

# Rising China, Shifting Paradigms

## What Can the Asia-Pacific Region Do?



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### China: Resurging with Strong Provincial Economic Prowess

China has sequentially overtaken the United Kingdom, Germany, and most recently Japan to become the world's second largest economy, in 2010. Some analysts, such as Angus Madison, point out less of a "rising China," but more of a "resurging China." As *The Economist's Chart* below indicates, China in history before its decline in 1820 has always scored better than or been on a par with India in the history of world GDP. Furthermore, *The Economist* highlighted China's provincial economic prowess in the map of GDP and indicated that some provinces carry the weight of a national GDP and are also substantial in their trade status. For instance, Guangdong's GDP (at market exchange rates) is almost the equivalent of Indonesia's, and its exports are as much as South Korea; Jiangsu's and Shandong's outputs exceed that of Switzerland's, and Jiangsu's exports are as much as Taiwan's.

### Wealth & Power

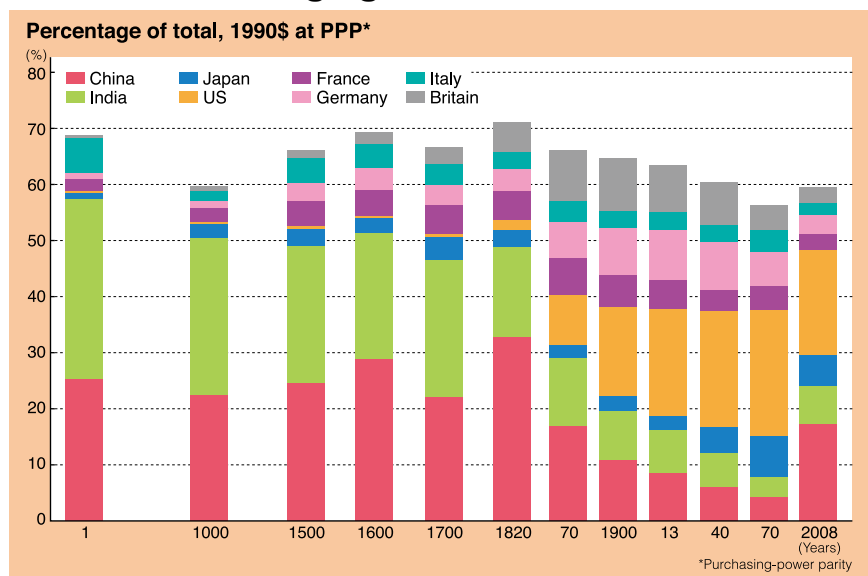
Amitai Etzioni, Nobel Prize-winner, (in his book *A Comparative Analysis of Complex Organizations*) classifies "power" into three categories – namely, coercive power, intellectual power, and

remunerative power; to put it bluntly, these are military, ideology, and money powers. Traditionally, military power has been considered "hard power," whereas cultural value systems, economic prowess, and the ability to influence are considered "soft power." George Bush Jr. focused on "hard power," and emphasized the "preemptive power" against the "axis of evil," whereas Hilary Clinton under President Obama upholds "smart power" with a combination of hard and soft power.

In the analysis of the shifting power paradigms evolving from the "rising China," most are inclined to acknowledge China's rising economic status and America's relative decline. However, the US remains the world's largest economy, and the dynamics of the newly emerging economies, of which China is an important one, are surging. From *Table 1*, one can note that China's huge population is the source of a comparative advantage in the GDP portfolio. China's population is four times that of the US, and ten times that of Japan. However, China's per capita income is around one-tenth of that of the US, Japan, and Germany, respectively, and one-eighth of that of France. No wonder China always maintains that it is only a "developing country." During the past three decades, China's "one-child policy" was ironically the target of strong criticism in the West. Without population control, however, China's per capita income would be even lower.

CHART

### China as a Resurging Economic Power



Source: *The Economist*

### G2: Myth or Reality?

From *Table 2*, one can see that, although China has a trade surplus with the US, China bears trade deficits with all its other major trade partners. As President Obama stated, the Sino-US bilateral relationship is the world's most important bilateral relationship. In his State of the Union speech this year, Obama maintained that, "America still has the largest, most prosperous economy in the world. We are home to the world's best colleges and universities," but points to China's status as "home to the world's largest private solar research facility, and the world's fastest computer." China is acknowledged as the US's foremost competitive rival in economy and technology. According to IMF, in 2010 the newly emerging economies increased trade by 13%, and developed economies by 10-11%.

According to UNCTAD, there was active foreign direct investment in China and India in

TABLE 1

## The World's Top 5 Economies: Comparison in Economic Indicators

Country	GDP (2010; US\$)	PPP (2010; US\$)	Geogra- phic Span (KM <sup>2</sup> )	Popu- lation (million)	GDP per capita (US\$)	Merchandise	
						Export Ranking in World Trade (2009)	Import Ranking in World Trade (US\$)
US	14,256.3	14,720	9,629,091	312.10	45,678	3	1
PRC	6,050.0	9,872	9,596,961	1,342.47	4,506	1	2
Japan	5,500.0	4,338	377,930	127.37	43,181	4	5
Germany	3,306.0	2,951	357,114	81.80	40,415	2	3
France	2,555.0	2,160	632,759	65.82	32,816	6	4

Source: FEDSTATS in US, Federal Statistics in Germany, National Bureau of Statistics of China, National Account of Japan, National Institute of Statistics and Economic Studies in France, 2011 CIA World Factbook, World Trade Organization.

2009, and it increased substantively in 2010. President Obama's policy goal of doubling exports in five years inevitably aims at newly emerging economies. As China has been the biggest buyer of US government bonds for the past three years, there have been debates as to the negative impacts of China's rise, and on whether the US Quantitative Easing policy could ease the negative impacts so created.

### China's Military: Not on a Par as Yet

On the military front, the US has not generated sufficient consensus on the war in Iraq, while the prolonged warfare in Afghanistan was costly and demoralizing. The recent military exercises in northeast and southeast Asia as well as the recent US engagement in Operation Odyssey Dawn in Libya all point to declining American coercive power. China's military budget has increased from 533.4 billion RMB last year to 601.1 billion RMB this year, a 7.5% rise. However, China's defense budget constitutes only a minimal proportion of her GDP. In 2009, the US, China and Japan's defense expenditures constituted 4.6%, 2.0%, and 1.0% of their GDPs, respectively. According to the International Strategic Research Center's report, in 2010, the U.S. defense expenditure totaled US\$693 billion as the world's No. 1 (60%), whereas China's totaled US\$76 billion as the world's No. 2, and it has the world largest army. China's aspirations to become a maritime power – evident in her blue-water navy, aircraft carriers, and submarines – has generated anxiety and

TABLE 2

## China's Trade Portfolio with Key Partners in 2010

(US\$ billion)

Economies	Exports	Imports	Trade Balance
US	283.30	102.00	181.30
Germany	68.05	74.34	-6.29
Japan	121.00	176.70	-55.70
South Korea	68.70	183.30	-114.60
ASEAN	138.20	154.50	-16.30
Taiwan	29.70	115.70	-86.00

Source: PRC Ministry of Commerce & Customs Bureau

fear in the US and China's neighboring states. The US has reiterated that the US is not only to engage with forward deployment, but also to lead Asia. The Sino-US bilateral military exchanges have the twists and turns of being put on hold and then renewed afresh, and are earmarked by precarious uncertainty.

### International Burden-Sharing: Symbol of Remunerative Power

Though it has become the world's second largest economy, China's shared remunerative responsibilities have yet to match her status. Although monetary contribution is not the only indicator for fulfilling

one's international obligations, the amount of contribution has a symbolic implication for remunerative power. From *Tables 3, 4 and 5*, one can see that China's contributions to the United Nations, the World Bank, and the International Monetary Fund have not quite matched its status as the world's No. 2 economy.

The US and Japan remain the top two contributors in the three international organizations sampled here. These two countries could further encourage China to keep abreast with her new status as the world's No. 2 economy, and shoulder greater responsibility in development aid, joint resource exploration, and collaboration.

### Intellectual Power: Potential in the Making?

From the standpoint of value systems, US-led democracy and market capitalism seem to have become the core values in the globalization process in the post-cold war era. However, the psyche of rising China has been haunted by the traumatic recent history of Western powers' invasions and spheres of influence, and China's indignation. The modest notion of "shielding the shine, nurturing wisdom and avoiding prominence" is well understood to mean preempting being bashed. The inspiration for a development course of "trial and error" and the process of seeking a "peaceful yet different" path" has illustrated China's unique and cautious aptitude

TABLE 3

### Contributions to the UN by the Top 5 Economies

Country	UN (2011)		
	Contributions (US\$)	%	Ranking
US	582,678,514	22.000	1
PRC	84,461,899	3.189	9
Japan	331,861,899	12.530	2
Germany	212,359,833	8.018	3
France	162,170,025	6.123	5

Source: UN Website

TABLE 4

### Contributions to the World Bank by the Top 5 Economies

Country	WB (2010)					
	Contribution Country Amount (US\$mIn)	Contribution (%)	Votes	Pre-amendment Voting (%)	2010 Post-amendment Voting (%)	Rank-ing
US	264,969	16.83	265,219	16.36	15.85	1
China	44,799	2.85	45,049	2.78	4.42	3
Japan	127,000	8.07	127,250	7.85	6.84	2
Germany	72,399	4.60	72,649	4.48	4	4
France	69,397	4.41	69,647	4.30	3.75	5

Source: the World Bank website

towards US-led democracy and market capitalism.

Most Western experts agree that the ruling Communists in China are in no danger of being overthrown any time soon. As Kevin O'Brien, a China expert at UC Berkeley, maintains, "They've shown themselves to be a whole lot more flexible than the Egyptians and the Tunisians of the world." With 10% growth, China is embracing an air of optimism. Over the past two decades, China's annual per capita urban income has more than tripled, to \$3,100 a year; life expectancy has been extended by more than six years, to an average age of 75; and the number of illiterates has dropped by 46 million. Intra-Party reform, not the "jasmine revolution," seems to be the sure way to proceed with political liberalization in China.

According to China's Ministry of Education, foreign students from 194 nations are currently studying in China, reaching a total of 265,090 in 2010, a surge of 8% compared to 2009. China's cultural influence and soft power are on the rise, as most observers expected. With more and more students' exchange and academic collaboration, the world's greatest minds will meet for brainstorming, mutual understanding, and cross-fertilization.

### External Response: China Will Be Whatever We Make it Out to Be

Joshua Cooper Ramo of Kissinger Associates, in his book *The Age of the Unthinkable*, points to some revolutionary thinking. Ramo argues that the new age requires a new approach to problem-solving: China cannot be contained, and negotiations with China should take China's interests into account as well, lest they backfire. He argues for a common-sense evolution, in that a risen China would be good for the world.

China, for sure, is on the rise in the spheres of remunerative, intellectual, and coercive influence. Inevitably, China is granted various degrees of faith in terms of her future evolving role. China will turn out to be whatever we make of it. If we make out of China a threat or an opportunity, the country could well fulfill our self-perpetuating prophecy. Instead of asking what China might become,

TABLE 5

## Contributions to the IMF by the Top 5 Economies

Country	IMF (2010)				Ranking
	Special Drawing Right		Voting		
	SDR (US\$mIn)	%	Votes	%	
US	37,149.3	17.09	371,743	16.74	1
PRC	8,090.1	3.72	81,151	3.65	6
Japan	13,312.8	6.12	133,378	6.01	2
Germany	13,008.2	5.98	130,332	5.87	3
France	10,738.5	4.94	107,635	4.85	5

Source: IMF Website

we should perhaps ask: what we could do and should not do in the process of China's evolution, so as to channel China into the direction of our preference – towards becoming a gentler and kinder hegemony, rather than a wild one. If China were treated as and expected to act as a responsible stakeholder, it would not be as defensive, and would come out of its nutshell. The world would need to accord China more encouragement to shoulder its global responsibility. The world should balance its expectation of

China's not being arrogant with the desirability of China's being responsible as a key player. Furthermore, China should balance its proclaimed "peaceful development" with its aspirations as a rising power. China should fine-tune modest nurturing with proactive contributions, which are two sides of the same coin.

### Managing Contentions: G20 & Beyond

In the heated debates in G20 regarding how the world should manage "global imbalance" and "structural reform," the concerns derived from two dimensions:

- (1) Imbalance out of financial crisis: foreign investment flows into the US, and the American Quantitative Easing policy and low interest rates would further encourage speculative investment in regard to the newly emerging economies.
- (2) Protracted protectionism due to increasing US debts and high unemployment rates.

Whereas Europe is recovering from the sovereign-debt crises of Portugal, Italy, Greece, Spain, and Ireland, Asia has become the key target for "balancing" global imbalance, given Asia's enormous foreign reserves. The key targets include trade balance and RMB appreciation. Nevertheless, China in G20 insisted that neither would RMB appreciation change the Chinese saving habit, nor would China's US\$ 2.8 trillion in foreign reserves become a target for review. The four emerging BRIC economies stood together, and Argentina's Central Bank also maintained that "the accumulation of foreign reserves is the best insurance for self-protection." With Japan's triple calamities of earthquake, tsunami, and nuclear radioactive leak, as well as the widespread unstable situation in North Africa, the world will make concerted efforts to consolidate Japan's earlier recovery and reconstruction as well as achieving peace and stability in North Africa. The global supply chain and resource mobilization should be sustained at their optimal functionality.

### Taiwan's Role: Opportunities & Challenges

Taiwan has always been in a delicate position in the US-China-Taiwan triangular relationship. Instead of taking sides on either side with the camp of "China as a Threat" or that of "China as an Opportunity," Taiwan should serve as a catalyst for China's evolving

development. In the debate on shifting paradigms, Taiwan need not take sides, and should cheer every developing country on, in its own chosen development path. Taiwan could be constructive by sharing its own experience in sorting out its own development path in the fabric of political, legal, economic, and social development. As the world's 18th-largest economy and as the guardian of traditional Chinese culture, Taiwan has a lot to offer in the wake of global re-balancing and structural reform.

President Ma's cross-strait policy of "sideline confrontation, create win-win" has taken us as far as the implementation of the early-harvest provisions in the Economic Cooperation Framework Agreement (ECFA). ECFA could well serve as a catalyst for deepening regional economic integration, intensifying regional supply chains, and contributing to regional peace and prosperity.

This year, the US is serving as APEC host, with three main themes of Regional Economic Integration, Green Growth, and Regulatory Cooperation. Taiwan should and will continue to be an active participant in the process by being a collaborator on initiatives and focusing on promoting economic cooperation. Taiwan will continue to collaborate with the US, China, Japan, and all other like-minded APEC partners in projects such as the SME Crisis Management Center, Emergency Preparedness, Green Buildings, and Low-Carbon Cities. Taiwan should also aspire to extend the benefits of ECFA to others by joining other regional economic integration schemes, including ASEAN+X, Trans-Pacific Partnership, and the Concerted Unilateralism of APEC.

As President Obama gave a supporting hand to ECFA, and provided Taiwan with most of its needed defense capability, the US is playing a responsible role in ensuring that rising China, in the midst of the shifting paradigms, continues to be a responsible stakeholder. The balancing act of engaging and putting a check on China is good not only for Taiwan, but also for China. In each and every step of the paradigm shift, the emerging multilateral world should see a more harmonious international system, a much better structured world order, and a more humane integration process. **JS**

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