

Discussing China's Emerging Economic Power through the Lens of Realism Theory

Abel Muyisa Bahekwa,

Faculté des Sciences Economiques et de Gestion,
Université Libre des Pays des Grands Lacs, Goma, D.R. Congo.
Email – muyisabel@gmail.com

Abstract: *Cases of countries' fast economic progress are relatively numerous in world economic history. But the world has not witness many instances of global power balance shift as a result of a country's economic development. That is what makes China's economic rise an interesting case both for economic analysis and for international politics investigations. For the later, offensive realism theory provides a perspective for understanding rational power calculations leading economic choices. The extent to which this is observable in China's case is the purpose of this paper. Economic progress is discussed here not just as way of attaining prosperity but most importantly as a political tool and a security imperative that successfully helps alter the distribution of power among nations.*

Key Words: *China, Power, Realism, Balancing.*

1. INTRODUCTION:

Regarded by many as the main challenger to United States (U.S.), the People's Republic of China (PRC) switched into the 21st century within a particular context of the international system. The global political system resulting from the end of the Cold War, which consecrated the implosion of the Soviet Union at the turn of the 1990s, remains marked with the American superpower. In 1990, the U.S. produced more than 20 percent of the world economy and accounted for 45 percent of global military expenditure. More recently in 2016, the U.S. represent about 24 percent of the world economy and still holds the lion's share (about 36 percent) of global military expenditures. In modern history, no other State has registered such preponderance in terms of wealth, power and influence. Cases of countries around the world that have achieved levels of economic progress followed by a modification of balance of power in the international system are not easy to find in recent history. Currently the main emerging power, China, on its part, with its population of 1.3 billion (one-third of the world's population and five times that of the United States), its high and sustained economic growth (approximately 9.66 percent between 1989 and 2017), ranks second in the world production and holds the second largest defense budget in the world.

Rather than mere coincidence, this development has at its center rational calculations and anticipations dictated by goals and constraints faced by any major power. In order to achieve their goals, political leaders need methods and means, in order terms a strategy. The design of a comprehensive one will include a wide range of factors such as economic resources, productive capacities, culture, ideology, political institutions, etc.

A state's economic capability has always been one of the main determinants of its power whether defined in absolute and relative terms or in terms of scope or potential. The economy will remain an essential variable of states' power equation in the future. The world has recently witnessed that besides states, multinational companies (for which nationality can sometimes be difficult to tell) play a significant role whether in power projection or the ability to spread values. States therefore take into consideration those actors in order to assert their power. And China is no exception. At the end of the Cold War, China holds no illusion as to the resulting advantage of the only global superpower by then. The U.S. supremacy is undeniable on the military, economic and technological fronts. From this global configuration of power distribution, the protection of China's vital security interests would require the development of its military power, which would need to be based on strong economic foundations and an adequate technology mastering.

Efforts to explain China's unprecedented pattern and to decode its objective and behavior are numerous. This paper joins these efforts by following the argument that a state's economic endeavors and achievements can serve a great deal in understanding its behavior on the international stage where, according to realists' view, states are primarily concern and driven by their security and survival. We contend that economic reform plays a central role in China's grand strategy to attain great power status and, possibly, become a hegemonic power. In the following lines, we first recall the major arguments of Mearsheimer's offensive realism theory which serves as the background for our discussion. We then proceed by highlighting how the economy plays a key role in balancing U.S.' influence and fostering China's power at regional and global levels.

1.1 Offensive Realism as a Theory of International Politics

Developed by John Mearsheimer (2001), offensive realism is a theory of International Politics that explains states' main behavior by the maximization of their relative power given the anarchy that characterizes the international system. With this theory, Mearsheimer's ambition is to explain why relations between great powers are marked by conflicts. He poses a series of questions that drive his reflection on international politics. Among those are "why do great powers want power?" and "how much power do states want?" To answer those questions, he goes on articulating his theory around five main arguments which summarize the realist assumptions. First, he lays the fundamental postulate of realism that the international system is anarchic, meaning there is not any supranational government capable of preventing the use of force in the international system. Thus states are soles artisans of their own destiny and responsible for their own survival. Secondly, by their very nature, great powers have a certain military offensive capability and therefore can be dangerous to each others. The third assumption stresses that no state can be sure neither can it predict another state's future behavior on the international stage. According to the fourth assumption, the survival instinct is every state's first reflex. The fifth premise describes great powers as rational actors on the international chessboard. That is to say states strategically seek, by their actions, to achieve their objectives of security and of survival.

From these assumptions, Mearsheimer infers that great powers are suspicious to each others; they can only rely on themselves for their security and the best strategy for states' survival is the maximization of their relative power. Mearsheimer breaks away from defensive realists who contend that states only seek to maintain the existing balance of power (status quo powers). Such is especially the case of Snyder (1991), a neo-realism theorist who wrote "the international system provides only incentives for moderate behavior. Immoderate, unreasonable contradicts 'true' systemic incentives and must be caused at some other level of analysis".

On the contrary, Mearsheimer believes that the security of a state requires that it acquires as much power as possible, or even that states' ambition is to become the hegemon in the system. "They pursue expansionist policies when and where the benefits of doing so outweigh the costs. States under anarchy face the ever-present threat that other states will use to force to harm or conquer them" (Taliaferro, 2000, p. 128). Such a statement is a rejection of Waltz's defensive realism. For Mearsheimer, the survival imperative incompatible with any idea of status quo, and the only guarantee of survival in an anarchic international system is primacy, which is not the equilibrium between states but rather the predominance over them. He spares no argument in his effort to underline his point:

"Given the difficulties of determining how much power is enough for today and tomorrow, great power recognize that the best way to ensure their security is to achieve hegemony now, thus eliminating any possibility of a challenge by another great power. Only a misguided state would pass up an opportunity to be the hegemon in the system because it thought it already had sufficient power to survive" (Mearsheimer, 2001, p. 35).

In the same line, Zakaria (2005) underlines one of the most severe critiques of Waltz's defensive realism: "The urge to constantly seek survival will produce the same behavior as influence-maximizing, because anarchy and differential growth-rates ensure that survival is never achieved and the state is never allowed to relax its efforts". In an article published in *Foreign Policy* in 2005, Mearsheimer elaborates on the states' motivations:

"The international system has several defining characteristics. The main actors are states that operate in anarchy—which simply means that there is no higher authority above them. All great powers have some offensive military capability, which means that they can hurt each other. Finally, no state can know the future intentions of other states with certainty. The best way to survive in such a system is to be as powerful as possible, relative to potential rivals. The mightier a state is, the less likely it is that another state will attack it" (Mearsheimer, 2005, pp. 47-48).

In a world marked by competition, security lies on hard power (or military might), and it is always better to become a hegemon. Borrowing Bett's arguments, Randall L. Schweller (Schweller, 2001, pp. 171-172) states: "[...] states seeking to survive and thrive in a competitive, self-help realm, pursue their short run interest: that is, states seek power and security as they must in an anarchic order". From there we understand Mearsheimer's explanation on why states would seek the hegemon status in the international system. But, while affirming that a great power's ultimate objective is to become the most powerful in the system, Mearsheimer admits, at the same time, certain constraints such as the 'stopping power of water' which prevents from achieving that dream. This means that when large oceans are between great powers, the later are incapable of using them against each other despite the offensive capabilities at their disposal (Mearsheimer, 2001, p. 45). That is why it is more realistic and likely for a state to acquire the status of a regional hegemon, meaning predominance in the region it is located in, then ensure to prevent the rise of rival powers in other regions (Mearsheimer, 2001, p. 140). Concerning China, Mearsheimer warns:

"A Powerful China is likely to try to push the United States out of Asia, much the way the United States pushed the European great powers out of the Western Hemisphere. Specifically, China will strive to maximize the power gap between itself and its neighbors, especially Japan and Russia, and to ensure that no state in Asia can threaten it" (Mearsheimer, 2001, p. 47).

The argument here is that China's strategy is very close to the prescriptions of offensive realism theory. China's behavior at the turn of the last century leads many to think that it could be seeking to experiment a Chinese version of the Monroe doctrine in South-East Asia (Mearsheimer, 2001, p. 47), to expand its influence in the world

proportionally to its new power status. Mearsheimer even predicts that by 2025-2030, China will have enough economic and military foundations to show to the United States in Asia the exit door. China would also seek to increase its share of the world through its policy which is gaining in influence. For, continues Mearsheimer, “Great powers try to prevent rival great powers from dominating the wealth-generating areas of the world. In the modern era, those areas are usually populated by the leading industrial states, although they might be occupied by less-developed states that possess critically important raw materials. Great powers try to dominate those regions themselves, but at the very least, they try to ensure that none falls under the control of a rival great power” (Mearsheimer, 2001, p. 144).

He therefore underlines that, beyond the economic objectives of China’s emergence all over the world, there is also to this rise a component of a political and security nature which is related to its power politics conducted in the post Cold War era. More concretely, the increasing influence of China in the world is serving its strategy to balance the American superpower.

1.2 Buck-passing vs. Balancing

Realists have developed a number of concepts referring to different types of strategy that states are likely to adopt in their quest for survival and for security in the international system. To analyze strategies adopted by states to shift the balance of power in their favor or to prevent other states from shifting it against them, Waltz’s defensive realism promotes the concepts of ‘bandwagoning’ and that of ‘balancing’ as alternative strategies used by states to respond to an upsetting of the balance of power by a powerful state. Bandwagoning consists in preserving basic security concerns by alignment with a more powerful state. Balancing, however, refers to a strategy of actively deterring, or fighting if need be, the threatening state. Mearsheimer departs from Waltz’s point of view by indicating that threatened states would rather respond by either ‘balancing’ or ‘buck-passing’. According to him, this later strategy is less costly – therefore preferable – because it means for a state to get another state to balance the rival power. Despite being an attractive strategy for offensive realists, Mearsheimer acknowledges that the ideal context for its application is a multipolar system whereby the buck-passer (the threatened state) is more likely to find a buck-catcher (a third party state). But in a context of a bipolar system, states tend to restore the balance of power by balancing. The later does not mean, in Mearsheimer’s opinion, for a great power to seek to maintain a status quo but rather to shoulder the responsibility to prevent aggressors from upsetting the balance of power (Mearsheimer, 2001, p. 156).

1.3 The Balancing Strategy

Randall L. Schweller recalls the traditional meaning of ‘balancing’ as “the creation or aggregation of military power through internal mobilization or the forging of alliances to prevent or deter the territorial occupation or the political and military domination of the state by a foreign power or coalition” (Schweller L. R., 2006, p. 9). That being said, the question from a theoretical standpoint is: what are the justifying arguments for a state to prefer this strategy over another, for instance buck-passing or bandwagoning? According to Mearsheimer, states’ choice for a strategy to gain power lies on two variables: the world distribution of power (the structure of the system) and geography. He argues that power is generally distributed in three ways in the international system: (1) bipolar systems dominated by two great powers having relatively equal military capabilities; (2) unbalanced multipolar systems comprising three (or more) great powers, one of which is a potential hegemon; and (3) balanced multipolar systems which have not any aspiring hegemon but in which power is distributed among the greatest in the system. It is worth mentioning the widespread description of the post Cold War era as unipolar system, which is to say since the end of the Cold War there is only one superpower without any serious rival. Samuel Huntington, however, tones down this idea by stating: “There is now only one superpower. But that does not mean that the world is unipolar. A unipolar system would have one superpower, no significant major powers, and many minor powers. As a result, the superpower could effectively resolve important international issues alone, and no combination of other states would have the power to prevent it from doing so... Contemporary international politics [...] is instead a strange hybrid, a uni-multipolar system with one superpower and several major powers.” (Huntington, 1999, pp. 35-36).

It would be, indeed, too soon to argue that, in terms of power, China has already roughly equal assets with the United States as did the Soviet Union in the bipolar system triggered by the end of the World War II. Nevertheless, it is possible that China’s emergence brings, in several respects, ambitions including calling in to question United States’ preeminence over the international stage as the only hegemonic power. In other words, China’s emergence tends to lead to a de facto rebalancing in the world distribution of power. That is what we call a progressive shift towards a balanced multipolar system with possibly, the United States on one side, and China on the other side, both as dominant poles among other potential or emerging powers in the world system.

For Mearsheimer, a threatened state would prefer the buck-passing strategy over balancing when possible, not only to avoid the cost of fighting the aggressor in the event of war, but also because coalitions are more difficult to form in a context of multipolarity (Mearsheimer, 2001, pp. 139-140). On the contrary, in the case of bipolarity, since there is not any third party state to ‘catch the buck’, such a strategy is impossible. In light of these considerations, and

from the observation of China's behavior, we argue that its strategy consists of balancing the American superpower. In reference to Mearsheimer's theory of offensive realism, balancing is the most appropriate strategy when the system is unbalanced, as Snyder puts it, "when one state is markedly more powerful than its neighbors (a potential hegemon), those neighbors are too weak to accept the buck, so everyone will have a strong common interest in balancing against the powerful state" (Snyder G. H., 2002, p. 161). He further explains that "Mearsheimer's offensive realist states are not on the offensive all the time. Occasionally they are faced with having to deter and contain a rival that seeks to gain power at their expense" (Snyder G. H., 2002, p. 161). In fact, Mearsheimer contends that states begin with a defensive motive but they end up being forced to think and sometimes act aggressively because of the structure of the international system (Rose, 1998). In other terms, given the importance of power imbalances, China's strategy consists in making use of its soft power in order to strengthen its hard power. This seems to be consistent with its history which shows that China has always managed to adapt to circumstances by combining an offense-defense approach. Borrowing Mearsheimer's terms, "Great powers try to expand only when opportunities arise. They will do so only when the benefits clearly exceed the risks and costs. They will desist from expansion when blocked and wait for a "more propitious moment"" (Mearsheimer, 2001, p. 37).

1.4 Soft Balancing vs. Hard Balancing

In keeping with realist theories of International Relations, the 'hard balancing' strategy is when a state joins a coalition of weaker states in order to balance the influence or the power of a stronger coalition. The term 'soft balancing', however, is employed to describe the use of non-military means of balancing. It occurs when a weaker state deems unacceptable the influence or the dominance of a stronger state, but traditional balancing (hard balancing) is unaffordable due to the military advantage of the stronger state.

It is generally admitted in neo-realist theories the idea that potential actors (or major states) would not spare any effort to prevent a state from dominating the international system. Waltz (2000) announced that it was just a matter of time before powerful states begin to manifest, starting by China which he saw as a potential candidate. Today the question seems no longer whether China is engaged in balancing process but rather how it is going about it. In this regard, P. Toft flaunts the merits of the balancing strategy which he considers as an excellent strategy to contain an aggressor "through internal build-up and/or via alliance formation" (Toft & Mearsheimer, 2005, p. 285). It certainly does not allow stopping the superpower but does make the task more complex and politically more costly for the superpower (Swielande de, 2008, p. 19). As Zweig and Zhimin (2005) and Pape (2005) observe, balancing strategy is already underway between the United States and China – and even other powers – who, rather than directly confronting U.S. influence, use non military tools (such as the economy, international institutions and diplomacy) to delay or frustrate U.S. preponderance.

Learning from the Cold War era and given the indisputable preponderance of the USA in the international system, China seems to have built its strategy taking in account the existing balance of power in order to promote its political, economic and security interests. Revealing indicators of China's behavior are to do with what realists call 'indirect balancing' which comprises – but not limited to – the use of international institutions to delay or hinder hostile military actions and the strengthening of the its economic power as compared to its rival power, for example by creating or expanding trading blocs. Many observations plead in favor of such affirmations. Among these: (1) China's accumulated wealth; (2) its geopolitical influence and; (3) its military capabilities. Such affirmations are also consistent with the premises of offensive realism. This theory suggests that to understand a state's behavior, one can examine its relative capacities and its external environment because these factors would be translated into foreign policy and would determine the manner in which that state will defend its interests (Rose, 1998). China's economic power makes possible the development of its military might and as long as prospects for its economic rise remain largely positive, there are plausible reasons to bet for the expansion of domination at least throughout South-East Asia, a region where the U.S. stills intend to maintain its predominance.

2. The Economic Component of Power:

From an offensive realist standpoint, survival is the primary objective of great powers in an anarchic international system. In practice, however, powerful states do not strictly pursue security objectives. Their objectives are much broader and invariably consist in achieving the prosperity of their own citizens. The notion of survival is a key to understanding states' preferences but necessarily in an exhaustive way. That is to say ensuring survival in context of anarchy certainly requires military means, but sustained by a dynamic productive basis. Even Waltz – who emphasizes the notion of security in explaining states' behaviors – does acknowledge the economic and military elements "as both being elements of an internal balancing strategy" (Brooks, 1997, p. 449). Waltz admits that states pursue important objectives other than military ones. Therefore, it is not enough to identify survival as a state's ultimate goal. Instead, the main challenge is how a state balances the military component of its survival strategy with the economic dimension. Thus economic prosperity is necessary in achieving relative power since a powerful military force cannot be affordable without a sustained accumulation of wealth.

But if acquiring power is not possible without substantial prior socio-economic achievements, a complementary characteristic of a state's 'latent power' is probably the size of its population. Population is important because great powers need great armies. In line with this argument, states of a small population are disqualified from the great power status.

On another hand, a great population size is determinant for obvious economic reasons. For only large populations can generate great wealth, the building block of military power. Likewise, a poor state would lack financial and technological means necessary for the building up, the training and the constant modernization of a powerful army. Mearsheimer, therefore, articulates his theory exclusively around the notion of wealth which, for him, includes demographic and economic dimensions of power. By wealth, he means 'mobilizable wealth' which refers to economic resources at the disposal of a state for the building up of its army. To measure wealth, he uses the gross national product (GNP) which represents the total value of a state's production over a period of one year. We see, in the following lines, to what extent China meets the realist premise regarding economy.

2.1 A Unique View of Peaceful Development

Realizing the importance of a solid economic foundation to a sustainable emergence, China's economic strategy would include addressing the constraints imposed by an international geopolitical environment in the early 1990s. Many, at that time, anticipated a decline of the American power and the emergence of a multipolar international system. But around mid-1990s, it seemed increasingly clear that the USA were rather gaining more and more power. A development that led some analysts like Wang Jisi to postpone the decline of U.S. preponderance to a remote future: "Here is a Chinese view: in the long term, the decline of U.S. primacy and the subsequent transition to a multipolar world are inevitable; but in the short term, Washington's power is unlikely to decline, and its position in world affairs is unlikely to change" (Wang, 2005, p. 40). In this view, if China is going to attempt reaching its strategic goals, it will have to do it in world dominated by the U.S.. A world in which the pressure from hegemonic and power politics is inevitable but manageable by hiding one's capabilities, patiently fostering national economic development and carrying out one's development strategy. This becomes, therefore, policymakers' main task. In the recent decades, China has undertaken several important reforms but ensuring a lasting economic growth remains a top priority of Chinese policymakers. As noted by Yong Deng and Fei-Ling Wang, it has been a matter of survival since the 1980s. "Deng Xiaoping pinned economic development down as the 'central task' for the China Communist Party in the next one hundred of years" (Deng & Wang, 2005). For many observers, the main trend in the debate over China is that the 'Asian dragon' has become today the most convincing economy in the world with a sustained economic growth over many years. "The economic reforms towards market economy in the end of the 1970s paved the way for unprecedented change in China. After years of strong economic development, China has emerged as a wealthy country with a new and strong self confidence in international politics. Since the 1980s, the Chinese strategy has been to insert itself into the existing world order and to stand out as a responsible great power. Today, China is widely seen as the rising star in international politics with the U.S. as its main opponent" (Bergfeldt, 2008, p. 4).

2.2 The Economy as An Internal-External Security Imperative

Understanding that economic development is the only way to address a sizeable number of pressing challenges it faces, China has articulated its grand strategy around this central objective during the recent decades. In this context, its ambition goes with ensuring and modeling a security, economic and political environment that allows it to focus on its economic, social and political development. In other terms, "Beijing is relying primarily on domestic resources to balance U.S. Power" (Ross, 2004, p. 288). Moreover, the national economic prosperity serves domestically by strengthening the leadership's political legitimacy. On this relationship between domestic order and a sustained economic growth, Lampton comments: "China's national strategy is designed to continue its fast domestic economic growth, the regime's principal legitimizing factor besides nationalism; attract maximum resources (technology, investment, and strategic materials) from the international system; and reduce external threats that might deplete its resources... After Mao's dependence on coercive power and Deng's on economic power, China now seeks a more balanced mix that also uses 'idea power'" (Lampton, 2007, pp. 117-118).

Chinese leaders will, therefore, endeavor to consolidate the hard-won gains of the great reform process launched since the late 1970s. After nearly thirty years of closed-door policy, China witnesses a new era of Chinese power building. With Deng Xiaoping, the national self-sufficiency ideal gave way to the maximization of gains made possible by globalization. Since then, the Chinese economy has unceasingly reached global records. Greater progress has been made in shifting from a command system to a system more open to market economy, yielding unprecedented benefits and driving effects on other countries in Asia and beyond. With this 'open-door' policy, China has gradually loosened up its trade and investment policies. Today, more than ever before, China is impressingly maintaining the course of the transformation of its economy. Despite the severe economic downturn which curbed the global economic prospects since 2008, the Chinese economy still offer positive horizons and, for the first time since 2014, can afford to challenge U.S. position as the global leading economy. To this end, China can also rely on an

aggressive diplomacy that ingeniously serves its economy. Indeed, since the Cold War, China's foreign policy has inextricably been tied to the promotion of its economy. "[...]achieving Chinese development that is beneficial to China and its economic partners through growing economic interchange that conforms to economic globalization..." (Sutter, 2008, p. 7). In that way, China's foreign policy perfectly aligns with its grand power strategy. In this globalization era, China's interactions with the rest of the world essentially take place through economic exchanges crystallized by an increased commitment to international organizations. In the context of post Cold War, China has adopted a foreign policy that seems to indicate a grand strategy both for the present and for the future. The ultimate goal of such a strategy (centered on its economy) is to propel China to great power status. This strategy helps ensure that conditions for military upscaling are met. It is materialized by expanding and building different types of partnerships with other world powers (and even many weaker states), making China a more welcomed actor on the global stage. Also, this strategy is made visible by China's increased commitment to the international institutions' agenda and global initiatives, and so promoting China's image of a responsible and concerned member of the international community.

2.3 The Economy as A Preferred Lever of Power Balancing

In order to interpret the economic reform strategy undertaken by China, it is worth placing it within the greater context of the functioning mechanisms of the 'balancing' approach that emerging powers are likely to use to achieve their objectives. Pape distinguishes four mechanisms of soft balancing, namely "territorial denial, entangling diplomacy, economic strengthening, and signaling of resolve to participate in balancing coalition. All of these steps can weaken the military power that the superior state can bring to bear in battle (Pape, 2005, p. 36)." In this context, we can affirm that 'economic strengthening' is the equivalent to the concept of 'reform strategy' which is more preferred by other International Relations analysts. Considering the 'reform strategy', emerging states will apply 'internal balancing' which consists in avoiding to prematurely counterweight the superpower and to launch an unnecessary arms race. Adopting such a strategy comes from the understanding that states that are militarily strong get their strength from their exceptional economic power. In other words, to have a chance to succeed in their 'balancing' business, emerging powers must be sure of their relative economic advantage. "The most obvious way of doing this is through regional trading blocs that increase trade and economic growth for members while directing trade away from non-members. If the superior state can be excluded from the most important such blocs, its overall trade and growth rates may suffer over time" (Pape, 2005, p. 37). States first focus on technology and economic catching-up in order to increase their capacities.

This has been China's approach through its 'peaceful development' and 'harmonious society', an 'economic pre-balancing' situated halfway between soft balancing and hard balancing strategies. The rationale behind this strategy is the necessity of avoiding an unnecessary arms race with the U.S. and concentrate on filling the economic and technology gap distancing it from the hegemonic power, but without losing sight of his essential objective of building its military capabilities. Thus, the economic pre-balancing strategy sets the stage for a future hard balancing strategy. In summary, arguing that China is engaged in a balancing move against the U.S. would suggest that China has adequate resources for that purpose, especially in terms of economic and military power. Measuring China's power certainly remains a crucial and difficult task which still leaves both analysts and policymakers with either overestimated or underestimated projections of China's military capabilities. Therefore they both miss an important analytic tool given China's apparent preference for hard economic power in his balancing effort.

3. The 'Hard Economic Power' Tool :

The process of globalization has opened great opportunities for developing economies to fill their economic gap. Thanks to globalization, many states have accessed the status of emerging economies, even resulting at times in unprecedented change in the global economic rankings which were traditionally headed by western powers. In this regard, the case of China is startling. China's economic rise and its political effects on China's ascension as a great power has been one of the most important events of the beginning of the twenty first century and the principal phenomenon of International Relations in the recent decades.

Since 1979, China's average annual real GDP has grown by nearly 10%. This has meant that, on average, China has been able to double the size of its economy in real terms every eight years. The global economic slowdown, which began in 2008, impacted the Chinese economy (especially the export sector). China's real GDP growth fell from 14.2% in 2007 to 9.6% in 2008, and slowed to 9.4% in 2009. In response, the Chinese government implemented a large economic stimulus package and an expansive monetary policy. These measures boosted domestic investment and consumption and helped prevent a sharp economic slowdown in China. Two years later, China's real GDP grew by 10.4%.

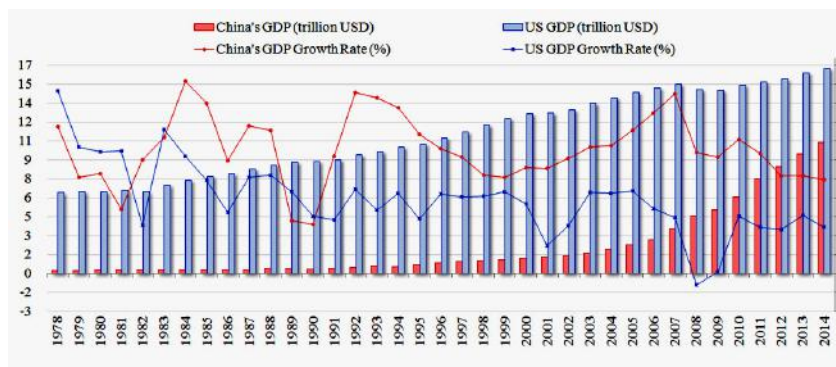


Figure 1 China and US Real GDP and Growth (1978-2014)¹

Despite a downward trend observed in the recent years, China has been able to maintain healthy economic growth rates, especially compared to those of other major economies (see figure 2).

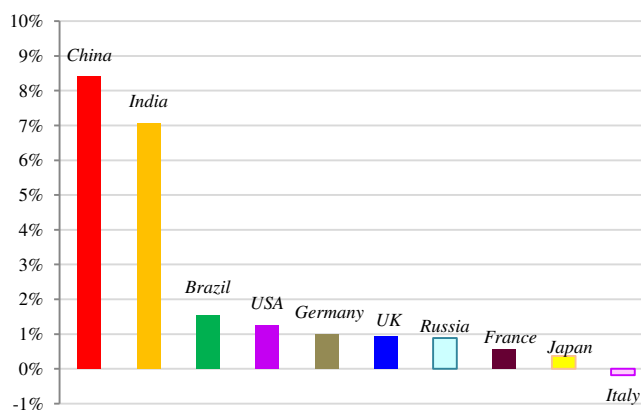


Figure 2. Average Real GDP Growth (in %) among Major Global Economies (2008-2016)²

Between 2012 and 2016, China’s economy has grown on average over 6 times faster than the US economy, over 8 times faster than the German economy and over 21 times faster than the Japanese economy. This trend has fueled speculations about China overtaking the United States as the “world’s largest economic power.” Measured in U.S. dollars using nominal exchange rates, China’s GDP in 2013 was \$9.49.2 trillion, about two-thirds the size of the U.S. economy.³

The per capita GDP (a common measurement of a country’s living standards) of China was \$6,190, which was 13% the size of Japan’s level and 12% that of the United States.

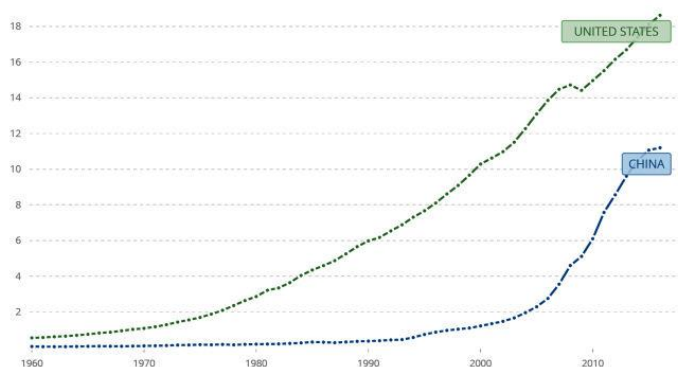


Figure 3. US & China’s GDP (in current trillion US\$) 1960-2016⁴

But on a purchasing power parity (PPP) basis, many economic analysts consider that China has overtaken the United States as the world’s largest economy since 2014.

¹ Source : National Bureau of Statistics and US Bureau of Economic Analysis

² Source: World Bank Database

³ On a nominal dollar basis, China overtook Japan in 2010 to become the world’s second-largest economy (after the United States).

⁴ Source: World Bank Database

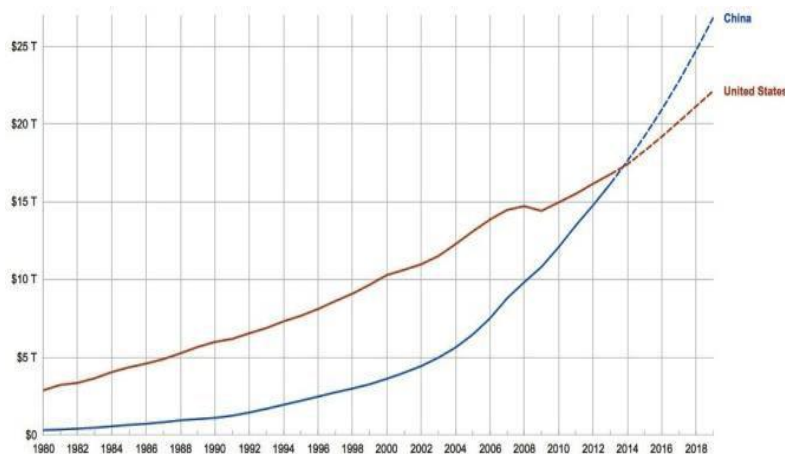


Figure 4. US & China's GDP based on PPP valuation (in trillion US\$)⁵

It will, however, likely take many years for China's living standards to approach U.S. levels (see table and figure below).

Table 1. China, Japan and US GDP and Per Capita GDP in Nominal USD and a PPP Basis: 2012⁶

	China	Japan	United States
Nominal GDP (\$ billions)	8,231	5,887	15,724
GDP in PPP (\$ billions)	12,576	4,558	15,724
Nominal Per Capita GDP (\$)	6,190	46,680	50,020
Per Capita GDP in PPP (\$)	9,460	36,150	50,020

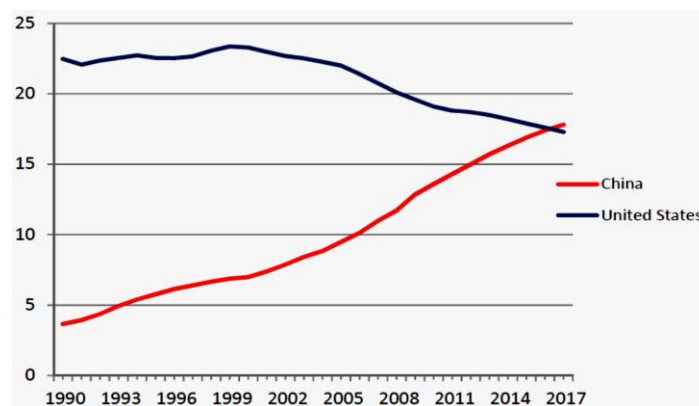


Figure 5. Projection through 2017 of China and US GDP as a Percent of Global Total: 1990-2012 (%)⁷

For over three decades, the Chinese economy has steadily and rapidly grown thanks to a clever mobilization of its immense internal resources and its ability to capitalize on opportunity brought by globalization.

3.1 Driving the World Trade

In 1978, China undertook structural reforms of its economy and its effectiveness can be measured today by China's position as the first global exporter of goods, especially of manufactured products. Also, joining the World Trade Organization in 2001 marked a decisive turning point in China's rise as a global trade power.

The total value of import and export in current U.S. dollars passed the 1 trillion mark in 2004, the 2 trillion mark in 2007, the 3 trillion mark in 2011 and the 4 trillion mark in 2013, and since 2012 overtaking the U.S. as the world's largest trading nation. Today in nearly all countries, China enjoys an unmatched privileged status when it comes to foreign trade. It ranks either first or second or third trading partner of almost all the countries in the world. A position that no other country holds currently.

⁵ Source: IMF, World Economic Outlook

⁶ Source: Economist Intelligence Unit estimates using World Bank PPP data.

⁷ Source : Economist Intelligence Unit.

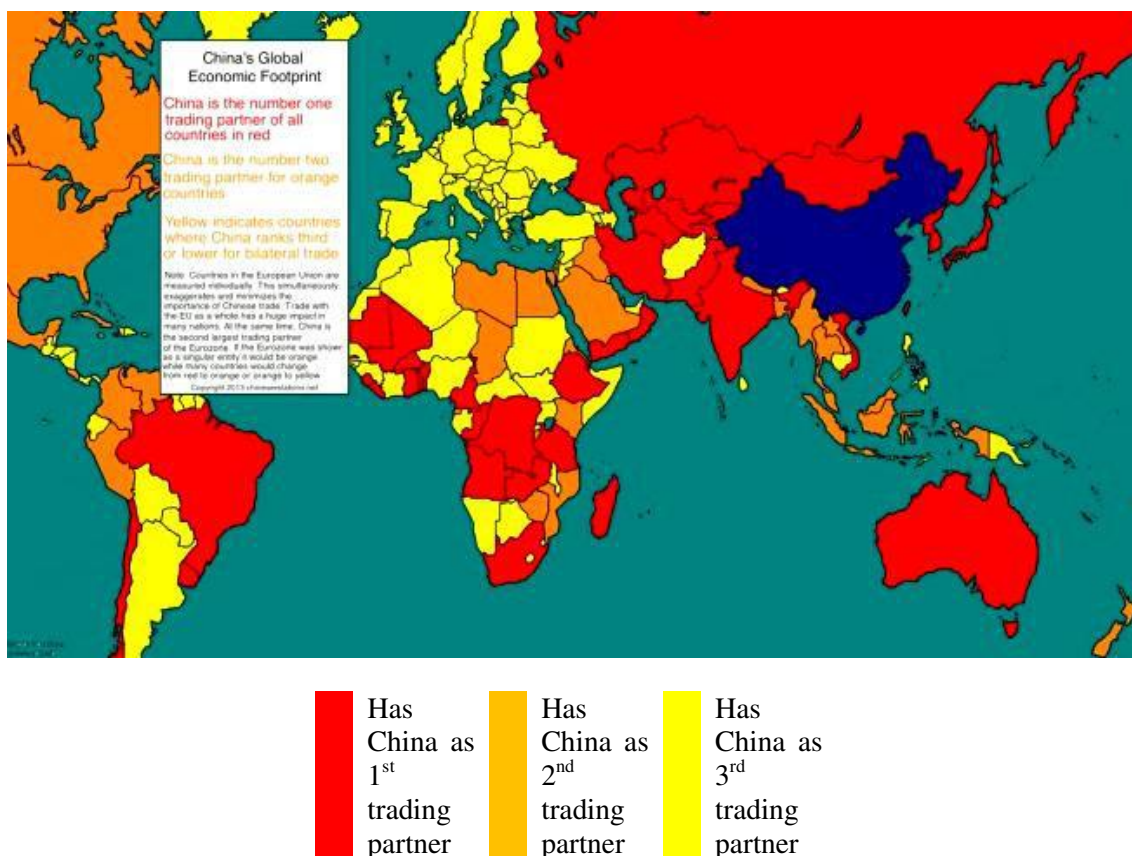


Figure 6. China Stands as a Privileged Trading Partner to Nearly All Countries⁸

China's foreign trade is growing faster than the global trade. In 2007, China's export and import of goods represented respectively 8.7 and 6.7 percents of global import and export; and in 2013, China accounted for 11.7 and 10.3 percents of global import and export respectively. As of 2015, China was the leading global exporter of goods with total exports of US\$ 2.27 trillion accounting for 14% of world exports, ahead of the United States, Germany and Japan. China is the second largest importer of goods, right after the U.S.⁹

China has emerged as the world's largest manufacturer according to the United Nations. Figure 7 estimates of the gross value added of manufacturing in China, the United States, and Japan expressed in U.S. dollars for 2004 to 2011. Gross value added data reflect the actual value of manufacturing that occurred in the country (i.e., it subtracts the value of intermediate inputs and raw materials used in production). These data indicate that China overtook Japan as the world's second-largest manufacturer on a gross value added basis in 2006 and the United States in 2010. In 2011, the value of China's manufacturing on a gross value added basis was 23.3% higher than that in the United States. Manufacturing plays a considerably more important role in the Chinese economy than it does for the United States and Japan. In 2011, China's gross valued added manufacturing was equal to 32.3% of GDP, compared to 12.1% for the United States and 18.9% for Japan.¹⁰

In its 2013 Global Manufacturing Competitiveness Index, Deloitte (an international consulting firm) ranked China first in manufacturing in 2013 and projected it would remain so in five years (the United States ranked third in 2013 and was projected to rank fifth in 2018). The report stated that "China's competitiveness is bolstered by conducive policy environment either encouraging or directly funding investments in science and technology, employee education and infrastructure development," and further stated that "the landscape for competitive manufacturing is in the midst of a massive power shift, in which twentieth-century manufacturing stalwarts like the United States, Germany and Japan will be challenged to maintain their competitive edge to emerging nations, including China."¹¹

⁸ Source: Brenda O'Reilly, Chinese Relations.

⁹ Data from the WTO's World Trade Statistical Review 2016.

¹⁰ United Nations, UNdata.

¹¹ Deloitte, Press Release, January 22, 2013, available at http://www.deloitte.com/view/en_CN/cn/Pressroom/pr/105280463d16c310VgnVCM2000003356f70aRCRD.htm. The index was based on a survey of 550 chief executive officers and senior leaders in manufacturing companies around the world.

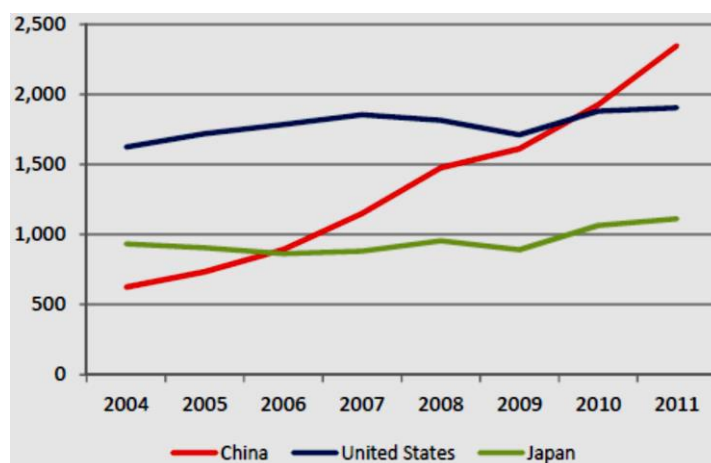


Figure 7. Gross Value Added Manufacturing in China, the United States, and Japan: 2004-2011 (USD billions)¹²

Table 2 lists official Chinese trade data on its major trading partners in 2015 in terms of exports. (based on total trade), which included the 27 countries that make up the European Union (EU27), the United States, the 10 nations that constitute the Association of Southeast Asian Nations (ASEAN), and Japan.¹³ China’s largest export markets were the United States, EU27, and Hong Kong, while its top sources for imports were the EU27, ASEAN, and Japan. According to Chinese data, it maintained large trade surpluses with Hong Kong (\$306 billion), the United States (\$224 billion), and the EU27 (\$122 billion), and reported large deficits with Taiwan (\$95 billion) and South Korea (\$79 billion). China’s trade data differ significantly from those of many of its trading partners. For example, the United States and the EU27 reported trade deficits with China of \$315 billion and \$187 billion, respectively, while Hong Kong reported a \$27 billion trade surplus with China. These differences appear to be largely caused by how China’s trade via Hong Kong is counted in official Chinese trade data. China treats a large share of its exports through Hong Kong as Chinese exports to Hong Kong for statistical purposes, while many countries that import Chinese products through Hong Kong generally attribute their origin to China for statistical purposes, including the United States.¹⁴

Table 2. China’s Major Trading Partners (billions USD)¹⁵

Country	Total Trade (2016)
European Union	546.8
United States	519.7
Hong Kong	303.9
Japan	275.1
South Korea	252.7
Taiwan	179.1
Germany	151.4
Australia	136.4
Malaysia	108.2
India	70.1
Russia	69.6

3.2 Investing Globally

A key aspect of China’s economic modernization and growth strategy during the 1980s and 1990s was to attract FDI into China to help boost the development of domestic firms. Investment by Chinese firms abroad was sharply restricted. However, in 2000, China’s leaders initiated a new “go global” strategy, which sought to encourage Chinese firms (primarily SOEs) to invest overseas. One key factor driving this investment is China’s massive accumulation of foreign exchange reserves. Traditionally, a significant level of those reserves has been invested in relatively safe, but low-yielding, assets, such as U.S. Treasury securities. On September 29, 2007, the Chinese

¹² Source: United Nations, UNdata.

¹³ ASEAN members include Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), the Philippines, Singapore, Thailand, and Vietnam.

¹⁴ See CRS Report RS22640, What’s the Difference?—Comparing U.S. and Chinese Trade Data, by Michael F. Martin.

¹⁵ Source: Global Trade Atlas and World Trade Atlas.

government officially launched the China Investment Corporation (CIC) in an effort to seek more profitable returns on its foreign exchange reserves and diversify away from its U.S. dollar holdings. The CIC was originally funded at \$200 billion, making it one of the world’s largest sovereign wealth funds.¹⁶ Another factor behind the government’s drive to encourage more outward FDI flows has been to obtain natural resources, such as oil and minerals, deemed by the government as necessary to sustain China’s rapid economic growth. Finally, the Chinese government has indicated its goal of developing globally competitive Chinese firms with their own brands. Investing in foreign firms, or acquiring them, is viewed as a method for Chinese firms to obtain technology, management skills, and often, internationally recognized brands, needed to help Chinese firms become more globally competitive. For example, in April 2005, Lenovo Group Limited, a Chinese computer company, purchased IBM Corporation’s personal computer division for \$1.75 billion.³² Similarly, overseas FDI in new plants and businesses is viewed as developing multinational Chinese firms with production facilities and R&D operations around the world.

China has become a significant source of global FDI outflows, which rose from \$2.7 billion in 2002 to \$84.2 billion in 2012 (see Figure 5). According to the United Nations, China ranked as the third-largest source of global FDI in 2012 (up from sixth in 2011) (see Figure 6).¹⁷ The stock of China’s outward FDI through 2012 is estimated at over \$450 billion. China’s data indicate that the top four destinations of its FDI outflows in 2011 were the European Union (\$7.6 billion), ASEAN countries (\$5.9 billion), the United States (\$1.8 billion), and Russia (\$716 million).¹⁸ According to A Capital Dragon Index, a firm that tracks China’s FDI, 56% of China’s outbound FDI in 2011 was in greenfield projects (such as new plants and business facilities) and 44% involved mergers and acquisitions. In terms of sectors, 51% of China’s 2011 FDI went to resources (such as oil and minerals), 22% to chemicals, 14% to services, 12% to industry, and 1% to automotive. SOEs accounted for 72% of Chinese FDI that involved mergers and acquisitions in 2011.¹⁹ A Capital Dragon Index estimates that China’s first quarter 2012 outbound FDI was \$21.4 billion and that SOEs accounted for 98% of mergers and acquisitions, which were largely in resources.²⁰

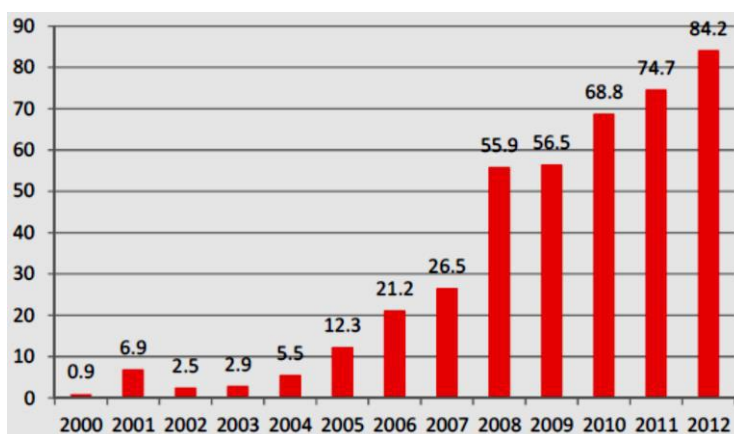


Figure 8. China's Annual FDI Outflows: 2000-2012²¹

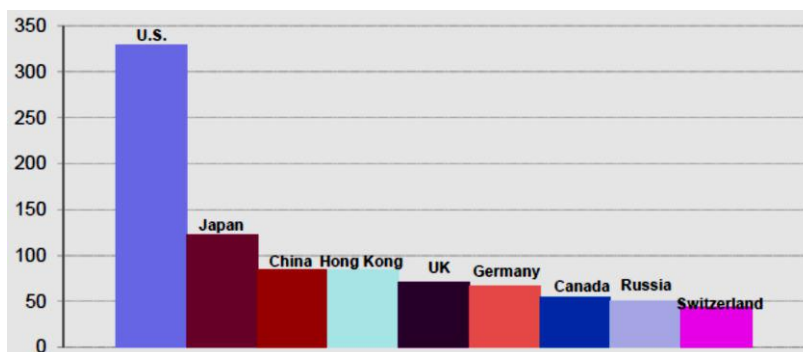


Figure 9. Major Sources of Global FDI Outflows in 2012²²

¹⁶ See CRS Report RL34337, China’s Sovereign Wealth Fund, by Michael F. Martin.

¹⁷ United Nations Conference on Trade and Development, World Investment Report 2012, June 2013, at

¹⁸ Chinese Ministry of Commerce, News Release, September 2012, at

<http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/201209/20120908320386.html>.

¹⁹ A Capital Dragon Index, 2011 Full Year, available at <http://www.acapital.hk/dragonindex/datasheets>.

²⁰ A Capital Dragon Index, 2012 Q1, available at <http://www.acapital.hk/dragonindex/datasheets>.

²¹ United Nations

²² Source: United Nations Conference on Trade and Development.

From the size of its economy to a major trader and global investor status, evidence show that China's economic rise has been unprecedented in world economic history. And there is more to this. While 14 years ago, the U.S. economy was thrice bigger than that of China, since 2014 China has become the first economy in the world in terms of power purchasing parity with a Gross Domestic Product estimated at 17.4 trillion in USD purchasing power parity (PPP). Projections made by some economic institutions were indicating that China would become the largest economy between 2019 and 2020 and others projected that for much later. It was common knowledge that the Chinese economy was on its course to challenge the U.S. leading position, but that was not expected to happen as soon as in 2014.

4. CONCLUSION:

It is unquestionable that China's outstanding economic performances is changing the global economic landscape and dramatically modifying the international power distribution. History has demonstrated that international relations tend to always function with a dominant power with both economic and political superiority. Since the U.S. succeeded England during the turning point in the years between 1930 and 1940, the system of international relations has been driven by the U.S. which combined all the attributes of economic, monetary, technology and military power. It is worth wondering if China, which is now (or soon to be) the first global economic power and a permanent member of the United Nations Security Council, would assume a decisive role in the conduct of world affairs and project itself in a global leadership position in place of the U.S. The alternative to this hegemonic status would be a share of responsibilities between China and the U.S. in a sort of bipolar international system. As interesting as this idea may be, this paradigm has little evidence in world history.

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