
Does China Matter?

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MIDDLE KINGDOM, MIDDLE POWER

DOES CHINA matter? No, it is not a silly question—merely one that is not asked often enough. Odd as it may seem, the country that is home to a fifth of humankind is overrated as a market, a power, and a source of ideas. At best, China is a second-rank middle power that has mastered the art of diplomatic theater: it has us willingly suspending our disbelief in its strength. In fact, China is better understood as a theoretical power—a country that has promised to deliver for much of the last 150 years but has consistently disappointed. After 50 years of Mao’s revolution and 20 years of reform, it is time to leave the theater and see China for what it is. Only when we finally understand how little China matters will we be able to craft a sensible policy toward it.

DOES CHINA MATTER ECONOMICALLY?

CHINA, UNLIKE Russia or the Soviet Union before it, is supposed to matter because it is already an economic powerhouse. Or is it that China is on the verge of becoming an economic powerhouse, and you must be in the engine room helping the Chinese to enjoy the benefits to come? Whatever the spin, you know the argument: China is a huge market, and you cannot afford to miss

it (although few say the same about India). The recently voiced “Kodak version” of this argument is that if only each Chinese will buy one full roll of film instead of the average half-roll that each currently buys, the West will be rich. Of course, nineteenth-century Manchester mill owners said much the same about their cotton, and in the early 1980s Japanese multinationals said much the same about their television sets. The Kodak version is just as hollow. In truth, China is a small market that matters relatively little to the world, especially outside Asia.

If this judgment seems harsh, let us begin with some harsh realities about the size and growth of the Chinese economy. In 1800 China accounted for 33 percent of world manufacturing output; by way of comparison, Europe as a whole was 28 percent, and the United States was 0.8 percent. By 1900 China was down to 6.2 percent (Europe was 62 percent, and the United States was 23.6 percent). In 1997 China accounted for 3.5 percent of world GNP (in 1997 constant dollars, the United States was 25.6 percent). China ranked seventh in the world, ahead of Brazil and behind Italy. Its per capita GDP ranking was 81st, just ahead of Georgia and behind Papua New Guinea. Taking the most favorable of the now-dubious purchasing-power-parity calculations, in 1997 China accounted for 11.8 percent of world GNP, and its per capita ranking was 65th, ahead of Jamaica and behind Latvia. Using the U.N. Human Development Index, China

is 107th, bracketed by Albania and Namibia—not an impressive story.

Yes, you may say, but China has had a hard 200 years and is now rising swiftly. China has undoubtedly done better in the past generation than it did in the previous ten, but let’s still keep matters in perspective—especially about Chinese growth rates. China claimed that its average annual industrial growth between 1951 and 1980 was 12.5 percent. Japan’s comparable figure was 11.5 percent. One can reach one’s own judgment about whose figures turned out to be more accurate.

Few economists trust modern Chinese economic data; even Chinese Prime Minister Zhu Rongji distrusts it. The Asian Development Bank routinely deducts some two percent from China’s official GDP figures, including national current GDP growth rates of eight percent. Some two or three percent of what might be a more accurate GDP growth rate of six percent is useless goods produced to rust in warehouses. About one percent of China’s growth in 1998 was due to massive government spending on infrastructure. Some three percent of GDP is accounted for by the one-time gain that occurs when one takes peasants off the land and brings them to cities, where productivity is higher. Taking all these qualifications into account, China’s economy is effectively in recession. Even Zhu calls the situation grim.

China’s ability to recover is hampered by problems that the current leadership understands well but finds just too scary to

tackle seriously—at least so long as East Asia's economy is weak. By conservative estimates, at least a quarter of Chinese loans are nonperforming—a rate that Southeast Asians would have found frightening before the crash. Some 45 percent of state industries are losing money, but bank lending was up 25 percent in 1998—in part, to bail out the living dead. China has a high savings rate (40 percent of GDP), but ordinary Chinese would be alarmed to learn that their money is clearly being wasted.

Some put their hope in economic decentralization, but this has already gone so far that the center cannot reform increasingly wasteful and corrupt practices in the regions and in specific institutions. Central investment—20 percent of total investment in China—is falling. Inter-provincial trade as a percentage of total provincial trade is also down, having dropped a staggering 18 percent between 1985 and 1992. Despite some positive changes during the past 20 years of reform, China's economy has clearly run into huge structural impediments. Even if double-digit growth rates ever really existed, they are hard to imagine in the near future.

In terms of international trade and investment, the story is much the same: Beijing is a seriously overrated power. China made up a mere 3 percent of total world trade in 1997, about the same as South Korea and less than the Netherlands. China now accounts for only 11 percent of total Asian trade. Despite the hype about the importance of the China market, exports to China are tiny. Only 1.8 percent of U.S. exports go to China (this could, generously, be perhaps 2.4 percent if re-exports through Hong Kong were counted)—about the same level as U.S. exports to Australia or Belgium and about a third less than U.S. exports to Taiwan. The same is true of major European traders. China accounts for 0.5 percent of U.K. exports, about the same level as exports to Sri Lanka and less than those to Malaysia. China takes 1.1 percent of French and German exports, which is the highest in Asia apart from Japan but about par with exports to Portugal.

China matters a bit more to other Asian countries. Some 3.2 percent of Singapore's exports go to China, less than to Taiwan but on par with South Korea. China accounts for 4.6 percent of Australian exports, about the same as to Singapore. Japan sends only 5.1 percent of its exports to China, about a quarter less than to Taiwan. Only South Korea sends China an impressive

share of its exports—some 9.9 percent, nudging ahead of exports to Japan.

Foreign direct investment (FDI) is even harder to measure than trade but sheds more light on long-term trends. China's massive FDI boom, especially in the past decade, is often trumpeted as evidence of how much China does and will matter for the global economy. But the reality is far less clear. Even in 1997, China's peak year for FDI, some 80 percent of the \$45 billion inflow came from ethnic Chinese, mostly in East Asia. This was also a year of record capital flight from China—by some reckonings, an outflow of \$35 billion. Much so-called investment from East Asia makes a round-trip from China via some place like Hong Kong and then comes back in as FDI to attract tax concessions.

Even a more trusting view of official FDI figures suggests that China does not much matter. FDI into China is about 10 percent of global FDI, with 60 percent of all FDI transfers taking place among developed countries. Given that less than 20 percent of FDI into China comes from non-ethnic Chinese, it is no surprise that U.S. or European Union investment in China averages out to something less than their investment in a major Latin American country such as Brazil. China has never accounted for more than 10 percent of U.S. FDI outflows—usually much less. In recent years China has taken around 5 percent of major EU countries' FDI outflow—and these are the glory years for FDI in China. The Chinese economy is clearly contracting, and FDI into China is dropping with it. In 1998 the United Nations reported that FDI into China maybe cut in half, and figures for 1998–99 suggest that this was not too gloomy a guess. Japanese FDI into China has been halved from its peak in 1995. Ericsson, a multinational telecommunications firm, says that China accounts for 13 percent of its global sales but will not claim that it is making any profits there. Similar experiences by Japanese technology firms a decade ago led to today's rapid disinvestment from China. Some insist that FDI flows demonstrate just how much China matters and will matter for the global economy, but the true picture is far more modest. China remains a classic case of hope over experience, reminiscent of de Gaulle's famous comment about Brazil: It has great potential, and always will.

It does not take a statistical genius to see the sharp reality: China is at best a minor (as opposed to inconsequential) part of the global economy. It has merely managed to project and sustain an image of far

greater importance. This theatrical power was displayed with great brio during Asia's recent economic crisis. China received lavish praise from the West, especially the United States, for not devaluing its currency as it did in 1995. Japan, by contrast, was held responsible for the crisis. Of course, Tokyo's failure to reform since 1990 helped cause the meltdown, but this is testimony to how much Tokyo matters and how little Beijing does. China's total financial aid to the crisis-stricken economies was less than 10 percent of Japan's contribution.

The Asian crisis and the exaggerated fears that it would bring the economies of the Atlantic world to their knees help explain the overblown view of China's importance. In fact, the debacle demonstrated just how little impact Asia, except for Japan, has on the global economy. China—a small part of a much less important part of the global system than is widely believed—was never going to matter terribly much to the developed world. Exaggerating China is part of exaggerating Asia. As a result of the crisis, the West has learned the lesson for the region as a whole, but it has not yet learned it about China.

DOES CHINA MATTER MILITARILY?

CHINA IS a second-rate military power—not first-rate, because it is far from capable of taking on America, but not as third-rate as most of its Asian neighbors. China accounts for only 4.5 percent of global defense spending (the United States makes up 33.9 percent) and 25.8 percent of defense spending in East Asia and Australasia. China poses a formidable threat to the likes of the Philippines and can take islands such as Mischief Reef in the South China Sea at will. But sell the Philippines a couple of cruise missiles and the much-discussed Chinese threat will be easily erased. China is in no military shape to take the disputed Senkaku Islands from Japan, which is decently armed. Beijing clearly is a serious menace to Taiwan, but even Taiwanese defense planners do not believe China can successfully invade. The Chinese missile threat to Taiwan is much exaggerated, especially considering the very limited success of the far more massive and modern NATO missile strikes on Serbia. If the Taiwanese have as much will to resist as did the Serbs, China will not be able to easily cow Taiwan.

Thus China matters militarily to a certain extent simply because it is not a status quo power, but it does not matter so much that it cannot be constrained. Much the same pattern is evident in the challenge China poses to U.S. security. It certainly matters that China is the only country whose nuclear weapons target the United States. It matters, as the recent Cox report on Chinese espionage plainly shows, that China steals U.S. secrets about missile guidance and modern nuclear warheads. It also matters that Chinese military exercises simulate attacks on U.S. troops in South Korea and Japan. But the fact that a country can directly threaten the United States is not normally taken as a reason to be anything except robust in defending U.S. interests. It is certainly not a reason to pretend that China is a strategic partner of the United States.

The extent to which China matters militarily is evident in the discussions about deploying U.S. theater missile defenses (TMD) in the western Pacific and creating a U.S. national missile defense shield (NMD). Theoretically, the adversary is North Korea. In practice, the Pentagon fears that the U.S. ability to defend South Korea, Japan, and even Taiwan depends in the long term on the ability to defend the United States' home territory and U.S. troops abroad from Chinese missiles. Given the \$10 billion price tag for NMD and the so-far unknowable costs of TMD, defense planners clearly think that China matters.

But before strategic paranoia sets in, the West should note that the Chinese challenge is nothing like the Soviet one. China is less like the Soviet Union in the 1950s than like Iraq in the 1990s: a regional threat to Western interests, not a global ideological rival. Such regional threats can be constrained. China, like Iraq, does not matter so much that the United States needs to suspend its normal strategies for dealing with unfriendly powers. Threats can be deterred, and unwanted action can be constrained by a country that claims to be the sole superpower and to dominate the revolution in military affairs.

A similarly moderated sense of how much China matters can be applied to the question of Chinese arms transfers. China accounted for 2.2 percent of arms deliveries in 1997, ahead of Germany but behind Israel (the United States had 45 percent of the market, and the United Kingdom had 18 percent). The \$1 billion or so worth of arms that Beijing exports annually is not buying vast influence, though in certain

markets Beijing does have real heft. Pakistan is easily the most important recipient of Chinese arms, helping precipitate a nuclear arms race with India. Major deals with Sudan, Sri Lanka, and Burma have had far less strategic impact. On the other hand, arms transfers to Iran have been worrying; as with Pakistan, U.S. threats of sanctions give China rather good leverage. China's ability to make mischief therefore matters somewhat—primarily because it reveals that Chinese influence is fundamentally based on its ability to oppose or thwart Western interests. France and Britain each sell far more arms than China, but they are by and large not creating strategic problems for the West.

Hence, it is ludicrous to claim, as Western and especially American officials constantly do, that China matters because the West needs it as a strategic partner. The discourse of "strategic partnership" really means that China is an adversary that could become a serious nuisance. Still, many in the Clinton administration and elsewhere do not want to call a spade a spade and admit that China is a strategic foe. Perhaps they think that stressing the potential for partnership may eventually, in best Disney style, help make dreams come true.

On no single significant strategic issue are China and the West on the same side. In most cases, including Kosovo, China's opposition does not matter. True, the U.N. Security Council could not be used to build a powerful coalition against Serbia, but as in most cases, the real obstacle was Russia, not China. Beijing almost always plays second fiddle to Moscow or even Paris in obstructing Western interests in the Security Council. (The exceptions to this rule always concern cases where countries such as Haiti or Macedonia have developed relations with Taiwan.) After all, the Russian prime minister turned his plane to the United States around when he heard of the imminent NATO attack on Serbia, but the Chinese premier turned up in Washington as scheduled two weeks later.

NATO's accidental May bombing of the Chinese embassy elicited a clear demonstration of China's theatrical power. Beijing threatened to block any peace efforts in the United Nations (not that any were pending), but all it wanted was to shame the West into concessions on World Trade Organization membership, human rights, or arms control. China grandiosely threatened to rewrite the Security Council resolution that eventually gave NATO an indefinite mandate to keep the peace in Kosovo, but in the end it meekly abstained. So

much for China taking a global perspective as one of the five permanent members of the Security Council. Beijing's temper tantrum merely highlighted the fact that, unlike the other veto-bearing Security Council members, it was not a power in Europe.

In the field of arms control, the pattern is the same. China does not block major arms control accords, but it makes sure to be among the last to sign on and tries to milk every diplomatic advantage from having to be dragged to the finish line. China's reluctance to sign the Nuclear Nonproliferation Treaty (NPT), for instance, was outdone in its theatricality only by the palaver in getting China to join the Comprehensive Test Ban Treaty. China's participation in the Association of Southeast Asian Nations Regional Forum—Asia's premier, albeit limited, security structure—is less a commitment to surrender some sovereignty to an international arrangement than a way to ensure that nothing is done to limit China's ability to pursue its own national security objectives. China matters in arms control mainly because it effectively blocks accords until doing so ends up damaging China's international reputation.

Only on the Korean Peninsula do China's capacities seriously affect U.S. policy. One often hears that China matters because it is so helpful in dealing with North Korea. This is flatly wrong. Only once this decade did Beijing join with Washington and pressure Pyongyang—in bringing the rogue into compliance with its NPT obligations in the early phases of the 1994 North Korean crisis. On every other occasion, China has either done nothing to help America or actively helped North Korea resist U.S. pressure—most notoriously later in the 1994 crisis, when the United States was seeking support for sanctions and other coercive action against North Korea. Thus the pattern is the same. China matters in the same way any middle-power adversary matters: it is a problem to be circumvented or moved. But China does not matter because it is a potential strategic partner for the West. In that sense, China is more like Russia than either cares to admit.

DOES CHINA MATTER POLITICALLY?

THE EASIEST category to assess—although the one with the fewest statistics—is how

much China matters in international political terms. To be fair to the Chinese, their recent struggle to define who they are and what they stand for is merely the latest stage of at least 150 years of soul-searching. Ever since the coming of Western power demonstrated that China's ancient civilization was not up to the challenges of modernity, China has struggled to understand its place in the wider world. The past century in particular has been riddled with deep Chinese resistance to the essential logic of international interdependence. It has also been marked by failed attempts to produce a China strong enough to resist the Western-dominated international system—consider the Boxer movement, the Kuomintang, or the Chinese Communist Party (CCP). Fifty years after the Chinese communist revolution, the party that gave the Chinese people the Great Leap Forward (and 30 million dead of famine) and the Cultural Revolution (and perhaps another million dead as well as a generation destroyed) is devoid of ideological power and authority. In the absence of any other political ideals, religions and cults such as the Falun Gong (target of a government crackdown this summer) will continue to flourish.

China's latest attempt to strengthen itself has been the past 20 years of economic reforms, stimulated by other East Asians' success in transforming their place in the world. But the discourse on prosperity that elicited praise for the order-sustaining "Asian values" or Confucian fundamentals was burned in the bonfire of certainties that was the Asian economic crisis. China was left in another phase of shock and self-doubt; hence, economic reforms stalled.

Under these circumstances, China is in no position to matter much as a source of international political power. Bizarre as old-style Maoism was, at least it was a beacon for many in the developing world. China now is a beacon to no one—and, indeed, an ally to no one. No other supposedly great power is as bereft of friends. This is not just because China, once prominent on the map of aid suppliers, has become the largest recipient of international aid. Rather, China is alone because it abhors the very notion of genuine international interdependence. No country relishes having to surrender sovereignty and power to the Western-dominated global system, but China is particularly wedded to the belief that it is big enough to merely learn what it must from the outside world and still retain control of its destiny. So China's neighbors understand the need to get on with

China but have no illusions that China feels the same way.

China does not even matter in terms of global culture. Compare the cultural (not economic) role that India plays for ethnic Indians around the world to the pull exerted by China on ethnic Chinese, and one sees just how closed China remains. Of course, India's cultural ties with the Atlantic world have always been greater than China's, and India's wildly heterogeneous society has always been more accessible to the West. But measured in terms of films, literature, or the arts in general, Taiwan, Hong Kong, and even Singapore are more important global influences than a China still under the authoritarian grip of a ruling Leninist party. Chinese cities fighting over who should get the next Asian Disneyland, Chinese cultural commissars squabbling over how many American films can be shown in Chinese cinemas, and CCP bosses setting wildly fluctuating Internet-access policies are all evidence of just how mightily China is struggling to manage the power of Western culture.

In fact, the human-rights question best illustrates the extent to which China is a political pariah. Chinese authorities correctly note that life for the average citizen has become much more free in the past generation. But as Zhu admitted on his recent trip to the United States, China's treatment of dissenters remains inhuman and indecent.

Still, China deserves credit for having stepped back on some issues. That China did not demand the right to intervene to help Indonesia's ethnic Chinese during the 1998–99 unrest was correctly applauded as a sign of maturity. But it was also a sign of how little international leadership China could claim. With a human-rights record that made Indonesia seem a paragon of virtue, China was in no position to seize the moral high ground.

Measuring global political power is difficult, but China's influence and authority are clearly puny—not merely compared to the dominant West, but also compared to Japan before the economic crisis. Among the reasons for China's weakness is its continuing ambiguity about how to manage the consequences of modernity and interdependence. China's great past and the resultant hubris make up much of the problem. A China that believes the world naturally owes it recognition as a great power—even when it so patently is not—is not really ready to achieve greatness.

DOES IT MATTER IF CHINA DOESN'T MATTER?

THE MIDDLE KINGDOM, then, is merely a middle power. It is not that China does not matter at all, but that it matters far less than it and most of the West think. China matters about as much as Brazil for the global economy. It is a medium-rank military power, and it exerts no political pull at all. China matters most for the West because it can make mischief, either by threatening its neighbors or assisting anti-Western forces further afield. Although these are problems, they will be more manageable if the West retains some sense of proportion about China's importance. If you believe that China is a major player in the global economy and a near-peer competitor of America's, you might be reluctant to constrain its undesired activities. You might also indulge in the "pander complex"—the tendency to bend over backward to accommodate every Chinese definition of what insults the Chinese people's feelings. But if you believe that China is not much different from any middle power, you will be more willing to treat it normally.

This notion of approaching China as a normal, medium power is one way to avoid the sterile debates about the virtues of engaging or containing China. Of course, one must engage a middle power, but one should also not be shy about constraining its unwanted actions. Such a strategy of "constraint" would lead to a new and very different Western approach to China. One would expect robust deterrence of threats to Taiwan, but not pusillanimous efforts to ease Chinese concerns about TMD. One would expect a tough negotiating stand on the terms of China's WTO entry, but not Western concessions merely because China made limited progress toward international transparency standards or made us feel guilty about bombing its embassy in Belgrade. One would expect Western leaders to tell Chinese leaders that their authoritarianism puts them on the wrong side of history, but one would not expect Western countries to stop trying to censure human rights abuses in the United Nations or to fall over themselves to compete for the right to lose money in the China market.

To some extent, we are stuck with a degree of exaggeration of China's influence. It has a permanent U.N. Security Council seat even though it matters about as much as the United Kingdom and France, who hold their seats only because of their pre-

World War II power. Unlike London and Paris, however, Beijing contributes little to international society via peacekeeping or funding for international bodies. China still has a hold on the imagination of CEOs, as it has for 150 years—all the more remarkable after the past 20 years, in which Western companies were bamboozled into believing that staying for the long haul meant eventually making money in China. Pentagon planners, a pessimistic breed if ever there was one, might be forgiven for believing that China could even-

tually become a peer competitor of the United States, even though the military gap, especially in high-technology arms, is, if anything, actually growing wider.

Nevertheless, until China is cut down to size in Western imaginations and treated more like a Brazil or an India, the West stands little chance of sustaining a coherent and long-term policy toward it. Until we stop suspending our disbelief and recognize the theatrical power of China, we will continue to constrain ourselves from pursuing our own interests and fail to con-

strain China's excesses. And perhaps most important, until we treat China as a normal middle power, we will make it harder for the Chinese people to understand their own failings and limitations and get on with the serious reforms that need to come.

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