CHINA AS A WORLD POWER: SOURCES AND POTENTIALS

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Abstract
China has gone quite a bit in the field of economic development since the eighties of the last century. From sixties to start of eighties, China’s growth rates never exceeded 5.3 percentages. Since start of eighties, until first decade of current century, china’s economic growth rate has reached a 10.4 percentage. On another side, while the Chinese government announced that the military budgets do not exceed 70 billion, Washington claims that Chinese defense spending had reached 150 billion dollars. In addition, on the social front, china is on its way for having the widest middle class in the world. The current research paper is trying to find out potentials and the limits for China to be the next world power. The research finds out that, despite the outstanding steps china have taken towards achieving development; it is still early to talk about China as a world leader, which is a fact Chinese leaders have always repeated when asked about China's foreign policy targets.

Keywords: China, Economic Development, New Normal, Military Power, United States.

1. INTRODUCTION
Since the end of the World War II, United States presented itself as the world new leader. it can be said that American dominance have had three pillaers Strongest economy, widest middle class and most powerful army all over the world. No other country, yet, have overpassed United States in those three fields. Nevertheless, since previous decade, world have been witnessing a series of economic and geostrategic changes that weakened United States’ position as a world leader. Discussing the end of American dominance, analysts moved already from “when it is going to happen?” to “who can be next?”. Views about new world system have varied, between expecting a uni-polar system, bi-polar system, or a multi-polar system, though, almost all these views have assured that China has a major rule to play in any of these systems.

China has gone quite a bit in the field of economic development since the eighties of the last century. From sixties to start of eighties, China’s growth rates never exceeded 5.3 percentages. Since start of eighties, until first decade of current century, china’s economic growth rate has reached a 10.4 percentage. Even when the financial crisis hit the world economy, causing unprecedented recession since great recession, china's growth rate remained high, at 9.6% percentage. China has become second largest economy in the world by growth domestic product “nominal terms”. Many analyses assure that china will surpass United States in terms of GDP by 2030 or even sooner. However, China still suffers from a number of economic dilemmas
that hinders the overall development process.

China has the largest population on earth. Exceeding 1.3 billion people, China has a vast reservoir of human resources that is considered as a gift and a curse in the same time. Such human resources have provided China with the largest labor in scale, approaching one billion working persons. However, such big population has given China the largest number of poor population after India. According to World Bank estimates, 98.99 million people live below poverty line in China by the end of 2012.

Furthermore, Chinese military has undergone significant investment and modernization over the last two decades, moving into being a sophisticated and technologically advanced military force. People’s Liberation Army (PLA), People’s Liberation Army Navy (PLAN) and the People’s Liberation Army Air Force (PLAAF) form the largest military in the world, with 2.3 million active personnel and a similar digit estimated in reserves. According to “global fire power”, China is ranked as the third most powerful military in the world after Russia and the United States. China’s military spending is increasing annually. In 2014, a 12.2% increase in military spending to US$131.57 billion was announced. However, while China’s army is adequate for defending her, but if the United States continues to keep upgrading its military, as expected, the balance between the United States and China, regionally or globally, will be in America’s favor for the next twenty years.

This paper means to shed light on sources of Chinese power, aiming to find out if such sources can make China the next world leader or just a world polar in a multi or bi-polar system. The first section of the study tracks the rise of Chinese economy and its current position and crisis it might suffer from. Next section will highlight the status of Chinese society and vast changes it has undergone in parallel with economic growth. Third section will give a summary of Chinese military power and ambitions of China to expand overseas.

2. RISE OF CHINESE ECONOMY

After three decades of fast ascension, Chinese economy achieved what is called an "economic miracle".1 China moved to be second largest economy in the world after United States, and by 2013, it was world’s No. 1 trading power, with a share of 10% of world trade. In 2014, Chinese economy broke another record by having world’s largest output in purchasing power parity “PPP”. Even during financial crisis, Chinese economy has shown durability by reaching 7.3% growth rate as shown in Figure No. 1.

![Figure No. 1: China’s GDP growth rate 1980-2014](image)


The strength of the Chinese economy can be measured from two main angles as follows:

2.1. World’s Largest Manufacturer

According to United Nations data, China is world’s largest manufacturer. As seen in Figure No. 2, China was the world’s third largest manufacturer “calculated by added value of industry according to current prices” until 2006, as total value of manufacturing in China reached out 1.29 trillion dollars, while in Japan it was 1.21 trillion dollars only. By 2011, China could take United States’ place as world’s largest manufacturer as total

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value of manufacturing reached 3.45 trillion dollars, while it reached 2.83 trillion dollars in United States. By 2013, China’s manufacturing output reached 4.14 trillion dollars, while it reached 3.21 trillion in United States and 1.27 trillion in Japan.

**Figure No. 2:** Industry, Value added in China, United States and Japan (2000-2014)


### 2.2. World’s No. 1 Trading Power

In 2014, China managed to surpass the U.S. to become the world’s biggest trading nation measured by the sum of exports and imports of goods. According to official data from world trade organization, the sum of trade for United States reached over 4 trillion dollars, while in China, that number reached 4.3 trillion dollars. Such kind of development is considered as a warning sign for regional trading blocs as it becomes the most important commercial partner for some countries.

For so many countries around the world, China is becoming rapidly the most important bilateral trade partner. Many analysts expect that at such pace, many European countries will be doing more individual trade with China than with bilateral partners in Europe. According to World Investment Report, China became the world's largest recipient of FDI. FDI in China amounted to $129 billion, up 4% from 2013, mainly because of an increase in FDI in the services sector. In a survey run by UNCTAD, 28% of global corporate executive chose China as the best investment location, while 24% chose United States. It is of a great importance here to point out that almost half of China’s exports (972 billion dollars) are high-tech merchandise as follows: 24.4% for electrical machinery, 17.1% for machinery, 2.7% vehicles except railway.

Despite the high rise of Chinese economy, it is fair to say that the economy is “a developing” economy after all, and it suffers from structural dilemmas that needs to be addressed for china to have a solid foundation for its economy. Chinese economic model has resulted in a number of negative economic and social outcomes, such as over-reliance on fixed investment export-led economic growth, extensive inefficiencies that exist in many sectors because of government industrial policies, high pollution rates, and growing income inequality. To sum up, it can be said that Many of China’s economic problems and challenges stem from its incomplete transition to a free market economy and from imbalances that have resulted from the government’s goal of economic growth at all costs. Such dilemmas china is suffering have caused many

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4. *Ibid*, p. XL


troubles and many think its real effect started to show up since the slowdown in 2010.

Since 2010, economic growth has started to slowdown in China, showing no signs of rebounding. The slowdown in Chinese economic growth, after three decades of continues growth has fueled the debate over whether China has reached a turning point in its development path, and if China's economy can really lead her to global leader of the world. Some analysts argue the country is stuck in a 'middle income trap', unable to keep high-speed growth. Such analysis assure that the country’s slowdown is of 'structural' nature, and point to development dilemmas such as labor market issues, inefficient capital allocation, the limits of China's comparative advantages in labor-intensive and low-technology production.

On the other side, some scholars argue that, in absolute terms, the size and impact of Chinese economy worldwide is remaining strong, even with the decline in growth rates. Scholars from that side, explain their analysis by assuming that if Chinese economy grows at 7% rate, then its additional output would be 595 billion Euro, which is almost three times the its output ten years ago (209 billion Euro), when growth rate was 12%. Even with the assumption that Chinese growth rate would still the same; scholars assure that chine will be a high-income country by 2020.

2.3. Society in China: Dilemma of “New Normal”

China have the biggest population all over earth, 1.3 billion people, which is a huge source of human resources that helps any country, with the right policies, to be a major global power. History shows that no country could ever be a world leader unless it has a wide middle class that push the development process ahead, provide huge internal consumption and maintain the cultural identity of the country. In china, it could be said that while economy was walking in a fast pace towards developed country, society was not walking in a similar pace, but even slower.

According to World Bank data, poverty gap has decreased in chine from 24.4% to 2.7% in 2010. That is for less than two dollars a day, but when adding one more dollar, poverty gap has decreased from 45.9% to 9.1% only. These estimates indicate that number of the poor in china is being decreased, but the problem of inequality itself is showing up as the new challenge. Data shows that income shared by highest 10% of population in china increased from 25.3% in 1990 to 30% in 2010, while income shared by lowest 10% decreased from 3.5% only to 1.7% for the same period.

Sharp economic and social disparities have grown along with China's rapid economic expansion of the last three decades. Gains from economic growth did not reach the whole country's population, with households' location a determinant of social and economic well-being. Coastal areas have achieved per capita income levels largely above those in inland, and notably areas in the west. Income disparities are even more significant between urban and rural populations. The annual income of urban households is on average three times that of rural families. The OECD has argued that the relative gap seems to have shrunk in recent years, following the abolition of regressive agricultural taxes and the rapid growth of off-farm earnings (migrants’ remittances).

Along with the economic boom of the past 30 years, urbanization has nearly quadrupled, growing exponentially in both size and scale. Nearly half of the population had become residents of cities by 2010. The speed and scope of urban development in China has made it unsustainable. The value of labor and land cannot price fairly under such conditions and the environmental repercussions have been felt so extraordinarily that it has created a social unrest that the government now feels obligated to respond to. That social unrest has complicated the rural-urban division by the emergence of a new population class: urban residents with rural ‘hukous’ (residence permits). These ‘migrants’ live and work in cities without the access to the public services and social participation enjoyed by residents with urban hukous. It is estimated that four in ten urban residents suffer this discrimination. This dual system has generally impeded the growth of

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11 OECD, All on Board: Making Inclusive Growth Happen in China (Paris: OECD, 2015), p. 11-18
China’s middle class and created major social tension.\textsuperscript{13}

Moreover, China’s extraordinary urbanization has led to three major conflicts that have arisen as a result: land disputes, labor conflicts and environmental concerns. These three factors have created a growing social unrest that the leadership within the Communist Party felt compelled to respond to in the third Plenum. Viewing social unrest as a potential threat to the legitimacy of power within the Communist Party, a new path forward has been introduced. The ‘National new-type urbanization plan’ was introduced in March 2014 and focuses on generating increased welfare for urban residents through 2020.\textsuperscript{14}

China’s new focus is to integrate economic development with improvement of quality of life for citizens. Among the recommendations within the plan are efforts to respond to environmental concerns while enhancing the efficiency of energy. The plan goes further to address needs like telecommunication along with improved professional and consumer services that are designed with region specifics in mind, especially attempting to develop central and western regions more.\textsuperscript{15} The reality is, as demand for Chinese exports falls, companies are trying to foster growth of domestic business, which demands that they respond to their consumers. As Chinese citizens have gained purchasing power, they also have become more aware of moral issues within the economy – like consumer protection and concern about the safety of the products they are encouraged to consume. The government plan is an important step towards addressing some facets of the lives of their citizens, but the reality is that implementation will be a long term and challenging effort.

It is worth noting that the unbalanced distribution of wealth results in imbalances of local public finances. Rural western local governments struggle with growing debt as their revenue is naturally lower along with the financial status of their residents. The government continues to provide for the needs of education, health and infrastructure, however they are dependent on redistribution from within the central government area.\textsuperscript{16} The gap in financing reflects the same socioeconomic gaps between urban and rural life, where western and central provinces have a much larger budget gap than coastal provinces.

From a cultural point of view, a wide middle class that pushes development process is not featured with high income only, but also with high standards of life, which includes better education and health indicators.

\textbf{Figure No. 3: Net Enrollment in Tertiary Education in china 1980-2013}

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\caption{Net Enrollment in Tertiary Education in China 1980-2013}
\end{figure}

\textbf{Source:} World Bank Data.

Enrollment According to Figure No. 3, net enrollment in tertiary education in china have increased from only 1.1\% in 1980 to 29.7\% in 2013. The rise in tertiary education is an obvious indicator of the high educational

\begin{thebibliography}{9}
\bibitem{15} OECD, Op. Cit., p. 64-69
\bibitem{16} Henry Sanderson and Michael Forsythe, China’s Superbank: Debt, Oil and Influence, How China Development Bank is Rewriting the Rules of Finance (New York: Bloomberg Press, 2013), p. 141 - 146
\end{thebibliography}
The level middle class is achieving. It is worth noting in that matter that China is achieving number one in world education rankings. Concerning health, the Chinese government has raised its health expenditure to reach 5.6% of GDP in 2013, after it was just 4.6% in 2000. In parallel with that, personal expenses on health have increased from 43 dollars to 366.9 dollars for the same period. As a result, health indicators for Chinese people have improved rapidly. In Figure no. 4, it is apparent that percentage of people 65 years and above has increased dramatically from 6.7% to 9.2% in the same period.

**Figure No. 4: Population ages 65 and above 2000-2013**

Source: World Bank data.

### 2.4. Military Power

In fact, Military dominance has been an integral part of the elements of the binding forces of nations and states that led the world, from the Pharaonic civilization and until the American hegemony. Samuel Huntington predicted that news between different civilizations would be of a cultural nature. Yet, analysis confirm that military power will remain the last weapon that everyone must have to lead the world. In China, People's Liberation Army have witnessed, as most sectors, a high modernization process, since 1990s. After 1991's desert storm, Chinese leadership were aware of the need to modernize the army in case of a possible war with United States, especially that desert storm showed how advanced is the American arsenal.

Since Chinese government is not revealing its military budget, there has been an increase in the estimates of its defense expenditure. While the Chinese government announced that the military budgets do not exceed 70 billion, Washington claims that Chinese defense spending had reached 150 billion, which China strongly denies. It is well recognized that defense spending is the main indicator of trends in the construction and development of armed force. While some analysts believe that China is trying to achieve in the military sphere, what it achieved in the economic sphere, a 'silent update' and ‘gradual growth’. China decides it keeps its forces updated enough to only defend its mainland. In any case, china for sure is not doing like Iran, by 'reviewing' its capabilities. However, in the same time, it cannot be denied that military building process is advanced and fast, enough that it began to severely affect the existing balances in the surrounding sub-regions.

Recent US estimates of Chinese power, are targeting directly the most advanced sectors, as a source of concern about China's military. The annual report of the US Department of Defense for military power of China, issued in August 2010, have reviewed four areas of military development as a source of 'worry', that includes new medium-ballistic-range missiles, capable of hitting land and sea targets, combat submarines,

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19 Ibid.
and possession of arming and advanced technologies in the field of Air defense systems, in addition to the acquisition of modern fighter aircrafts, such as the Su-29. Nevertheless, the focus of most analyzes of China’s military power focus on three areas:

1.1. China’s ability do to build sophisticated aircraft carriers, with Self-capabilities, and military budgets of up to 20 billion dollars. With the acquisition, marine Corps, and develop cruise missiles, and possession of a light aircraft, the prevailing attitude is that China is building a naval force capable of working overseas, at distances beyond what was traditionally conceived for her.20

1.2. China’s ability to develop advanced missile systems to target military satellites, and anti-ballistic missiles. It is an area of work that makes China the most advanced, in military terms, even more than countries such as France, Britain, Germany and Japan. And that moves china from being a ‘regional superpower’ to being a ‘global superpower’.

1.3. Expand the scope of its foreign military alliances in South and South East Asia surrounding India and close to Taiwan. In addition, even having military facilities in Africa.21

In fact, the Chinese military situation seems interesting largely. Despite the fact that the development of China's military power operations raise some sort of concern for the surrounding countries in the regions of South Asia, and East Asia, in addition to countries with interests and fleets in that region.22 Moreover, despite that the Chinese official statements seem ‘threatening’ in some way, especially for Japan, Taiwan and India, the actual military movements look carefully calculated in a manner that does not make it appear as if china is willing to use armed force effectively against other parties opposing it. Nor does it seem that official statements are reflecting a sharp offensive strategy or intentions to be considered by the parties, with the exception of Taiwan. In this context, and away from private Chinese climb theories, it is difficult to imagine that armament behaviors, and threatening statements, could lead to a war, but it can cause a case of regional instability in the surrounding areas of China, while strengthening the current balances, which is based on a network of strategic alliances between the United States and India, Japan, South Korea and Taiwan, in a way that leads to a state of cold war, which is not up to the direct clash, different considerations.

3. CONCLUSION

After Reviewing Source of Chinese power, it is time now to ask one important question: can china be a new world leader? From what we have seen, it is safe to say that a better answer for that question will be available almost 40 or 50 years from now. Currently, China has gone far with its economic growth, but not with economic development. Premier Wen Jibao called China's economic growth capacity 'unbalanced, uncoordinated and unsustainable' in 2007, and over time, it has become clear that his description is accurate. The factors that originally propelled China's economy upward have lost most of their momentum, leading China to a critical juncture where priorities have been reorganized in hopes of responding to their economic stagnation while also prioritizing the needs of the people along with the market. Part of Beijing's economic development strategy has been to respond to domestic economic challenges through reinforcing China’s place in international markets. During the third Plenum in 2013, the Chinese government outlined a program for financial liberalization, fiscal and structural reforms, and their pursuits in the global markets.

According to Beijing, China’s more muted economic growth stems from a ‘rebalancing’ towards a ‘new normal’, a phrase first used by President Xi Jinping during a trip to Henan in May 2014. The government's efforts to ‘rebalance’ aim to prioritize people’s wellbeing over growth targets, countering the risk of the ‘middle-income trap’, by fostering entrepreneurship and innovation and by increasing the supply of public goods and services8 and ensuring that people's income grows as rapidly as GDP. The ‘new normal’ economy represents a shift from one driven by investment and labor-intensive exports to one based on domestic consumption and services. Yet this transition is proving difficult. While a sharp fall in global demand has lowered the growth of China’s export volumes, increases in local consumption have been very modest. However, assuming that China is going to achieve its goals of carrying on structural and institutional reforms to solidate the foundations of its economy and society and be a developed country, the question then turns to be: to what extent does china want to be a world leader?

22 Ian Easton, “China’s Military Strategy in the Asia-Pacific: Implications for Regional Stability”, Project 2049 Institute, September 26, 2013, p. 4-5
Since ages of dynasties, it has been part of Chinese foreign policy to make China the leader and no one dominate over her. Chinese leaders have always wanted to put China in leadership, but they could not do so. Now, China has the ability and sources to be part of any world system, uni-polar, bi-polar or multi-polar, but that would take years to be achieved. In 1999, the country launched its 'going global' strategy, in which national 'policy banks' backed domestic companies doing business overseas, offering them various forms of financing to mitigate commercial risks and facilitate their export activities. China's overseas financing has also taken the form of aid to finance infrastructure development projects in developing countries across the world; this aid ensured that Chinese companies had preferential access by attaching commercial requirements and investment clauses to the grants and loans. China's global outreach has touched Africa and Latina America and has increased greatly since 2006. In the aftermath of the global financial crisis and the euro crisis, European countries and Eastern Neighborhood policy countries have also become targets for Chinese investments. In addition, that all indicates that China is already going overseas, just this time it is using economy instead of military power.

REFERENCE LIST


