The Rise of China

PS 142A.18
Summary

- China is growing in power and will undoubtedly seek influence in world politics.
- The question is what “kind” of China will emerge as its power expands.
  - Economically, it supports the status quo.
  - Politically, it has unresolved border disputes.
  - But interests will change as power grows.
- As it expands internationally, it is acquiring specific assets that will require indirect rule.
  - Risk of exclusive economic blocs.
Growth of Chinese GDP

Real GDP Index (100 = US GDP in 2010)

- United States
- China
FIGURE 14.1  The Ten Largest Economies, 2013 versus 2050

GDP 2013

1. UNITED STATES
2. CHINA
3. JAPAN
4. GERMANY
5. FRANCE
6. UNITED KINGDOM
7. BRAZIL
8. ITALY
9. RUSSIA
10. INDIA

GDP 2050

1. CHINA
2. UNITED STATES
3. INDIA
4. MEXICO
5. UNITED KINGDOM
6. INDONESIA
7. BRAZIL
8. ITALY
9. RUSSIA
10. JAPAN

GDP Index (100 = U.S. GDP in 2013)
Growth of Chinese GDP per capita
Though it depends on how you measure income
Will Growth Continue?

- China has nearly exhausted extensive growth

- Further growth must come from
  - Using resources more efficiently within existing occupations
  - Innovation

- First Russia and then Japan failed to make the transition to rapid intensive growth. Open question as to whether China succeeds.
  - Growth rates will converge to world average
  - Political challenges likely as growth declines
<table>
<thead>
<tr>
<th>CAPABILITY</th>
<th>UNITED STATES</th>
<th>CHINA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total military spending</td>
<td>$581 billion</td>
<td>$129 billion</td>
</tr>
<tr>
<td>Percent of world military spending</td>
<td>36%</td>
<td>8%</td>
</tr>
<tr>
<td>Active military personnel</td>
<td>1,433,150</td>
<td>2,333,000</td>
</tr>
<tr>
<td>Nuclear warheads</td>
<td>7,300</td>
<td>250</td>
</tr>
<tr>
<td>Intercontinental ballistic missiles</td>
<td>450</td>
<td>66</td>
</tr>
<tr>
<td>Nuclear submarines</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>Aircraft carriers</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Bombers</td>
<td>155</td>
<td>136</td>
</tr>
<tr>
<td>Fighter aircraft</td>
<td>3,345</td>
<td>1,835</td>
</tr>
<tr>
<td>Main battle tanks</td>
<td>2,785</td>
<td>6,540</td>
</tr>
<tr>
<td>Artillery pieces</td>
<td>7,429</td>
<td>13,380</td>
</tr>
</tbody>
</table>

Note: All figures are 2014 estimates.
What Kind of Superpower Will China Be?

A real debate
Economic interdependence is so high, and so beneficial to China, that it will accommodate and even support existing international order.

China is working within the status quo and, as interdependence deepens, will continue to do so.

Political tensions function of unresolved border disputes.
China’s Share of World Trade

Dec, 2001: China joins WTO
Dec, 1978: Reform and Opening begins

Year: 1949 to 2015

Graph shows the share of world trade for exports and imports, with significant increases post-1978 and 2001.
Trade Dependence (as percent of GDP)
Responsible Stakeholder

- Economic interdependence is so high, and so beneficial to China, that it will accommodate and even support existing international order.
- China is working within the status quo and, as interdependence deepens, will continue to do so.
- Political tensions are a function of unresolved border disputes.
China’s Territorial Disputes
Responsible Stakeholder

- Economic interdependence so high, and so beneficial to China, that it will accommodate to existing international order
- China is working within the status quo and, as interdependence deepens, will continue to do so
- Political tensions function of unresolved border disputes
- U.S. should seek to deepen engagement
Peer Competitor

- As China rises, it will inevitably challenge the U.S. for leadership
  - China’s current behavior is no guarantee of future ambitions
  - As status quo power, U.S. will be pitted against China
  - Power and influence are zero-sum; China’s gains can only come at expense of U.S.

- U.S. should seek to contain China economically and politically
  - Reduce interdependence
  - Stand firm against territorial claims
Peaceful Rise

- Current order advantages China as a developing country
  - China is free riding and “cheating” on the rules of the current order
- As a state-capitalist system, China’s economic interests will differ from those of the U.S.
- China will demand new rules as it rises but its aspirations are (likely) limited
- U.S. should plan for the worst (“pivot” to Asia) but accommodate where appropriate
  - Aim to support moderate factions within Chinese leadership
Lessons from the U.S. Experience

- China’s Belt and Road Initiative (BRI) is stimulating investment in site specific assets
  - Infrastructure and raw materials extraction — including oil
  - Investments (through debt) are guaranteed by government
- Will eventually expand politically through indirect rule
  - To protect investments of firms and recoup loans, will be forced to exert some control over host governments
- Will likely seek special economic privileges within its emerging sphere-of-influence
State-Owned Enterprises

State-owned, and in a state
China

State-owned enterprises’ share, %

- Assets
- Profits
- Employment

Debt/equity leverage ratio

- State-owned enterprises
- Private companies

Return on assets, %

- Private companies
- State-owned enterprises*

Sources: CEIC; NBS; WIND; IMF

*Excluding local-government financing

Economist.com
Lessons from the U.S. Experience

- China’s Belt and Road Initiative (BRI) is stimulating investment in site specific assets
  - Infrastructure and raw materials extraction — including oil
  - Investments (through debt) are guaranteed by government
- Will eventually expand politically through indirect rule
  - To protect investments of firms and recoup loans, will be forced to exert some control over host governments
- Will likely seek special economic privileges within its emerging sphere-of-influence
Lessons from the U.S. Experience

- If China favors small, autocratic elites most willing to exchange policy for China’s support, will replicate the U.S. rule in Caribbean and Middle East
  - Will produce anti-Chinese resistance
- As a “vanguard” party that has long championed the masses, China might side with broader population against the elites
  - But this will require sharing benefits of investment and trade with host society
  - Some overtures in this direction—but how much is enough?
The Future

- Biggest risk (in my view) is development of exclusive spheres-of-influence
  - Will begin primarily in economic competition
  - China’s investments pull it in this direction; will require great forbearance to maintain “open door”
  - U.S. trade war and economic containment push China towards seeking an exclusive sphere
    - ZTE and Huawei
  - Once fear of market exclusion takes hold, becomes self-fulfilling competition
- We are on an extremely dangerous path
U.S. Response

- The New Containment (assume the worst)
  - Prepare for economic competition
  - Seek out markets and allies in China’s potential sphere of influence
  - Prepare for new cold war

- Strike a new Grand Bargain on international trade and investment
  - China must have room to grow
  - Expand rules to ensure free and open markets with a state-capitalist competitor
  - U.S. should join forces with other LIO countries to bargain with China