

China's International Role in the 21st Century: The Case for Optimism

Address by the Hon Gareth Evans QC MP, Deputy Leader of the Australian Labor Party, to the 1997 Pacific Rim Forum, Hong Kong, 30 June 1997.

It is not easy to stand back from the excitements and forebodings associated with today's events to contemplate what kind of role China might be playing in the Asian hemisphere and globally in the next century. And it's probably harder for politicians than anyone else. As everyone knows, we as a class are particularly ill-equipped to take a long view. The ends of our noses are more familiar territory than the end of the century. Thirty days is an eternity, let alone thirty years.

It's certainly easier for all of us to ask than to answer the big questions. But there are at least three big questions that all of us *are* in fact asking: just how big will China become economically; what is that going to mean for how China is tempted to behave politically and militarily; and what is the most sensible way for the international community to respond to the new power relativities that will be associated with China's rise?

When it comes to answering these and related questions, the waters rapidly divide, as so often in life itself, between optimists and pessimists - those for whom the glass is always half-full and those for whom it is half-empty. For every Fukuyama there is a Huntington; for every Overholt or Naisbitt there is a Bernstein and Munro, or Segal; and - coming a little closer today's platform - for every James Shinn I guess there is a Gareth Evans. I *am*, on balance, an optimist about China, and I'll do my best to explain why.

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How big *is* China going to be economically? Everything, as always, depends on the assumptions you begin with. The first basic problem is that it is difficult to try to establish with confidence exactly how big the Chinese economy is today. The usual *official exchange rate approach*, which converts GDP in local currency into US dollars, is problematic because it only measures the capacity to purchase internationally traded items and understates the value of non-traded

goods and services. The *expenditure approach*, based on purchasing power parity (PPP), provides a better estimate of the domestic purchasing power of the local GDP but tends to overstate real income and capacity to trade internationally. The *production approach*, which measures real output (value added) in major sectors of the economy, requires a standard of statistical information which simply isn't available.

The second basic problem goes to what can be said confidently about growth projections in any economy, but especially in China. There is the question of the accuracy of official versus non-official estimates of China's actual growth rate in recent times. And so many factors could change within a short time. Estimates of China's growth rate in the next few years are generally around 8 per cent per annum. But this is hardly likely to continue without upswings and downswings in the next two decades. And if estimates are varied by even one or 2 per cent - or different assumptions are made about productivity growth - the figures, when projected twenty or more years ahead, give greatly varying results.

All that said, if we make the conservative assumption that in 1993, the most recent year for which we have full comparative figures available, China's per capita GDP, measured on a PPP basis, was US\$1,500 (as compared with \$24,740 for the US), and if we make the not unreasonable - but rather more problematic - assumption that China's growth rate will be maintained over the next two decades at 8 per cent, and the US's at 3 per cent, then China will overtake the US as the world's largest economy by 2020 (Figure 1). If China's growth rate is 7 per cent rather than 8 per cent, then the crossover point will be 2027 (Figure 2). On the other hand, if the starting point GDP per capita in China were to be closer to \$2,500 than \$1,500 (an assumption which has some support from the World Bank), then China would overtake the US as early as 2009 (Figure 3).

On any view, of course, it will take very much longer than 2020 or 2027 - very many decades longer - for China to overtake the US in *per capita* GDP terms (Figure 4). And in terms of becoming an economic superpower, it is arguable that this requires not only a high overall GDP, but a high GDP per capita as well. As Lester Thurow has put it:

To be a world economic player one must have a high per capita GDP and be technologically sophisticated...beginning from where China is now, it

will take more than a century to make it into the developed world. It took Japan that long, and no-one has ever done it faster.

There is no doubt that China continues to face major challenges in maintaining its recent pace of economic modernisation and expansion and of coping with the changes which this growth is bringing. These challenges have been aptly summed up by David Shambaugh:

China's economy remains in a halfway house between plan and market. Prices continue to be heavily subsidised and arbitrarily set. The banking sector faces a crisis of insolvency with crippling 'chain debts'...Although approximately 700 million still live in rural areas, the rural sector still suffers from severe underemployment. More than 200 million peasants have moved out of agriculture into light industrial manufacturing, or have joined the migratory exodus to coastal cities.

Just about everyone acknowledges that China's biggest single economic management problem for the foreseeable future involves the State Owned Enterprises (SOEs). Shambaugh again:

These socialist behemoths account for nearly 50 per cent of China's industrial output and employ at least 50 million workers, yet two-thirds of the estimated 12,000 large and medium-sized state factories lose money. It is estimated that 70 per cent of factories are unable to meet payroll on a regular basis. Most people who do draw income remain at home while production lines lie idle due to lack of demand for unsellable goods; it is a classic case of disguised unemployment.

Supporting the SOEs is a severe strain on state finances but authorities are reluctant to act decisively for fear of adding to urban unemployment.

Zhu Rongji expresses confidence, both privately and publicly, that the problem is a manageable one, especially with the Government's new policy - announced last year - of focusing reform efforts on 1,000 large SOEs, which will remain under close government management and support, presumably while the rest wither away.

Lester Thurow, in addressing the question of whether China can be an economic 'marathon runner', sustaining high growth levels in the decades ahead,

emphasises - I think rightly - its major advantages vis a vis other former socialist economies. China has a high domestic savings rate to fuel investment. And while there is much decentralisation, the country retains a strong capacity for national leadership and decision making - in strong contrast to governments in the former USSR. China always had a less centralised economy than the USSR, with only about 18 per cent of employees employed by large state enterprises - in contrast to 93 per cent in the USSR. The overall task of reform is therefore more manageable and achievable.

Given that the non-state sector is already large, with plenty of room to grow, the problem of the SOE sector may be able to be solved without drastic action having to be taken. But it is also the case that without significant restructuring of the state sector, financial sector and trade reform will be delayed, and, it will be that much more difficult - as is argued in an important recent Australian official report - to achieve macro-economic stability and to efficiently allocate capital, skilled labour and other scarce resources within the economy. And this in turn will certainly slow the development of the market economy and reduce future growth prospects.

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While status as an economic superpower may depend more on GDP per capita than the aggregate size of the economy, political and military status is much more directly correlated with absolute size. From any perspective, China's economy, though very big now, will get much bigger still - absolutely and comparatively - within quite a short time. What are the implications of all this for China's likely international behaviour?

One should certainly not begin with the assumption that China is any kind of a military superpower *now*. Nor is it reasonable to believe that it could become one within the readily foreseeable future.

A prominent theme in the arguments of the pessimists about China's role into the next century is, of course, its alleged rapidly increasing military capacities. Bernstein and Munro, for example, emphasise that China maintains a level of military spending greatly in excess of the acknowledged amount, and that in real terms it could approximate up to one-third of US spending. China, it is contended, is seeking actively to expand its access to advanced technologies

(including those from the US) and it plans to develop a capacity to invade Taiwan and to be able to threaten US forces in East Asia, particularly US aircraft carriers.

Other analysts, while acknowledging that China has indeed been seeking to modernise (and also downsize) its armed forces, have argued that its military capacities are much more modest. In a new book, Nathan and Ross argue that China's military is 'the most backward among the great power armies in East Asia...vulnerable to military challenges in its coastal waters, unable to win an air war against Taiwan, and unable to project power to defend its territorial claims'. Because of its inadequate military resources, China cannot 'establish regional dominance' in the foreseeable future. Ross has also argued convincingly elsewhere that China faces immense obstacles in attempting to gain strategic capacities such as operational aircraft carriers and that it is not in a position to win a regional arms race against the US and Japan if one developed.

Whatever now may be China's capacity to be a destabilising force in the region, there are plenty of pessimistic analysts to be found who don't doubt its capacity - and in some cases its intention - to be so in the future. One of the most pessimistic is my colleague on this platform today, James Shinn of the Council on Foreign Relations in New York, who argues that China in the decades ahead is likely to pose major problems for the international community irrespective of the type of government which evolves there:

If the PRC disintegrates, the mass social chaos and human suffering could well result in waves of refugees, rampant crime, weapons and nuclear arms proliferation, and staggering economic losses. If China remains united and strongly authoritarian, a coalition of party ideologues, state capitalists, and strongly xenophobic People's Liberation Army (PLA) officers could gather the reins of power in Beijing while constructing a new legitimacy based on Han nationalism and an aggressive foreign policy. If China remains united and mildly authoritarian, it could well become a destabilising force in the international system, and in any case would still be difficult to deal with - as Washington has lately discovered. However, even a pluralist, quasi-democratic China, given its sheer size, the volatility of its domestic politics, and the depth of its aggrieved nationalism, would pose an enormous problem.

A more familiar - and manageable - brand of pessimism is that which holds that

China's rapidly increasing economic size and power will inevitably be reflected in moves by its leadership to assert political and military authority. After all, the argument goes, there has been a depressingly consistent pattern of behaviour over the centuries whereby economic causes have repeatedly triggered armed conflict. Economic hegemony has tended to want to become political hegemony. Even when they haven't wanted to, their neighbours have sometimes feared they might, and have acted pre-emptively to stop them.

Thus Samuel P Huntington in his elaboration of his concept of a coming 'clash of civilisations', arguing that China essentially has two foreign policy goals: to be the champion of 'Chinese culture' and to be the hegemonic power in Asia. Huntington emphasises the emergence of the phenomenon of 'Greater China' as a key element in China's economic growth since 1978 and in its potential for influence in East Asia. For example, when the 1989 Tiananmen massacre resulted in a deteriorated foreign policy position for China, the overseas Chinese remained as crucial suppliers of investment capital to maintain China's drive towards major power status.

In considering the overall implications of China's economic development, Huntington suggests that growth is often associated with international instability. In the case of East Asia, the situation is exacerbated by the lack of a developed international society, in strong contrast to the example of Western Europe. In this context, China's growing economic power - which is also being translated into growing military power as well - is likely to lead to a drive by China to maintain the status of the 'classical regional hegemon' and will also see increasing conflicts of policy and interest with the US.

Bernstein and Munro argue in parallel that China's enhanced wealth is associated with a move towards a more aggressive posture. Developments during the 1980s increased the influence of conservative Communists and the military - including the impact of the Gorbachev reforms in the Soviet Union and the crackdown on dissent in Tiananmen in 1989. China is utilising its wider trade relationships to increase access to militarily useful technology. It is committed to the return of Taiwan to the mainland. China should be seen as an autocratic state whose ruling elite are firmly against political liberalisation or the development of democracy. China also is strongly influenced by wounded nationalism, a sense of unredeemed historical suffering, and a powerful suspicion of foreigners. Given the decline of ideology and the passing of the country's charismatic leaders, the

government encourages and exploits such sentiments in an effort to enhance its legitimacy and control.

These worst case analyses clearly involve discussion of issues which most analysts acknowledge to be significant and challenging in relation to China. China *is* a vast country undergoing a remarkable process of rapid economic transformation. This process is certainly placing its ruling regime under pressure at a time when the international credibility and prestige of communism has almost entirely evaporated. China does have a number of existing and potential disputes with neighbouring states, and the issue of Taiwan is both sensitive and highly contentious. China in the medium future is not likely to be an easy country with which to deal and the stability of its course in foreign relations cannot be taken for granted. Nonetheless, it may be argued that analyses such as those just discussed are both overdrawn and in danger of assuming the character of self-fulfilling prophecies.

For a start, a great deal of care needs to be exercised in relation to any analysis which sees a monolithic China pursuing an inexorable path towards an assertion of greater influence. The process of economic reform and growth has been accompanied by considerable decentralisation of economic power and administrative authority: in some respects, China is more like its own constellation of East Asian economies, and polities, than a single great entity. And as Mirsky has observed in relation to Bernstein and Munro, their work gives the impression of a Maoist China of one mind, certain of its intentions. Recent visitors give a different impression, of a Peking and indeed of a country in which factions compete to make internal and international policy'.

Of course there are continuing doubts about how the post-Deng political succession will evolve, and no-one can be completely certain how the internal power balance will work out in the short and medium term, let alone the long term. But there is no sign to date either of abdication of any critical dimension of political authority to a more nationalistically inclined military; or of the central civilian leadership being so weak and divided that it cannot assert its authority, on issues that really matter, over provincial leaderships; or of a central leadership responding erratically or indecisively to external challenges.

My own instinct is that continuing economic change *will*, over time, have a politically liberalising impact, for the kinds of reasons that have been set out by Fukuyama and others - and that there will be an accompanying reinforcement of

the more democratically responsive elements of the Chinese system at the expense of the more familiar authoritarian ones. We are beginning to see that trend emerge, particularly at the local government level. This little piece of optimism might seem misplaced at a time when Beijing has dug in its heels against the small but significant degree of democratisation that has been achieved in recent times here in Hong Kong. But if one can stand back and apply a larger perspective, there do seem to be many factors working in the other direction. Internal economic liberalisation, the globalisation of commerce and the revolution in communications technology will make a formidable combination in China, as elsewhere already in East Asia, as educated middle classes emerge and demand more responsiveness by government to their interests and aspirations.

So far as China's external behaviour is concerned, the main proof of the pudding so far has been in the eating. The image of China as an aggressive and destabilising power is markedly at variance with its foreign policy record in the past two decades. As Robert Ross has argued, China in its foreign policies has sought to consolidate regional trends and promote stability:

In its policies towards Russia, North and South Korea, Thailand, Burma, and the countries of Indochina, Central Asia and South Asia, China has emphasised cooperative measures to consolidate existing relationships rather than forceful measures to promote new patterns of relations.

China in the past two decades has already attained a substantially more prominent diplomatic and political position in East Asia, and this has not been associated with a widespread perception of a threat to the regional balance in East Asia. The end of the Cold War has provided China with the opportunity to pursue much more concerted regional policies with the overall goal of supporting its economic development. China since the late 1980s has acted to improve its relations with all its immediate neighbours. Agreements have been reached with Russia, with the new Central Asian republics, and with India. Normalisation was reached with both Indonesia and Singapore in 1990.

China also cooperated intensely and highly constructively in addressing two of the most serious regional conflicts - Cambodia and the Korean peninsula. China was a crucially important player in the process that produced the Paris Peace Accords in 1991. It also made important 'behind the scenes' efforts in effecting

the Geneva Accords between the US and North Korea in August and October 1994. China has joined many regional organisations since a formula was arrived at in 1986 by which both China and Taiwan were willing to be accorded membership in the Asian Development Bank (with Taiwan accepted as 'Taipei, China'). In 1988 China joined the Pacific Economic Cooperation Council and 1991 China, Hong Kong and Taiwan became members of APEC. In 1993 China became a founding member of the ASEAN Regional Forum. Michael Yahuda has observed that:

Although these regional organisations are essentially consultative, they have brought the PRC into more regular contact with multilateral gatherings in which a wide range of economic and even security matters are dealt with in such a manner as to familiarise different agencies and bureaucracies in Beijing with the concerns of their neighbours and the region as a whole. Together with the manifold economic ties that have been progressively established they contribute to anchoring the PRC in a multi-faceted interdependent set of relations within the region. As seen by weaker neighbours, that contributes to long term security, and as seen from Beijing, it enhances its economic relations within the Asia-Pacific which are crucial for the continuing growth of its economy.

The record of China's actual range of diplomatic participation and dialogue in the past two decades is important because its contributions to enhancing regional stability have been sometimes downplayed. As a recent Stanford University report has argued, although China in recent years has acted in ways which have caused concern to the international community (and to the US in particular on issues such as nuclear tests and arms sales) 'Beijing has not received credit for its contribution to peace in Cambodia, cooperating on the Korean peninsula, and acquiescing as a permanent member of the Security Council to UN peacekeeping operations that it viewed sceptically'.

As someone who, as Australian Foreign Minister from 1988-96, was intimately involved in many of these matters, I can testify to the generally very strongly helpful role that China played - perhaps most conspicuously and importantly of all in the Cambodia peace settlement process, without which we would certainly not be witnessing the present disintegration of the Khmer Rouge.

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So how should the international community be reacting to these emerging new power relativities that will be associated with China's economic rise in the decades ahead?

External countries clearly cannot determine the outcome of the process of domestic change in China. The international community, however, can help shape the context in which China pursues its process of internal change and greater external involvements, economically and politically. Other countries are likely to have clashes of interests with China which will need to be identified and pursued. However, by seeking actively to add substance to the process of engagement already under way with China, the international community - and in particular key members of it like the US - can maximise the potential for favourable outcomes, and avoid the problems of the development of self-fulfilling prophecies based on an expectation that China's assumption of a more prominent international role will necessarily be accompanied by discord and even conflict.

There are a number of positive steps which could help facilitate the process of increasing integration of China into the international community. Let me identify three in particular:

First, membership of the World Trade Organisation, on terms that safeguard the gains of the Uruguay Round, is essential for China's continued and growing access to markets in both the US and other OECD countries. While there are still complex issues to be resolved (including disputes over government regulations and resistance from much of the State-owned sector), there have also been strongly positive signs that China is pursuing the adjustments necessary to accomplish membership. This step, combined with China's continued commitment to APEC, will significantly enhance China's international economic engagement.

Secondly, policies should be pursued to increase China's sense of participation in the development of international arrangements in the early phases of the post Cold War environment. As the Stanford report has suggested, China's participation at the G-7 (now G-8) meetings is justified by the size of its economy 'and would provide an excellent opportunity for the industrial democracies to foster a shared perspective with China's leaders concerning their integration into the global economy'.

Thirdly, continued progress in constructive dialogue with the United States is central to the prospects for a successful transition by China into greater international involvement. A pattern of regular dialogue at leadership level is needed to consolidate the improvements made in relations in 1996. In this context, as China approaches the 21st century with what is already, on some calculations, the world's second largest economy, it is desirable that the anomalous position of China in having to gain access to Most Favoured Nation status on an annual basis should be addressed decisively. There is no evidence that this remains a productive pressure point in encouraging China to improve its human rights performance. MFN status should be accorded permanently.

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As the Asian hemisphere approaches the 21st century, there are many positive developments on which to base predictions of peaceful development and cooperative relationships. Despite the continued currency of the "engagement v. containment" debate in the United States, no major country or grouping - certainly not Japan, ASEAN or the European Union - has indicated any interest at all in pursuing a containment policy. There is widespread agreement with the kind of points succinctly made recently by David Shambaugh:

A policy of containment would certainly confirm elite Chinese suspicions about Western subversion and hostility to the Communist regime. A containment policy would work directly against Western desires to improve human rights, stimulate civil society, and pluralise politics in China. All leverage would be lost and China would have no incentive to cooperate in these or other realms; indeed, it would be free to act with impunity. A China unconstrained by the global system would be far more dangerous and injurious to Western (and Asian) interests.

All the emphasis, on the eve of the 21st century, is on how the extensive networks of dialogue now involving China, both in the Asian hemisphere and internationally, can be expanded and deepened. And that is as it should be.

China for its part has some important choices to make, and while there is every reason now not only to hope but to expect those choices will be made responsibly, the eyes of the world are very much now focused in Beijing's direction, with its treatment of Hong Kong in the months and years ahead an

important continuing litmus test of good faith.

Beijing will, of course, make its own decisions about what is in China's own national interests. China is now, as it has been in centuries past, a great power, with a perfectly understandable consciousness of its great role and status in the contemporary world. But as President Clinton recently said in Australia, what matters in the years ahead is "how the Chinese *define* their greatness". I very much hope that China chooses to define its greatness with moderation, intelligence and a greatness of spirit. History will have much for which to thank Beijing if it does.