

China and the Emerging World Order

Dr *Martin Jacques*, Senior Visiting Research Fellow at the London School of Economics and Political Science, and best-selling author of the book *When China Rules the World*, spoke on, 'China and the Emerging World Order,' at ISIS Malaysia, on 28 September 2012. **Dato Dr Mahani Zainal Abidin**, CE, ISIS Malaysia moderated the talk. ISIS Analyst **Zarina Zainuddin** reports.

Dr Martin Jacques began by talking about the expected rise of China as the world's biggest economy, supplanting current leader, the United States. Various studies have arrived at the same conclusion, i.e. China becoming the largest economy, but these differ on the time frame of the event. The research unit of Goldman Sachs in 2003 predicted that China will overtake the US in 2041 but recently revised the date to 2027. The Hong Kong and Shanghai Banking Corporation's (HSBC) research unit predicted 2050, Standard Chartered, 2020, while Jacques himself has an even earlier date — 2018.

If measured by Purchasing Power Parity (PPP) which takes into account the cost of living as well as income, the date of China assuming biggest economy status moves forward, with some economists claiming that China will overtake the US this year (2012). Regardless of the actual date, Jacques contends that China has surpassed the US in several categories (Figure 1) as follows: consumption of steel and mobile phones, in exports, fixed investments, manufacturing output, energy consumption and car sales. Jacques expects the Chinese economy will surpass the US in PPP terms in two years' time.

One of the main reasons behind China's economic emergence is its phenomenal economic growth. While China's economy or Gross Domestic Product (GDP) is currently about two-thirds that of the US, its explosive economic growth rate has far outpaced that of the US (see Figure 2).

Martin said there have been many doubters of China's emergence who point out potential problems that could beset the country, ranging from its unsustainable economic growth rate to its problematic political leadership. Well,



Martin Jacques

economic problems have cropped up, said Jacques — the worst since the Great Depression of the 1930s — but not in China. They have cropped up in the Western world: it is Europe and the US which have had to grapple with the financial-turned-economic meltdown since it began in 2007.

The lingering economic woes of the West, which have dampened their growth prospects, is the main reason why many experts have brought forward the projected date of China's economic rise. The consistently high growth rates that China has enjoyed over decades against the dismal growth or recessionary economies of the West means that the income (GDP) gap between China and the West will close at a faster rate.

China's rise is not the only story, according to Martin. The earlier Goldman Sachs study (2008) projected that six out of ten of the world's biggest economies will be from the 'developing countries'. India, Russia, Mexico, Indonesia and Russia will join China as top economies by 2050. While there

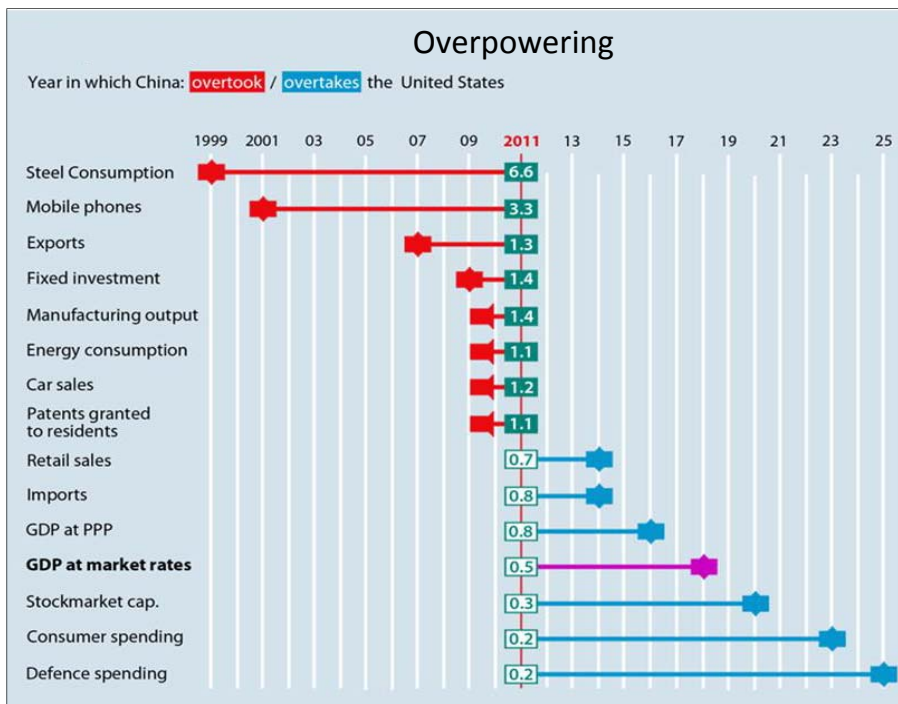


Figure 1

are other studies that include different countries and time lines, it suffices to say that the list of biggest economies has seen a shift from the developed to the developing world.

Another remarkable factor of China's emergence is its impressive rise in global trade. Figure 3 shows the share of various countries' trade with China as a percentage of each's total trade. In 1992, trade with China was small or even negligible for the majority of the countries listed. The most significant trade partner was Japan, whose trade with China was about five per cent of its total trade.

But by 2001, China recorded increased trade with every country, save for Algeria. In the

case of Taiwan, the increase was tremendous, growing from one per cent to 32.5 per cent: in other words, more than a third of Taiwan's total trade was with China!

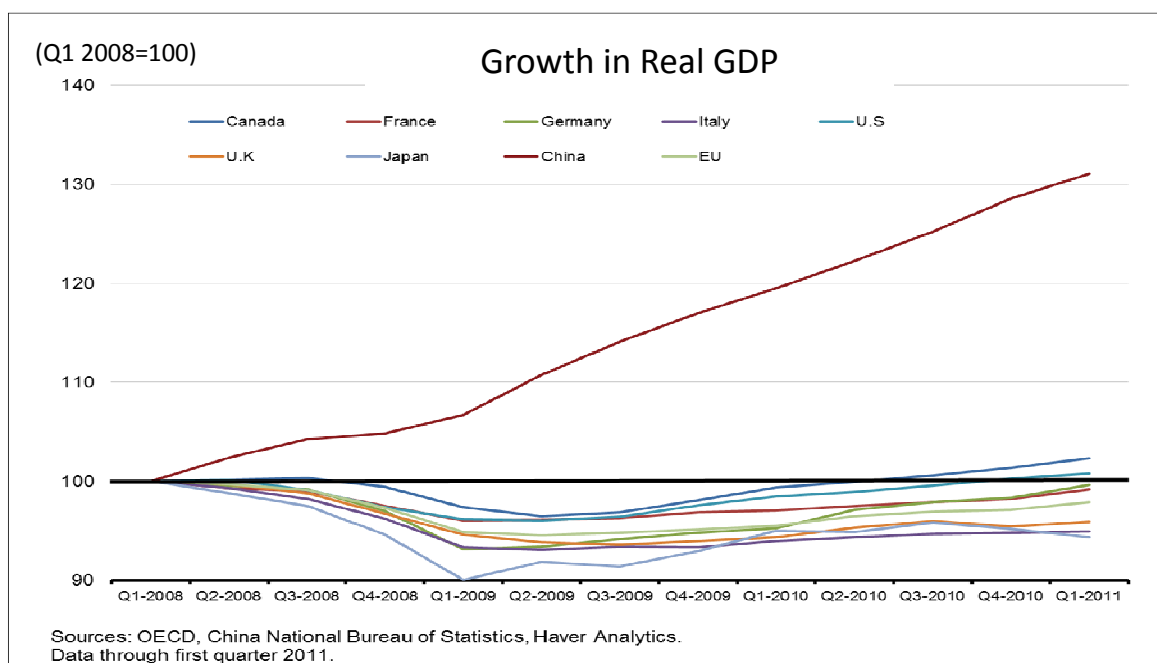


Figure 2

Percentage Share of Total Trade with China

Country	1992	2001	2010
Brazil	0.90%	2.80%	14.00%
Argentina	1.10%	4.70%	9.70%
Chile	2.00%	5.60%	19.20%
Colombia	0.10%	2.00%	8.10%
Venezuela	0.00%	0.80%	8.40%
Mexico	0.00%	1.40%	5.70%
United States	3.50%	6.70%	14.30%
Canada	1.50%	2.30%	7.00%
UK	0.60%	1.90%	6.20%
Italy	1.20%	2.00%	4.80%
France	1.00%	1.60%	3.80%
Spain	1.20%	1.80%	4.20%
Portugal	0.30%	0.60%	1.80%
Germany	1.30%	2.70%	6.10%
Sweden	1.10%	2.10%	3.80%
Norway	0.80%	1.80%	4.10%
Turkey	0.70%	1.50%	6.40%
Russia	N/A	4.70%	8.90%
Pakistan	2.90%	4.00%	13.50%
India	0.40%	3.50%	10.50%
South Africa	N/A	2.80%	13.10%
Nigeria	0.50%	2.50%	6.90%
Egypt	1.60%	3.30%	9.00%
Algeria	0.80%	0.70%	5.90%
Saudi Arabia	0.90%	3.90%	12.80%
Japan	5.00%	11.80%	20.40%
South Korea	4.00%	10.80%	22.80%
Taiwan	1.00%	32.50%	43.00%
Thailand	2.20%	5.20%	12.00%
Malaysia	2.20%	4.70%	16.30%
Indonesia	3.50%	4.60%	12.70%
Philippines	1.20%	2.70%	12.40%
Australia	3.70%	7.50%	20.60%

Figure 3

However, it is China's trade growth in the last ten years that has been the most impressive: the nation recorded trade growth across the board with all the countries listed. The most striking is the growth of trade with East Asian economies, ranging from 12 per cent (Thailand) to 43 per cent (Taiwan). The high degree of trade and economic interdependence between China and the East Asian countries have helped in insulating

the region to some degree from the economic slow-down experienced world-wide, particularly in the West (see Figure 4).

Jacques thinks that China's trade will not grow at the same speed in the future; the fortunes of many countries, particularly those with a high share of trade, will be tied to China's. 'Trading is the most fundamental characteristic of China's rise in the economic world order,' he said.

Trade with Australia is another interesting aspect of China's trade. Australia is the only 'Western' country not affected by the current economic crisis and this is because of its increased trade with China. Ten years ago, the US was Australia's largest trading partner. Now, 20 per cent of Australia's trade goes to China, and the country is now a part of the Chinese economic sphere of influence. It is a situation Jacques finds interesting: Australia, the most 'Western' country in the region, being Chinese-centric not Washington-centric. He added that Australia would be wise to rethink its own approaches towards China and the region as a whole.

The hallmark of the growing international presence of a country is its increased foreign aid to other countries. China, with its massive accumulated surpluses, has begun to play this role with increasing prominence. Jacques was struck by the fact that between 2009 and 2010, two Chinese banks, China Development Bank and China Export-Import Bank, gave out loans in excess of US\$110bil to other developing countries, while equivalent institutions of the World Bank made loan commitments of only US\$100.3bil — less than that of the two Chinese banks for the same time period!

Jacques also predicted the growing use of renminbi and said that between 2013 and 2015, half of China's trade will be paid for with renminbi. Half of China's trade is with the developing world and it is also the biggest trading partner of most of the East Asian countries. Jacques's projection is

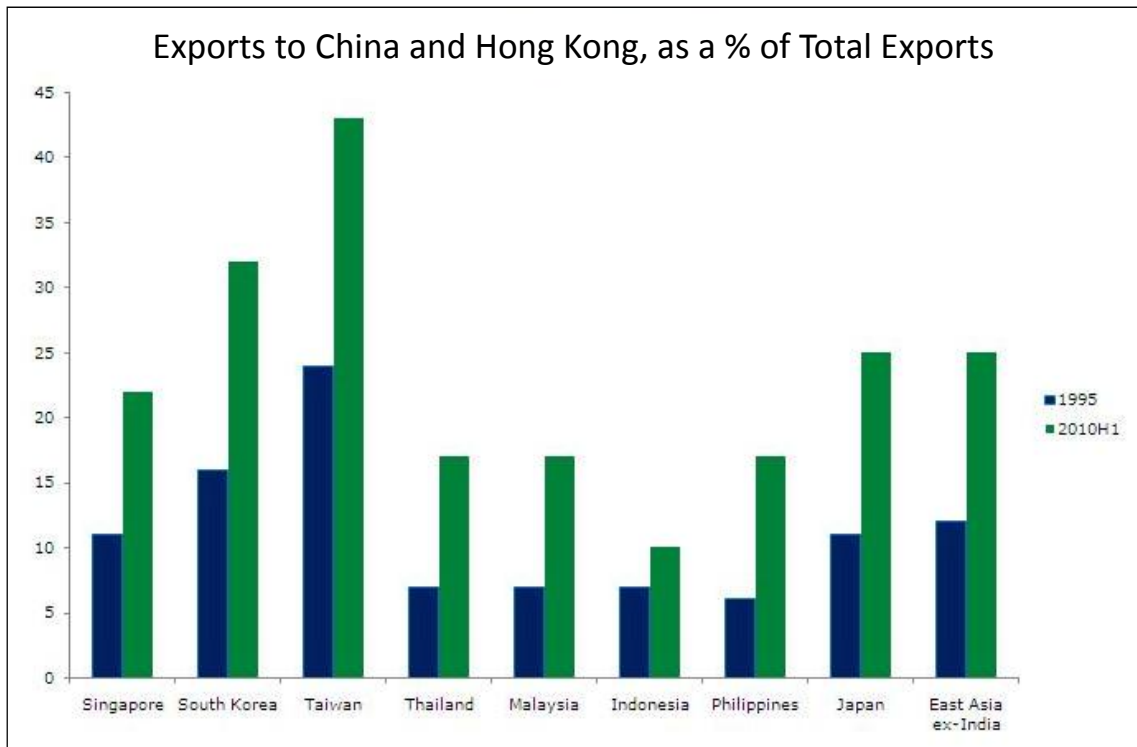


Figure 4

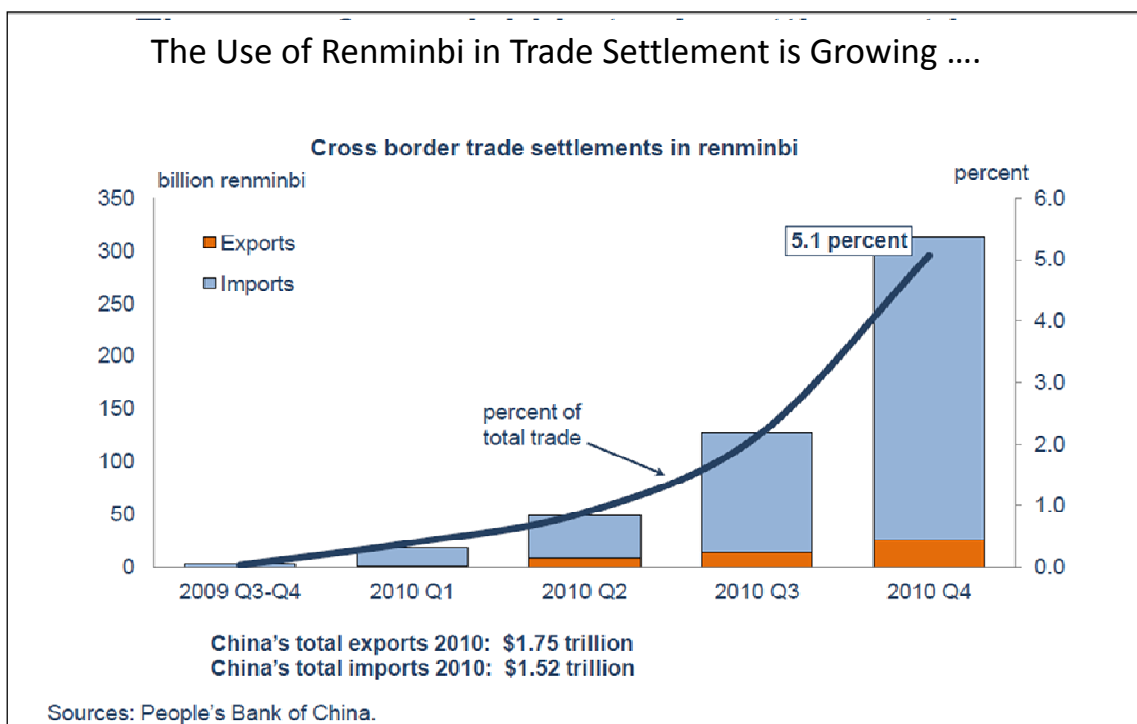


Figure 5

that the renminbi will become the premier trading currency within the region and elsewhere in the near future. (Figure 5)

China a Military Power on the Rise?

China is militarily weaker than the United States. Jacques contends that China is a different global power from the US. To understand a global power, one has to look at its culture and past experiences. The history of the US has been characterized by its pioneering spirit and territorial expansion. China on the other hand thought that it was the centre of civilization and that the outside world was barbaric. Its rationale was against going outside its border: why should it?

The West has looked at China's rise through its own perspectives, and its view has been coloured by its own experiences and prejudices. Historically, China's dominance had been characterized by economic ties and trade, not by military expansion.

China's impact is greatest in East Asia, said Jacques. If one wants to understand the future, one should not look at Europe or the US but at East Asia. East Asia is home to one third of the world's population, and is the largest economic region in the world, larger than North America or Europe. What we are going to see in the future is a new East Asian order, one where China reigns at the top.



Martin Jacques making his presentation