

**“China’s Growing Global Influence: Objectives and Strategies”**  
**U.S.-China Economic and Security Review Commission**  
**22 July 2005**

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Good morning, ladies and gentlemen. Thank you for this opportunity to address the Commission. I am Director the Washington Office of Vanderbilt University’s U.S.-Japan Center for Studies and Cooperation. The Center was established sixteen years ago by Dr. James E. Auer after his retirement from the Department of Defense. Our purpose is to promote continued, strong ties between these two strategically important nations. Although the topic of today’s session is China’s impact on the Asia-Pacific region, I will return to the theme of U.S.-Japan bilateral relations regularly because I believe that relationship to be central to balancing potentially competing interests in the region.

China’s vast potential has been documented in other hearings held by this Commission. Assessing the impact of this potential is difficult in part because Chinese long-term objectives and tactics are not fully understood. Some objectives are certain. There is no doubt, for example, that China seeks to incorporate Taiwan peacefully or forcefully. Questions abound, however, concerning its military, political and economic tactics for achieving this aim. Given these doubts, it often is difficult to ascertain whether many elements of China’s potential are benevolent, malevolent or benign.

### **China’s Economic Growth and Regional Influence**

The sheer scale of China’s potential is certain to result in regional and global adjustments but their extent and nature are difficult to forecast. Consider the impact of Chinese economic growth. World economic growth rates are expected to average between 2.8~2.9% for the next ten to twenty years. Growth among East Asian nations as a group is expected to be average twice that rate. Some forecasts anticipate average annual growth rates for East Asia of 6.8% in the decade from 2000 to 2010 and a still robust 5.5% rate in the following decade. China’s growth rates over the same ten-year periods are forecast to be 6.6% and 5.5%, respectively.

Recent growth rates have resulted in shifting global production in several industries. China’s low-cost production has encouraged relocation of manufacturing capacity, leading to long-term concerns over the competitiveness of nations dependent on that regional growth for their own prosperity. There are concerns about hollowing out of manufacturing industries as more production moves to China. With reduced industrial production and presumably profits, questions arise as to whether nations in the region will be able to sustain research and development investments to assure their long-term economic survival.

There is no doubt that China's economic growth presents serious competitive challenges to the United States and other nations. At the same time, however, there are noticeable benefits for many in the region. One demonstrable result of these growth trends has been greater economic inter-dependency among Asian nations. For example, total general machinery exports among Japan, China and the top four ASEAN economies equaled \$29.5 billion in 1990 – with Japan's exports accounting for 86% of the total. By 2001, total exports in this same category among these same nations reached \$76.4 billion, with China and the leading ASEAN economies accounting for 18.3% and 28.8% of that total, respectively.

Total production and trade in this category suggests regional economic expansion and integration, both of which are desirable. Japan has been party to this expansion, but concerns within the country remain that the long-term trend will be expanded Chinese manufacturing at the expense of Japan's exports, including high technology industries in which it may current have competitive advantages.

There are additional concerns that this will erode the ability of nations n the area to invest in future technologies to assure their competitiveness. By many measures, however, there is something of a regional science and technology boom, with some exceptions in the case of Japan.

For example, research and development funding for many Asian nations has increased, including South Korea and China. The number of science graduates is increasing – with increasing numbers graduating now from local universities than from institutions in the United States. This would imply that local educational opportunities are viewed as competitive with those offered in the United States. There is evidence of increased citations of Asian authors in international technical journals and co-authored international papers. Patenting activities both domestically and globally are notable, again with South Korea and China standing out.

All this suggests a robust effort to improve the quality and quantity of scientific and industrial research throughout Asia. Japan's case offers a more mixed picture. Research and development spending are showing signs of recovery but there are possible weaknesses in other areas. For example, private sector research and development spending is central to Japanese innovation. Continued economic stagnation throughout the 1990s, however, led to a decline in Japanese corporate R&D expenditures from 1991 through 1994. While absolute spending has increased gradually since then, the rate of increase has been modest and far lower than the rate of increase seen in the 1980s.

These apparent trends suggest that there is a general emphasis throughout the region on fostering indigenous science and technology as sources of economic growth. In part this comes as a response to perceptions that economic growth in Japan through the 1980s and U.S. economic revival in the 1990s resulted at least in part from successful innovation policies. There is further recognition of the importance of science and technology to sustain regional and global competitiveness.

China's science and technology advances are equally significant. It can be expected that domestic capabilities will rise rapidly with its industrial growth, injection of foreign know-how, increased access to technical resources globally.

Rather than depressing regional growth, China's increasing science and technology capabilities may be having a stimulating effect on other nations. These nations recognize the importance of science and technology to their own domestic growth and international competitiveness. The importance of continued improvements is even greater given China's advances.

China's growth strategy certainly will be one factor influencing Japan's future R&D expenditures. However, the drop in R&D spending that Japan witnessed beginning in the 1990s developed from domestic economic and financial problems, many of them structural which linger today. Japan will be unable to respond to any external competitive challenge without addressing these issues. Japan's economy will still face formidable challenges regardless of the relative growth of China or other nations.

### **China's Military Buildup**

Any economic promise of China contrasts sharply with concerns over its military buildup. China's military modernization, in my view, is aimed at assuring its freedom of will with regard to Taiwan and other territorial issues in its immediate area. As we all are aware, this is troublesome to the United States and its allies in the region because China has not renounced the use of force in incorporating Taiwan. Uncertainties over China's intentions make its modernization programs problematic to the United States and Japan.

The Japan Defense Agency officially calls for caution in interpreting these trends. The government is not inclined to label China a military threat but remains leery over the military intentions of the People's Republic. Maintaining a security balance in the region – particularly in the Taiwan Straits – is one of the most important security challenges facing the United States and Japan regionally.

### **Impact on U.S.-Japan Relationship**

At this point, China's military modernization does not pose a direct threat to Japan or to U.S. assets in the region. The uncertainty of China's intentions and directions certainly causes Japan the most concern. The military buildup clearly is aimed at increasing its influence regionally, particularly in the ability of the United States to influence relations with Taiwan. China's short- and long-term plans for projecting that increased military capability actively to force Taiwanese incorporation are less certain.

Japan views this buildup with caution, not rushing to identify the country as a direct military threat, but not willing to disregard the scale of China's buildup and its potential impact.

The U.S.-Japan security relationship has been critical to both countries and the region as a whole in assuring stability. The importance of that relationship will increase as China's military modernization continues. The bilateral security relationship protects the individual and collective interests of the United States and Japan and will continue to do so for the foreseeable future.

My sense, however, is that a vague discomfort may exist in some Japanese business and government circles regarding China's rising economic, political and military role in the region. With China's economy assuming greater importance to Japan, I wonder if some in Japan fear the possibility that they will be forced essentially to make a choice between China and the United States to assure its own economic and perhaps territorial security. For a country that often views its own security in economic terms, the question is whether the value of Japan's economic ties with China – or its economic dependence on China – will some day outweigh the benefits of its economic and military relationship with the United States.

I offer this observation as a result of discussions that took place recently during a forum on U.S.-Japan security, hosted by our Center. Our Center hosts a bilateral security forum annually in which Japanese and U.S. business leaders exchange views on policy trends and emerging technologies. This year's session included a discussion of China's influence on the region and the bilateral relationship.

Participants agreed that the conflicting potential presented by China is more complex than that perceived from the former Soviet Union. The Soviet Union did not pose the same potential divisiveness to the U.S.-Japan bilateral security relationship. Nor, in the view of the participants, did the former Soviet Union demonstrate the same level of diplomatic sophistication in pursuing its regional economic and security objectives.

Participants agreed in principle that economic integration is desirable and that China's economic importance cannot be denied. Most were concerned, however, of formal mechanisms that would make U.S.-Japan bilateral interests subservient to a regional economic framework. One participant noted that while Japan does not necessarily view China as a military threat, its rising influence is something the Japan Defense Agency must "keep an eye on," implying that Japan must not promote economic integration hastily despite the clear need to engage in the region to assure its own economic growth.

The consensus of participants at our forum was that bilateral discussions on regional economic integration are warranted, but that comprehensive frameworks remain second to more targeted policy actions aimed at promoting that end. What is significant, however, is that one would not have expected such a discussion at all just a few years ago.

At this point, there is no indication that the Japanese government feels any need to distance itself from the United States. I would argue that, in fact, relations are stronger in

many ways that ever before. However, with both our countries facing the mixed potential of China, we must recommit ourselves to continued, strong ties to assure fulfillment of our own interests in the region.

### **Limits on Chinese Influence**

Forecasting always is as much art as science. One routine problem with predicting the future is that patterns and conditions change. In examining the potential influence of China in the future, it is important not to assume that current trends will continue indefinitely. Economic growth for any nation can slow or recede. Military capabilities can fluctuate. This is as true for China as it is for any other nation.

Recall that there was concern over Japanese military and economic resurgence – if not dominance – just twenty plus years ago, just as many Europeans feared domination by the United States twenty years prior to that. China presents different potential and far greater uncertainty, but the basic lesson of the past is that we should avoid drawing too many conclusions from current trends in anticipating the future.

Total success of all China's current efforts cannot be assumed. It is far from inevitable that all its visible mergers or acquisitions will succeed. Nor can we assume that its military modernization will continue infinitely or that it will be completely successful in all respects. Even with prudent regard toward China, it cannot be assumed that U.S. capabilities will stagnate in the face of its growing military forces.

Historical animosities within the region toward China also will pose a barrier to its efforts to exert its influence regionally. Nations in the region recognize that China cannot simply be ignored. They recognize the potential benefits of China's economic growth to their own economies as well. However, long-term concerns suggest that these countries also pursue relationships that will provide them economic and political alternatives as well as productive integration of China and other regional economies.

Lastly, although concerns over China may be legitimate, countries in the region must not neglect domestic initiatives that are equally critical to their long-term prosperity. One example is Japan's financial sector restructuring. While progress has been made in reducing non-performing loans among major lenders, this remains in my view one of the most significant threats to Japan for the foreseeable future. The financial sector has been one of the most important causes for Japan's declining competitiveness and stagnant economic growth over the last decade. Although improved, the situation remains serious. It is doubtful in my mind that Japan can return to significant growth rates consistently until it is fully resolved. I would add that a Japanese analyst most likely would make a similar observation for certain aspects of the U.S. economy.

At a bilateral level, the United States and Japan also have a sound security relationship that will remain critical to each country and to the region as a whole. Continued strengthening of this relationship is well within the ability of policymakers in both

nations and would serve to dampen any potential threat posed by a Chinese military buildup. There are several steps that can be taken to further integrate operations of the armed forces of both Japan and the United States. These include increased interoperability of equipment used by the forces of both countries – particularly for next generation defensive systems now being considered by the Defense Department and the Japan Defense Agency – and new defense business models and forms of cooperation that would integrate the respective defense industrial bases.

For now, I would be reluctant to embrace China's emergence without question or to attempt to deny its reality. Caution in both economic and security policies remains prudent to assure that China's emergence brings benefits to other nations in the region and minimizes potentially disruptive influences.

Thank you.