China's Rise to Global Economic Power: What Does it Mean for the United States?

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My topic is the rise of China and its implications for the U.S. My thesis is that China's rapid emergence as a major economic and political force is the most significant development of our era, and viewed against the backdrop of sustained underperformance in the U.S., the EU and Japan, the consequences of the rise of China are even more pronounced. I would like to touch on four themes in my remarks: First, some historical context for the rise of China. Second, a discussion of China's economy and internal politics. Third, comments on China's foreign policy. And fourth, the implications for the U.S.

THE HISTORICAL CONTEXT

I mentioned the backdrop of economic performance of the U.S., EU, and Japan, but the more significant backdrop is that of China's own history. China spent 30 years, from 1949-79, as perhaps the worst performing economy in the world, and it has spent the subsequent 30-plus years as perhaps the best performing economy in the world.

If we looked at China at almost any time in the century before the 1979 reforms, we would probably see very little basis for optimism. As China made its journey from Imperial decline and collapse, to the rise of Warlords, to the Republic of China, to Japanese invasion, to the Communist revolution and subsequent turmoil, China has seen only brief moments of hope across an extended period of time. The world saw many different Chinas over that century: at times there was an impoverished China, an irrelevant China, a brutalized China, and even a self-destructive China.

But today we see a China no one alive today has ever seen: a successful China, a consequential China, a serious China. China has climbed out of a century of misery and is building a modern nation, with the fastest-growing economy in the world, a burgeoning middle class, more university graduates than ever, growing international political reach, and the most powerful military ever.

CHINA'S ECONOMY AND DOMESTIC POLITICS

We know that China has about 12% of global GDP and that should pass 15% this decade. To put that in context, this means that China grows by an entire France about every 4-5 years. Or to look at some different figures, China's reserves are about equal to the capitalization of the entire London Stock

Exchange.

This success is not to suggest that China is a country without challenges because China certainly has its share. As a developing nation, up to two-thirds of its citizens still live in very modest rural circumstances with limited access to education, employment, or health care. China faces other challenges from environmental degradation and demographics to corruption and all of the problems of single-party rule. These challenges give rise to core questions about the sustainability of the Chinese model. Can economic growth stay on track? Will socio-politico stability be maintained?

These two questions alone have resulted in a vast literature of analysis and conjecture and either could command a lecture on its own, but let me take a few minutes to tackle each.

Regarding economic growth: China faces many macroeconomic challenges such as high debt levels, a weak banking system, investment distortions, SOE inefficiencies, over-reliance on exports, and lack of competition and transparency. These are not merely my views, these comments will be found in many speeches by senior Chinese leaders. Despite these challenges, I believe China will be able to sustain high rates of economic growth for some time to come. I see two positive trends that will govern economic performance: First, China will be able to take advantage of its developing nation attributes, driving improvements in output through marginal improvements in labor productivity. Second, the new China leadership is fixed on the need to keep economic growth on track. They have not yet promulgated their economic agenda, but it is clear they realize a *status quo* administration is not acceptable.

Regarding socio-political issues, we can understand why there is speculation about stability. China might be country in the world where the social contract is still being written. Questions long-settled in other countries are still fresh in China, such as what are the government's obligations to its citizens? What rights do citizens have regarding their own government? Under what circumstances should citizens be able to change or even to criticize their government? In my view, these questions still need to be addressed. However, in the near term China is able to maintain social stability through high rates of economic growth and by gradual liberalization of personal space. It also has an effective security apparatus. All of this points to a high degree of near-term stability.

I'm not Gorbachev

Discussion over the issues of stability and economic reform conflated this summer with articles in the western media about Document Number Nine, a Party directive that abjures western constitutional democracy, "universal values" of human rights, western media norms, and other elements that most of us in this room would probably support as important attributes of a successful society.

A few conclusions from the Document: Despite a pronounced move away from Marxism as an economic and social policy, China remains very much a Leninist state in which one political party retains a monopoly of power. This move from Marxist-Leninism to Market-Leninism has been a fixture in China for over 30 years. Second, "reform" in China means something very different than "reform" means in the U.S. In the U.S., "reform" means changing the system. In China, "reform" means the changes necessary to make the system – the Market-Leninist system – work better. Third, when the leadership in a closed political system wants to establish latitude for action, it first needs to tend to its base constituencies and reassert its credentials within the system. This is the core meaning of the Document. Xi Jinping is saying three words: *I'm. Not. Gorbachev. I am not going to give away what we have built in the name of reform or for the sake of improving the economy. I am indeed going to make changes, and I am going to improve the economy, but I am going to keep the system intact.* Fourth, the discussion around Document Nine reflects a frequent desire in foreign countries to project hopes on Chinese leadership transition, an impulse we should guard against.

To my mind, there are indeed domestic changes underway in China, but they are of two types: regarding economic policy, there is a keen awareness of the softening of the rate of growth, and in the social arena, there is an explosion of social media that is transforming China.

Almost unnoticed, China is making the transition from totalitarian to authoritarian. Over the long run, this might make expectation management more difficult, but in the near-term it provides for a high degree of social stability.

FOREIGN POLICY

China has an extensive history of success in statecraft over its 5000 year history, but for most of that period statecraft usually related only to internal issues of governance, the challenges of administering a continent. For most of China's history, foreign policy simply meant border state management. There were times when this evolved into a more elaborate tributary state system and there were times when China had to deal with stronger foreign powers, but until recent years China could not be said to participate in an international political system. This is a new era for China in which it must participate in an international system, the members of which neither seek to dominate China nor to be dominated by it. This is a new era for the West as well. It is the first time since the Mongols that a power outside the western state system has the capabilities to shape outcomes in that system.

As China grows in its international role, the world has witnessed increased assertiveness and even occasional truculence, with China involved in more territorial disputes than any other country in the world. This tendency, combined with a sustained military build-up and a lack of transparency and control in its military gives rise to questions about China's long-term goals in Asia and its ability to work within an international system.

The good news is that China does not subscribe to a global predatory ideology. There is no new Cold War. The challenge is that China appears to follow policies in the region that seem to work against its own interests. There are several possible explanations for this seeming paradox, one that is not unknown in other countries as well: perhaps foreign policy decision-makers lack the mechanism for second-order cost-benefit analysis, or the concept of enlightened self-interest has limited appeal, or that much of China's regional policies are determined by historical views of threat and tribute, or that domestic bureaucratic politics play a role. This final point summarizes the paradox of China's foreign policy as that it seeks externally to promote reach and influence yet it is constrained by a domestic political environment that sometimes favors actions that undermine that same reach and influence. In that sense, it is hard to see how incursions in other countries' territories work to the advantage of China, but it is easy to see how they might placate domestic constituencies.. My analysis here is less optimistic than it is regarding economic success or domestic stability. I think that it is difficult in the Chinese system to exercise the restraint necessary to reassure neighbors. The strong silos in Chinese government, the lack of civilian control over the military, and the insularity of the system also restrict decision-making.

How can the US help

In my view, the US has an important contribution to make to this situation. China and the U.S. will both benefit if the U.S. improves its reach regarding China. Let me close with three observations as to how the U.S. can play a more effective role.

First, economic success at home. It is harder for China take the U.S. seriously if it is not perceived as managing its own affairs intelligently. This means returning to growth-oriented economic policies and dealing with structural issues. In the same vein, moving ahead with an EU-US Free Trade Agreement on an open architecture basis will not just help each market vis-à-vis the other, it will also promote global technical and regulatory standards, that will also help China.

Second, engage China on issues where there is a convergence, which tend to be the economic and financial issues. China and the U.S. have both benefited from China's WTO membership and the increased trade that resulted. China would benefit from continuing to open its economy to trade and investment. These goods contribute to lower inflation, a better quality of life, and particularly where health and safety issues are involved, social stability as well.

Third, the U.S. also needs to engage with other countries in the region, promoting trade liberalization and stronger security ties. The U.S. needs to assure China and the other countries of the region that it welcomes a more prosperous China just as it supports the stability of the region that allowed for that prosperity.

Indeed, if the next thirty years provide for the same economic growth in China as the past thirty, and the same regional stability as the past thirty, the leaders of China and the U.S. will be able to look back on successful policies that have made their countries, and the world, better off.

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