Should Alex Learn Mandarin?
Presentation to the Academy
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A continuation of the title of this paper might be "…to better serve his Chinese masters". In 2005, the CIA published a report, "Mapping the Global Future", which described China's likely economic ascendance. Accompanying this rise would be a commensurate increase in military capability. My four-year old memory of that paper was that these future conditions were deemed inevitable and that, by about mid-twenty first century China would surpass the US both in the size of its economy and in the might of its military. In a subsequent re-reading of the report, I found that the CIA presented countering views and contingencies…but my selective memory had left these out.

In April I read a book that posited a completely different view of the future: one in which China is not only <u>not</u> a superpower; but in which the country hardly registers as a player on the world stage. That book, *The Next Hundred Years*, by George Friedman, was not dedicated to China or to Sino-American competition. It was more like a science fiction book, providing a novelistic rundown of events in the 21st century, which include a war between the US and Japan, the economic rise first of Poland and Turkey, and later of Mexico, and other seemingly fanciful changes to world order. Scoff if you will, but I encourage you to read the book…it's fascinating.

Friedman's argument vis-à-vis China centers on the country's lack of a true market economy. He believes that the paradoxical combination of partial market reform and authoritarian rule will eventually lead to one of two most likely scenarios: 1) A return of Mao-style repression and closing-off of China from the outside world; or 2) a loss of central state power, with attendant rise of provincial power and a range of economic and political alliances between provinces and other nations. Either way, China as a nation ceases its monotonic rise and assumes a secondary role in world affairs.

Which prediction is right? Will China's "economic miracle" continue? Will it be accompanied by a similar rise in military might? Or will the state falter and, potentially, collapse? I decided to make this the topic of my first paper to the Academy. Sometimes I wish I hadn't—I could have stuck with my original idea, to document the failures of the US War on Drugs. That would have been a lot easier. After reading ten more books—all dedicated to some extent to predicting China's future—I'm still not sure I have an answer to my original question, "Should Alex Learn Mandarin"? But I now know a lot more about the challenges that China currently faces and will continue to face. The following is a brief summary of these challenges, presented in my view of increasing order of menace.

Challenge #1: Shortage of Natural Resources

China is a large country. In terms of total land area it ranks fourth in the world, just slightly smaller than the United States. But it is a country dominated by intimidating terrain. The Tibetan Plateau, which covers an area approximately the size of Western Europe, averages over 4000 m (13,000 feet) elevation. And over 25% of China is desert. Thus, although China has about 7% of the world's total landmass, a significant portion of the land is virtually inaccessible for farming or mining. This largely inhospitable land is home to about 22% of the world's population (1.5 Billion out of 6.8 Billion). It is easy to infer from these numbers that China's natural resources cannot support its continued economic growth. Much of the raw material that fuels China's industry must be imported.

China has large reserves of a few key minerals—notably, tungsten, uranium, and rare earths, all of which are used extensively in military and high-tech commercial components. It also has large bauxite reserves, meaning that it could be largely self-sufficient in production of raw aluminum. However, its current demand for virtually every other commodity far exceeds its ability to produce from domestic sources; and the imbalance grows significantly every year. China is already the world's largest importer of iron ore; and Chinese demand is driving market prices for nickel, copper, silver, gold, timber, soybeans, cotton, and a large array of other commodities.

Most important strategically, China became a net importer of petroleum in 1993, and its demand for foreign oil has increased dramatically since then. At present consumption rates, China will have completely depleted its known domestic oil reserves in about 11 years. And consumption ramps up every year. If present trends continue oil imports could reach nearly 20 million barrels per day by 2020.

This dependence on foreign countries for critical materials puts China in a potentially vulnerable strategic position. The following are possible scenarios in which China's access to vital commodities would be curtailed, thereby stifling economic progress:

- Scenario #1: Taiwan declares independence, drawing the U.S. into a military conflict with the PRC. Since the U.S. is still the dominant military power in east Asia, we could cause considerable disruption of the flow of materials into China.
- Scenario #2: Developing countries currently providing raw materials to China decide to cut exports, when they can no longer tolerate China's frustration of their own attempts at industrialization.
- Scenario #3: Nations currently engaging in rampant black market trading with China decide to strengthen enforcement of export regulations.
- Scenario #4: Today's limited protectionist policies turn into a full-blown global trade war, significantly restricting both imports to and exports from China.

Challenge #2: Economics 101

The Chinese economy has experienced spectacular growth since the first free-market reforms were introduced in 1978. Growth in GDP has averaged over 10% annually since then. The official GDP of China ranked third in the world in 2008. In exchange rate dollar terms, the Chinese economy was about one-fifth the size of the US economy last year. However, in terms of a figure called Purchasing Power Parity (PPP), which measures ability to purchase domestic products and services, China's economy can be thought of as being four-fifths the size of America's.

Despite the empirical suggestion that China is doing everything right, economists believe there are a number of things it is doing wrong. The following principles illustrate a few of the areas in which China has not followed what is generally regarded as good fiscal policy:

- First Principle: A sound banking system is characterized by transparency of rules, consistent enforcement by regulators, and the requirement of profitability for survival. China's banking system has none of these attributes. Finance is dominated by the "Big Four" state-controlled banks, each aligned with a major sector of the economy. Managers of these banks are more likely to be Communist Party loyalists than experts in banking. Loans from the banks have often been made with little or no regard of the recipient's ability to pay back. In the mid-1990's, the ratio of Non-Performing Loans (NPLs) to loans overall exceeded 40%. The central government provided a huge bailout, which reset the NPL ratio to near zero in the early 2000's. After this, legitimate attempts were made to fix the mess—e.g., heightening scrutiny of business plans prior to giving out loans. However, as part of a 2009 economic stimulus effort, Chinese banks have been encouraged to scrap the reforms and revert to their free-wheeling ways. Economists worry that a huge second wave of NPLs is in the offing.
- Second Principle: Strong financial systems are both deep and wide—depth indicating large capital holdings; and width signifying a broad range of investment options. The Chinese system is undeniably deep. China now holds over $2 Trillion in foreign reserves. However, it is very narrow. Virtually all financing of new business comes either from foreign investors or from Chinese banks. Other investment and financial resource options are either non-existent or very risky. For example, China's two nascent stock markets (the Shanghai and Schenzhen exchanges) are seen by most westerners more as huge casinos than as real stock markets. Company financial dealings are opaque; board members lack

relevant experience; top managers are selected based on who they know, not what they know; and most shares are not even available for trading.

- Third Principle: Large capitalist economies allow their currency value to be set by the market. This Darwinian philosophy forces exporters to remain competitive via technical innovation, economies of scale, and other bulwarks of capitalism. Additionally, a floating currency insulates the domestic economy from foreign economic problems. China, however, pegs the value of its currency, the Renminbi or Yuan, to the U.S. Dollar. Driven by U.S. complaints about this practice, the central government made a mostly symbolic change which allows the value of the Yuan to vary based on the weighted average of a "market basket" of currencies. However, the weight of the U.S. Dollar in this market basket is disproportionately high; therefore, the Yuan still tracks the U.S. currency with high fidelity.
- Fourth Principle: Large economies are fueled to a significant extent by domestic consumption. This provides protection from fluctuations in the world economy. Excessive reliance on exports can make the economy vulnerable to a wide range of problems, including changes in foreign exchange rates and recession in importing countries. China is a huge exporter and relies only to a small extent on domestic buying.
- Fifth Principle: Unprofitable companies do not survive; and their failure generally strengthens the overall economy. Many if not most Chinese companies are barely profitable if they are profitable at all. They operate on the slimmest of margins, relying on sales cash flow, foreign capital investment, loans, and government bailouts to survive.
- Sixth Principle: Market sector protectionism stifles competition and free trade; more ominously, it can trigger retaliatory protectionism by trading partners. China used central government policies early in its economic development to protect its fledgling industries; and this was generally accepted by trading partners. However, since China became part of the World Trade Organization in 2001, the tax manipulations, import tariffs, and export restrictions used to protect various industries have begun to cause serious strains in China's trading relationships.

It is unlikely that any of these economic deficiencies by itself will topple the CCP or seriously weaken the Chinese economy—if they were going to, it would already have happened. However, collectively these problems, plus the other challenges discussed in this paper, could well create a "perfect storm" condition, with serious consequences for the Chinese economy.

Challenge #3: Shifting Demographics

Currently, and for the next decade or two, the demographics in China will likely work in favor of rapid economic growth. After that, however, demographic trends will certainly slow the economy, and could even cripple it. Every year since the start of the economic transition, there has been a significant increase in the manufacturing workforce. Peasants have migrated in droves from farms to factories. No one knows precisely how many people have made the move—estimates range from 90 million to 300 million. Children reaching adulthood have also provided abundant additional labor every year.

The migration from rural to urban environments will continue for the next 10 years, with an additional 150 million people moving to towns and cities for work. With this migration and with new workers coming of age, the economy needs to create 24 million new jobs every year just to keep up. To do that will require that China continue to grow its economy at a double-digit annual pace. If such growth is not maintained, the CCP will face increasing pressure for political change. Their response to this pressure could be a move toward democracy; but would more likely be to ramp up repression.

If China manages to find work for the people who seek it, thus avoiding massive unemployment and angry public response, it will find that it faces the opposite problem in 15 to 20 years: too few workers. By about the year 2025, the effects of China's "one-child" policy, enacted in 1980, will begin to be acutely felt. China will face the double whammy of an aging population and a dwindling family support base. Chinese children are, by law, required to care for aging parents; but the ratio of wage-earning children to their elders will decrease rapidly starting in 2025. By 2030, the average rural 65 year-old will have two living children. These children will have to shoulder the burden of caring for their parents, since 88% of rural men and 96% of rural women (as of 2004) have no pension or health insurance. Urban elders may fare a little better, even though their parent-to-child ratio will be even lower, at one-to-one. On paper, most current workers with “urban registration” will have pensions and health benefits when they reach old age; however, it is noted that current pensioners are paid from the taxes of current workers. By 2040, 400 million people (a third of the projected population) will be over 60 years old; and it is unlikely that current pension and health benefit promises can be kept unless the central government steps in with a massive bailout.

As Professor Barry Naughton says in his book, *The Chinese Economy*, “China will grow old before it has had the opportunity to grow rich”.

Challenge #4: Belligerent Nationalism

What started as a CCP experiment in diverting attention from its shortcomings and giving people a shared ideology after the fall of communism has taken on a life of its own. Nationalism in China, which manifests as bellicose rumblings against Japan and to a lesser extent the U.S., and as loud proclamations against Taiwanese independence, could hoist the CCP on its own petard.

The enmity for Japan has deep roots in China’s Century of Humiliation, punctuated by Japanese atrocities against Chinese civilians prior to and during WWII. China’s official depiction of these events during Mao’s era was one of heroic Chinese defiance and eventual victory over the Japanese aggressors. In the post-Mao era, however, the narrative has shifted gradually away from “China as victor” to “China as victim”. Apologies from Japan are often demanded, but never accepted. China sees Japan as inferior—an upstart, ungrateful little brother who adopted much of China’s culture and then inflicted great pain and suffering on the Chinese people. It isn’t enough for Japan to acknowledge its bad behavior. For China, a prerequisite to setting things straight is that Japan acknowledge its inferiority—something Japan is quite unlikely to do.

Ironically, Japan has been a stalwart supporter of China's economic rise, providing huge amounts of Foreign Direct Investment and technology transfer. In 2008, total trade between the two nations exceeded a quarter trillion dollars. But China's hostile rhetoric has started to wear thin in Japan. The smaller country has increased military spending to provide a hedge against potential future Chinese aggression, and it has firmed up its military alliance with the U.S. In addition, powerful voices in the Japanese government have called for amending the constitution to eliminate its article 9, which prohibits acts of war by the state.

During the Bush presidency, the U.S. responded to China's anti-U.S. bluster with surprising calm; and even went so far as to denounce moves by Taiwan's then-president Chen towards independence of the island. However, there is considerable unhappiness in the U.S. Congress with China's nationalistic posturing piled on top of an unsustainable trade imbalance.

China's intransigence on the issue of Taiwan's sovereignty is potentially the most explosive issue on the new nationalists' agenda. Why does China care so much about the tiny island, with barely over 1.5 % the population of the mainland? The answer is that, until 1895, China exerted relatively undisputed dominion over Taiwan. That year, however, following defeat of China by Japan in the first Sino-Japanese war, Taiwan was delivered over to Japan by the Treaty of Shimonoseki. This occurred in the middle of the Century of Humiliation, and represented a monumental loss of face for China. The only way to repair the damage of this huge insult is to re-unify the island and the mainland.

Nationalism can both strengthen and weaken the CCP's power. As mentioned, nationalism was practically invented by the CCP to provide a focus for people's ardor which might otherwise manifest as coordinated calls for political reform. However, Chinese citizens have bought into the propaganda, and they expect their leaders to respond swiftly and aggressively to any perceived slight by Japan, the U.S., or Taiwan. This can put the central government in the uncomfortable position of having to decide whose wrath they would rather incur: the Chinese people's (for appearing weak) or foreign powers' (for appearing unreasonable).

Challenge #5: Inequality

An internationally-recognized standard for measuring economic equality is the Gini coefficient. A Gini value of 0 indicates that all people in a society have exactly the same amount of money; while a Gini value of 1 means that all the wealth of society is in the hands of one person. China's Gini coefficient was 0.31 in 1981, and it has risen steadily to its current value of over 0.49. While this is not much higher than the US's 0.41, it likely comes as a considerable shock to a populace that only 30 years ago fully embraced the communist doctrine of equal distribution of wealth.

Perhaps more important from the standpoint of socio-economic stability is the disparity in overall quality of life between urban and rural citizens. Urban households on average have over 3.3-times the income of rural households. In addition, China's ancient system of *hukou*, or family registering, has resulted in a de-facto caste system, with "rural *hukou*" people at the bottom, rural-to-urban migrants in the middle, and "city *hukou*" residents at the top. City *hukou* families get generously subsidized health care and retirement pensions, together with free education for their children. These services are generally denied to both rural residents and migrants.

Rural citizens face two additional challenges that further reduce their quality of life: 1) Disproportionate taxation; and 2) institutionalized corruption. The problem of corruption is another of my "China Challenges", and I will discuss it in greater depth later. The problem of disproportionate taxation of country folk stems from the central government's policy of shifting responsibility for provision of essential services and infrastructure from Beijing to local governments. In rural areas where incomes are lower than in towns and cities, residents' taxes represent a much larger portion of their total income. In addition, rural officials often levy taxes at rates that far exceed those sanctioned by the central government; and they use brutal collection techniques to ensure those taxes are paid.

These inequities are in large part responsible for a surge in protests that has swept China. In 2008 there was a "mass protest" in China (i.e., a protest in which at least 100 people participated) once every four minutes, on average. This works out to well over 100,000 protests that year. The increase in the number of protests per year has been exponential. In 1993, 8700 protests were held. By 1999 the number had risen to 32,000. In 2004 it was 74,000. The people in power have developed a process for dealing with the protests: listen attentively, blame local authorities, and arrest the protest leaders. Usually, nothing of substance is done to redress the wrong. One wonders how long these tactics will continue to work.

Challenge #6: Corruption

Corruption in China is pervasive. It can be split into two categories: Official corruption and personal corruption. Official corruption is a natural consequence of one-party rule. The sources of personal corruption in China are more complex.

Official corruption appears to be worst at the village and township levels; however, it is certainly not unknown at higher levels of the government. It is characterized by ubiquity of bribes and influence peddling; unfair appropriation of property; embezzlement of public funds; harassment and jailing of dissenters; and, in some cases, collusion of officials with organized crime bosses.

Minxin Pei, in his book *China's Trapped Transition*, discusses the roots of official corruption and why it will likely continue to flourish until the country adopts democratic reforms. Pei describes the "decentralized predation", which results from the central government's handing over responsibility for curbing corruption to local officials. These officials have little incentive to fight corruption, as they are the very people who are practicing it. In fact, they are driven by fear that the present order will some day be toppled to accelerate their predatory ways. Pei also notes that the "exit options" of hiding money in foreign banks and even of leaving China with huge stashes of cash are now easily and widely accessed.

Personal corruption manifests in a variety of ways. Piracy and counterfeiting, for example, are widespread in China. Little attention is given to protection of intellectual property rights. Again, decentralization is partly responsible for these phenomena. Local officials often have a financial stake in companies that steal or illegally copy designs. Piracy is not confined to small-scale operations like watches and handbags. For example, Japan estimates that, of 11 million motorcycles sold in China in 2002, nine million were Chinese-made ripoffs of Japanese designs.

From my reading, I gather that most Chinese would not characterize piracy or counterfeiting as morally wrong or as unfair to the people and companies that are being victimized. In fact, anyone who plays by the rules is likely to be labeled a sucker and may even be seen as untrustworthy. I found a number of opinions as to why this is true, which I boil down to the following:

- First, China's economic reforms did not begin with carefully planned excursions into free-market dealing. They started with <u>illegal</u> privatized agricultural and village industrial enterprises that were carefully hidden from central government oversight. With their success, these enterprises became harder to hide; and the central government recognized their value and gradually changed policy to accommodate them. But the fact remains: China's first modern entrepreneurs were outlaws.
- Second, the communist ideology is essentially dead in China, and it has been replaced by a veritable ideological vacuum. There is no "golden rule" that dominates people's attitudes towards others; and there is no expectation of fair or equal treatment.
- Third, Confucian philosophy, still a major driver of Chinese culture and behavior, is dominated by a holistic view, in which consequences are far more important

than causes and effects. To the people who are pirating other's designs, the most obvious consequence is that they gain wealth; and that's a <u>good</u> thing.

- Finally, piracy and counterfeiting are essential pillars of the Chinese economy, having brought millions of individuals out of abject poverty. Officials, including central government officials, actually have <u>negative</u> incentives to curb these practices.

Official and personal corruption are eating away at China internally, and they are significantly affecting diplomatic efforts abroad. Failure to address the problem with sufficient vigor will likely lead to one or more of the following outcomes: uncontrollable public outrage; irreparable fissures within the CCP; and increasingly bitter trade disputes.

<u>Challenge #7: Environmental Degradation</u>

I believe that environmental degradation is the most likely issue to slow or even destroy the Chinese economy. This assessment derives from the following seven facts:

1. As discussed previously, China has too many people for its limited natural resources. Less than 15% of the land is arable, and the amount of arable land decreases annually at an alarming rate. Poor farming practices, deforestation, badly planned water diversion projects, and urban sprawl turn over two million acres of farmland into wasteland every year.

2. Coal remains the most common energy source, and its burning in homes, industries, and power-generation plants contributes significantly to global warming, acid rain, and huge amounts of airborne mercury and other toxic materials. China has the unenviable distinction of being home to 16 of the 20 most polluted cities in the world.

2, Continued. And air pollution will likely get much worse before it has any chance of getting better. The number of automobiles in China was quite low in 1995 (about 13 cars for every 1000 citizens); since then it has increased at an average rate of about 20% per year—at this pace, the total number of autos in China doubles once every three to four years. Even with this growth, the per capita number of autos in China is currently only one-fourth that of most developed countries, and one-sixth that of the U.S; so there remains much room to grow. Compounding the problem is the fact that Chinese autos are much more polluting than those built for the Japanese, European, or US markets. Use of catalytic converters, which require palladium and other expensive materials, is virtually unknown in cars sold in China.

3. Availability of clean water may pose an even greater challenge to the country than bad air. China's water use is very inefficient, which is typical of developing nations. Atypical, however, is China's overall abuse of water resources, based on its huge population. It takes China seven to 20 times as much water to create a unit of GDP as it does in developed countries.

3, Continued. Fresh water supplies are shrinking at an accelerating pace. Rivers flowing near urban areas are severely polluted—over 75% of the water in them is unsuitable for drinking or fishing. Eutrophication of lakes, caused by chemical fertilizer runoff and industrial pollution, kills millions of fish every year and makes many water supplies unfit for human consumption or even irrigation. Perhaps of greatest concern, though, is the depletion of underground aquifers, which Chinese authorities have labeled "the last water reserve". The so-called "shallow aquifer" under the North China Plain is so heavily pumped in many areas that its viability is entirely dependent on replenishment by rainfall. The "deep aquifer" in the same region is a "fossil" aquifer, containing ancient water which cannot be replenished by rainfall. Tapping of the deep aquifer, with wells as deep as 1000 meters, has become commonplace. There will be no more ancient water when this aquifer has been emptied.

4. The central government's typical response to an environmental problem is to launch a large-scale corrective "campaign". These campaigns are poorly planned, generally target the wrong sources, and are characterized by a burst of initial interest followed by a long period of apathy and neglect.

5. As previously mentioned, Confucianism remains a powerful philosophical force in China. Among the Confucian principles is a hierarchical view of man and nature, with man at the top. Man not only <u>can</u> tame nature; it is man's <u>duty</u> to tame nature. Taming nature often has undesirable ecological consequences.

6. The environmental protection bureaucracy in China is absurdly small, given the magnitude of the country's environmental issues—in per capita terms it is about 1/100 the size of the U.S. EPA. Enforcement of environmental regulations is left to local officials. These are the same officials who are responsible for economic growth in their regions. Environmental considerations almost always take a back seat to near-term economic growth. In addition, it is common practice to push one's own environmental problems onto adjacent localities (e.g., by dumping toxic waste outside the city), rather than to take real measures to solve them.

7. Finally, foreign companies with operations that are environmentally hazardous find China a good place to do business. They bring their most polluting enterprises into the country and rarely face fines or other penalties.

China cannot continue on its current environmental path without severe impacts to public health and agricultural output. As health effects multiply, and as the source of income for more than half of Chinese citizens is imperiled, more and more anger will be directed at both local and central government officials. Whether or not this anger will force the CCP to cede any power is debatable; however, what is not debatable is that the longer China waits to fix their environmental problems, the more expensive the cleanup effort will ultimately be; and the more severe the braking effect on the economy. Unfortunately, there appears to be little national will to address the environmental problems with the requisite urgency.

Summary and Conclusions

To summarize, China faces monumental impediments to continuance of its “economic miracle”. These impediments can likely be overcome only by implementation of significant political reforms. Unfortunately for China and, indeed, for the world, these reforms are unlikely to occur anytime soon. The entrenched elites have too little to gain and too much to lose by making wholesale changes to their methods of governance, even if their failure to embrace change means long-term weakening of the state. Some catastrophic event (e.g., failure of a major dam, another large earthquake, etc.) might trigger rapid coalescence of an opposition movement or a regime-breaking rift within the CCP. Otherwise, look for a continuation of the challenge / response cycle. China experts have been predicting the end of Communist Party rule for over two decades; but, thus far, the Party has shown remarkable resiliency and a keen sense of what is going on around them. I find myself drawn to the gloom and doom crowd, predicting not just a slowing of the economy but a massive shake-up of the country; but I wouldn’t put it past China’s leaders to find a way through all their problems. In the end, I would answer my initial question, “Should Alex Learn Mandarin”, as follows: “It probably wouldn’t hurt”.

Bibliography

I. *The Next Hundred Years: A Forecast for the 21st Century*, by George Friedman. Mr. Friedman is the founder of Stratfor, a private intelligence and forecasting company that does substantial business with the U.S. government. His book is not specifically about China; but Chapter 5, "China 2020: Paper Tiger" discusses an apocalyptic future for the country.

II. *The Chinese Economy: Transitions and Growth,* by Barry Naughton. This book is intended for use as a college textbook on the subject. Dr. Naughton, Professor of Chinese Economy at UC San Diego, appears to be the foremost American authority on the history and current status of the Chinese economy. He is quoted or cited liberally in virtually all the other books I read. He covers just about all the territory of the other books; however, he leaves it entirely to the reader to decide "Whither China".

III. *The River Runs Black: The Environmental Challenge to China's Future,* by Elizabeth Economy. Ms. Economy, a Senior Fellow at the Council on Foreign Relations, provides a compelling description of an unfolding ecological disaster in China. As I say in my paper, this looks to me like the most likely issue to derail Chinese economic progress.

IV. *Poorly Made in China: An Insider's Account of the Tactics Behind China's Production Game,* by Paul Midler. This book is a fun read, but it was essentially worthless to my pursuit of an answer to my question. Mr. Midler is a businessman who set up shop in China as an intermediary between American firms trying to improve or establish businesses in China and the Chinese manufacturing segment. His story is replete with personal anecdotes about untrustworthy Chinese; but it lacks objective reasoning, discussion of alternative viewpoints, and any statistical underpinnings.

V. *China's New Nationalism: Pride, Politics, and Diplomacy,* by Peter Hays Gries. Gries, Assistant Professor of Political Science at University of Colorado, describes the rise of populist nationalism in China. In the West, Chinese Nationalism (mostly observed in virulent protests against the US and Japan) is generally regarded as a byproduct of Communist Party propaganda—i.e., it is carefully crafted as a means of channeling anger and frustration away from their logical recipients (the Party leaders). Dr. Gries agrees that the CCP has manipulated nationalistic feelings; but he believes that the tiger has gotten loose. Chinese nationalism is now a "bottoms up" phenomenon, which could eventually prove dangerous to the ruling elite.

VI. *The Three Faces of Chinese Power: Might, Money, and Minds,* by David Lampton. Dr. Lampton is Director of Chinese Studies at Johns Hopkins. His very interesting and readable book provides a detailed description of China's approach to improving its Comprehensive National Power (CNP). He stresses that China sees significantly more value in Money (economic power) and Minds (ideational power) than it does in Might (military power). Unless the US takes a highly confrontational path with China, he does

not anticipate that China will seek to greatly increase its ability to project power much beyond its land borders.

VII. *China's Trapped Transition: The Limits of Developmental Autocracy*, by Minxin Pei. Dr. Pei, Director of the China Program, Carnegie Endowment for International Peace, comes closest to George Friedman's view of China as doomed to fail. Since he devotes his entire book to this thesis (as opposed to a single chapter in The Next Hundred Years), his story is significantly more convincing. However, Dr. Pei admits that the implosion may never come. China's future may, instead, be one of long-term stagnation.

VIII. *What Does China Think?*, by Mark Leonard. Mr. Leonard is Executive Director of the European Council on Foreign Relations, a think tank located in the U.K. In his book, he provides a Chinese perspective on China's challenges and opportunities. He describes the "New Left" and "New Right" of Chinese socio-political doctrine; and the unique version of capitalism that has emerged in the country.

IX. *China, Inc*: *How the Rise of the Next Superpower Challenges America and the World* by Ted Fishman. Mr. Fishman is an author whose essays and reports have appeared in New York Times Magazine and other publications. Of all the books I read, this was the most readable dissertation on China's economy and its influence on the world economy. Mr. Fishman touches on all the challenges I describe in my paper; and he provides advice to U.S. leaders on how to handle our relations with China.

X. *China Shakes the World: A Titan's Rise and Troubled Future*, by James Kynge. Mr. Kynge is the former China bureau chief of the *Financial Times* in Beijing. This book, like *Poorly Made in China*, is replete with personal observations and anecdotes; however, it is more analytical and insightful than the book by Mr. Midler.

XI. *China: Fragile Superpower*, by Susan Shirk. Dr. Shirk is a Professor at UC San Diego and Director of the University of California's Institute on Global Conflict and Cooperation. Formerly, she was Deputy Assistant Secretary of State under the Clinton administration, responsible for China. She brings three decades of experience with China to her book. A photo on page 15 shows her shaking hands with Zhou Enlai in July 1971—her legacy of dealing with U.S.-Sino relations is deep, indeed.