

Paradigm Lost

The Demise of “Weak China”

David M. Lampton

IN THE heady days of the 1990s, “globalization” was a phenomenon requiring “others” to marketize and eventually democratize. Unfortunately, less time was spent considering how globalization, and China’s multi-dimensional entry into the world system, would require change in America itself. This oversight contributed to two problems. Internationally, it turned the United States into a global nanny, telling others how they ought to proceed in making the domestic adjustments globalization seemingly required of them, without paying due attention to the implications for ourselves. Domestically, Americans became complacent about maintaining and enhancing the infrastructure of our own national competitiveness, particularly human capital.

Because of its size, rate of change, unanticipated success and political coloration, China has become the poster child for those aspects of globalization that threaten the United States. For his part, President Bush has a balanced view and is seeking to keep relations on an even keel. In his May 31 press conference, he noted that “the relationship with China is a very complex relationship, and

Americans ought to view it as such.” But increasingly, as seen in the reaction to the attempted takeover of Unocal by the Chinese National Offshore Oil Corporation, more Americans are beginning to view China in ominous terms. We have witnessed a marked paradigm shift in thinking about China in the last few years, one that threatens to substitute one flawed framework (a “weak China”) with another (a “China on steroids”). An April public opinion poll conducted by the Canada Institute of the Woodrow Wilson International Center found that 31 percent of Americans polled agreed with the statement, “China will soon dominate the world.”

These perceptions, often exaggerated, have led many Americans, some members of Congress and the top echelons of the Defense Department—all ignorant of the severe problems China faces—in the directions of economic defensiveness and external stridency. In Congress, legislation reminiscent of the Smoot-Hawley Tariff Act of 1930 is given at least superficial consideration. The Bush Administration has unilaterally imposed restraints on Chinese textile imports. Congress reacted negatively to the now withdrawn bid for Unocal. And the national security bureaucracies advance “China threat” analyses. Director of Central Intelligence Porter Goss and Defense Secretary Donald Rumsfeld issued notable warnings in the first half of 2005, though the July

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Pentagon report on *The Military Power of the People's Republic of China* was surprisingly measured.

All this gives rise to four questions. To start, why and how has the dominant paradigm about China changed in the last few years? Second, what debate has this shift unleashed in U.S. policy and academic circles? Third, in what respect is China a competitor to the United States and others? And finally, what should the United States and China do to make that competition as constructive as possible?

Paradigm Shift

THE CONTOURS of the “weak-China paradigm” (China as a weak, developing, politically fragile and transitional economy) were established in contemporary America’s first glimpses of China in the final stages of the Cultural Revolution, when President Richard Nixon went there in 1972. At that point, China had only a shade greater share of global GDP than France, a nation with only about 6 percent of China’s population. There was virtually no private sector in the Chinese economy. The face of leadership in China was an infirm, eighty-plus-year-old Mao Zedong. China was widely understood in terms similar to those in which we now understand North Korea.

After Mao’s death in September 1976, Deng Xiaoping’s assumption of power, and the launching of the reform and open policy shortly thereafter, it took time both for the new policies to take root and for the rest of the world even to begin to conceive of China in terms of strength. After all, in 1978, China still accounted for only 0.8 percent of world trade. And China’s progress was eclipsed in the world’s eyes when East European communist regimes fell, followed by China’s suppression of demonstrators in Beijing and elsewhere in 1989, and finally by the implosion of the USSR itself in 1991.

The core reason for viewing China as weak lay in the correct assessment that the country had an enormous institution-building effort ahead (constructing legal, market and regulatory institutions, and cultivating human and social capital). Even a cursory look at incentives and industrial work ethics indicated how far China had to go in the 1970s and 1980s to be competitive. It seemed self-evident that changing all this would take a long time, even without considering the disabilities of the one-party state (corruption) and the natural-resource, environmental and population constraints. All of this argued for reserved predictions about China’s progress. Indeed, many of these drags on progress remain, and even today social stability is not to be taken for granted, as recent rather large, albeit isolated, disturbances indicate. In July, for example, a Shanghai suburb exploded into riots over environmental problems, industrial conditions and official indifference.

It is hard to say when the paradigm shifted toward that of a strong China (a modernizing, highly competitive, rising power). Perhaps it was China’s intervention in the Asian financial crisis in 1997–98, when Beijing initially acted more boldly than Washington to help shore up liquidity in Thailand and Indonesia through the International Monetary Fund (IMF). Perhaps it was when Premier Zhu Rongji proposed, from 2000 to 2002, a free trade area for China and the Association of Southeast Asian Nations and then a timetable for its realization. Perhaps it was in 2002, when China became the number-one export market for both Taiwan and South Korea, supplanting the United States. Perhaps it has been the steady double-digit increase of Beijing’s military budget since 1990 and its record of 9 percent-plus economic growth for nearly a quarter of a century. Perhaps it was the smooth transition to technocrat Chinese leader Hu Jintao in 2002–05, supported by an impressively

trained, young and dynamic set of leaders at subordinate levels throughout the country. Perhaps it was in 2003, when China became the third nation to put a man in space. Perhaps it was in 2003–05, when it became clear that Washington was pinning its hopes for a denuclearized North Korea on wished-for Chinese pressure on Pyongyang. Perhaps it was when Americans broadly recognized that China held more U.S. debt instruments than any other foreign country except Japan.

Data from the World Bank, the IMF and the Organization for Economic Cooperation and Development (OECD) provide further shape and form to the “strong-China paradigm.” China’s trade with the world has grown eight times as fast as world trade. China accounted for 68 percent of global growth in demand for oil in the 1995–2003 period.

One of the things that most worry Chinese leaders is that the strong-China paradigm makes it easy for foreigners to lose sight of China’s genuine problems. In June, I was in one of China’s poorer provinces—Jiangxi—the cradle of the Chinese communist revolution. Overall, it is twenty or more years behind the coastal areas, both in terms of economic development and popular outlook. One of China’s most thoughtful public intellectuals, Zheng Bijian, talks about China’s “division and multiplication problems.” The division problem is that even large aggregate resources become small per capita resources when divided by 1.3 billion people. The multiplication problem is that even small problems become incredibly large when multiplied by 1.3 billion. Chinese leaders look at foreign policy from the perspective of how it can facilitate resolution of these domestic challenges.

Nonetheless, the cumulative result of Beijing’s genuine progress has been that China is now viewed in far different terms today than it was only a few years ago. This has important consequences, because for policymakers the paradigm defines the

policy problem. Under the weak-China paradigm, the problem was to nudge China along a constructive course, not to push too hard, to be relatively open to exchange and technology transfer, and to place emphasis on basic social and political institution-building. The full implications of the paradigm shift remain to be seen, but the impulse in America (and notably Japan, where development assistance to China is declining and the military posture is becoming more forward-leaning) is to raise questions about past policy. As China’s strength grows, Beijing increasingly will be expected to deal with the consequences of its actions (or inadequate actions, as with North Korea) and contribute more to the maintenance of an international system from which it is deriving considerable benefit. Beijing will also be expected to help constructively manage the interdependent systems on which we all increasingly depend. The degree to which it does not will contribute to friction with and debate in America.

As the debate proceeds it is important to keep one overriding reality in mind: China can be weak and strong simultaneously. A population of 1.3 billion, with a middle class perhaps numbering 250 million–300 million, can simultaneously be an enormous competitive force, a global economic engine and also have one billion less-fortunate people who are a huge developmental and humanitarian challenge.

The Debate

FOR SEVEN administrations, U.S. policy toward China has been remarkably stable and could be called “hedged integration.” The concrete manifestation of this policy has been the combination of “balance” and “integration”, as Joseph Nye put it in a recent address at the Johns Hopkins School of Advanced International Studies. “Balance” refers to the use of all instruments of power, particularly hard

instruments, to prevent the dominance of others, while “integration” refers to the use of all instruments of power, particularly soft ones, to bring China into an interdependent international system in which it hopefully will develop shared responsibility for system maintenance.

Those who place a distinct emphasis on hard power fall into the category identified by Michel Oksenberg and Elizabeth Economy as “confrontationalists”—those who see the future relationship with Beijing in conflict-laden terms, who presume that China’s gains in power necessarily will come at U.S. expense and therefore assert that America’s interest lies in increasing its own capacities and retarding the degree to which China moves up the power hierarchy. “Integrationists” generally align with those Oksenberg and Economy called “accommodationalists”—those who do not see international relations as a zero-sum game, who believe in the utility of dialogue and who believe that nations, especially rising powers, can be “socialized” into constructive habits of behavior. The fact that these two schools of thinking have been in long-term equilibrium accounts for the durability of the “balance and integrate policy” of hedged integration. What are the dimensions along which analysts and policymakers in the United States differ?

Confrontationalists see history as an unfolding, ever-changing contest for power—with power most often thought of as hard power (military strength and other forms of coercion, from sanctions to isolation). Confrontationalists suspect that the currently weaker party will observe the strictures of international institutions, norms and regimes only so long as that actor gains an advantage by so doing. When the weaker becomes strong, its adherence to institutions, norms and regimes will diminish in favor of unilateralism. So, as John Mearsheimer sees it, the international system is characterized by the struggle between aspiring, rising

powers and the current hegemon bent on maintaining dominance.

Integrationists see technological and economic interdependence creating ever more delicate international systems that function best with increasing levels of cooperation. They emphasize the utility of soft power as an often more effective means to win compliance than coercion and believe that a hegemonic system is inherently unstable because it fosters bandwagoning against the dominant power. They are strong believers in the evolutionary nature of history. To take one example, they would take the view that economic development creates a middle class; middle classes tend to provide a foundation for democracy; and a world comprised of democracies would be less prone to war.

American confrontationalists differ on the question of whether U.S. dominance is good for the entire international system or just for the United States; they disagree as to whether the current weakness of other potential rivals is long-lasting (meaning conflict can be postponed) or whether “the others” are as weak now as they ever are going to be (meaning that it is better confrontation come earlier than later). American integrationists believe that by pursuing more inclusive policies they can reduce anger directed at the hegemon, and they tend to have less confidence in predictions about other states’ relative strengths or weaknesses *vis-à-vis* the United States.

The shift from the weak-China paradigm toward the strong-China paradigm empowers the confrontationalists. This threatens to change the appropriately balanced U.S. policy toward China of the last seven administrations. And this concerns many in Asia; one senior former diplomat in Singapore told me frankly: “Rising China is better than a crashing China, one that collapses around us. You [America] are going to screw up the rise of China. We want America to stay in the region, of

course, but to play a constructive role.”

Both the strong- and weak-China paradigms capture important, but partial, elements of reality. A realistic and constructive U.S. policy has to take both into account, and the policy of hedged integration has served America and the world well. The first part of wisdom, however, is to recognize that in important respects China is a competitor. The reality is that China is an increasingly able competitor on the global playing field that America did so much to build. For its part, Beijing should not view this candid recognition of China’s impact as simply a continuation of a past history of “containment” and “victimization.” The things that unsettle people are those phenomena that are big, rapidly changing and non-transparent—China is all three.

China as Competitor

THE BUILDING blocks of national power and competitiveness are national investment and savings, education, health, energy, and sound, legitimate governance. Though China has significant problems in each area, it is doing comparatively well in the first three—but less well in the last two. Where China does well, China’s competitors, including the United States, must improve their performance.

In 2003, China had an investment-to-GDP ratio between 32 and 42 percent. Looking at domestic savings alone, the IMF says that China’s gross national savings rate that year was more than 47 percent. This makes continued high economic growth very likely, even if, given China’s inefficient financial system, much of this investment is wasted.

China’s performance contrasts sharply with America’s; in 2003 the net savings rate here was between 1 and 2 percent, the lowest in American history. The United States cannot long compete effectively when it borrows for current consumption

while China invests using its own savings. America must rebalance its saving, investment and consumption priorities. If we do, Beijing’s competition will have done us a big favor. Such action would help Washington resolve our twin budgetary and trade deficits. But, of course, it often is easier to blame others than to require painful changes of our own people.

Examine the second building block: education. U.S. higher education is excellent. Nonetheless, considering its low current income levels, and the many severe education problems in China’s rural areas, China has enrolled 93 percent of its relevant age group in primary school; the percentage of secondary school-age children enrolled rose by over one-third from 1990–91 to 2002–03; and the percentage of China’s population in tertiary education has more than quadrupled since 1991–92. Many people say China is attracting foreign manufacturing investment because of cheap labor. In fact, the attraction is the combination of relatively inexpensive and relatively skilled labor.

Take as an example a field highly germane to economic modernization: engineering. In 2002, China and the United States granted approximately equal numbers of graduate-level engineering degrees, though China granted almost 3.5 times as many undergraduate engineering degrees. Moreover, entering class sizes in engineering schools in China are growing rapidly. Looking ahead, China will have enormous and growing human resources in technology. The National Science Foundation predicts that by 2010 China could well be turning out about four times as many engineering doctorates as the United States. Having said all this, however, Americans should not create an eight-foot giant. China’s science and technology community still suffers from rigid planning, lack of protection of intellectual property rights and underinvestment in basic research.

Go to most U.S. graduate schools in

the hard sciences and you will see highly capable students from China in profusion. And while the number of Americans studying in China is in the low thousands each year, China for a long time has had about 60,000 students matriculated at American institutions of higher learning studying science and technology, as well as business, economics and international affairs. China is turning out language-proficient, culturally adept, and scientifically and technically capable people at home and abroad in ever greater numbers. Americans must do the same thing.

Public health is a third building block. There are millions of people in China with virtually no medical care, the system is vulnerable to infectious diseases, and maladies once at low levels are increasing in incidence—not to mention a looming HIV/AIDS catastrophe and the threat of new influenza strains. Nonetheless, China had a life expectancy in 2002 of 71 years, which compares favorably with America's 77 years. And yet, in 2002, China only consumed about 5.8 percent of its still modest GNP on health expenditures while America consumed 14.6 percent; by 2004, this U.S. figure had risen to 15.4 percent, and the rate projected for 2014 is a whopping 18 percent. For the United States to remain competitive, it must control health expenditures. Germany, France and the UK each have longer life expectancy than the United States, and they have about half the per capita health costs of America, according to OECD data.

This brings us to energy policy, about which little need be said, other than that America needs to reduce its reliance on imported oil from unstable regions. Whichever nation first escapes the energy trap will achieve economic dominance for the next era. China is rapidly becoming energy-import dependent, accounting for Beijing's near obsession with securing sources of energy supply, irrespective of the attributes of the supplying regimes. This obsession helps account for Beijing's

commitment to expanding its blue-water navy and its drive to acquire petroleum reserves abroad. Energy is one of the principal Achilles' heels of China.

Concisely, as China enters the global marketplace, it has competitive advantages that will force Americans and others to think about fundamental systems in their own nations. This requires change. Change is painful, and in this process hostility and blame for the unsettled conditions can easily be directed abroad. Challenges and the resulting insecurities empower confrontationalists. Most observers of China's development, particularly confrontationalists, point to the fact that Beijing's official, non-inflation-adjusted, year-end defense budget has increased in the double-digit range every year from 1990 through 2004. Most outside estimates place China's current military expenditures in a league with Russia, Japan and the United Kingdom—but double-digit growth projected into an indefinite future becomes a cause for vigilance. And, of course, China's modest revaluation of July will mean that China's defense expenditures, when expressed in U.S. dollars, will appear higher still. China also has an active space program, the dimensions of which would surprise most Americans, and its emphasis is on modernizing air, missile and naval forces, as well as enhancing cyberspace, communication, guidance and reconnaissance capabilities. The Department of Defense and the intelligence agencies profess to be puzzled by the rate of China's gains. On June 4, Secretary Rumsfeld told an audience in Singapore:

A candid discussion of China, however, cannot neglect to mention areas of concern to the region. . . . China's defense expenditures are much higher than Chinese officials have published. It is estimated that China's is the third-largest military budget in the world, and clearly the largest in Asia. . . . Since no nation threatens China, one must wonder: Why this growing investment?

Cui Tiankai, the director general for Asian affairs at the Chinese Foreign Ministry, was in the audience and asked a question that resonated with many present: “Do you truly believe that China is under no threat whatsoever from any part of the world? And do you truly believe that the United States feel[s] threatened by the so-called emergence of China?” Rumsfeld reportedly responded by saying he knew of no country that threatened China, adding, “The answer is no, we don’t feel threatened by the emergence of China.”

Policy Implications

IF WE TAKE the secretary of defense at his word, it means that there is no reason for Washington not to persevere with the even-handed policy pursued by seven administrations: promoting China’s integration into the world system while preserving balance in the regional and world systems as benignly as possible. We should avoid drifting into a “one-ally strategy” with Japan in Asia and being so concerned about constraining China that we alienate our friends throughout the region who do not wish to choose between Beijing and Washington. A confrontationalist policy would be to dramatically increase the hedge against Chinese power and embark on stiffer policies, from technology transfer to market access to military posture. This would have the quadruple disabilities of antagonizing the successful part of China, slowing the progress of its poorer majority, denying us the many benefits of a more cooperative relationship and antagonizing most of Asia, including most of our traditional allies. To go down this confrontationalist road would be a strategic blunder of monumental proportions. As one well-placed Australian official put it to me, “We will go up a hill with you, but not march over the cliff.”

Second, Washington should avoid overmilitarizing its response since, Tai-

wan aside, China’s true medium- and long-term competitive challenges are in the realms of economics and ideas, not armed force. Overconcentration on defense will lead to a misallocation of resources that will weaken America.

Third, China and the United States both need to adopt a policy of reassurance. Beijing needs to continually reassure the region, the world and Washington that its growing power will be used constructively. And America needs to adopt policies that reassure China that China’s rising influence and status will be accepted, even as both nations are competitors in significant ways. It is not well advised for a secretary of state to go to Japan and add fuel to Beijing’s suspicion that Washington is pursuing an encirclement strategy by saying: “I really do believe that the U.S.-Japan relationship, the U.S.-South Korean relationship, the U.S.-Indian relationship, all are important in creating an environment in which China is more likely to play a positive role than a negative role.” Carrying out a frequent and on-going dialogue between Washington and Beijing, as Deputy Secretary of State Robert Zoellick and his Chinese counterpart Dai Bingguo have started, is an important first step.

Indeed, the United States and China should be having regular consultations about regional security. One proposal is for annual “three-two” talks between Beijing, Washington and Tokyo, where cabinet or higher-level security and diplomatic officers of the three get together to exchange views. There were hopes that the Six-Party Talks on North Korea might evolve into a more formal security structure, but this evolution will not be possible if the six parties cannot effectively address the nuclear problem on the Korean Peninsula. The main points are that China must be brought more centrally into the regional security architecture, that ways must be found to stop deterioration of Chinese-Japanese relations, and

that it is imperative that both Washington and Beijing cooperate to eliminate nuclear weapons and programs on the peninsula. Accomplishing this last would give an enormous boost to U.S.-Chinese relations and stability in Asia.

China's recent, more constructive policy toward Taiwan needs to be continued and enlarged. More emphasis on winning hearts and minds on Taiwan, and less on deterrence, would be reassuring to everyone. Indeed, we are seeing moves in this direction, with the provision of more employment opportunities for Taiwanese people on the mainland, the liberalization of Taiwan's agricultural exports to China and the prospect of cross-strait cargo charters. The use of force in the Taiwan Strait would be diametrically opposite to the needs for mutual reassurance. Recent rumblings in China have mentioned the need for restraint in missile deployments in the area of the strait; this is a good idea that needs to be reflected on the ground.

But U.S. domestic policy is just as relevant to the stability of Sino-American ties. The solutions to the U.S. trade and budget deficits do not principally rest in Beijing—they rest in Washington. China's recent modest revaluation of its currency and its delinking the yuan from the U.S. dollar are welcome developments, but these moves will not fundamentally affect America's trade deficit with China nor, as Alan Greenspan said, have any discernible effect on manufacturing employment in America.

China is also not responsible for improving the quality of American education. American schools are producing inadequate numbers of U.S. citizens proficient in the hard sciences, mathematics and engineering. Nor can China be blamed for spiraling U.S. healthcare costs. It is the United States that must arrest the steady increase of health expenditures as a percentage of GDP. The American auto industry, for example, cannot remain competitive when General Motors'

overhead includes \$1,525 of health costs for each car rolling off the assembly line.

But the ball is not entirely in America's court. China must clearly signal its willingness to cooperate constructively with the United States to manage the interdependent systems from which they both derive so much benefit. One such area would be protecting intellectual property rights. China simply is too big to be allowed to violate foreign intellectual property the way earlier, smaller modernizing economies did. Beijing has to assume responsibility for the local officials who have become addicted to the revenues and employment their localities generate through the theft of intellectual property.

Of course, the single biggest thing China could do to both help itself and bring more stability to the world economic system would be to put its banking system on a genuine commercial basis, durably reduce its non-performing loan problem and thereby end what amounts to a great capital subsidization to exporters. Thinking more broadly, the major economic powers should coordinate their respective policies: America must address its savings, fiscal and monetary policy problems, China must address its banking and financial system woes, and Europe and Japan must stimulate domestic consumption and growth.

A senior Australian business executive had this advice for how to manage the U.S.-Chinese relationship:

Will China compete with America for world leadership? As far as I can imagine, it will never be a competitor for that global leadership and the reason being is that the Americans have unique abilities—[you Americans] are innovative and [have] the ability to make quick decisions. You have the power of politics, and you have a geographical platform from which to operate that is unique. Innovation and fast decision-making you have, but not China. If America focuses on your strength; they can focus on their strength. □