

# Introduction

China intrigues in so many ways: a mesmerisingly large population, an intimidatingly long political and cultural tradition, a reputation for looking at and thinking about issues in very distinctive ways, a cultural predisposition to communicate in indirect and ambiguous ways, a continuous tradition of authoritarian and opaque governance, and so forth. Until about fifteen years ago, however, China was an interest for a small band of specialists. That has all changed. China is now a compulsory object of understanding and analysis for all students of strategy, international relations and global economics.

We know that China has dominated East Asia in the past. Indeed, unlike every other major power in today's world, China's fortunes have surged and ebbed *several* times over the last two millennia, with both peaks and troughs often enduring for centuries. It might even be said that, in the more distant past, China loomed so large in the affairs of East Asia that it dominated the region both when it was strong and when it was weak. With China now widely regarded as dependably resurgent and destined again to become a major force in shaping the destiny of East Asia and the wider world, some contend that this will represent its fourth re-emergence as one of the first-rank nations in the world.<sup>1</sup>

The Chinese make little secret of the fact that their natural reference point in this regard is not the likes of Japan, Germany, France or the United Kingdom but the titan of the contemporary world, the United States of America. The United States has been an integral part of China's saga for well over a century. This is hardly surprising as this is the timeframe in which the United States emerged, first, as the largest single economy in the world and then, progressively, as the dominant comprehensive global power. What is certainly of interest, however, is the variety of roles it has played in respect of China. The United States was a prominent member of the group of industrialised states that broke down imperial China's resistance to open trade and investment—an often harshly imposed transformation that the Chinese remember as the 'century of humiliation' (roughly 1850–1950). The United States was also a *mediator* between Japan and Russia following their war in 1904–1905. The settlement included recognising Russian territorial claims in northern Manchuria and that Korea was a Japanese protectorate—both issues of profound interest and concern to imperial China. Since then the United States has been China's *saviour*, in crushing Japan in 1945; China's primary *enemy* from the time their forces clashed in Korea in 1950, although the United States was ultimately pushed into second place by

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<sup>1</sup> Wang Gungwu, 'The Fourth Rise of China: Cultural Implications', *China: An International Journal*, vol. 2, September 2004, pp. 311–22.

the Soviet Union; China's *informal protector*, from the time of US-China re-engagement in 1972 until the demise of the Soviet Union in 1989–91; and China's *economic partner* since China's embrace of the market economy in 1978 (most analysts would agree that, taking markets, capital and technology together, the United States has been the most important external factor in China's economic miracle over the past thirty years). US Secretary of State Hillary Clinton echoed an almost universal sentiment to the effect that the US-China relationship will be the most important bilateral relationship in the world in the twenty-first century.<sup>2</sup> This, of course, is tantamount to acknowledging that China, and only China, is securely on track to becoming a *peer competitor* of the United States.

In terms of hard numbers, China has a long way to go before it will step into the arena currently monopolised by the United States. But, in terms of perceptions and expectations, China has certainly achieved Mao Zedong's declaration in 1949 that China would once again 'stand up' in the community of states.

**Table 1: Shares of World GDP, 1000–1998 (per cent)**

	1000	1500	1820	1870	1913	1950	1973	1998
Western Europe	8.7	17.9	23.6	33.6	33.5	26.3	25.7	20.6
Western Offshoots	0.7	0.5	1.9	10.2	21.7	30.6	25.3	25.1
Japan	2.7	3.1	3.0	2.3	2.6	3.0	7.7	7.7
Asia (excluding Japan)	67.6	62.1	56.2	36.0	21.9	15.5	16.4	29.5
Latin America	3.9	2.9	2.0	2.5	4.5	7.9	8.7	8.7
Eastern Europe and former USSR	4.6	5.9	8.8	11.7	13.1	13.1	12.9	5.3
Africa	11.8	7.4	4.5	3.7	2.7	3.6	3.3	3.1
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(Source: Angus Maddison, *The World Economy: A Millennial Perspective*, OECD, Paris, 2001, p. 127)

The last era in which China was strong and dominant in its region ended more than two hundred years ago. This can be seen in the Organisation for Economic Co-operation and Development (OECD) estimates of world Gross Domestic Product (GDP) extending back to the year 1000 (although with greater confidence naturally attached to the estimates for more recent times). The share of world output attributed to Asia without Japan—a figure dominated by China and, to a lesser extent, India—fell precipitously between 1820 and 1950, and remained low into the 1970s. The figure of 15–16 per cent of world output in 1950–70, compared to more than 50 per cent 150 years earlier, suggests strongly that standards of well-being in China fell in absolute as well as relative terms. Small wonder that modern, Communist China labelled this era 'the period of

2 Hillary Rodham Clinton, 'Clinton: Security and Opportunity for the Twenty-first Century', *Foreign Affairs*, vol. 86, no. 6, November/December 2007, pp. 2–18, available at <<http://www.foreignaffairs.org/20071101faessay86601/hillary-rodham-clinton/security-and-opportunity-for-the-twenty-first-century.html>>, accessed 24 June 2009. Article written when Clinton was a US Presidential candidate.

humiliation', and as a set of circumstances that epitomised the dangers of being politically and militarily weak *and* open economically (the latter quality having been essentially imposed by the industrialised West).

The period since China's last heyday under the Ming and early Qing dynasties—a period of about two centuries—is well beyond the timeframe that allows easy inferences to be drawn about today and tomorrow. There can be no doubt that China's past contains important clues to its future: the art lies in discriminating between what has truly become history and what is likely to be of enduring importance.

With China now heading for a further re-incarnation as a heavyweight on the international scene, the questions attracting everyone's interest include: How strong and coherent and focused could China become? Where will China focus its strength and influence? What instruments of power and influence will China give preference to? Are perceptions of past glories and embarrassments (and beliefs about how these fluctuating fortunes came about) important in shaping the thinking of China's elite in the twenty-first century? Do the Chinese know where they want to go and what they will do when they get there, or will it be more a case of figuring it out as they go along and making the most of whatever circumstances they find themselves in? Is it important that China retains an authoritarian government, and will this be an enduring characteristic of its present revival?

The dimensions of China's economic performance since the 'reform and opening up' in 1978 are well known and will not be discussed in this paper. In 1963, despite having a population 3–4 times as large as the United States, China's Gross National Product (GNP), converted at estimated purchasing power parity rates rather than the official exchange rate, measured about 11 per cent that of the United States. Fifteen years later, in 1978, the differential had narrowed modestly to 18 per cent. At that time, China's GDP per capita was still just 4 per cent of the global average, about the same as it had been 20 years earlier, in 1960.<sup>3</sup> Over the next thirty years, China made up ground at a spectacular rate, sustaining an average real rate of growth of GDP of nearly 10 per cent. By 2008, using official exchange rates, China was the third largest economy in the world, poised just below Japan, and certain to achieve the number two ranking, probably by 2009. Using purchasing power parity (PPP) rates, China's economy in 2008 was already number two in the world and, indeed, some 80 per cent larger than that of Japan.<sup>4</sup>

3 See Charles van Marrewijk, *International Trade and the World Economy*, Oxford University Press, Oxford, February 2002.

4 These GDP comparisons are based on estimates prepared by the Central Intelligence Agency and convert estimates of China's GDP into US dollars using both official and PPP rates. See *CIA World Factbook*, available at <<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html>>, accessed 24

Late in 2007, however, the World Bank published the results of a major undertaking to update PPP estimates for its member states: the new rate for China suggests that its GDP should be revised downward by a whopping 40 per cent. Clearly, these new figures do not mean that China's visible economic vibrancy has been to an important extent illusory. What it does mean is that the penetration of economic development within China is substantially less than previously thought. As goods and services within China are more costly than previously thought, so the purchasing power of the Yuan is lower than previously thought. The World Bank now estimates that the PPP rate is closer to just twice as strong as the official exchange rate rather than four times as strong. It will take time for this new estimate to filter through the community of analysts that manipulate economic data. The most obvious consequence, clearly, is that the timeframe in which China is expected to become the largest economy in the world has slipped out well beyond 2020. But other calculations, including some estimates of China's military expenditure and of the share of GDP that China devotes to the military, will also be affected as new estimates are prepared and begin to be employed for analytical purposes.

Coping with the consequences of its stunning economic performance has and will present China with some difficult policy choices—especially in the fields of environment, water and energy security, and sharply increased income disparities between urban and rural communities. Few analysts, however, are prepared to argue that China's development is inherently fragile, that the political leadership will find one or more of these challenges to be insurmountable and that China's climb to the rank of one of the world's preeminent states will be seriously disrupted.

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June 2009. The figures for 1963 and 1978 are also based on CIA estimates using PPP rates, but were taken from the relevant editions of *World Military Expenditure and Arms Transfers*, *US Arms Control and Disarmament Agency*, Washington, DC.