



American Perceptions of China

Annual Lecture in Honor of A. Doak Barnett & Michel Oksenberg

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I am deeply honored to be invited to deliver this 2nd Barnett-Oksenberg Memorial Lecture. I want to thank President Wang Xinkui, Paul Liu, Professor Ding Xinghao, and the National Committee on U.S.-China Relations for making this event possible. I am also delighted to see Consul General Ken Jarrett in the audience.

I especially want to thank Jean Barnett and Lois Oksenberg for gracing us with their presence. They are good friends, and their presence here lends a wonderful dimension to this event.

Both Doak Barnett and Mike Oksenberg were my mentors, and both remained very close friends. They taught me four things, beyond simply the information they provided me about China:

You cannot understand China merely from books or from reading about politics and foreign policy – it is necessary to seek to understand people and culture, history and perceptions, and hopes and fears. Both domestic politics and foreign policy in any society derive from and reflect these more fundamental forces.

Over the long run, the relationship between the United States and China (and not simply between our governments) is the most consequential in the world, because without an ability to work together it will be far more difficult to address the most critical questions that confront us.

It is important to get beyond the walls of academia and to address both larger audiences and issues of public policy – scholarly insights should contribute to broader comprehension. That comprehension is vital for the national interests of each of our countries.

It is critical to train the next generation: Doak was Mike's mentor, and both Doak and Mike were absolutely gifted and devoted teachers.

I took those lessons to heart, and they have deeply informed my entire career and my own remarks here. In fact, my presentation tonight very much focuses on the issues that I think Doak and Mike would have wanted me to address, and both of them were very much on my mind as I wrote this talk.

A major change has occurred over the past five years in American and global perceptions: China is now seen as a major power. This results not only from China's current capabilities but also, especially, from the speed of its growth, the almost incomprehensible scale of the changes occurring here, and the country's projected trajectory. That is, it is China's direction and dynamism that are producing such enormous global attention to developments here and their implications.

This relatively new perception includes prominently a vision of China as a source of opportunity: the United States and China can jointly address major problems precisely because the PRC is now, in Deputy Secretary of State Robert Zoellick's term, a stakeholder in global stability and prosperity. Such issues include the following:

Environment, including global climate change;

Energy security;

Counterterrorism;

Dealing with an array of nontraditional security threats (piracy, counterfeiting, drug smuggling, human trafficking, etc.);



Assuring ongoing peace, stability, and prosperity in Asia; and

Strengthening a relatively open global trading system and related multilateral economic regimes.

More narrowly, the two countries have now developed mutually beneficial bilateral economic interdependence, and many American firms now feel they can make money investing in and selling to China.

The very speed and momentum of change has also, though, produced some foreboding about the future and a sense of China as a threat. In this regard, recent American statements by various officials have raised a wide array of issues. Some assert that China engages in unfair competition that is producing a historically unprecedented bilateral trade deficit and IPR problems, in turn reflecting Beijing's failure to implement China's own laws and regulations, its intervention in currency markets, etc. Some point to China's apparent willingness internationally to support bad actors when it is in China's narrow interest to do so. And some feel that China potentially poses long term, very serious competitive security challenges to the United States.

I think it is important to realize that these issues garner so much attention precisely because they reflect more fundamental perceptions that grow out of very deep-seated American concerns about China. Those perceptions, moreover, are seriously influenced by the enormous difficulty in fully comprehending the speed, scope and momentum that characterize China's development, more than by the specific policies the Chinese government has adopted.

I want to focus on these fundamental perceptions and then turn to suggestions on how best to go forward in this context. Each problem in perception itself grows out of a fundamental concern.

Let me discuss five particularly significant current American concerns and their consequences.

Concern #1: China's impact has grown to the point where it requires not only foreign policy responses, as in the past, but also serious reforms in American domestic policies; otherwise the United States will not be able to maintain long-term competitive capabilities in the new global political economy that China's growth is creating. Until recently, the United States has seen China as primarily a foreign policy and security issue. But China's role in the global political economy in the past few years has resulted in a systematic reduction of the prices of manufactured goods and a rise in the prices of raw materials. China is also now beginning to build the human capital necessary to compete in the future at higher levels of the value chain. This changing competitive landscape is affecting perceptions and realities in the United States.

I live in Michigan, which is basically a manufacturing state. There, the social contract in the automotive industry is now being rewritten because of severe losses in that industry. Many see those losses as stemming from China's new competitive capabilities. And Michigan is not alone.

In addition, the former solid business support in favor of wide-ranging economic and trade ties with China is now fracturing as small businesses and multinational companies are faring differently in the new competitive environment. More broadly, labor and capital are also seeing their fortunes affected differently. In both examples, the former are suffering and the latter are generally doing well.

This set of changes is now linking developments in China to extremely sensitive American domestic reform issues that are increasingly politically contentious. These issues include what we should do regarding the quality of our K-12 educational system (an issue that Bill Gates has raised prominently), approaches to the development and role of



science, reforming our pension and bankruptcy systems, adjusting fiscal policy to reduce our large deficits, policies to raise our national savings rate from its current historic low, and policies toward energy and the environment.

In some cases China is, in fact, more the symbol than the critical cause of the problems the United States must now confront in a domestic reform effort, but the perception is that China is now a key component of the landscape in each of these domestic issues. American perceptions of China are accordingly being affected at both a political and a popular level, and the scope of these issues is so broad that it is very difficult to explain the situation succinctly and reasonably to either official or public audiences.

Put simply, China's success appears to be a major factor in changing the global political economy in ways that require not only Chinese but also American domestic reforms. This new reality links China in an unprecedented way to extremely sensitive and controversial issues at home in America, which in turn is deeply affecting American perceptions of China.

Concern #2: There is no agreement in America about where China is headed domestically, and differing perceptions of this issue produce very different perspectives on the bets Americans should place on China's future.

We can be forgiven for our uncertainty. What China is now attempting – simultaneous, rapid, very large-scale marketization, urbanization, privatization (改制), and globalization – is simply historically unprecedented in scale or scope. As we know from the experience of all other countries that have undergone such transitions, each of these changes is enormously tension-inducing. No other country has ever undergone all four of these deeply unsettling transitions simultaneously, and China is doing so at astonishing speed. China also has environmental challenges (such as water distribution and quality) so wide ranging, fundamental, and potentially disruptive that they raise legitimate concern about the sustainability of China's present economic growth model.

Americans simply cannot agree on how to put all this together in a sufficiently rigorous analytical context to anticipate not only China's future accomplishments but also the nature and dynamics of the system that will develop here. Many serious analysts conclude, therefore, that the range of perfectly feasible futures for Chinese development over the coming fifteen years is far wider than is true for any other major country. This perception of extraordinary uncertainty makes Americans uneasy about betting on any one of these potential futures and increases concerns about the nature of China's future impact on American interests.

Concern #3: If China continues to be so economically successful, what kind of model will it create for others to achieve successful growth? America has, since the early 1990s, promoted what is widely termed the “Washington Consensus” – an open economy, strong financial and regulatory institutions, effective laws and regulations, minimum government interference in the micro-economy, a liberal political system, maximum freedom of information flows, and sound (transparent, honest, accountable) corporate governance. We have not always lived up to the dictates of this model, but we strongly believe that this is, overall, the best path to high quality and sustainable economic growth.

But China's success could be built on a political economy that, although very open to the international economy, de facto differs very significantly in terms of the nature and role of the government, the efficacy of formal law and regulation, the boundaries on information flows, and other differences such as key aspects of corporate governance. In short, many aspects of China's reality implicitly challenge what are widely accepted in America as requirements to achieve economic success.



The understandable results in the United States include both a perception that what is happening in China is very hard to understand and should somehow be of great concern, and a perception that China's development model will have a negative impact on America's ability to influence other countries' development along lines that we honestly feel are good.

Concern #4: China's future role in Asia and its implications for the United States are very unclear. Economically, China has already in the past five years become the point of final assembly for the newly developed integrated Asian regional manufacturing system. In reality, Asia now accounts for a smaller share of America's global trade deficit than it did twenty years ago, but a much larger percentage of Asian exports to the United States flow through China as a point of final assembly. This makes China appear to be even more successful – and therefore potentially more worrisome -- than it actually is.

Also, while Washington has focused especially on the global war on terrorism and on Iraq and Afghanistan, China has become far more active in promoting regional diplomacy in Asia. The United States understands that Asia is the most dynamic and important region of the world in the 21st century. Perceptions in America differ greatly, though, as to how China envisages America's future role in this region and how we should deal with this. China has repeatedly said that it does not seek to supplant the United States in Asia, but there is a perception in America that China is delighted not to have a U.S. presence in forums such as the East Asian Summit and the ASEAN 10+3.

America perceives the importance of remaining an active, vital player in the Asian region, but we are nervous about the lack of clarity as to how China's growing roles in the region will affect our interests and opportunities.

Concern #5: There are serious disagreements over the long-term future of Sino-American relations. The real debate is over the issue of whether the United States and China are, over a fifteen-year period, inevitably going to become enemies or whether we simply might become enemies. Unfortunately, nobody can state with complete confidence that we absolutely will not become enemies.

This debate is made all the more difficult because of the scope and legitimate uncertainties involved in each of the above four big areas of concern. This debate also mirrors a comparable debate taking place in China, where many well-informed people believe that the United States sees the world in such competitive, zero-sum terms that it will never allow China to meet its full potential. This debate has major consequences. For example:

It takes about fifteen years from the initial decision to develop a new major weapons system to its effective deployment and integration within the military. Decisions are being made now, therefore, that are based on forecasts as to which side in this debate is more correct.

Those who see adversarial relations as inevitable advocate measures that inadvertently but inevitably strengthen their counterparts on the other side, thus creating the danger of a self-fulfilling prophecy of an adversarial future. Perceptions and resulting actions on one side drive perceptions and resulting actions on the other.

Keep in mind, too, the reality that even those who see the potential for constructive relations, see the need to hedge for uncertainty, and cannot guarantee that their view will prove correct.

In sum, American perceptions of China are complicated and uncertain.

This is no longer a Cold War framework – the younger generation of professionals does not even know what that means, and very few in the older generation think so simplistically in an era of globalization. These perceptions also are not being shaped fundamentally by some of the traditional issues that have been so emotional and sensitive in U.S.-China relations, such as cross-Strait relations.



On the whole, moreover, these American perceptions do not stem directly from China's foreign policy behavior. China affirms it wants peace and stability and a constructive relationship with the United States, and on the whole its concrete policies appear to conform to these stated goals. Put differently, I believe America recognizes and appreciates China's leaders' repeated assertion that China seeks a path of "peaceful" development.

The American concerns expressed above, rather, grow fundamentally out of the very speed, scope, and momentum of China's development, the difficulty of understanding these, and the impossibility of achieving real confidence about our ability to anticipate the implications of these for the American people.

What should be done beyond the important efforts that both governments continually make to keep our channels of communication open and to work to build constructive relations?

There is always a need for both scholars and governments to frame issues realistically and not emotionally so as to enable both sides to direct their efforts most effectively toward pragmatic solutions to existing problems. For example:

Few Americans understand the extent to which our bilateral trade deficit reflects the reality that China has become the point of final assembly for the newly integrated East Asian regional manufacturing system. Better understanding of this issue would potentially shape a somewhat different and more efficacious American response.

Few Americans know that China ends up supporting some bad actors not because of a global strategic plan but rather, at least in part, because China sees the competitive dynamics of the international energy sector as sharply constraining its options.

And few Americans understand Chinese military capabilities and intentions. China could reduce at least some American concerns about these, and the point above, by continuing to increase its transparency in these areas.

Such concrete efforts are especially important now because in 2006 internal American politics may contribute to making the issues in U.S.-China relations particularly prominent and difficult to manage. On a broad level, both President Bush and President Hu Jintao want to keep the relationship moving forward, and they have found they can communicate reasonably well with each other. I learned when I worked in the U.S. government the important benefits that come from having two national leaders feel they can talk effectively with each other. They will hold a summit meeting in Washington in late April.

But there are some elements in Washington that are enhancing the chances of particular problems in Sino-American relations during 2006. This is an election year in the U.S. Congress, and President Bush's approval ratings are the lowest of his presidency. Therefore, the Republicans on the Hill are not going to cut him much slack on China, and the Democrats will go after him on China-related trade issues, where they see him as potentially vulnerable.

Congress is also trying to gain some increased powers vis-à-vis what is seen as an overly assertive and secretive White House – most pertinently, over CFIUS decisions. A key result of the current debate over the Dubai Port issue is that the Congress might acquire the right to approve or disapprove of the CFIUS review results concerning the potential security implications of any foreign acquisition of U.S. assets. This could become a huge problem for future Chinese investment in the United States.



Other developments are contributing to the problem:

Last year the U.S.-China trade deficit reached a new benchmark. More explosive, Chinese exports to the United States grew by a larger percentage than did Chinese imports from America. Moreover, the underlying drivers of the deficit became more pronounced (East Asian regional integration of the manufacturing system, with China as point of final assembly and the United States as a major export destination).

China's currency revaluation of only 2+ percent for all of 2005 is seen as less than the Administration thought it had been assured.

The IPR issue continues to mushroom. Although the details play out in complicated ways, the bottom line is a sense that China is really not playing fair.

During the coming months, the following specific potential flashpoints therefore warrant attention:

The Treasury Department report, due in mid-April, might cite China as a currency manipulator. If Treasury decides to cite China, though, it likely will hold off on making this finding public until after Hu Jintao departs Washington.

Congress gains final approval power over CFIUS reviews.

Ongoing threats to impose various kinds of barriers to Chinese imports.

The very real possibility that the United States, with others, will lodge a WTO case, either over local content or over IPR.

Current developments in politics in Washington make all of these areas more likely to become serious issues in Sino-American relations during 2006.

The above focuses on the short term and the types of issues in managing the relationship that are always present and command attention. I now want to turn, though, to a longer term, more strategic perspective because there is also a more important set of opportunities that China's growth and increased importance now affords. That is the set of opportunities that comes if both the United States and China take seriously the reality that they both are major players on virtually all global issues and need to adjust their thinking and actions to conform to that new reality. This is not to say that China and the United States have equal power or capability, but simply to acknowledge that on many issues the two working in concert can substantially affect the outcome.

I want to suggest some specific initiatives that illustrate the types of efforts that can be made if we want to move beyond relatively short-term management of frictions to a strategic approach to changing mutual perceptions and to improving our capacity to cooperate to handle key problems. Each of these will in some ways prove uncomfortable for both countries, as significant initiatives and changes in past attitudes will be required in each capital. But in each case, for either the United States or China to encourage the outcome and for the other to pick up the challenge and contribute to good outcomes will increase mutual trust in each other's long-term intentions and potentially positively affect perceptions on the types of fundamental issues discussed above.

My short and illustrative list of suggested initiatives that rise to a more strategic level includes the following:

The United States and China are increasingly at loggerheads over aspects of domestic economic development in each country, and these problems are growing even as our two economies are becoming



more tightly linked and mutually interdependent. We should discuss setting up a Structural Impediments Initiative to provide for systematic discussion and adoption of agreed upon measures to remove major stumbling blocks in both economies. We tried this approach with Japan in the 1980s, and the results were decidedly mixed. But China has a far more open economy than Japan did then, and we should take into account our earlier experiences in structuring the new initiative. It is time to move significantly beyond the helpful but very limited bilateral economic forums that now exist, such as the annual JCCT meeting.

In the energy sector, there are considerable mutual misgivings. One of the major resulting problems is that China is not integrally built into multilateral systems for maintaining price and supply stability if there is the threat or reality of supply disruptions. Three specific suggestions address this serious problem:

Russia is leading the G-8 this year, and energy is the top issue. It is, frankly, unrealistic to address the global energy situation without China at the table. China should be invited to join the G-8, and the G-8 should see itself less as the grouping of advanced industrial democracies and more as a key forum for addressing global economic issues. For its part, China should accept an invitation to join this group and set aside its longstanding concern that this would weaken China's claim to be a representative of the developing countries. China is still in many ways a developing country, but it is also a major power and an important actor in global issues. It should accept both identities in its international efforts.

China has some cooperative activities with the International Energy Agency, but it is not a member of the IEA and is not built into the mechanisms the IEA has developed for managing a new oil crisis. A category should be created that would allow China to participate fully in these IEA mechanisms. If China remains on the outside of these cooperative mechanisms that will come into play in the event of an oil supply disruption, the negative effects on the international community's ability to manage price and supply during such a crisis will be substantial.

Energy is one of the key issues in Northeast Asia. It is time to begin a process – which inevitably will evolve and take time to mature -- of developing a Northeast Asian Security Community that includes the United States, China, Japan, the ROK, and Russia, with energy cooperation being one of the major initial issues on its agenda.

Finally, America should work with the countries in Asia to find a viable solution to the specific obstacles that are interfering with its participation in some Asian regional initiatives, such as the East Asian Summit. China could considerably ease American concerns by taking the initiative and actively working with its Asian friends to help find solutions to these problems and create the opportunity for U.S. participation in not only the East Asian Summit, but also other regional forums such as the Shanghai Cooperation Organization and the ASEAN 10+3.

In sum, it is the very speed, scale, and momentum of its impressive development that has projected China into major power status. Although Sino-American relations are mature, complex, and wide-ranging, the enormous and extraordinarily rapid changes in China have created five quite fundamental perceptions in the United States that are producing very serious concerns about our respective futures. But China's greatly enhanced role in the world also affords opportunities to develop a strategic basis to build the mutual trust necessary to change fundamental



perceptions. This can enhance our long-term capabilities to work together to handle some of the world's most pressing problems.

While the future is always uncertain and serious choices remain to be made, I will use words that I often heard from Doak Barnett to indicate my own personal position. With regard to the capacity of our two great countries to move forward constructively, Doak always concluded, "I am cautiously optimistic."