

# Clash of Strategic Cultures 2019

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## STRATEGIC MULTILAYER ASSESSMENT

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Dr. Rob Spalding is an accomplished innovator in government and a national security policy strategist. He has served in senior positions of strategy and diplomacy within the Defense and State Departments for more than 26 years. He was the chief architect of the framework for national competition in the Trump Administration’s widely praised National Security Strategy (NSS) and the Senior Director for Strategy to the President. Dr. Spalding is globally recognized for his knowledge of Chinese economic competition, cyber warfare, and political influence, as well as for his ability to forecast global trends and develop innovative solutions.

Dr. Spalding’s relationship with business leaders, fostered during his time as a Military Fellow at the Council on Foreign Relations, allowed him to recommend pragmatic solutions to complex foreign policy and national security issues, which are driving positive economic outcomes for the nation. Dr. Spalding’s groundbreaking work on competition in Secure 5G has reset the global environment for the next phase of cyber security in the information age.

Dr. Spalding is a skilled combat leader, promoter of technological advances to achieve improved unit performance, and a seasoned diplomat. Under Dr. Spalding’s leadership, the 509<sup>th</sup> Operations Group—the nation’s only B-2 Stealth Bomber unit—experienced unprecedented technological and operational advances. Dr. Spalding’s demonstrated acumen for solving complex technological issues to achieve operational success, was demonstrated when he led a low-cost rapid-integration project for a secure global communications capability in the B-2, achieving tremendous results at almost no cost to the government. As commander, he led forces in the air and on the ground in Libya and Iraq. During the UUV Incident of 2016, Dr. Spalding averted a diplomatic crisis by negotiating with the Chinese PLA for the return of the UUV, without the aid of a translator.

Dr. Spalding has written extensively on national security matters. He is currently working on a book concerning national competition in the 21<sup>st</sup> Century. His work has been published in *The Washington Post*, *The Washington Times*, *Foreign Affairs*, *The American Interest*, *War on the Rocks*, *FedTech Magazine*, *Defense One*, *The Diplomat*, and other edited volumes. His Air Power Journal article on *America’s Two Air Forces* is frequently used in the West Point curriculum.

Dr. Spalding is a Senior Fellow at the Hudson Institute and a Life Member of the Council on Foreign Relations. He has lectured globally, including engagements at the Naval War College, National Defense University, Air War College, Columbia University, S. Rajaratnam School of International Studies in Singapore, Johns Hopkins Applied Physics Laboratory, and other Professional Military Educational institutions. Dr. Spalding received his Bachelor of Science and Master of Science degrees in Agricultural Business from California State University, Fresno, and holds a doctorate in economics and mathematics from the University of Missouri, Kansas City. He was a distinguished graduate of the Defense Language Institute in Monterey and is fluent in Chinese Mandarin.

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# Clash of Strategic Cultures

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This paper seeks to describe the cultural and cognitive dissimilarities in how the United States and China pursue strategic competition. The first difference detailed involves how the two societies look at goals and time, as well as how those two factors lead to very different conceptions of strategy. The paper posits that the United States focuses more on a militaristic national security policy while China focuses more on economics and information. Other factors are described that attempt to explain how societal or cultural differences serve to enhance China's strategy vis-à-vis the United States. Overall, the paper describes a future where China's model may be more successful in a globalized world, which creates a magnetism for developing countries as well as the corporate sectors of developed countries. The paper concludes by briefly outlining American strengths and how it might use them to create a more effective strategy.

China has been on a three-decade tear. It has gone from being one of the world's poorest countries to its largest economy by purchasing power parity. Along the way China has gone from stealing technology to an innovator, taking the lead in such high-tech areas like hypersonics, quantum computing, artificial intelligence, and others. Yet, wealth and technological savvy does not represent the most impressive part of China's transformation. Japan, Korea, and Taiwan have also gone through similar transformations. What is unique about China is that it has done so while remaining one of the most closed, oppressive regimes in the world. Moreover, it has become the most technologically advanced IT-based authoritarian state in history by harnessing western innovation.

This is no historical accident. China has been messaging for a long time that it believes the Chinese Communist Party has developed a Marxist model for societal evolution that is in many ways superior to the liberal democratic model outlined in the US constitution. Based on China's results over many decades, it is time to seriously consider its point of view. This article seeks to lay out the strategic foundations of the Chinese Communist Party's (CCP) approach by comparing and contrasting elements of societal and cultural norms to the West. Many of the observations underpinning this analysis come from discussions with people from all over the world in the private sector, government, and academia.

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The question this paper attempts to answer is: What is unique about China's strategic culture that has allowed it to harness the power of the 21<sup>st</sup> Century for its triumphant authoritarian advance into modernity?

For centuries the West has studied the writings of Sun Tzu to harness his ideas about warfare. Yet it is the 21<sup>st</sup> century's more subtle forms of competition that China has harnessed to steal a march on the Western world. For a book on warfare, the Art of War spends a lot of time discussing how to advance national interests without actually going to war. As a society, Sun Tzu infers that the Chinese value competition short of conflict as a means of advancing goals without entailing the risk of combat.

While China has advanced into the lead in many areas of economics, finance, and technology, the West has fallen behind. For about the same amount of time China has used for its rise, the West has been engaged in conflicts throughout the globe. In doing so, America's military capability has eroded, its manufacturing base has left, and more troubling, its scientists have begun to align themselves with the East. Google's decision to build an AI research facility in Beijing is the most recent evidence that the United States no longer represents the state of the art in societal construct. Although it has become commonplace to deride Francis Fukuyama's claim that history has ended, it is important to acknowledge that Americans writ large have been drunk on hubris. It is long past time to recognize that it is China's strategic culture that is appealing more and more to developing nations looking for a way into the information age.

Francois Jullien wrote about the difference between Chinese and Western strategic culture in *A Treatise on Efficacy*. Nadege Rolland does a good job of summarizing his findings in her monograph on the Belt and Road Initiative—*China's Eurasian Century*:

*A Chinese strategist does not impose his plan on the world. Instead he seeks to discern the propensity of things, assesses the potential inherent in the situation, and lets himself be carried along with it.*

It is clear from Xi Jinping's writing and speeches that China identified three trends that would prove important for its rise. These three major trends of the 21<sup>st</sup> Century are nuclear weapons, globalization, and digitization. The first involves the tendency for conflict avoidance between nuclear powers. The second was mentioned heavily by President Xi in Davos on January 2017 and during the 19<sup>th</sup> Party Congress in October of the same year. Digitization [Informatization] was seized upon by two People's Liberation Army (PLA) colonels in the 1999 document "unrestricted warfare:"

*Its revolutionary significance is not merely in that it is a brand-new technology itself, but more in that it is a kind of bonding agent ... and furthermore it also provides a kind of brand-new approach to the relationship between man and technology.*

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China's new cyber security law cements this ideal by proclaiming all data critical national infrastructure.

Thus, while the United States was reveling in the end of history, the CCP was busy studying the next epoch of human evolution to understand its strategic trends. The strategic importance of data combined with a globalization (free and open immigration, finance, trade, and investment powered by a global Internet) and the devastating power of nuclear weapons they surmised would drive competition into all domains except the military. Rather than wars of terrible destruction, the world was moving towards constant competition. Thus, the path to power lay in embracing competition, while simultaneously ensuring war never came.

Of course, others in the West have written about the importance of digitization and globalization, but Western society's ability to harness these trends to benefit the whole of society has surely lagged China. While China has not yet surpassed the West, its glide path is clear. Sometime within the next decade China will become the most powerful nation on earth. How has China been able to mold its society to take advantage of strategic trends? What are the main societal drivers of this profound change? What can the West learn from China's rise? How has China oriented its society to 21<sup>st</sup> Century trends to enable future dominance?

There are several societal factors which advantage Chinese strategic culture over the United States in a 21<sup>st</sup> Century competition. It could be said the United States was the ideal social construct for the 20<sup>th</sup> Century where the physical world still needed to be tamed. The idea of individual initiative as a prerequisite for societal success arose from the need to advance in the industrial age and tame the West. The 21<sup>st</sup> Century may not provide the best environment for a society based on the individual. In a world where data becomes the key strategic resource, the Chinese would argue that individual freedoms may become the chief impediment to harnessing the power of the information age for improving lives.

### **Strategic Culture**

China's strategic culture is intertwined with Confucius societal notions of hierarchy and harmony and mixed with pragmatic views on discernible contemporary societal trends. Chinese strategic culture views time as a living element with ebbs and flows. Outcomes are pursued which maximize the benefit for the center of the bell curve and ignore the wishes of the outliers. The corporate sector and government combine for the benefit of the nation. Goals are pursued through windows of opportunity according to trends. Military outcomes are not a means to an end, but a necessity when forced or when all other options are exhausted. Economic relationships and information/economic power are the fundamental drivers of foreign policy. Bilateral relations take precedence over multilateral for achieving outcomes and institutions provide the forum for engagement.

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America's strategic culture, if one can be discerned, involves finite elements of time combined with specific measurable goals. Strategies are pursued to answer specific challenges, like climbing a mountain or conquering a foe. Corporate strategies are distinct from government strategies, and today as opposed to the pre-globalized world, often work at cross purposes. Outcomes are pursued that emphasize corporate profits or politically attainable public policies; often the two are at odds. Goals are pursued regardless of strategic trends. Security relationships and military power are the fundamental drivers of foreign policy.

**The difference between the two cultures come into sharp contrast when focusing on goals and time.**

### Goals

The clash of strategic cultures is most visible when viewing the selection and attainment of national goals. The CCP has outlined its major goals in its constitution. They are focused on becoming a regional power by 2021 and a global power by 2049. By their measurement standards, they have already attained the first goal and are well on the way to the second. In support of these goals they have major programs and policies that seek to leverage their resources and society in ways that correspond to the trends of globalization and digitization. For example, China manufacturing 2025 seeks to develop global champions and self-sufficiency in 10 major industries that have been determined to be critical to dominating the information age. To cope with the economic challenges caused by transitioning to a high value-added economy they have also created the Belt and Road Initiative. Combined, these two initiatives will collectively improve China's geopolitical leverage in Eurasia, advance China's economy, and support a technologically superior military.

The United States meanwhile has trouble formulating national goals that are achievable given the separation of commerce, industry, and government. While China's programs direct public and private funding for national goals, the United States has pared back funding for research and development in key areas like artificial intelligence and hypersonics. Private sector funding meanwhile supports short term corporate goals. The United States does attempt to harness the private sector for public good, but the effects are ancillary and do not readily translate to the overall national good. For example, tax reform is an attempt to increase business investment in the United States. This should create jobs, but the resulting tax earnings are offset by programmed increases in military spending. Infrastructure investments, rather than being looked at as a programmed necessity, is a onetime charge that does not appear to be moving forward.

On current trajectory, China's strategic goals have it headed for a stronger corporate sector, domestic and international infrastructure it can harness, and increased geopolitical leverage based on long term financial deals. Unless rectified, the United States appears headed for decaying infrastructure, hollowed out corporate sector, and security relationships which appear increasingly unsupportable.

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## **Games have an end, life does not.**

### **Endless Time vs. Finite Time**

Chinese strategic culture incorporates time as an endless river by allowing for goals to be constantly pursued yet indefinitely completed. One example is the issue of Taiwan. While the reunification of Taiwan is an uncompromising core interest of the CCP, the timeline is kept purposefully vague to allow for the proper trends to develop. This allows for the pursuit of other interests that may not be core, but nevertheless important for overall societal benefit. Additionally, other goals like trade with Taiwan for economic development and technology transfer, can foster relationships that contribute to reunification in the long run.

The United States views time as disconnected pieces and assigns priorities irrespective of strategic trends. Today, several challenges preoccupy strategy development; DPRK, Russia, Iran, and Syria consume the majority of cumulative thought. Each is thought to require immediate resolution, but each can drag on for decades or longer while US policy never acknowledges the seemingly endless nature of these challenges.

The CCP would never agree to an open-ended commitment like Afghanistan where 60+ billion dollars is spent per year with no end in sight. In fact, it is likely the CCP would not even agree to one year of similar expenses. In fact, the CCP has stated often that it is not able to lend a hand in Afghanistan, Libya, Syria, or anywhere else the United States is engaged precisely because they are aware of the enormous resources these efforts can consume. Rather, China focuses its resources towards achieving long term societal goals and protects the investment by encumbering physical territory (like ports).

One good example of endless time is the recent island building in the South China Sea (SCS). While it may have seemed quite impromptu and sudden, the island dredging really supported an effort begun in the 1980s. PLA Navy officers were asked to deal with Vietnamese territorial aggression, but their ability to support continuous operations in the SCS lacked the necessary bases required to sustain such a force. Thus, the CCP waited almost 30 years until their economic position was unassailable to build the requisite islands to project power into the region.

## **China adapts to the world, while the United States seems to want to conquer it piece by piece.**

### **Adapting to Trends vs. Answering Challenges**

China has adapted to globalization in a manner very distinct from the West. Western corporations have diversified their global supply chains by moving manufacturing to areas of minimal regulation, low labor costs, minimal environmental protections, and low taxation. In so doing, according to David Autor's study "China Shock," they have created widespread labor dislocation in the United States. China meanwhile sought control of global supply chains by offering tax incentives, low regulation, and low-

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priced labor. They were able to leverage these for low unemployment rates and technological advancement. The CCP understood that the openness of the West provided an opportunity to acquire the means to grow strong, and pragmatically adapted to the free movement of goods, services, people, and capital. Today, there is no nation who enjoys the fruits of globalization like China.

The United States has pursued goals cast as critical to national survival. Ridding the world of Iraqi weapons of mass destruction and the global war on terror has consumed trillions of dollars. Neither of these goals were settled in ways that few in the West would acknowledge as beneficial to US interests. In fact, they continue and are viewed by many to be unsolvable. Yet, strategists insist on the need to solve them before the United States can move forward. At the same time, low rates of American STEM students and low research and development spending coupled with crumbling infrastructure and a motley, displaced wireless telecommunications industry mean the United States will be ill-equipped to take advantage of the information age. Additionally, the United States believes the private sector can somehow be leveraged toward benefiting the public good. Yet, corporate strategic behavior revolves around profit incentive. The CEO is incentivized to maximize short-term profits at the expense of long-term viability. CEOs of American companies are comfortable with driving the growth of their corporate portfolios in China despite the threat to long-term viability of their companies.

The national interest-based economic model established by the CCP appears to be much better geared for the future than the US liberal democratic model. Innovation once thought to only be the purview of democracies is now firmly entrenched in China. In fact, fewer Chinese students are choosing to stay in the United States than ever before. They see opportunity in China for economic growth. If they are scientists, China is building world class facilities to conduct research. By relying on the private sector to advance national interests, the United States seems stuck in a regressing funk.

**The free market is a myth. In many industries, supply and demand does not set the price, China does.**

### **National Interest Based Economics vs. Market Based Economics**

Pursuing national interests in China is truly a whole of nation effort. Individual incentives are intertwined with national objectives. The incentive system is periodically reordered when changes are needed. Some who may have been doing extremely well can suddenly find themselves anti-corrupted in the current regime. Strategic policies translate into financial incentives in Chinese society. The 13<sup>th</sup> Five Year Plan, China Manufacturing 2025 (CM2025), and the Belt and Road Initiative all provide impetus for the formulation of policies that orient China's economic, informational, diplomatic, and military lines of effort. China's sovereign wealth fund provides funding for strategic initiatives, but local governments also get into the act as incentives for advancing in the Communist Party encourage leaders to get on board. Chinese Communist Party officials can and often are removed for poor performance.



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In the United States, government officials cannot be fired, so they have little incentive to change or adapt to new realities. Bureaucrats become entrenched in their thinking and become a brake on innovation in government. Meanwhile, private sector innovation is oriented around wealth maximization. Innovative ideas in the marketplace become available to the highest bidder, some of which are Chinese State-Owned Enterprises seeking innovative technologies to advance their CM2025 program.

China's economic strategy is oriented to align personal benefit of government and business employees around national interests. Meanwhile, the United States has different factors in government and business that drive human motivation. Some in government may be selfless, but most act in accordance with the system rules and risk aversion. In the US private sector, motivating factors of personal profit consistently appear to be aligned with the CCP's main goals for Chinese economic development.

**Nuclear weapons make war unthinkable, but the United States also pursues conventional superiority as a means of competition**

### **Nuclear vs. Conventional**

The Chinese consider their military to be defensive in nature. Since conflict is so risky, the military exists to preclude an adversary from getting the wrong idea (deterrence). China has steadfastly declined to participate in nuclear stability talks. They adhere to a policy of minimal nuclear deterrence. Conventional forces are used to intimidate and coerce neighbors, but overall spending is kept to less than two percent of GDP.

Conventional arms are focused on regional power, but China is beginning to think about a more global posture. China's goal is to always have the ability to inflict enough damage that will preclude an adversary from striking the first blow, while allowing all other elements of competition to be the focal point for their efforts. China has used its position in Asia to create a military balance in their favor. They have chosen to focus on conventional ballistic and cruise missiles as the basis of their regional defense forces. Since missiles are difficult to find and destroy, this complicates US ability to provide a balancing force. China steadfastly avoids military confrontation with the United States. CCP officials know that any conflict with the United States before China is powerful enough militarily would be strategically devastating.

The United States has mainly built a military that is suited for Europe and the Middle East. Focusing on land warfare, tactical aviation, and maritime littoral operations means that while US forces may be capable of global deployment, the cost to project power into China's backyard is many multiples of what China spends to keep the US military out. Over time this cost differential and disproportionate spending on defense is like that which forced the Soviet Union to capitulate during the Cold War.

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What China has oriented itself towards and what the United States has failed to orient itself towards is a world where major combat is deemed too horrific to attempt. Russia uses its nuclear weapons as a means of staying relevant by focusing mainly on nuclear power. (This was the US strategy during the Cold War.) Today, China benefits from the US attempt to match Russia's nuclear power while also paying for a military that can contend with China's conventional power. The United States fails because it wants a military that can be decisive in battle everywhere rather than settling on one that will deter major conflict.

**China's strategy is to build, America's strategy is to break.**

### **Construction vs. Destruction**

In the 1920s, the Air Corps Tactical School (ACTS) developed a theory of warfare that predicted airplanes could systematically take apart a nation through the air. The highest application of this theory was Desert Storm where Warden's five ring theory was used to decimate the Iraqi nation. This is still considered the preferred manner of subduing a foe. The idea is that a nation can be coerced into a policy decision by taking away its means to resist by destroying its economic and industrial capacity. But what if a nation could control the economic and industrial capacity of another nation? In that case, would there be a need to destroy economic and industrial capacity if a change in the adversary's policy was deemed necessary to the national interest?

Unrestricted Warfare laid out a scenario where competition for control of the economic, financial, and industrial capacity of an adversary can be a focus of continuous competition that accrues advantage over time. By leveraging the ideas in Unrestricted Warfare, the CCP has operationalized globalization for dominance in the 21<sup>st</sup> Century. Using a defensive nuclear posture as a hedge against military attack, China has focused its national energy and used the industrial web theory employed by early ACTS theorists to build and/or acquire the strategic levers of society. China has systematically used its industrial might to mostly destroy all challengers in the telecommunications and power production and distribution industries. By owning or controlling the means for telecommunications and electrical power distribution, China can be in a position to slowly change competitive dynamics in its favor.

Detroit vs. Dresden: For a good visual representation of the power of Chinese economic and information-based attacks, one need look no further than the city of Detroit. Detroit was once a thriving industrial area. Since China's entry into the World Trade Organization (WTO), areas like Detroit all over the United States have suffered. Meanwhile, China's industrial capacity has soared to lead the world. Overhead pictures of Detroit resemble a bombed-out city. In WWII, ACTS theorists sought to similarly destroy German industrial capacity. An aerial view of Dresden bears resemblance to modern day Detroit. In 21<sup>st</sup> Century competition the goals may be similar, but the weapons are different.

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## China saves while America spends.

### Savings vs. Spending

To take advantage of globalization, innovation, and informatization, China needed to generate enormous resources. Fortunately, the CCP found that as China's wealth grew, Chinese citizen's propensity to save was off the charts. In the 1980s, Japan had shown a propensity for rapid growth spurred by high personal savings rates and driven by a centralized industrial policy led by Japanese conglomerates. Unfortunately, Japan's model faltered and led to long-term stagnation as they struggled to continue to foster growth by using the high savings rate through investment—or to get Japanese society to be better consumers. China's approach was typically pragmatic and designed to take advantage of the openness of globalization. Since the West would allow China to acquire those technologies required for advancement in the free market, China would use control of the banking system and state-owned enterprises to build technologically savvy global champions that use capitalist incentives to reward entrepreneurship—in essence, they blended the two economic models.

Yet, China faced a risk. Other globalized nations that had used debt to grow were subject to financial crises that often led to a collapse of the banking system. Therefore, China designed a financial system that was immune to attack from the West. The Yuan has been and remains non-convertible. China maintains strict capital controls. China intervenes in equity or real estate markets whenever necessary to restore stability. More importantly, banks keep lending at high rates. Western economists lament China's refusal to reform and become more like the West, but they fail to see that the CCP has created an alternative model. Rather than design a model based on domestic consumption, China has created a sustainable model based on foreign consumption.

China's fiscal spending was 15 trillion Yuan last year, which is roughly 2 trillion USD. However, bank lending has grown steadily and represents an equivalently high input into the economy. In 2016 alone, bank lending in China represented 12.65 trillion, which is almost equal to fiscal spending. China can use its citizens' high savings rate by turning this cash flow—which amounts to several hundred billion USD per year—into domestic and external investments that create jobs and enable China to snatch strategic investments. China has been able to capture the market for rare earth metals and lock down energy reserves. China has a merchant fleet of several thousand ships and controls most of the world's major ports. China has been able to put its products into most of the telecommunication networks around the world by selling equipment at a loss. China is also busy buying up electric power production and distribution around the world. Chinese fishing boats are depleting the world's oceans and exporting 50 percent of their catch. All these strategic industries do two things: 1) they provide employment for their citizens, and 2) they provide China a geopolitical advantage in key areas of foreign economies.

Western economists continue to lament that the Chinese economy is destined for failure, because they imagine that China will have a run on its banks. Yet, that is impossible as China controls outflows. They

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also control information into the country, so that the citizens are unaware of the CCP's profligate spending. Since the CCP also controls the books, they can represent their banking system as strong and resilient. Since the Chinese people are not going to stop saving any time soon, essentially the government can continue to operate for the foreseeable future. The Belt and Road Initiative represents the latest method of using high Chinese savings rate to ensure economic growth and thus employment, while China Manufacturing 2025 and large expenditures on investment in artificial intelligence and other advanced technologies is allowed to bear fruit. China has changed the meaning for return on strategic investments. It no longer corresponds to market-based economics, but rather national security factors are intertwined with financial returns.

### **Butter earns a return, guns do not**

#### **Guns vs. Butter**

In essence, almost all of China's investments are for strategic purposes. Since it chooses to maintain defense spending at less than two percent of GDP, the CCP can use the excess to acquire more strategic assets. This strategy of weaponizing savings and investment is not new in civilized history. The Germans accomplished this prior to WWII, and the Soviets during the Cold War. What is new is that China has been able to acquire strategic assets through entirely peaceful means.

China is exporting savings even as it invests close to 45 percent of its GDP (Sester, 2016; Yang, Junsen, & Zhou, 2011). This means the coming collapse of China's banking system is probably overstated, and it also means an ability to continue investment that yields economic growth. The causes of high savings rate in China are not fully understood but likely represent cultural, historical, and recent income growth as potential factors (Garon, 2013). Moreover, Chinese savings rate is expected to decline as retirement policies change and overall economic growth slows. Nevertheless, it is probably the case that the CCP will continue to use high savings rate to affect important investments and acquisition of key strategic and technological areas.

Meanwhile, the West has succumbed to the opposite problem. High fiscal spending does not go into growth enhancing infrastructure investment, educational systems, or research and development, but rather into growth destroying entitlement programs. Consequently, US infrastructure is crumbling. Our Internet infrastructure and speeds are some of the worst in the developed world. The electric grid is at risk from cyber and EMP attack as well as outright purchase by Chinese entities. Additionally, our forces are deployed around the world for unclear strategic objectives. This necessitates a \$700 billion USD defense budget.

Most importantly, Chinese strategic investment generates cash flow, while US strategic investments do not. For example, if China acquires a port for strategic reasons, it earns money that can be further leveraged by the nation. When the United States procures a new aircraft carrier it is a sunk cost that

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returns nothing to the treasury. The CCP is betting that the United States will continue its high defense expenditures to secure the world, while China can keep its relative spending on defense low and focus on developing its economy. The beauty of China's strategy is that its overall GDP is doubling every nine years, which means its defense budget is likewise doubling in the same time frame. In the long run, China will be the most powerful militarily by better balancing guns versus butter investments.

In the United States, strategic investment is carried out by private industry for competitive business goals. In effect, this makes the CCP allies of American business. US companies choose to partner with Chinese companies in order to gain access to Chinese markets. Many of these companies are major contributors to the success of the United States military, which in effect represents a loss of strategic territory in this 21<sup>st</sup> Century competition.

China recognized the savings and spending differences as a key competitive advantage in a world without war. They learned from the Cold War that bankrupting your adversary is more cost effective and less risky. Additional benefits to your population accrue if managed correctly. In essence, your country gets rich, while your adversary's gets poor.

Speaking in 1908, Lord Rosebery, former British prime minister, nervously remarked on the greater frugality of the French and Germans. Thrift, he concluded, "is the surest and the strongest foundation of an empire—so sure, so strong, and so necessary that no great empire can long exist that disregards it" (Garon, 2031).

Going forward, expect the Chinese to continue to support military challenges to the United States that keep American military spending high. Russia, Iran, and North Korea all share a privileged trading relationship with China. Thus, as China rises in power, these smaller belligerent players will continue to pin the United States down with high military costs. While preoccupied with rogue or smaller revisionist states, expect China to continue to invest in strategic assets that accrue hegemonic power in Asia and beyond.

"To ensure that the weapons are in the lead, one must continue to up the ante in development costs; the result of this continued raising of the stakes is that no one has enough money to maintain the lead. Its ultimate result is that the weapons to defend the country actually become a cause of national bankruptcy" (Liang, 1999).

**In China, factories matter. In the United States, finance matters.**

### **Means of Production vs. Fruits of Production**

Seventy percent of innovation comes from the manufacturing process. The true innovation culture is one of constant process improvement. Chinese strategic culture is focused on the means of production.

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This matters both for the jobs it can provide to Chinese workers, but also for the ability to self-source important technology for national security. There is incredible pride in being able to build aircraft carriers, quantum communication satellites, and stealth aircraft. The ability to do those things comes from a society that focuses on the means of production as a core strategy.

Any US government official responsible for economic policy will tell you that industrial policy is bad. It goes against economic orthodoxy, which is to let the market decide where productive capacity should move. This takes advantage of specialization and allows for market efficiency, which eventually leads to better prices for the things we buy. China has decided that while that may be nice in theory, it does not work for China the nation-state. Economists say that over time this will mean bad things for China's economy. What China focuses on however, is not its economy, but its society.

China wants to provide steady employment for its citizens. It is willing to have an inefficient economy to make this happen. It also wants the means to produce the things it finds important for its national security. This too overrides economic theory. The United States is perfectly willing to outsource steel production to China. China is not willing to outsource its steel production to America. In the end, which is a better strategy for long run health of a society. China is betting on the latter.

## **Conclusion**

The success of any society lies in aligning personal incentives with national interest. This was the power of the constitutional democracy developed by our founding fathers. It was the leading societal operating system of the 20<sup>th</sup> Century. In the digitized, globalized post-nuclear world, China has engineered a new operating system. They have aligned personal incentives for developing wealth with the national interests of a powerful country. Surprisingly, they have done so both for Chinese and American businessmen alike. Apple's Tim Cook is far more likely to acquiesce to a Chinese demand that violates American principles than would have been possible with the Soviet Union. China accomplished this feat by operationalizing the free-flow of goods, services, capital, labor, and information, and using its large market as bait. The CCP harnessed Chinese strategic culture to grasp where societal evolution was trending and slowly adapted its society to those trends. On the current trajectory, they will be successful.

America, however, still retains enormous advantages. Chief among them is our promotion of principles as detailed by President Roosevelt in his 1941 "Four Freedoms" State of the Union address. In order to fully implement a successful post-globalized competitive strategy, the United States must shift spending from military forces to growth-enhancing investments like research and development, STEM education, and infrastructure. To ensure the nation has the resources to rebuild, the Defense Department must focus on deterring major conflict, while the Interagency reorganizes for constant competition. Coupled with a new-found appreciation for the challenges of globalization, a homeland-focused whole-of-nation strategy will help slow America's decline. To be successful, alliances must ensure both economic and

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security integration while collectively eliminating the threat posed by CCP economic and information strategy. Finally, an emphasis on data security and digital privacy is necessary to adapt our principles to preserve constitutional democracy for the information age. If we act now, future Americans will know the joy of living in a free land.

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