://usa.chinadaily.com.cn/a/201801/20/WS5a62d631a3106e7dcc135803.html> [accessed: 21.01.2018].

⁴⁵ “U.S. Creating ‘Sensational Hype’ Over China's Military Modernization: Ministry”, Reuters, 21.12.2017, <https://www.reuters.com/article/us-usa-trump-nationalsecurity-china/u-s-creating-sensational-hype-over-chinas-military-modernization-ministry-idUSKBN1EF003> [accessed: 21.12.2017].

some official commentators expressed scorn noting that the U.S. should adapt to the new situation, accept reality, and that given China's size and power it is not possible to suppress it anymore, and, instead, cooperation between the two nations should be the norm.⁴⁶

The annual report produced by the U.S. Intelligence Community contained equally alarming findings, especially regarding China's nuclear forces. According to the report, China is adding new generation, more mobile systems and improving silo-based missile systems to assure second-strike capability. The nation is also developing submarine-launched ballistic missiles to gain long-range, sea-based capability, as well as, a next-generation bomber to match the American triad. It is also testing hypersonic gliding missiles.⁴⁷

The challenges described in the security and defense strategies and in the intelligence community assessment are real. China is fast implementing an extensive program of armed forces modernization ranging from a domestically constructed aircraft carrier to anti-satellite missiles, to stealth fighters, and to the world's biggest amphibious airplane.⁴⁸ In February 2018 the nation introduced into combat service J-20, a stealth fighter, and has another under development, the J-31, which is designed to compete with the new generation American F-35 fighter.⁴⁹ Most significantly, China is expanding its navy at a pace that has no parallel in history; the Navy of Chinese People's Liberation Army plans to attain the level of 500 units, including aircraft carriers and nuclear submarines, while the U.S Navy is planning to grow back to 350 ships.⁵⁰ Also, in response to the alleged American and Russian modernization of nuclear forces, China's military plans to do the same to "[...] support our great power position [...]".⁵¹

⁴⁶ "China Urges Cooperation After U.S. Brands It a Competitor," Reuters, 19.12.2017, <https://www.reuters.com/article/us-usa-trump-nationalsecurity-china/china-urges-cooperation-after-u-s-brands-it-a-competitor-idUSKBN1ED0CF> [accessed: 20.12.2017].

⁴⁷ D.R. Coats, *Statement for the Record. Worldwide Threat Assessment of the US Intelligence Community*, 6.03.2018, <https://www.dni.gov/files/documents/Newsroom/Testimonies/Final-2018-ATA---Unclassified---SASC.pdf> [accessed: 20.03.2018].

⁴⁸ "World's Largest Amphibious Aircraft Makes Maiden Flight in China", Reuters, 24.12.2017, <https://www.reuters.com/article/us-china-defence-airplane/worlds-largest-amphibious-aircraft-makes-maiden-flight-in-china-idUSKBN1EI01I> [accessed: 27.12.2017].

⁴⁹ "China Says New Stealth Fighter Put Into Combat Service", Reuters, 9.02.2018, <https://www.reuters.com/article/us-china-defence/china-says-new-stealth-fighter-put-into-combat-service-idUSKBN1FT1L3> [accessed: 10.02.2018].

⁵⁰ P. Roberts, "China's 500-Ship Navy Suddenly Appears on the Horizon", RUSI Commentary, 3.02.2017, <https://rusi.org/commentary/china%E2%80%99s-500-ship-navy-suddenly-appears-horizon> [accessed: 4.02.2017].

⁵¹ "Chinese Military Paper Urges Increase In Nuclear Deterrence Capabilities", Reuters, 30.01.2018, <https://www.reuters.com/article/us-china-security/chinese-military-paper-urges-increase-in-nuclear-deterrence-capabilities-idUSKBN1FJ1A0> [accessed: 31.01.2018].

To counter the Chinese challenge, the U.S. is expanding cooperation with other nations. Although India is reluctant to hold joint patrols with the U.S. Navy alone, the country is engaged in trilateral exercises with the United States and Japan and that could soon also involve Australia.⁵²

China's military presence grows not only in the South China Sea. In 2017 the nation opened its first overseas base in Djibouti, and the facility may be the first of a "string of pearls", a chain of assets, including Pakistan, Bangladesh, Sri Lanka, and Myanmar that potentially can serve military purposes.⁵³ Cambodia is another country in South-east Asia that is rapidly improving military cooperation with China while diminishing defense contacts with the United States.⁵⁴ Immediately upon taking office, President Trump announced a plan to increase military expenditure by 10%⁵⁵, and China followed with a 7% hike, but many observers believe that the actual raise could be much higher.⁵⁶

Finding the actual spending on defense is difficult, because of differences in purchasing power. Also, China's statistics are less-than-totally transparent, and China procures a good part of the military hardware from local producers and prices paid could be non-market based. Overall, there is no doubt that over the past almost three decades China has drastically decreased the gap in spending on defense. Graph 3 presents best estimates of the developments in this area over the years 1989–2017.

The SIPRI data is consistent with other sources, for instance the IHS Markit estimates.⁵⁷ Overall, the U.S. still spends a great deal more than China, but the gap has been shrinking. In 1989 the ratio was almost 29 to 1 in America's favor, by 1999 it shrank to 10 to 1, and by 2017 only to 2.6 to 1.

⁵² S. Miglani, *China is a disruptive force...*, *op. cit.*

⁵³ "Promote Peace, China's Xi Tells Soldiers at First Overseas Base", Reuters, 3.11.2017, <http://www.reuters.com/article/us-china-defence/promote-peace-chinas-xi-tells-soldiers-at-first-overseas-base-idUSKBN1D401U> [accessed: 10.11.2017].

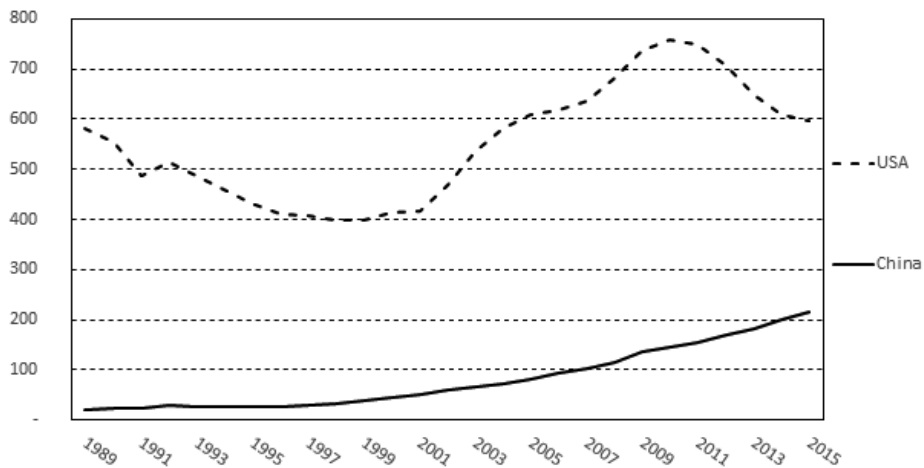
⁵⁴ Prak Chan Thul, "China to Hold Second Military Exercises With Cambodia", Reuters, 24.01.2018, <https://www.reuters.com/article/us-cambodia-china/china-to-hold-second-military-exercises-with-cambodia-idUSKBN1FD1QW> [accessed: 25.01.2018].

⁵⁵ A. Phillip, K. Snell, "Trump to Propose 10 Percent Spike In Defense Spending, Major Cuts to Other Agencies", *The Washington Post*, 27.02.2017, https://www.washingtonpost.com/powerpost/trump-to-propose-10-percent-spike-in-defense-spending-massive-cuts-to-other-agencies/2017/02/27/867f9690-fcf2-11e6-99b4-9e613afeb09f_story.html?utm_term=.b5e34759371d [accessed: 27.02.2017].

⁵⁶ "China to Increase Military Spending by 7% In 2017", *BBC News*, 4.03.2017, <http://www.bbc.com/news/world-asia-china-39165080> [accessed: 4.03.2017].

⁵⁷ "2016's \$1.57 Trillion Global Defence Spend to Kick off Decade of Growth, IHS Markit Says", IHS Markit, 12.12.2016, <http://news.ihsmarkit.com/press-release/2016s-15-trillion-global-defence-spend-kick-decade-growth-ihsmarkit-says> [accessed: 18.09.2017].

Graph 3. Military expenditure (bil. of 2016 constant USD)



Source: SIPRI Military Expenditure Database, Stockholm International Peace Research Institute, <https://www.sipri.org/databases/milex> [accessed: 12.08.2018].

It should be noted that most of the increase in American military disbursements over the years 2002–2015 were related to the costs of wars in Iraq and Afghanistan rather than to a military build-up related to strategic challenges posed by China and Russia. For instance, in 2011 total military expenditure was \$885 billion (in current dollars), but the Department of Defense “base” budget – the one that funds overall readiness as well as procurement, research and development – was only \$528 and the remaining \$326,9 billion, or over 38% was devoted to fighting terrorism and other emergency expenditures.⁵⁸ The total actual cost of Overseas Contingency Operations, i.e. the war on terror, from fiscal year 2001 to 2018 will be well over \$2 trillion.⁵⁹ The Defense Strategy puts it bluntly: “today, we are emerging from a period of strategic atrophy, aware that our competitive military advantage has been eroding”. The document also stresses that the strategy will necessitate “sustained investment” and recalls past “sacrifices” that the nation endured to maintain the American way of life.⁶⁰ Yet, the recent 10% increase in military spending came at the expense of international aid – this budget item was almost annihilated.⁶¹ Given that non-defense discretionary spending

⁵⁸ K. Amadeo, “U.S. Military Budget: Components, Challenges, Growth”, *The Balance*, 10.01.2018, <https://www.thebalance.com/u-s-military-budget-components-challenges-growth-3306320> [accessed: 11.01.2018].

⁵⁹ A. Cordesman, “U.S. Military Spending: The Cost of Wars”, *Center for Strategic and International Studies*, 10.07.2017, <https://www.csis.org/analysis/us-military-spending-cost-wars> [accessed: 15.07.2017].

⁶⁰ J. Mattis, *op. cit.*, pp. 1, 11.

⁶¹ A. Phillip, K. Snell, *op. cit.*

amounts to a small fraction of the overall federal government outlays, there is not much room left for additional military build-up. For instance, in 2017, total federal outlays were estimated to be \$4.15 trillion, but \$2.91 trillion or 70.1% was mandated by law.⁶² Of the discretionary \$1.23 trillion, \$607.6 billion or over 49% was spent by the Department of Defense.⁶³ But, this number represents the “base” budget, the discretionary spending part of the federal budget also included another \$186 billion in military expenditure for a total of \$793.7.⁶⁴ Whatever little is left over, it is devoted to, among others, such critical areas as infrastructure (transportation, energy), education, research and development, and administration of justice.⁶⁵ In December of 2017, the U.S. Congress adopted tax cuts that are expected to increase budget deficits and, therefore, national debt by almost \$1.1 trillion over the 2018–2027 years.⁶⁶ Given an already elevated level of national debt, the new law leaves limited room for funding the projected military build-up with additional borrowing. So, the question arises, what additional “sacrifices” the American taxpayer will be asked to make for the U.S. to accomplish the goals stated in the security and defense strategies?

Conclusions

China poses a threat to American interests as no other nation has ever presented since the U.S. entered the global stage at the end of the 19th century. For the first time in its history the U.S. struggles with an opponent that has vastly larger population, uses this enormous manpower in an efficient way, and rapidly expands its economic and military might. The Trump presidency represents a drastic departure from past American policies that assumed that peaceful collaboration sooner or later will lead to China joining the U.S.-led Western system. The assumption that the Asian giant will evolve into a democracy and as such will assume Western values and assimilate Western culture and accept an American-led world order or that at least it will never directly challenge the U.S. supremacy is valid no more. Xi Jinping made it clear that China is not willing to play the second fiddle anymore and, given the nation’s economic and military might, it is ready to assume leadership role.

⁶² *Historical Tables, 2017 Budget of the U.S. Government*, Office of Management and Budget, Table 8.1, and Table 8.3, <https://www.gpo.gov/fdsys/pkg/BUDGET-2017-TAB/pdf/BUDGET-2017-TAB.pdf> [accessed: 24.07.2018].

⁶³ *Ibidem*.

⁶⁴ K. Amadeo, *op. cit.*

⁶⁵ *Historical Tables, 2017 Budget of the U.S. Government*, Table 8.7, *op. cit.*

⁶⁶ The Joint Committee on Taxation, *Macroeconomic Analysis of the Conference Agreement for H.R. 1, The “Tax Cuts and Jobs Act”*, Congress of the United States, JCX-69-17, 22.12.2017, <https://www.jct.gov/publications.html?func=startdown&id=5055> [accessed: 30.12.2017].

China's leadership seems to doubt that the entire West is going to fall in line behind the U.S. Beijing is rapidly expanding economic ties with Eurasia, Africa, and even with Latin America. Steps taken by the Trump administration, especially an increase in defense expenditures, are sufficient to maintain the current *status quo* but the fundamental question is for how long? Besides checking the ascend of China, the U.S. is fighting on numerous fronts, from the war on terror, to containing Iran, to protecting NATO's eastern flank, while the nation's financial resources are dwindling. Unless China's economy stumbles, the Asian giant will soon be able to outspend the U.S. on the military, at least in the geographic regions that it deems most vital to its interests. The U.S. still enjoys technological superiority in some critical areas, but the "Made in China 2025" program is meant to overcome this weakness. A success in this area would tilt the scale significantly in China's favor and the American "military overmatch" could soon be a thing of the past.

American leadership is right that the combined economic and military resources of the West are much greater than those of the "revisionist powers" in general and of China's in particular, but it is not obvious that the West will present a unified front towards its challengers. The "America First" strategy offers few benefits to potential allies and as such may not be the best long-term approach to the challenge that China poses.

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Donald Trump i chińskie wyzwania

Donald Trump jako kandydat na prezydenta publicznie głosił to, o czym wielu obserwatorów myślało po cichu: od czasu upadku Związku Radzieckiego Chiny stały się największym zagrożeniem dla jednobiegunowego świata zdominowanego przez Stany Zjednoczone. Niniejszy artykuł analizuje czynniki, które mogą mieć decydujący wpływ na wynik tych zmagania, szczególnie na względną potęgę gospodarczą adwersarzy. W czasach pokoju jest to niesłychanie istotny czynnik i jako taki ma wielki wpływ na bieżące posunięcia w dziedzinie polityki. Jest wielce prawdopodobne, że będzie on równie ważny w obecnych zmaganiach o dominację na świecie. Opracowanie dokonuje przeglądu poziomu wydatków na zbrojenia i względnej siły wojskowej obu państw.

Słowa kluczowe: dominacja nad światem, współzawodnictwo gospodarcze, zmagania o technologiczną supremację, wyścig zbrojeń

Donald Trump and the China Challenge

Donald Trump, as a presidential candidate, made public what many observers thought in private – since the collapse of the Soviet Union, China has become the biggest threat to the unipolar world, the one dominated by the United States. This paper analyses factors that may determine the outcome of this battle, in particular their relative economic strength. This element is vital during times of peaceful competition and, as such, determines current politics and most likely will define the current struggle for world dominance. We also review the protagonists’ defense spending and their relative positions in the military sphere.

Key words: world dominance, economic competition, struggle for technological leadership, military race

