The Illusion of Chinese Power

By David Shambaugh

Conventional wisdom has it that the China juggernaut is unstoppable and that the world must adjust to the reality of the Asian giant as a—perhaps the—major global power. A mini-industry of “China rise” prognosticators has emerged over the past decade, all painting a picture of a twenty-first-century world in which China is a dominant actor. This belief is understandable and widespread—but wrong.

Recall that not so long ago, in the 1980s, similar forecasts were made about Japan being “number one” and joining the elite club of great powers—before it sank into a three-decade stagnation and was shown to be a single-dimensional power (economic) that did not have a broader foundation of national attributes to fall back on. Before that it was the Soviet Union that was said to be a global superpower (an assumption over which the Cold War was waged for a half century), only for it to collapse almost overnight in 1991. The postmortem on the USSR similarly revealed that it had been a largely single-dimensional power (military) that had atrophied from within for decades.

In the wake of the Cold War, some pundits posited that the expanded and strengthened European Union would emerge as a new global power and pole in the international system—only for the EU to prove itself impotent and incompetent on a range of global challenges. Europe too was exposed as a single-dimensional power (economic). So, when it comes to China today, a little sobriety and skepticism are justified.

Certainly China is the world’s most important rising power—far exceeding the capacities of India, Brazil and South Africa—and in some categories it has already surpassed the capabilities of other “middle powers” like Russia, Japan, Britain, Germany and France. By many measures, China is now the world’s undisputed second leading power after the United States, and in some categories it has already overtaken America. China possesses many of the trappings of a global power: the world’s largest population, a large continental land mass, the world’s second-largest economy, the world’s largest foreign-exchange reserves, the world’s second-largest military budget and largest standing armed forces, a manned space program, an aircraft carrier, the world’s largest museum, the world’s largest hydroelectric dam, the world’s largest national expressway network and the world’s best high-speed rail system. China is the world’s leading trading nation, the world’s largest consumer of energy, the world’s largest greenhouse-gas emitter, the world’s second-largest recipient and...
third-largest originator of foreign direct investment, and the world's largest producer of many goods.

Capabilities, however, are but one measure of national and international power—and not the most important one. Generations of social scientists have determined that a more significant indicator of power is influence—the ability to shape events and the actions of others. As the late political scientist Robert Dahl famously observed: "A has power over B to the extent that he can get B to do something that B would not otherwise do." Capabilities that are not converted into actions toward achieving certain ends are not worth much. Their existence may have an impressive or deterrent effect, but it is the ability to influence the action of another or the outcome of an event that matters. There are, of course, various means by which nations use their capabilities to influence the actions of others and the course of events: attraction, persuasion, co-optation, coercion, remuneration, inducement, or the threat or use of force. Power and its exercise are therefore intrinsically relational: the use of these and other instruments toward others in order to influence a situation to one's own benefit.

When we look at China's presence and behavior on the world stage today, we need to look beyond its superficially impressive capabilities and ask: Is China actually influencing the actions of others and the trajectory of international affairs in various domains? The short answer is: not very much, if at all. In very few—if any—domains can it be concluded that China is truly influencing others, setting global standards or shaping global trends. Nor is it trying to solve global problems. China is a passive power, whose reflex is to shy away from challenges and hide when international crises erupt. The ongoing crises in Ukraine and Syria are only the most recent examples of Beijing's passivity.

Moreover, when China's capabilities are carefully examined, they are not so strong. Many indicators are quantitatively impressive, but they are not qualitatively so. It is the lack of qualitative power that translates into China's lack of real influence. The Chinese have the proverb wai ying, nei ruan: strong on the outside, soft on the inside. This is an apt characterization of China today. Scratch beneath the surface of the many impressive statistics about China and you discover pervasive weaknesses, important impediments and a soft foundation on which to become a global power. China may be a twenty-first-century paper tiger.

This can be seen in five broad areas: China's international diplomacy, military capabilities, cultural presence, economic power and the domestic elements that underpin China's global posture. Let's examine each in turn.

In formal respects, China's diplomacy has truly gone global. Over the past forty years China has traveled a path from a nation isolated from the international community to one integrated into it. Today, Beijing enjoys diplomatic relations with 175 countries, is a member of more than 150 international organizations and is party to more than three hundred multilateral treaties. It receives far more visiting foreign dignitaries every year than any other nation, and its own leaders travel the world regularly.

Despite this integration into the international community and Beijing's active diplomacy, the diplomatic sphere is a realm where China's position as a partial power is apparent. On the one hand, it enjoys the symbols of being a major world power. It's a permanent member of the UN Security Council, a member of the G-20 and other key global bodies, and a
participant in all major international summits. On the other hand, Chinese officials still remain remarkably reactive and passive in these venues and on many global challenges. China does not lead. It does not shape international diplomacy, drive other nations' policies, forge global consensus, put together coalitions or solve problems. Beijing is not actively involved in trying to solve any major global problem; rather, it is a passive and often-reluctant participant in multilateral efforts organized by others (usually the United States).

Being a global power requires getting in the middle of disputes, bringing parties together, forging coalitions and consensus, and—yes—using pressure when necessary. Beijing prefers to sit on the sidelines and simply call for nations to solve their problems through "peaceful means" and to find "win-win solutions." Such hollow invocations are hardly conducive to problem solving. Beijing also has a complete allergy to coercive measures and only goes along with UN Security Council sanctions when it is clear that not doing so would leave Beijing isolated and negatively impact China's international image. This is not the behavior of a global leader.

Instead, Beijing's high-level diplomacy is really a kind of theatrical show, more symbolism than substance. It is intended primarily to enhance the Chinese Communist Party's (ccp) legitimacy among domestic audiences by showing Chinese leaders hobnobbing with the world's elite, while signaling to the international community that the country has returned to great-power status after several centuries of impotence. As such, the Chinese government goes to extraordinary lengths to meticulously stage-manage its leaders' interactions with their foreign counterparts. Substantively, though, Chinese diplomacy remains remarkably risk-averse and guided by narrow national interests. Beijing usually takes a lowest-common-denominator approach, adopting the safest and least controversial position and waiting to see the positions of other governments before revealing its own.

The notable exception to this general passivity concerns China's own neuralgic and narrowly defined interests: Taiwan, Tibet, Xinjiang, human rights and its contested territorial claims. On these issues Beijing is hypervigilant and diplomatically forceful, but its attempts to defend these interests are often clumsy and wind up being counterproductive to its image and its goals. Other than protecting these narrow national interests, though, Chinese diplomacy remains extremely passive for a state of its size and importance.

When it comes to global governance, which entails contributing to the common good proportionate to a nation's aggregate

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capabilities, Beijing’s behavior generally parallels the passivity and narrow-mindedness of the rest of its diplomacy. China does contribute to various aspects of global governance: UN peacekeeping operations, antipiracy operations in the Gulf of Aden, counterterrorism measures in Central Asia, overseas development assistance, nonproliferation of nuclear materials, public health, disaster relief and combating international crime. In these areas Beijing deserves credit. However, China could and should do much more; it still “punches well below its weight” by not contributing proportionately to its size, wealth or potential influence. The world should expect and demand more from China.

Why is China’s global-governance diplomacy so constrained? There are three main reasons. First, there exists deep skepticism inside of China about the liberal premises and basic concept of global governance, seeing it as the latest “trap” laid by the West (primarily the United States) to “bleed” China by getting it involved in crises and places where it does not have a direct national interest—thus diverting its resources and restraining its rise. Second, Chinese citizens would criticize the government for allocating resources abroad when poverty and other pressing challenges still exist at home. And third, China has a kind of “transactional” approach to expending effort, especially when it involves money. This grows out of Chinese commercial culture but extends into many other realms of Chinese behavior. The Chinese want to know exactly what they will get back from a certain investment and when. Thus, the whole premise of philanthropy and contributing selflessly to common public goods is alien to the thinking of many Chinese.

As a result, in the realm of diplomacy—bilateral, multilateral and global governance—Beijing still demonstrates a distinct passivity and reluctance to get involved. It is far from being the “responsible stakeholder” that Robert Zoellick called for in 2005. Chinese diplomacy remains narrowly self-interested, and Beijing’s involvement in global governance is minimalist and tactical, not normative or strategic. The real business of Chinese diplomacy is, in fact, business. Examine the composition of the Chinese president’s or premier’s delegations abroad and one finds large numbers of corporate CEOs—in search of energy supplies, natural resources, trade and investment opportunities. Such mercantilist diplomacy does not earn Beijing international respect—and is, in fact, beginning to generate increasing criticisms and blowback around the world (most notably in Africa and Latin America).

China’s military capabilities are another area where it is a partial power: increasingly a regional power, but by no means a global power. China is not able to project power outside of its Asian neighborhood (other than through its intercontinental ballistic missiles, space program and cyberwarfare capacities), and even within Asia its power-projection capacities remain limited (although growing). It is not at all
certain that China could project military power on its periphery out to five hundred nautical miles (such as in its East or South China Sea disputes) and sustain it long enough to prevail in a conflict. Its military forces are not battle-tested, having not fought a war since 1979.

To be sure, China's military modernization has been advancing steadily for twenty-five years. It now has the world's second-largest military budget ($131.6 billion in the 2014 official budget), largest standing armed forces, scores of new advanced weapons, a navy that is sailing further and further out into the western Pacific Ocean and occasionally into the Indian Ocean, and a modest aircraft carrier. So China's military is no pushover. It is certainly capable of defending its homeland, and could likely now wage a successful conflict over Taiwan (absent a fast and full American intervention). China is also perceived to be a regional military power in Asia and thus is altering the balance of power in the region, but Chinese military forces still possess no conventional global power-projection capabilities. China has no bases abroad, no long-range logistics or communications lines, and rudimentary global satellite coverage. The navy is still primarily a coastal littoral force, the air force has no long-range strike ability or proven stealth capacity, and the ground forces are not configured for rapid deployment.

Moreover, strategically, China can be described as a "lonely power"—lacking close friends and possessing no allies. Even in China's closest relationship (with Russia), elements of distrust and historical suspicions percolate beneath the surface of seemingly harmonious state-to-state relations. Not a single other nation looks to Beijing for its security and protection (except perhaps Pakistan)—thus demonstrating a distinct lack of strategic influence as a major power. Quite to the contrary, other countries in Asia are seeking to bolster their defense ties with the United States and improve their coordination with each other—precisely because of the uncertainty and possible threat they perceive from China.

Turning from hard power to soft power, how does China stack up as a global cultural power? Not well. No other societies are taking their cultural cues from China, no other countries are seeking to copy the Chinese political system, and its economic system is not replicable elsewhere. Despite the enormous efforts and resources the Chinese government has poured into trying to build its soft power and improve its international image since 2008, China continues to have a mixed-to-negative global reputation. Surveys of public opinion reveal that everywhere in the world perceptions of China are mixed, declining and increasingly fraught with problems.

China is not a magnet for others to emulate—culturally, socially, economically or politically. The problem for China in all four realms is that it is sui generis. China lacks universal appeal beyond its borders or ethnic Chinese communities. Largely because of China's cultural, economic, social and political uniqueness, its global soft-power appeal remains weak to nonexistent.

China's cultural products—art, film, literature, music, education—are still relatively unknown outside of China and do not set global cultural trends. As admirable as China's economic development is, it is the product of a unique combination of features that cannot be replicated in other countries (competitive economies of scale, Soviet-style state planning, individual entrepreneurship, a large and disciplined workforce, a large research-and-development establishment and massive
foreign investment). Even if a “China model” exists (which is debatable), it is not exportable, as this combination of growth factors exists nowhere else. China’s political system is similarly an eclectic amalgam of Leninist Communism, Asian authoritarianism, Confucian traditionalism and a strong internal-security state. Its distinctiveness cannot be replicated—there are no other states trying to do so, nor does one find foreigners seeking political asylum or citizenship in the PRC.

What about China’s economic power? This is the one area where one would expect China to be a global power and trendsetter—yet China’s impact is much more shallow than anticipated. As in other areas, it is quantitatively impressive but qualitatively weak. China is the world’s largest trading nation, but its exports are generally low-end consumer goods; its products have poor international brand recognition; only a handful of its multinational corporations are operating successfully abroad; the total stock of its overseas direct investment (ODI) ranks only seventeenth internationally; and China’s overseas aid programs are a fraction of the size of those of the United States, European Union, Japan or the World Bank.

When evaluated qualitatively instead of quantitatively, China’s global economic profile is not very impressive. It remains a processing-and-assembly economy—not a creative and inventive one. Most of the goods that are assembled or produced in China for export are intellectually created elsewhere. China’s rampant theft of intellectual property and its government programs to spur “indigenous innovation” (which pour billions into domestic research and development every year) are clear admissions of its failure to create. This may, and likely will, change over time—but to date China is not setting global standards in hardly any technology or product line (or in the natural sciences, medical sciences, social sciences or humanities). Similarly, China only has two universities in the top hundred worldwide, according to the Times Higher Education World University Rankings for 2013–2014.

If China is to spur innovation, it will, of course, have to invest more in research-and-development funding. According to the National Science Foundation, in 2009 China spent only 1.7 percent of its GDP on research and development, compared with 2.9 percent in the United States, 2.8 percent in Germany and over 3.3 percent in Japan. The “research intensity” of China’s research-and-development spending does not even rank it in the top twenty nations globally, as an estimated 80 percent is spent on product development and only 5 percent on basic research. China’s lack of Nobel Prizes is also a telling indication. Between 1949 and 2010, 584 Nobel Prizes were awarded. Ethnic Chinese won ten of these (eight in the sciences), but eight of the ten worked outside of China. The two exceptions were the Dalai Lama’s 2010 Nobel Peace Prize and Mo Yan’s 2011 prize for literature. Citations in professional journals are another indicator. In the world’s most cited articles (across all academic disciplines), Chinese scholars account for only 4 percent—whereas Americans account for 49 percent.

As a result of China’s chronic “innovation deficit,” the nation is now mired in the infamous “middle-income trap.” The only way out of the trap is through innovation—as Japan, South Korea, Singapore and Taiwan previously proved. And this requires much more than government investment in research and development—it requires an educational system premised on critical thinking and freedom of exploration. This, in turn, requires a political system that is relatively open and democratic and does
not permit censorship or “no-go zones” in research. Students and intellectuals must be rewarded—not persecuted or penalized—for challenging conventional wisdom and making mistakes. Until this occurs, China will be forever caught in the middle-income trap—assembling and producing but not creating and inventing.

Seen in this light, China’s trade juggernaut is much weaker than it appears on the surface. Similar weaknesses are evident in China’s ODI. Despite the high government priority for Chinese firms to “go out” into the world, so far China’s foreign investment remains quite small. As noted above, its total stock of ODI barely places China in the top twenty globally, although its annual outflows are growing rapidly and now rank third in the world ($88.2 billion in 2012). Yet this remains only one-fourth of American ODI in the same year.

More significantly, as in other areas of China’s global profile, one needs to delve beyond the quantitative statistics to ask qualitative questions: Where does it go, and is it real investment? The overseas destinations and composition of Chinese ODI have been shifting rapidly since 2011, but a large percentage remains portfolio funds flowing into locales like the British Virgin Islands and Grand Cayman Islands (which ranked as the second and third leading recipient destinations in 2011). Thus, some of this is not foreign investment per se—it is really money being parked abroad in safe havens. This is not only true for China’s government and companies, but also for individual assets. The 2014 annual Blue Book on Chinese International Migration, compiled by the Center for China & Globalization, recently reported that since 1990 a total of 9.3 million Chinese had emigrated abroad, taking 2.8 trillion renminbi ($46 billion in U.S. dollars) with them. This is not a new development, but has been a growing trend over the past decade. When a nation’s economic elites leave in such large numbers and are so anxious to secure their personal financial savings abroad, it speaks volumes about their (lack of) confidence in their own domestic political and economic systems.

Recently, though, China’s ODI profile and geographic footprint have been changing. China is ramping up its investments and purchases across Asia, Latin America, Europe and the United States. Chinese buyers are snatching up all kinds of assets—residential and commercial properties, factories, industrial parks, research-and-development facilities, farms, forests, mines, oil and gas fields, and various other resources. Chinese corporations are
aggressively merging with or acquiring foreign companies. Individual Chinese have also been buying large amounts of valuable art on the international auction market. Thus, the profile of Chinese outbound investment is rapidly changing, but its impact remains uncertain.

What about Chinese multinational corporations? How competitive are they abroad? As in other categories, there is much more weakness than strength. On the surface, judging from the Fortune Global 500 rankings, Chinese companies now rank second only to American multinationals. But these rankings are calculated on the basis of total revenue and profit—not where a company makes its money. When examining the Chinese companies on the 2013 list, it is quickly apparent that relatively few even operate abroad and only a handful earn more than half their revenues overseas. So these are not truly multinational corporations, but rather domestic corporate actors.

Many firms may aspire to go global, but thus far those that have tried have not fared particularly well. There have been more failures than success stories among aspiring Chinese multinationals. Chinese mergers and acquisitions often have stumbled because China’s corporate leaders did not do their due diligence beforehand or because of the clash of corporate cultures. By all accounts, the major weakness of Chinese multinationals is human resources—particularly management. There are precious few multilingual and multicultural managers, and Chinese companies do not generally hire foreigners with such skills for upper-level management (Huawei and Haier are exceptions to the rule). Chinese companies and their management have frequently displayed an inability to escape their own national corporate culture and business practices. Because of their preference for hierarchy and clearly defined workplace roles, Chinese tend not to adapt well to “flatter” management structures that prize decentralization and individual initiative. These proclivities have resulted in repeated culture clashes in Chinese mergers with Western companies. Chinese companies have also demonstrated difficulties adapting to foreign legal, regulatory, tax and political environments. Transparency and corporate governance are not attributes normally associated with Chinese companies—whose decision-making processes are usually opaque, business practices are frequently corrupt and accounting procedures are often fraudulent. Many Chinese companies have been found to have filed fraudulent information with securities regulators in the United States prior to their IPOs.

The lack of Chinese corporate competitiveness is also evident when it comes to international brands. Only a handful of Chinese companies have been able to establish a brand presence abroad: Tsingtao beer, Haier white goods, Huawei telecoms, Air China, Geely automobiles and a handful of others. But not a single Chinese company ranks among the Business Week/Interbrand Top 100 global brands.

Other measures of China’s domestic capacities also do not indicate very high or positive global rankings. In 2014, Freedom House ranked China as tied for 183rd out of 197 countries for freedom of the press. Since 2002, the World Bank’s composite Worldwide Governance Indicators have consistently ranked China in the thirtieth percentile for political stability and control of corruption, fiftieth percentile for government effectiveness, fortieth percentile for regulatory quality and rule of law, and below the tenth percentile for accountability. The World Economic Forum ranked China only twenty-ninth globally on its composite Global Competitiveness Index.
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in 2013, along with sixty-eighth for corruption and fifty-fourth for business ethics. Transparency International ranked China even lower (eightieth) in its 2013 international corruption index. In virtually all these estimates and categories, China has deteriorated over the past decade. By these and other measures, it is clear that China's global presence and reputation is mixed at best. In many categories China finds itself clustered together with the least well-performing and least respected countries in the world.

The 2013 United Nations Human Development Report further illustrates that despite the considerable and admirable socioeconomic progress China has made since the 1980s, the nation remains very much a developing country. The PRC ranks 101st in the overall index, out of 187 countries surveyed. The average per capita income is now nearly $8,000 in purchasing-power-parity terms, yet 13.1 percent of the population still lives on under $1.25 per day. In life expectancy, infant mortality, health-care provision, educational quality and inequality, China still lags well behind industrialized nations. Its environmental contamination and pollution are the worst in the world and are contributing to rapidly rising cancer rates. Despite recent government efforts to expand primary and catastrophic health-care delivery and insurance, most Chinese still face great uncertainties when illness strikes. Its Gini coefficient (which measures income inequality, with 0 representing perfect equality and 1 representing perfect inequality) is now nearly 0.5, among the highest in the world. China's primary and secondary schools are producing world-class test results, but the university system still lags well behind global leaders.

These observations are not meant to belittle China's miraculous developmental accomplishments over the past three decades, but they are simply further reminders that China is nowhere near the top of the global tables in many categories of development.

This is a snapshot of China today. Ten or twenty years from now China's global position may well improve in all of these categories and it may be operating on a global basis similar to the United States', but for now China is a partial global power at best. Yet one should not simply assume that China's growth trajectory will continue unabated. It could, but there are also two other possibilities—stagnation and retrogression.

Many China watchers are coming to the conclusion that the country is reaching a tipping point on multiple fronts. Aggregate growth is leveling off (owing to rising costs of production and declining comparative advantages) and the government is struggling to maintain the 7 percent annual growth rates deemed necessary to maintain reasonably full employment, absorb new entrants into the workforce and sustain social stability. Try as it may, the government has been unable to accomplish its announced shift from an export- and investment-driven economy to one based on increased domestic consumption and an innovative "knowledge economy." Production is not appreciably moving up.
the value chain and technological ladder, and the grip of the middle-income trap is setting in (and could become an indefinite condition). Local debt is soaring and many subnational governmental authorities teeter on the brink of insolvency. Social inequalities are getting increasingly acute, corruption is rampant in both state and society, frustrations abound in every social sector, the rich are fleeing the country in increasing numbers, the middle class is stagnating, and the political system remains ossified and repressive. Meanwhile, the country is not undertaking the political and legal reforms needed to spur the next phase of growth because they would directly impinge on the monopoly power of the CCP.

Several Sinologists now argue that the CCP itself is the principal impediment to future growth and development in China. The party is an increasingly insecure, sclerotic and fragile institution that has become paralyzed since 2008. Part of the reason for the paralysis was the leadership transition in 2012 and the factional struggle leading up to it (including the Bo Xilai affair), but it also had to do with the growing unrest around the country (particularly in Tibet and Xinjiang). There have been other contributing factors to the party’s retrenchment and repression over the past five years, including fears generated by the Arab Spring, but we have not seen forward movement in political reform since the leadership transition and Xi Jinping’s consolidation of power. To the contrary, the political crackdown has intensified since Xi took office. Even the vaunted Third Plenum of November 2013, which was heralded as a reformist breakthrough, has so far proved to be more hype than progress.

This is the dangerous cocktail that many China watchers see gripping the country today. It is a sobering and daunting set of challenges for the people and government of China to tackle. Thus, observers should not blindly assume that China’s future will exhibit the dynamism of the past thirty years, or that its path to global-power status will necessarily continue.