Dr. Lampton began his talk by noting that he would be discussing how to think about Chinese power. He described his current work on a book to be entitled *Three Faces of Chinese Power: Might, Money, and Minds*. It will discuss whether China has a strategy to acquire power, how its neighbors and other countries are reacting to its efforts, and what the US and the West can do to respond intelligently.

Chinese thinking about security drives their internal strategies
- They believe that when China is weak others take advantage of them
  - History can back up this view (Opium Wars, World War II)
- Makes them internally defensive
- They want power to protect themselves
- Different from US thinking – when all the world is democratic then US will be safe
- Dr. Lampton interviewed leaders all around the periphery of China about this view
  - Australian defense minister (former ambassador to China) said that China was very conservative
    - China feared itself and believed that the greatest threats were on the inside
  - China’s view of threats are not red arrows pointing in toward them
    - More like a map of the country showing dots of where disturbances are occurring – could be demonstrations, corruption or bank robberies
- China wants to figure out how to change themselves, not the world

Major points to consider
1. China thinks about national security differently than does the US
2. US thinks about the concept of Power primarily involving the Might face while China emphasizes the Money and Minds faces
3. US and the West are a little smug about the fact that China is doing all this reforming and that it has that much more to do
   - But this also means that the US and the West must do some reforming, too
   - Need to think of China and India differently today
     - In the past they did not participate in the global economy
     - Rather like a football game where 40% of the world’s population could only watch from the stands
     - Now they want to play
   - They highly value education and have a very high level of savings
They want to make up for lost time
As a result, the US and the West will need to adjust and that could be painful

Sino-American cooperation is increasingly security related
- Dr. Lampton accompanied a Congressional delegation to China recently where they discussed:
  - Safety issues about products
  - Counter-narcotics and counter-terrorism cooperation
  - Global climate and energy issues
- Bottom line: there may be concerns about military issues with China but there are many areas where US and Chinese concerns match up well

Big Question #1: Does China have a national security strategy?
- Yes – and that may be surprising to some
- Many years of studying bureaucratic political issues has shown how very complex the system is – too complex for a coherent strategy
- However, there is consensus on broad objectives
- It is impressive how much they have done on a national grand strategy in 30 years
  - Need another 50 years to complete the work

Big Question #2: What should the US do about all three of the faces (Might/ Money/ Minds) of Chinese power?

Big Question #3: What do the faces of Chinese power mean to the US?

Answer to #1: China’s Grand Power Strategy
- China aims to be a comprehensive global power
  - In contrast to the Soviet Union which was not comprehensive
    - Soviets were a military and coercive power
    - They had some ideological power over a few others in the world
    - They were economic pygmies
    - Even their military power was lopsided
  - China saw that this lopsided power sapped the country’s strength
  - Also saw that because Soviet power was so lopsided it could not keep standing
- China also does not want to be like Japan pre-World War II
  - Japan was then an economic giant but not an intellectual one
  - Japan did not have broad military or diplomatic power
- China does want to be more like the US – a balanced portfolio
  - US has become a role model whether it wants to be one or not
  - This objective could be good or bad for the US
  - Big question was how to get to this balanced position
    - Deng Xiaoping changed nearly everything set up by Mao

Deng bet that globalization would help China much more than standing alone as was done under Mao
- Wanted China to consider itself a beneficiary of globalization
Borne out by the current trade deficit with China

- Mao saw virtue in China being a peasant society
  - 90% of the population was peasant when Mao died
  - Now only about 55% and decreasing
  - Soon with be more of an urban society
    - Building cities faster than has ever been done anywhere before this
    - Causes lots of dislocations and related growth problems such as pollution

China’s advancement pinned to Globalization / Urbanization / Marketization

- Deng noted that Chinese all over the world were doing quite well economically but not in China
  - Examples: Hong Kong, Singapore, etc.
- Deng decided to liberate China to allow it to use the market
  - To do so China needed good relations with the US – all those consumers with money to spend
  - Deng sought investment – the opposite to Mao’s concepts

Third face of power involves Minds

- Had to think about what they needed to focus on internally
- Needed to be friends with everyone
  - Didn’t always work that well
- Did try not to make new enemies
- Using an un-ideological foreign policy
- Would determine whether a given country could help China with globalization or as a new market or with votes in the UN
  - Only other big question: Does the target country understand that there is only one true China?

China is not involved in moving toward liberal democracy

- Deng was not interested in the concept
- China wants sufficient domestic stability to allow all the other necessary changes to happen
- What the US sees as the next natural step in national development (political reform) is not natural to the Chinese
  - Political reform could lead to political chaos which could hurt economic growth which is the core of what is maintaining the Party in power
  - Therefore, the situation is likely to remain the way it is for some time
- China wants a cocoon to allow its growth to continue
- Gorbachev was considered completely wrong to make the changes that he did
  - He allowed a more open political system and that eventually got him thrown out of power
- China’s way is to put goods on the shelves which will help keep the party in charge by keeping the people happy
China and Military Power – the Might Face

- In 1985 the Supreme Military leadership decided that it was unlikely that any Big Power attack would be made on China for the foreseeable future
  - They had been weak for decades but now they saw a window of safety which would allow for economic growth
- China’s concern is understandable if looking at the map
  - Surrounded by 14 countries – all had bad relations with China and China had poor transportation to move forces towards them in a crisis
    - China would need a huge army to control the entire area
    - China really wanted a smaller ground force
    - Could depend more on air power; did not need as much of the transportation infrastructure to deploy forces
  - If China wanted to be more of a global power it would need more air and sea power
    - Sea and air power would be critical especially if China needed to deal with Taiwan and any US response
  - Chinese military power has been growing a great deal but coming from very low base
- China decided on a strategy of making friends with all of its neighbors
  - Even gave up a great deal of land to settle long-term disputes
  - This also brings them out into the region where the US has been dominate
- Goals of the Chinese space plan are impressive
  - Large Space City mostly unseen by Americans
  - Plans for a Mars mission and a lunar probe
  - This year plans to do a remote orbiting and docking effort
  - Wants to build its own GPS system so will not need to depend on the US system
- China recognizes that not all peoples are equal in the world
  - The US has more ways of selling its story to the world
  - China wants to use the space program to develop more opportunities to do so
- Power projection is not a major concept for the Chinese
  - They do not want to move lots of people very long distances
  - More interested in projecting power just in the Taiwan Strait
- China is working on its nuclear force
  - Wants to develop a second strike capability
    - Doing it the same way as the US and Soviets did previously
    - Moving from liquid to solid fuel rockets, etc.
    - Putting some missiles at sea
  - Wants to develop a triad-like force to make preemption attacks unlikely
- China developing asymmetric capabilities
  - Financial Times did an extensive story recently on cyber attacks from China
  - China’s ASAT launch was a wake-up call to the West about those capabilities
- China is not into a major projection of power through deploying masses of people
  - More interested in interfering with the US ability to get involved in their local situations
China has recognized something that the Soviets never did: If they modernize their military, there will be a response from the rest the world

- China has been working on its image since 2002 by doing more exchanges with allies
  - Including training of each other's students
  - Easier to say which countries are not involved with Chinese military exchanges
- China wants to use its military as a diplomatic tool
- China wants to be reassured that it is not being threatened
  - Not always clear how to do that
  - Knows that there will be world reactions to its moves
    - Does not mean that it always gets it right
    - Often ham-handed but understands the need to try to get along
  - Hard to predict how well China will do at this
- Important fact: China has more people stationed overseas in UN peacekeeping roles than does any of the other Permanent Members of the Security Council
  - Generally considered a good idea to get people in the world use to seeing the Chinese military out in the world doing useful tasks

**China’s Economic Power – the Money Face**

China is often overestimated as a seller

- Understandable since most goods now seem to be marked *Made in China* and huge trade surplus
- Actually labels should read *Assembled in China*
  - Value-added work done elsewhere
  - A Stanford professor has calculated that 30% of the value of items labeled *Made in China* actually comes from Taiwan, Singapore, or Japan
  - Companies from those countries use low cost Chinese labor to put items together
    - Shoes may be made all in China
    - Expensive components are more likely to be made elsewhere
  - This is a moving target but is still true
- Despite these multi-country arrangements, full value is credited to China’s trade balance
- 58% of Chinese exports come from companies owned by foreign investors
- China wants to capture more of the value-added work
- Example of why this multi-country effort happens:
  - Taiwan was condemned for having such a high trade imbalance with US
  - Taiwan started shipping items to be assembled through China
  - China now gets all the grief about trade imbalances
- Balance of trade with all of Asia has not changed much over the last decade
  - 80% of high tech goods are not manufactured in China
- Bottom line: China is not as strong as it looks in trade balance figures

China is often underestimated as a buyer

- China is increasingly a buyer and consumer of goods
- In 2003, 32% of the growth in Japan’s exports was in China’s consumption
  - 68% of Taiwan’s export growth went to China
  - 21% of US export growth went to China
- Must remember basic rule that the customer is always right
  - Sellers want to increase what is being sold to a growing customer
- US doesn’t “do anything about the imbalance” because it would hurt US producers
- Last year China was the 3rd largest importer of luxury goods
- China was the leading export market for Taiwan/Korea/Japan

China is growing as an investor
- Coming from a very low level of investment so the growth numbers may be deceptive
- Recently had $1.3 trillion in foreign exchange activity
- Chinese had been buying low-yield US Treasury Bills and were questioned why
  - Shows how conservative they were
  - Now trying to do a little more with their investments
  - Buying IBM laptop business, and trying for UNOCAL
    - But then get slapped down for trying to do more with their investments
    - Most of UNOCAL business was in Asia, not US
- Chinese bought the old British MG sports car brand and are thinking of building a plant in Oklahoma
  - People there are very interested in having Chinese investment
- China acknowledges about $57B in tangible investments, so they have money to work with
- China is the #2 holder of US debt, accounting for 18% of foreign investment
- Bottomline: US and China are mutually dependant on each other
  - China’s action could have a small effect on US interest rates
  - American people actually hold most of the US debt
  - China could find more ways to hurt US economy if the US really upset them
- Chinese financial newspaper has done research on how to lobby in the US
  - They know that Congressmen listen to their constituents
    - So Chinese must invest “back home”
    - Constituents then have reason to talk to Congress about Chinese interests
- Chinese want to buy stock in the US system
  - Have not made much progress yet but know the road to take
  - Chinese ambassador has been to Iowa because he knows that is where the presidential race happens
  - A nexus of economics and politics beginning to occur

**China and Idea Power – the Mind Face**
- Americans believe that China is a Communist country and so we would have few interests in common
  - China is hobbled by its non-attractive political system
  - China is doing the best it can with what it has
- China wants a global real-time communications capability
  - Great Wall Package is basically a cable TV network
  - No way to know how many really watch it but available to 66 million households
  - Shows Chinese ambition to get their message out
  - Overseas Chinese often get their news from this system
    - Helps make a virtual community of Chinese people worldwide
- China wants to increase spending on R&D from 1.3% of GDP to 2%
  - Western companies are investing in China to make better use of what is available there
  - Research may not be in the top level fields but it is growing
- Other signs of Chinese improvements
  - Number of Chinese patents is growing
  - Chinese diplomats are now more impressive
  - Higher education has increased four times since 1985
- Bottomline: US should not feel smug about Chinese, but they also have major disadvantages from the Communist system that they are overcoming slowly

China is not going to “eat our lunch” since they do have many problems
- Rapidly aging population
- 50% of the population is still at a 3rd World level of development
- Another 400 million people need to be crammed into cities to get to be as urbanized as they want to be
- Neighbors are getting suspicious as China develops rapidly in many fields
  - Indonesia already resents all the cheap Chinese exports it sees as being dumped
  - Russia has a similar reaction to low-quality Chinese exports
  - These countries do not want to be just suppliers of raw materials especially if all they get in return is low-quality goods

Implications for the US
- Do not make a military enemy out of an economic and intellectual rival
- Let China focus on its own problems
- US Department of Education report card on American education is cause for worry
  - 22-33% of US students are at a level below being able to handle basic tasks
  - At the same time China could send a student body to fill a school like SAIS with well-qualified students (all with top level GRE scores, etc.)
  - Many Chinese now in colleges across the US
- China spends 5% of its GDP on health care which is too little
  - US spends about 14% now but that will go up to 18% by 2020
  - Hard to build competitive autos when the social overhead (such as the cost of health care) is so high
- US must also realize that others will not want to be in lock step with the US as China becomes more attractive
  - Must win allies with ideas
  - Australia for reasons of its own did not want to support the US Taiwan-as-a-separate-entity policy
- US is not spending as much on Asia as it should
- China’s power is to be felt from unintended consequences from its headlong rush to get ahead
  - Think of the problems caused by massive pollution and safety issues such as lead paint on toys
- China may not explicitly carry out threatening acts, but there will be problems trying to deal with the ugly aspects of China’s commitment to globalization
Dr. Lampton noted that he had not met a real Communist in China in about 20 years.

- While the Communist Party is still there in name, it primarily wants to keep control
  - 73 million people want to keep their positions and privileges
- One study noted that in most of the last 2000 years China accounted for about 22-35% of GDP worldwide
  - That has dropped to only 2-3% over the last century or so
  - Chinese want to get back to the level of about 25% which they think they deserve
- The economy is what is keeping the Communist Party in control
  - Threatened by globalization, too
  - They don’t bring the ideologists out to meetings any more

The Central Asian states will play China and Russia off against each other

- The Chinese do not trust the Russians – never sure they have a final deal
- Good geo-strategic reasons for this
  - In areas of Russia near the Chinese border there are great resources but fewer and few Russians, however:
    - There are 100 million Chinese just across the border
    - The area is 11 time zones away from Moscow
    - What locals are out there are often corrupt
- China and Russia will do business if it is mutually advantageous
- Both would prefer to see less of the US in the region
- Most other countries do not mind having the US around
  - It is not that they all love Americans
  - Bigger reason is that they fear some other country more
  - US should take more advantage of these situations

Chinese military is improving but much too slowly

- Military is the most conservative part of China but less so than under Mao
- Need to get more cooperation and transparency
  - Did not even have a phone number to call when emergencies with the US arose
- China would likely get more out of such a deal, but the US would be getting something it needed, too

The Chinese ASAT test and its reactions showed how stove piped the military was

- Civilian leadership did not know details ahead of time
- Similar situation with EP-3 incident
  - Very possible that the local commanders did not want to tell superiors that one of their people caused the problem
  - Then no one could back down so situation escalated
- The military probably likes having its own private ways to deal with problems
- Some of what is hard to understand comes from the way the military and the society are organized
China has huge problems and weaknesses

- Water problems – lack of it and horrendous pollution
- What the top is saying may differ from the ground level truth since data must go through so many levels of responsibility – all trying to look good to their bosses
- For the next 50 years China will be looking inwardly at its own problems
  - If China fails, that would cause a worse set of problems for the world
  - Look at the problems we have had from failed small states
  - US should be helping China solve its problems
- Odds are better that they will succeed
  - Defied predictions for 30 years after the Cultural Revolution
  - Chinese will be helped by the fact that they value education and already have a great savings rate (40-50% of GDP while the US is about zero)

Chinese energy problems

- Chinese say economic growth keeps the Party in power and growth is fueled by energy
  - China make very inefficient use of its energy
  - Also complain that the West has already monopolized all the safe, easy places to get energy
- Chinese get denounced no matter what they do; they are told:
  - Don’t burn dirty coal even though you have lots of it
  - Don’t dam up rivers to get cleaner hydro-power plants
  - Don’t build cleaner atomic energy plants because of nuclear concerns
  - Don’t go looking for oil in the wrong places
  - So what are they to do?
- US only has gripes, not a policy

Chinese agriculture and business

- 30 years ago the Chinese realized that they could not fully regulate agriculture
  - Provinces are bigger than most countries with as many as 100 million people
- Problems include: lack of laws, extensive corruption, limited control from authorities
- Businesses are generally small scale, family run – hard to keep an eye on so many
- It is not that the Chinese are trying to poison the world, they just lack the controls to prevent it
- Environment is so polluted that it may not be possible to grow a clean crop
- Will take decades to fix
- Need help from US firms to handle regulatory apparatus

What China is doing to improve the situation

- Trying for more balanced growth further inland with the help of more roads
- But have huge problems with uneven wealth distribution
- Congressional delegations who have gone there tend to come back saying:
  - It’s more complicated than I thought
  - I’m glad I don’t have to deal with it