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1. Introduction

The U.S.-China trade war, which began with a tariff-increase race in 2018 and subsequently expanded to sanctions targeting high-tech industries (e.g., 5G) and companies (e.g., Huawei), seemed to subside with the “Phase one” trade deal signed in early 2020. However, as human casualties and economic damage in the U.S. caused by the COVID-19 pandemic worsened and national divisions during the presidential election deepened, criticism of China grew as the U.S. administration shifted its domestic contradictions to the outside world. Therefore, the trade war expanded into technological, financial, and political and diplomatic wars.

The background to this U.S.-China confrontation is that the U.S., as the existing hegemonic power, has become nervous and apprehensive about the rise of China as an emerging power, falling into what Graham Allison (2017) calls the “Thucydides trap.” China, on the other hand, gained a great deal of confidence through the successful hosting of the 2008 Beijing Olympics and its improved presence in the process of responding to the global financial crisis, as well as by surpassing Japan economically in 2010 (Vogel, 2019). It was confidence in the economic success achieved through the implementation of the reform and open-door policies of the past 30 years and confidence in its unique mode of development—a socialist market economy based on state adjustment. Moreover, China’s GDP per capita doubled in the 2010s, making it the largest economy in the world in terms of PPP, surpassing even the United States. In addition, the victory of the national quarantine in the fight against the COVID-19 pandemic since 2020 has increasingly bolstered confidence in Chinese-style state-led coordination.

In other words, in addition to the decline of the United States and other advanced capitalist countries in the 21st century, China, which has achieved sustainable economic development under a political and economic system that differs from liberal democracy and market capitalism, has sought to exercise international influence commensurate with its economic power and has sought to modify the international order led by the United States, making a confrontation between the United States and China inevitable.

The United States, which views China as the only country in the world with both the intent and the
power to challenge its hegemony, strengthened ties with its allies as well as sought to exclude China from the Global Supply Chain (GSC) through trade, investment, and technology restrictions and blockades. It has also sought to trivialize China’s position in the international arena through political and diplomatic blockades and criticism and to trap China in a war trap through military pressure and provocation. In other words, it is attempting to block China’s development and simultaneously exclude it from the international order that it leads.

This all-out confrontation and clash between the U.S. and China is a struggle for the U.S. to maintain its hegemonic position and for China to maintain its development toward national and ethnic revival, and neither side can afford to lose. Section 2 clarifies the nature of the U.S. and China’s struggle for hegemony (U.S.-China hegemony struggle) that is likely to continue throughout the 21st century. Section 3 describes the “protracted war” strategy that China has created to fight this long-term struggle, and Section 4 concludes this paper.

2. The Current Stage and Nature of the U.S-China Hegemony Struggle

2.1 The Five Stage of the Struggle for Supremacy

The developmental trajectories of the hegemonic powers in the 19th century Pax Britannica and 20th century Pax Americana show that they all began as manufacturing superpowers based on industrial development (first stage) and developed into trading (second stage), technological (third stage), and military superpowers (fourth stage). Finally, they became financial superpowers (fifth stage) and came to dominate the world political and economic system.

In other words, in the 19th century, the United Kingdom developed from a manufacturing superpower to a financial superpower and became the world’s dominant hegemonic power, and in the 20th century, the United States rose to become a financial superpower and the world’s dominant power. On the other hand, the Soviet Union, which confronted the United States and was part of the Cold War system, collapsed because it remained a military superpower. Japan, which Ezra Vogel (1979) labeled “No. 1,” also remained a technological superpower and went into decline after the 1990s.

In light of the five stages of this struggle for hegemony, the current confrontation between the U.S. and China is a clash between an emerging manufacturing superpower, China, with a complete industrial structure that is the “world’s factory,” and a trading superpower as the largest trading partner of 140 countries, and the United State, which had currently still has hegemony as a technological, military, and financial superpower.
For example, during the Trump administration (2017-2020), the U.S. fought a trade war with China, represented by the tariff increase battle, but was unable to defeat this major manufacturing and trading superpower, and as of 2022, the U.S. trade deficit with China continues to grow. The results have led the Biden administration (2021-present) to focus on sanctions against and repression of China in the technological, military, and financial fields where the U.S. has advantages. Currently, the U.S. and China are in the midst of the third stage of the struggle for hegemony, namely, technological hegemony.

2.2 Conflicts and Competition between Two Regimes with Different Modes of Régulation

As described above, the current struggle for hegemony between the U.S. and China, which now has fronts in the fields of trade, technology, the military, and finances, is formally viewed as a hegemonic power’s deterrence of and pressure on an emerging power, but in essence, it is a manifestation of the conflict between two different socioeconomic regimes and the tension brought about by the proximity of these two opposing regimes. In other words, the essence of the U.S.-China hegemony struggle is the conflict between “market adjustment,” which characterizes and directs the U.S. socioeconomic regime, and China’s “state adjustment”; that is, it is an intersystem conflict between a liberal market economy and a socialist market economy based on their respective modes of régulation. A typology of these modes of régulation is provided in Table 1.

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<tr>
<th>Route of adjustment</th>
<th>Mode of régulation</th>
<th>State adjustment</th>
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<tbody>
<tr>
<td>Adjustment level</td>
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<tr>
<td>Firm level</td>
<td>Market adjustment</td>
<td>Company-based institutional coordination (Japan)</td>
</tr>
<tr>
<td>Social level</td>
<td></td>
<td>Social-based institutional coordination (Europe)</td>
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Table 1 Typology of the modes of régulation of socioeconomic regimes (countries)

Source: Yan [2011]

Essentially, between market adjustment and state adjustment, there is a pattern of coordination through consultation and agreement among the various actors that make up the relevant socioeconomic system, such as “Company-based institutional coordination” that based on consultation and agreement
among various actors at the firm level, as in Japan, and “Social-based institutional coordination” that based on consultation and agreement throughout society, as widely seen in European countries. In other words, each country’s mode of regulation depends on the historical path dependency and the complementarity and hierarchy of various institutions, and they are spatially diverse and can coexist.

Recently, China’s socialist market economy regime has achieved sustainable growth while controlling state-owned enterprises (SOEs) at the firm level and utilizing and controlling market mechanisms at the social level through national development strategies, goals, plans, and policies. This Chinese-style market economy based on state-led coordination with logics, formulas, and modes of regulation different from the liberal market capitalism based on market adjustment that the U.S. advocates was named “21st century state capitalism” 1) by Bremmer (2011) and others, and became a strong competitor of American-style liberal market capitalism.

On the other hand, U.S. liberal market capitalism has been lauded all over the world with the rise of neoliberalism in the late 1970s, as it was able to overcome the adverse effects of the Fordism that brought about the golden age of capitalism, and it has spread throughout the world, riding the wave of globalization since the 1990s. However, due to the high waves of economic fluctuation caused by the bursting of the IT bubble and the global financial crisis in the early 21st century, the economic disparities and social fragmentation that expanded in the process, and above all, the rise of Chinese-style state capitalism, which has demonstrated itself to be a potential alternative and source of competitive pressure, free market capitalism came to a deadlock and was forced to make a major change in direction.

Figure 1 depicts the trajectory of the transition between Chinese-style state capitalism and U.S.-style liberal market capitalism since World War II. The horizontal axis represents the importance each regime attaches to either political or market interests, and the vertical axis represents whether it relies primarily on state or market adjustments. As can be seen, both regimes rapidly approached each other in the early 21st century, which is likely to increase tension and conflict.

1) If we define state capitalism based on the characteristic that the state (government) with strong authority intervenes in the economy, the mercantilist states of the 17th century, Germany, which promoted state-led industrialization under Bismarck in the 1870s, and the high economic growth system in Japan after the 1950s can also be included in state capitalism in the sense that the government was deeply involved in economic management. In contrast, state capitalism at the beginning of the 21st century saw SOEs, private companies with the full backing of the government (national champions), or state-owned investment funds (SWFs), engage in conspicuous production and investment activities in international markets in areas such as natural resources and advanced industries. Further, state capitalism in the 21st century, represented by emerging economies such as China, Russia, and Brazil, and oil-producing countries such as Saudi Arabia and Kuwait, has different characteristics from state capitalism in the past: 1) it is large in scale, 2) it is developing rapidly, and 3) it operates using sophisticated capitalist methods (Kato, Watanabe, and Ohashi, 2013).
In other words, China’s socialist planned economy (pursuit of political interests; strong state intervention) and U.S. Fordism (moderate political and economic interests, basically market adjustment) during the Cold War era and China’s socialist market economy (pursuit of economic interests, state-led coordination) and the liberal market economy (pursuit of economic interests, strong market adjustment) in the post-Cold War era (1990s-2000s) were sufficiently far apart to be in a coexistent and mutually beneficial relationship.

![Diagram showing political and economic interests in different economic models](Figure 1)

Source: by Author.

However, since the 2010s (the global financial crisis of 2008 was a watershed), China’s socialist market economy system has increasingly taken on the color of state capitalism, with greater control of the market economy based on state-led coordination to increasingly pursue political interests. At the same time, U.S. liberal market capitalism has taken on more populist overtones and has become oriented toward state-led industrial, fiscal, and monetary policies in addition to protectionist trade policies. With the U.S. government touting its need to strengthen its role in the nation’s economic management in order to compete with and win against state capitalist China, the two regimes have grown increasingly closer, leading to more tension, confrontation, and clashes.

3. **Protracted War Strategies based on State-led Coordination**

3.1 **Background of the Protracted War**
Table 2 summarizes the actual statuses of the comprehensive national power of the U.S. and China, lists changes in recent years as published by the Lowy Institute in Australia, and illustrates three things. First, U.S. comprehensive national power exceeds that of China; second, China’s national power is on the rise while that of the U.S. is on the decline; and third, the U.S. is ahead in defense and military power-related indicators, but China is ahead in economic-related indicators.

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<tbody>
<tr>
<td>Comprehensive power</td>
<td>74.5→74.6</td>
<td>84.6→82.2</td>
<td>Japan (38.7)</td>
</tr>
<tr>
<td>Economic capability (17.5%)</td>
<td>91.4→91.2</td>
<td>93.6→90.7</td>
<td>Japan (31.9)</td>
</tr>
<tr>
<td>Military capability (17.5%)</td>
<td>67.1→66.8</td>
<td>94.6→91.7</td>
<td>Russia (51.6)</td>
</tr>
<tr>
<td>Resilience (10%)</td>
<td>70.4→74.4</td>
<td>85.2→86.9</td>
<td>Russia (79.5*)</td>
</tr>
<tr>
<td>Future resources (10%)</td>
<td>84.0→75.2</td>
<td>78.8→80.5</td>
<td>India (48.7)</td>
</tr>
<tr>
<td>Economic relationships (15%)</td>
<td>94.1→99.0</td>
<td>68.1→51.1</td>
<td>Japan (40.3)</td>
</tr>
<tr>
<td>Defense networks (10%)</td>
<td>21.7→24.1</td>
<td>84.2→83.4</td>
<td>Australia (67.6*)</td>
</tr>
<tr>
<td>Diplomatic influence (10%)</td>
<td>94.2→89.8</td>
<td>78.8→90.4</td>
<td>Japan (84.5)</td>
</tr>
<tr>
<td>Cultural influence (10%)</td>
<td>56.2→57.7</td>
<td>87.2→85.0</td>
<td>Japan (43.5)</td>
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Note: * = second largest country, with the other second-ranked country being China.
Source: Lowy Institute, Asia Power Index (https://power.lowyinstitute.org/data/power/).

These three factors form the background of China’s strategy of protracted war in its current struggle for hegemony. In other words, if China focuses on its own development while withstanding all-around pressure from the U.S. for the time being, it will eventually be able to achieve a reversal in national powers. Furthermore, the expansion of economic power that accompanies growth will allow for increased investment in national defense and the improvement of military power. In the long run, the improvement of economic and military power will lead to the expansion of China’s international influence and contribute to laying the political, diplomatic, economic, and military foundations for breaking through the U.S.-led encirclement of China.

This strategy of protracted war, of patiently enduring short-term hardships while fighting a long-term battle and ultimately winning, is rooted in China’s historical experience and is not that new. For example, Zhu Sheng, military strategist to Emperor Hongwu of the Ming Dynasty, advised “High walls, store provisions; being king can come later” in order to build a new dynasty through a strategy oriented toward long-term gains rather than short-term gains or losses. In addition, the world-famous On
Protracted War of Mao Tse-Tung (1938) laid the military and civilian foundation on which the Chinese Communist Party could win the War of Resistance and the subsequent Chinese Civil War with the Kuomintang.

In other words, China is trying to prepare for a prolonged struggle with the U.S. hegemony that will continue throughout the 21st century based on a correct view of the current differences in national power between the two countries and an accurate understanding of changing trends. In fact, China is increasingly catching up to the U.S. in terms of a variety of indicators related to changes in comprehensive national power, as shown in Table 2. For example, in 2000, China’s GDP was 13% of that of the U.S., but it expanded to 40% by 2010 and 71% by 2020, and it is predicted that the economic scale will reverse by 2030. Of course, economic scale is certainly not everything, but it is very important and it is considered to be highly significant in the context of China’s increased ability to procure various resources for use in the struggle for hegemony and increased influence over trading partners and other countries.

In addition, the technology gap between the U.S. and China is rapidly narrowing. In particular, China’s remarkable progress has occurred in technological areas that symbolize the Fourth Industrial Revolution, such as 5G, big data, AI, robots, IoT, EV, autonomous cars, drones, a space station, navigation satellite systems, and fintech. This further intensified the U.S. and China’s struggle for technological hegemony in the 21st century. China’s rapid approach to the U.S. in these technological fields will be driven by 10 million new graduates per year (in 2022) and more than 500,000 haigui, “Chinese students who return home after studying abroad,” per year (in 2019). In recent years, the struggle between the U.S. and China to acquire and nurture scientific and technological talent has intensified, and as the struggle for supremacy deepens, the number of Chinese-born researchers and engineers leaving the U.S. and returning home is increasing rapidly.

The progress in the economic and technological fields described above has led to an increase in the defense budget and improvements in military technology, resulting in rapid modernization of the armed forces and equipment. Figure 2 shows the change in China’s defense expenditures since the beginning of the 21st century. It has increased about tenfold from 121 billion yuan in 2000 to 1.29 trillion yuan in 2020. This is certainly a rapid increase that is alarming not only to the U.S. but also to the rest of the world, including neighboring Asian countries.

However, the ratio of defense expenditures to GDP has remained virtually unchanged since 2000,

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2) China’s economy has already surpassed that of the U.S., with the same IMF estimates of GDP size in terms of PPP being 36% in 2000, 82% in 2010, and 116% in 2020.
at a level of 1.3-1.4%, while its fiscal expenditure has declined from around 7.7% in the early 2000s to around 5.3% recently. In other words, although the scale of China’s defense expenditure has been increasing rapidly, it has been accompanied by an increase in the size of China’s economy, and the country is not expanding the weight of military expenditure with the aim of becoming a military superpower.

In addition, based on estimates from the Stockholm International Peace Research Institute, China’s military spending in FY2021 accounts for 14.1% of the global total but is still small compared to the United States’ 38.5%. Furthermore, when compared to the U.S., the ratio to GDP is 3.8%, whereas in China, it is 2.1%, which is slightly higher than the global average of 1.95% (SIPRI, 2022). In other words, China’s military spending is still smaller than that of the U.S., but there is much room for increase, and the defense budget can be significantly increased if the need arises. In fact, even with its current military capabilities, China has established sufficient A2/AD capabilities in the East and South China seas in the vicinity of China, and further military spending increases would not be necessary if it were not fighting the United States on the battlefield throughout the Pacific and the world.

![Figure 2](image-url)  
**Figure 2** Changes to China’s defense expenditure (Unit: billion yuan)

Source: Based on ADB [2022].

As described above, the current status and changing trends of the comprehensive national power of the U.S. and China, China’s historical tradition, and the existence of the Chinese mode of regulation (state-
led coordination) described in the previous section are the factors that enable China to choose and implement the protracted war strategy for the long-term struggle for hegemony. This is in vivid contrast to the United States, which has a political system that must win presidential and midterm elections every four years, and a liberal market economic system based on market adjustment that can only set short-term goals and pursue short-term interests.

3.2 Protracted War Strategies based on State-led Coordination

Table 3 summarizes the various risks and challenges facing China’s political and socioeconomic system and the Chinese government’s response to them in today’s intensifying struggle for hegemony.

First, to counter the United States’ trade blockade and the disturbance of the GSC, it is necessary to change the domestic growth regime, that is, to transition from conventional export- and investment-led growth to consumption-oriented domestic demand-led growth. To this end, the Chinese government has proposed a “dual circulation economy” and “common prosperity”.

<table>
<thead>
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<th>Table 3 Risks and challenges faced by China the government’s responses</th>
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<td><strong>Risks and challenges</strong></td>
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<tr>
<td>Growth regime</td>
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<td>Innovation regime</td>
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<td>Monetary regime</td>
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<td>International regime</td>
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<td>Political regime</td>
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<td>Demographics</td>
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Source: Author
As shown in Figure 3, structural reforms on the supply side based on technological independence and structural reforms on the demand side through the realization of common prosperity will achieve a domestic economic cycle based on consumption-oriented domestic demand expansion, which will increase interdependence with the international economy through export expansion and import growth. In particular, China will share with its economic partners the achievements and goals of the continuous growth of the Chinese economy by utilizing free trade and economic cooperation frameworks such as the Regional Comprehensive Economic Partnership Agreement (RCEP), Comprehensive Agreement on Investment (CAI), and the China-Middle East Economic Corporation, with a focus on promoting the One Belt, One Road Initiative (BRI). Thus, a virtuous cumulative causation\(^4\) structure of domestic and international economic circulation based on state-led coordination is being created.

![Figure 3: Cumulative causation structure of dual circulation economy](image)

Source: Author

To build a dual circulation economy system and achieve the common prosperity of the entire nation, various issues must be resolved. These issues include the establishment of an independent R&D system to break away from dependence on the U.S. and other developed countries in the innovation regime, achieving a balance between liberalization and control of financial markets in the monetary regime, breaking through U.S.-led international encirclement in the international regime, achieving unity and stability of domestic political forces in the political regime, and correcting the declining birthrate and aging population. In other words, problems are accumulating in China’s development.

On the other hand, the problems facing the U.S. side of competition are more serious than those in

\(^4\) Cumulative causation refers to changes in multiple factors that occur concurrently and cumulatively through mutual reinforcement actions among these factors (Myrdal, 1944).
China. For example, there is a possibility of recession and a return of the financial crisis in the short term, and domestic political conflicts are becoming more acute with each election. The economic and technological decoupling that is being undertaken to restrain China’s development is also undermining the interests of U.S. allies, and U.S. international prestige is increasingly diminished. Furthermore, in the medium term, international confidence in the dollar as a reserve currency and in the Society for Worldwide Interbank Financial Telecommunication (SWIFT) regime is also declining. Distrust of the dollar-led international financial system, which is increasingly becoming an instrument of financial sanctions to punish countries that challenge U.S. interests, is growing. In the long term, the United States itself may become a Disunited States due to a declining economy, divided society, and political conflict.

This is also why China is opting for a strategy of protracted war, focusing on its own development while withstanding the pressures of the current phase and waiting for the enemy’s loss (the decline of the United States).

3.3 China’s Geopolitical Economic Strategy based on State-led Coordination

The geopolitical economy is a study of achieving geopolitical objectives through a variety of economic means and attempts to elucidate the inextricable relationship between economic, political, and military power (Desai, 2013; Nakano, 2016; Blackwill and Harris, 2016; Katada, 2020; Tadokoro, 2020; etc.).

It attempts to grasp the transformation of the global power balance and international relations in the 21st century, focusing not only on the expansion and exertion of international influence relying on military power, which has been the focus of traditional geopolitical perspectives, but also on the expansion of international influence using economic power as a lever. To accurately understand and clarify the reality that the current struggle for hegemony between the U.S. and China is primarily an economic war and that China is opposing the blockade and oppression of the U.S. and its military allies by strengthening its ties with neighboring Eurasian countries by expanding its economic influence, it is necessary to take a geopolitical economy perspective.

Figure 4 shows the cumulative causation structure between the economic and geopolitical domains in the protracted war strategy that China has constructed for the long-term struggle for the U.S.-China hegemony, which will continue throughout the 21st century. This study attempts to clarify the interdependence and mutually facilitative relationship between the economic and geopolitical domains in the context of cumulative causation, which previous studies of geopolitical economy have attempted to do.
Specifically, in the economic domain, the dual circulation economy that China is currently implementing will expand its international economic influence while continuing to grow and open up. In the geopolitical economic domain, the expansion of geographic, military, political, diplomatic, and cultural influence based on the promotion of BRI will facilitate the expansion of China’s geopolitical economic influence, which, through its growing external influence, will create a favorable international environment for further growth and development, a virtuous circulation can be drawn. To achieve this, China is aiming to build a new type of international relationship of win–win cooperation, rather than traditional hegemonic zero-sum thinking.

In other words, China’s use of this expansion of influence in the economic area to expand its influence in the geopolitical area will lead to the sustained growth of a Chinese-style socialist market economy (“State Capitalism” in the words of Ian Bremmer [2010]) based on state-led coordination, different from the liberal market economy espoused by the U.S., and its rising influence on the global economic community. At the same time, it is manifesting itself as a change in the global economic structure, with the shrinking influence of the hegemonic U.S. and triggering geopolitical conflicts in the world, especially in the Asia-Pacific region.

Indeed, the hegemonic power of the United States, based on the world’s greatest economic and technological power and the world’s strongest military power, still far outweighs the challengers to the international order, such as China, Russia, and Iran, even though it has entered a period of decline. However, even if the United States is relatively strong, whether it is strong enough to maintain the
international political and economic order is another matter (Nakano, 2016). In particular, the U.S.-led international order appears to be facing an unprecedented challenge, as the coordination and cooperation of the above three countries in Eurasia, which Mackinder (1904) refers to as the world island, are increasing.

Mackinder (1919) concerned that Germany would gain control of the Eurasian interior (the Heartland) and access to the oceans (the Atlantic) while using the resources there for war. In the 21st century, China, in cooperation with Russia and Iran in the heartland, used the resources of Eurasia to expand into the Pacific and even the Indian Ocean. This was the worst that Brzezinski (1997) feared most when he presented the geopolitical strategy of the United States in the post-Cold War era. In other words, we are witnessing the reality that three important countries, Russia and China, which are “Geostrategic players” that the United States should be wary of, and Iran, which is located on the “Geopolitical pivot,” are strengthening their coordination and cooperation to oppose the United States. Therefore, a global geopolitical economic crisis is coming.

4. Summary

This paper argues that the U.S.-China hegemony struggle today is a confrontation (competition) due to the proximity of different socioeconomic systems, and that a clash is inevitable because it is a confrontation (competition) between China, with its growing confidence in its state-led socialist market economy model in addition to the decline of liberal market capitalism in the United States. The struggle for hegemony between the U.S. and China is one in which neither country can make concessions and retreats, for the U.S. to maintain its hegemonic power and interests, and for China to secure a path of continued development.

China has formulated a strategy of protracted war in preparation for the long war that is expected to continue throughout the 21st century. It seeks to maintain continued economic growth and external openness based on a cumulative virtuous cycle between domestic and international economic circulation, and to strengthen its geopolitical economic influence in order to break through the encirclement by the U.S. and its allies and the strategy of excluding China from the GSC.

China’s protracted war strategy is a solid option based on the current gap in comprehensive power between the U.S. and China and their changing trends; it is a long-term and strategic option that can be chosen only because China is based on state-led coordination. On the other hand, the fact that the U.S., which is based on a market adjustment, is expanding its role in state adjustment (involvement in the market
by politics), even if only to fight China, risks destroying the consistency (institutional complementarity) of the various components of liberal market capitalism and increasing China’s advantage in the long battle.

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