

The Faces of Chinese Power

David M. Lampton

MISUNDERESTIMATIONS

ASSESSING CHINA'S growing power incorrectly has always proved to be hazardous. U.S. policymakers have underestimated China's power at least twice since the founding of the People's Republic of China in 1949, once catastrophically and another time with serious consequences for U.S. credibility. In the fall of 1950, one U.S. official dismissed the possibility that the war-weary government in Beijing would intervene to stop the United States' drive to unify Korea. "I don't think China wants to be chopped up," he said. But he was wrong, and this and other misjudgments led to Beijing's intervention in the Korean War, at enormous human cost to China, the United States, and the Korean people on both sides of the 38th Parallel. President Bill Clinton also underestimated China. In 1993, his administration threatened to suspend normal tariff treatment if Beijing did not improve its human rights record within a year. China proved tougher than expected, and the Clinton administration made an embarrassing U-turn as the ultimatum was about to expire. The episode convinced the Chinese that Washington's tough talk on human rights was little more than campaign rhetoric and that for the United States human rights were an interest secondary to strategic and business concerns.

DAVID M. LAMPTON is Dean of Faculty, George and Sadie Hyman Professor of China Studies, and Director of China Studies at the Johns Hopkins School of Advanced International Studies. This article was adapted from his upcoming book, *The Three Faces of Chinese Power: Might, Money, and Minds*.

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Accurately assessing the power of China is still a critical task today, especially with renewed tensions on the Korean Peninsula and continuing volatility in the Taiwan Strait. Overestimating China's leverage over North Korea is a problem. Since 2002–3, the Bush administration has subcontracted most of the effort to halt North Korea's nuclear programs to Beijing, mistakenly assuming that Beijing has the power and the inclination to stop Pyongyang. The Chinese government does not want nuclear weapons on the Korean Peninsula and has considerable leverage over Kim Jong Il, but exercising this power would bring substantial costs to China, and its muscle is unlikely to be sufficient if the United States does not simultaneously give North Korea positive incentives to comply. Washington and Beijing may be cooperating better now, following North Korea's nuclear test in October 2006, but it remains far from clear whether Beijing can compel Pyongyang to accept an agreement that may seem contrary to its core interests.

In terms of economic power, Americans tend to exaggerate China's role as a seller and exporter while underappreciating its activities as a buyer, importer, and investor. And they underestimate China's intellectual, leadership, diplomatic, cultural, and other symbolic power. If U.S. policymakers continue to view China's power in substantially coercive terms when it is actually growing most rapidly in the economic and intellectual domains, they will be playing the wrong game, on the wrong field, with the wrong team.

THE BALANCE OF POWERS

POWER IS the ability to define and achieve one's goals, especially relative to the capacity of others to define and achieve their own. Over 40 years ago, the sociologist Amitai Etzioni broke down the concept of power according to the means employed to exercise it: coercion, material inducement, or intellectual motivation. Power can be constraining, remunerative, or normative—expressing, to put it crudely, guns, money, or ideas.

Chinese leaders are working to develop all three kinds. After dozens of interviews and meetings with senior policymakers, midlevel officials, scholars, and policy analysts in China, as well as government officials in neighboring countries, it is apparent to me that their broad objective

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is to modernize China in order to boost its military, economic, and intellectual might. Their strategy involves both openness (or globalization) and reform through marketization and urbanization, while they deemphasize and limit political liberalization. Their goal distinguishes China from both the Soviet Union, a military giant but an economic Lilliputian, and Japan, so far an economic giant but largely a bystander in military and diplomatic matters.

The Chinese people do not see their quest for economic growth as upsetting a global equilibrium; they see it as restoring an equilibrium that persisted throughout much of recorded history. As Angus Maddison, an economic historian at the University of Groningen, in the Netherlands, points out, from the first century AD until the early nineteenth century, China's economy represented between 22 percent and 33 percent of total global GDP, peaking around 1820. With the industrialization of Europe, the United States, and Japan, and with China's collision with the West and Japan, China's share of global GDP declined, down to 4.5 percent by 1950. The figure stayed at that level until Deng Xiaoping succeeded Mao Zedong in the 1970s. This long drop, and the national tragedies it generated, is known to every Chinese schoolchild as the hundred-plus years of "national humiliation." Since the late 1970s, China's economy has been regaining its share of global GDP; according to the International Monetary Fund, the figure reached 15.4 percent in 2005. Although admittedly imprecise, these data underscore at once China's progress to date and the great distance the country has yet to go.

Fortified by both globalization and its economic policies, China has thus become an ardent supporter of the existing international economic order—an almost total reversal from Mao's opposition in the 1950s and 1960s. In international relations, dominant states typically want to preserve the status quo and rising states want to change it. But today, it is China that wants to preserve key features of the current world order, whereas the United States, the lone superpower, seems bent on shaking it up by creating "coalitions of the willing" assembled outside established international organizations. China's national strategy is designed to continue its fast domestic economic growth, the regime's principal legitimizing factor besides nationalism; attract maximum resources (technology, investment, and strategic

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materials) from the international system; and reduce external threats that might deplete its resources. This strategy does not emphasize rapid military growth, and with good reason: fast expansion of the armed forces would alarm the outside world and likely produce countervailing coalitions; high military expenditures would also drain Beijing of badly needed human and material resources just as President Hu Jintao, emphasizing the importance of turning China into a “harmonious society,” sets out to expand human, environmental, and infrastructure investment for those Chinese left behind by the country’s rapid development. After Mao’s dependence on coercive power and Deng’s on economic power, China now seeks a more balanced mix that also uses “idea power.”

IRON FIST, VELVET GLOVE

COERCIVE POWER typically has four broad uses: homeland defense, deterrence, power projection, and reassurance. Beijing is enhancing its capacities along all these dimensions. It is attaching particular importance to reassuring its neighbors and to using military, economic, and diplomatic instruments to do so.

The Chinese military budget has been growing at double-digit rates for about 15 years (in terms not adjusted for inflation). Beijing is not worried about the threat of a land invasion and so has continually cut its ground forces since the 1980s, while upgrading the remaining forces and the military’s communications capabilities and capacity to conduct joint operations. It is worried, however, about the ability of its small nuclear force to withstand a first strike. Thus, it is modernizing and somewhat enlarging its arsenal. (It could, according to U.S. Department of Defense estimates, have 60 intercontinental ballistic missiles by 2010.) And it is seriously concerned about the possibility that Taiwan might permanently break away from the mainland: Beijing has deployed 700 to 800 missiles within striking distance of the island, increased its amphibious capabilities, continually upgraded its naval and air forces at a significant pace, and sought to discourage Washington from intervening if a conflict in the Taiwan Strait occurs. Still, China’s capacity to project meaningful conventional military power far beyond its borders is quite limited and will remain so for a

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considerable period. As one Chinese military officer recently explained to me, “Earlier this year in the Solomon Islands we had to evacuate people, but we lacked airpower, and had to lease [foreign] aircraft, and Australia was helpful. In the Lebanon-Israel war [of the summer of 2006], we had to lease aircraft to get our nationals out.”

One key challenge for China’s grand strategy is to continue military modernization without overburdening the domestic budget. (According to official Chinese sources, China’s military expenditures in 2004 were 12.7 percent of total expenditures.) China’s military budget is growing at the same rate as is the total budget but not as rapidly as some components of the total budget, such as those for rural support, health, education, and welfare. Given the decision of the Central Committee of the Chinese Communist Party in October 2006 to “put people first,” the tension between military and domestic spending promises to become a bigger issue.

Another medium-term challenge will be to manage the anxieties of other states, especially the United States’ concerns about its commitments to Taiwan. Have China’s growth and the greater economic interdependence between the island and the mainland made Taiwan indefensible militarily? What would be the consequences of an attack for U.S. policy, given that, according to a recent Chicago Council on Global Affairs poll, 61 percent of Americans would oppose deploying U.S. troops “if China invaded Taiwan”? Thus, for China, reassurance is now key. As one Chinese scholar put it to me, “We used to hide our power, deny our power. But then this became increasingly impossible as our strength increased. We had to find ways to reassure people, use power constructively, because our power became increasingly undeniable.”

In late 2002, Beijing reviewed its interactions with other nations’ militaries and law enforcement and space agencies. It encouraged such exchanges partly in order to increase the comfort level of foreigners with the Chinese armed forces. After a tsunami hit the Indian Ocean region in 2004, China kept a low profile, sending a small contingent of military personnel on a humanitarian mission. Almost by stealth, of all the permanent members of the UN Security Council, China has become the largest contributor of military observers, peacekeepers, and police to UN operations around the world. These deployments have included missions to Haiti and southern Lebanon, where Beijing

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pledged to send 1,000 personnel after the war between Hezbollah and Israel last summer. China has observed and conducted joint exercises with the militaries of Central Asian states, Australia, France, Germany, India, Mexico, Pakistan, Russia, and the United Kingdom, among others. In September 2006, the U.S. and Chinese navies held their first joint naval search-and-rescue exercise, off the coast of California. Chinese law enforcement agencies have also cooperated with the U.S. Container Security Initiative to secure freight from three of China's largest ports, and Beijing cooperates with Latin American and European countries on space projects, such as satellites, and hopes to work with the United States in this area as well.

Despite China's velvet-glove approach, its neighbors are wary, mindful that its capabilities are mounting and its intentions could shift. This is one reason that virtually every country in the region welcomes a strong U.S. presence. Even Beijing may have quietly approved the U.S. government's statement, in October 2006, that it will continue to provide a nuclear umbrella for Japan and South Korea, because the move reduces the pressure on Tokyo and Seoul to acquire their own nuclear deterrents against North Korea.

SWEET SMELL OF SUCCESS

EVEN MORE important to China's grand strategy are its efforts to strengthen its economic power and build what Beijing hopes will be a stabilizing middle class. So far, China has done rather well, thanks to a high national savings rate, rapidly growing and improving secondary and tertiary education, increased expenditures for research and development, the fact that a significant fraction of the population is still of working age, an expanding middle class, massive investment from ethnic Chinese abroad and foreign investors in search of high-growth opportunities, the productivity-enhancing content and continuity of Beijing's economic policies, and a growing private sector. Economic power, the most convertible form of strength, makes China attractive in a world that respects material success.

One should not assume that China's growth rate will slow dramatically anytime soon. But it is time to see it for what it is. Most outside

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observers exaggerate China's strength as a seller and underestimate its capacities as a buyer, investor, and aid provider.

This is partly because of China's dramatically rising global trade surplus. It holds \$1 trillion in foreign exchange reserves—a significant fraction in U.S. government debt instruments—and surpassed Japan as the holder of the most foreign exchange reserves in February 2006. China's global share of industrial output as measured by real value added went up from 2.2 percent in 1990 to 6.6 percent in 2002. In textiles, shoes, sporting goods, and, increasingly, electronics, China is already a superpower, and Chinese exports have affected manufacturing employment in other countries, such as Mexico.

There is, however, another side to the story. The fact that an item bears a "Made in China" label does not mean that it was actually made in China. China hosts final assembly stages, which add less value, while lucrative parts of the production chain remain in other countries. (In 2002, value added per capita in the manufacturing industry in the United States was more than 15 times that in China.) In other words, China takes all of the heat for profiting from the globalized production chain even though, as the last link, it reaps only a modest share of the products' value. China, therefore, seems stronger than its underlying production capabilities actually make it. Although exports accounted for over 30 percent of China's GDP in 2005, firms with foreign investment accounted for 57.3 percent of total exports and about 85 percent of high-tech exports. A critical implication is that if the United States throws up barriers to nominally Chinese exports, it will be punishing its friends, its allies, and itself along with Beijing.

Meanwhile, China's strength as a buyer and an importer is underappreciated. China's middle class continues to expand. It was the third-largest consumer of luxury goods in the world in 2006—and the third-largest market for Rolls Royce vehicles. Because China imports so many of the primary and intermediate goods used to make its exports, it has given the rest of the world, particularly Asia, a piece of the action and, therefore, an interest in its success. Since 1979, Chinese imports have grown at an annual average rate of nearly 15 percent, making the country today the world's third-largest importer, after the United States and Germany. In 2003, China accounted for 68 percent of Taiwan's export growth, 36 percent of South Korea's,

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32 percent of Japan's, 28 percent of Germany's, and 21 percent of the United States'. One report by the Chinese government estimates that 3–4 million jobs in South Korea are related to trade with China. Asian economies that previously exported predominantly to the United States, such as Japan, South Korea, and Taiwan, now do so to China. One official in Canberra quipped to me that the Australians now define their interest vis-à-vis China as being the export of “wools, alumina, iron ore, and educational services.” Throughout much of Asia, the perception of China has changed from threat to economic opportunity.

As China's “going global” strategy gains steam, its role as an investor abroad is also growing. Beijing's ability to coordinate corporate investment, tariff and other trade policies, development assistance, and military aid is a potential asset when competing with more pluralized systems. In late 2005, a poll by China's International Chamber of Commerce reported that 23 percent of responding firms intended to increase their investment abroad in 2006. At the end of 2005, China announced that its cumulative foreign investment totaled \$57.2 billion, up from \$7.6 billion in 2000. China's sizable social security and insurance funds are also beginning to seek opportunities for investment abroad.

Many developing nations appreciate the deals Beijing offers, especially since it doles out investments without imposing conditions, other than the recognition of its “one China” policy. In late 2003, after securing a promise of \$500 million in loans, trade increases, and tariff reductions from Beijing, Pakistani President Pervez Musharraf gushed, “The past belongs to Europe, the present belongs to the United States, and the future belongs to Asia.” Chinese investment is aggressively sought by Latin America, Russia, Southeast Asia, and Africa—as well as by U.S. municipalities. A Chinese-owned plant for refrigerators was put into operation in Camden, South Carolina, in March 2000; in Ardmore, Oklahoma, there are plans for a Chinese joint venture to run an auto plant that would employ about 550 people. Beijing is taking a page out of Tokyo's playbook: building production capacity in countries that are losing manufacturing jobs in order to get closer to its consumers and forestall protectionist countermeasures. An August 2006 article in *Caijing* magazine on lobbying in the United States advised, “An effective and long-term solution [to China's image problem in the United States] is to build a factory or to set up

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a company on the soil of the United States. This means hiring American employees—their influence over the congressmen from their constituency is much stronger than any foreign institution or enterprise.”

MARK THE WORDS

BESIDES COERCION and material rewards, Beijing is using symbolic, intellectual, ideological, diplomatic, and cultural resources to increase its influence. It is strong in some of these areas and weak in others, but Americans generally tend to underestimate its capacities in this domain.

Corruption remains a serious problem for the Chinese leadership. Nonetheless, as former Singaporean Prime Minister Lee Kuan Yew has said, “The quality of people in charge of China is impressive. ... They have capacious minds, analytical and quick on the uptake.” Equally important, the Chinese Communist Party is growing and recruiting dynamic new members. Professor Cheng Li, of Hamilton College, reports that in 2004, 34 percent of private-enterprise owners were CCP members. China’s leaders are relentless travelers and spend substantial time with foreign dignitaries; China’s diplomats are capable, experienced, and language proficient, and they increasingly understand their host societies.

China currently lags greatly behind in discovering and developing new technologies, but its capacity to innovate with production processes and adapt existing technologies to local markets is growing. It is boosting expenditures for research and development, and as of 2006, there were 750 research-and-development centers backed by foreign investment in the country. Beijing is also building its own global communications and broadcasting systems, with increasingly diverse programming, and heavily investing in the promotion of Chinese language education worldwide.

In that spirit, it promotes all kinds of exchanges. Chinese corporations and universities are increasingly recruiting talent globally, and a growing percentage of technically proficient and business-proficient Chinese students who studied abroad are returning to China. In 2003, China surpassed Japan as the leading source of Asian tourists (spending \$48 billion in the process), and it is estimated that by 2020 Chinese will be taking 100 million trips abroad every year.

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The payoff in terms of image is good, even though China's reputation in the United States still suffers. International public opinion polls uniformly reveal that Americans have more negative views of China than do most other people, predisposing Washington to be tougher with China than are other governments. In fact, according to polls conducted by the Pew Research Center, the BBC, and *The Financial Times* and Harris Interactive, in much of the world, including most of Europe, China is perceived more favorably along many dimensions than is the United States. And although other nations generally do not wish to emulate China's political system, its combination of high-speed economic growth and apparent stability is a development path that appeals to many.

These quickly developing facets of Chinese "idea power," however, should not obscure two countervailing considerations. First, the Chinese political system does not adequately reflect the diverse interests of the increasingly pluralized society that marketization, urbanization, and globalization have created. Consequently, the CCP's legitimacy is not robust, and the government tends to play the nationalism card in moments of stress. Second, the Chinese system's appeal, at home and abroad, rests largely on the country's economic success. If China's economic performance falters, the system's weaknesses will become more apparent.

HOME, SWEET HOME

BEIJING'S PRIORITY is sustained, rapid economic growth, because growth is fundamental to the regime's legitimacy—and most everything else. Even China's foreign policy is judged by its consequences for growth and internal stability. Chinese authorities are also fixated on domestic incidents of social disorder: increasingly, Beijing simultaneously represses dissent, pursues reform, redistributes resources to neglected regions and social sectors, and makes intermittent efforts to fight corruption.

China's leaders have an ambitious domestic agenda that will pre-occupy them for decades. They are struggling to achieve a precarious balance between rising demands and the state's capacity to meet them. Between now and 2020, about 300 million rural dwellers will move to

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cities, bringing with them huge needs for infrastructure. (At that rate, the government will have to build a city the size of New York every four months for the next 14 years.) China already counts 111 million Internet users and a middle class that numbers, according to midrange estimates, 130 million people. But the disparity between the haves and the have-nots is increasing. Whereas ten percent of the national population lives on incomes higher than those of residents of moderately developed nations, according to the Chinese scholar Hu Angang, more than 50 percent of the population lives on incomes typical of the world's poorest states. Many governments at the county and township levels are starved for revenue. China's population is aging: the ratio of workers to the elderly is anticipated to drop from 6.4 to 1 in 2000 to about 2 to 1 by 2040. There is no effective nationwide social security system, and it is unlikely there will be one before the demographic challenge hits. Other major issues include severe health-care delivery problems, infectious diseases, and educational inequalities.

Chinese power is also limited by the international system itself. Nations balance against threats. Beijing is coming to realize, just as Washington and Tokyo do, that for every international action it takes, an equal and opposite reaction will occur. As China's global trade surplus mounts, so does pressure that it revalue its currency; Beijing has long resisted the push, but it is slowly acquiescing. If China extracts resources from poor nations, brings its own laborers to low-income countries already burdened by unemployment, tries to strong-arm regimes that recognize Taiwan, or cozies up to local elites who alienate their own people, Chinese interests will face resentment (or even riots, as recently occurred in Zambia). If China fails to fulfill its promise to invest \$100 billion in Latin America by 2014, its credibility will suffer. If China deploys more missiles that can hit Japan as well as Taiwan in the Taiwan Strait, Tokyo will react by deploying antiballistic missiles and strengthening its Self-Defense Forces. China is already surrounded by skeptics: according to a mid-2006 poll conducted by the Pew Research Center, 93 percent of Japanese surveyed, 76 percent of Russians, and 63 percent of Indians thought that China's growing military power was a "bad thing" (95 percent of Chinese thought it was a "good thing"). In short, the rise of Chinese power generates global responses that Beijing cannot fully control and that may not be in its interest.

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ALL ABOARD

FOR THE United States, the rise of China can mean only one thing: engagement. Washington has no choice. China is too big, too important, too dynamic, and has too many other nations with an interest in cooperating with it to be pushed around. Americans cannot compel cooperation; they must earn it on the strength of their ideas and the two countries' mutual interests. For one thing, Washington must stop defining Chinese power principally as a military challenge; otherwise, it will squander scarce resources and push Beijing to adopt the type of truculence Washington wishes to avoid. Instead, the United States—and the rest of the world—will have to adapt to the centrality of economic and idea power in China's national strategy. As China becomes more competitive, the United States must move up the value-added ladder. And there is no way to effectively do so with a large percentage of the U.S. population testing "below basic" in reading and math or with health-care costs reaching 18 percent of GDP, as is predicted will happen by 2014.

China wants to be a responsible stakeholder in the international system because it recognizes that the system works to its broad benefit. But like Washington, Beijing will define its responsibility according to its interests. Regarding the Korean Peninsula, for example, Washington asserts that a responsible position is to prevent the proliferation of nuclear weapons; Beijing would also prefer to see no nuclear weapons on the peninsula, but it places primacy on avoiding war. As of late 2006, Beijing was most concerned about the economic progress of its 1.3 billion people, whereas the United States was focused on a broad range of security issues, not least of which was nuclear proliferation.

The danger is that the outside world will feel Chinese power principally through the massive, often unintended spillover effects of its appetite for economic growth. Although Beijing's domestic and foreign policies are not malevolent by design, they often have harmful effects, and for those countries on the receiving end of them, intentions may not matter much. A major focus of U.S.-Chinese cooperation should be to reduce the causes and consequences of such unintended spillover effects, especially in the areas of energy and the environment, particularly in regard to global warming.

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This, of course, will require putting an end to the mutual suspicion that currently afflicts U.S.-Chinese relations. Both sides could take positive steps. Beijing needs to accelerate policies that reassure the outside world—for example, increasing transparency in its military budget. China would boost confidence enormously if it stopped deploying more missiles across from Taiwan. Additional deployment does little to further deter Taiwan's independence movement, but it alienates Taiwan's people and creates anxieties throughout the region, especially in Japan.

For its part, Washington should instill trust in Beijing by not acting in ways that jeopardize China's nuclear deterrent. Both sides would benefit from much more extensive military-to-military exchanges and cooperation in space. The United States, China, and Japan must find ways to reduce the acrimony in Sino-Japanese ties and build a security partnership. Japanese Prime Minister Shinzo Abe's trip to China in October 2006, his first abroad as prime minister, was a good first step, but there are mountains of suspicion and resentment yet to be scaled. China's growing power calls for other states to respect the country and work with it constructively. The twenty-first century requires U.S. leaders who have the imagination to see possibilities for cooperation with China and to devise ways to motivate Americans to meet the economic and intellectual challenges that China's dynamic growth increasingly present. 🌐