



THE POWER OF CHINA IN THE NEW WORLD

HAVE YOU EMBRACED GLOBALIZATION?

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As things stand in the spring of 2012, China is racked by a number of political, geopolitical, social and economic turbulent forces. These are in good part linked to the leadership transition Beijing will be experiencing. But there is also the fact that the great speed at which China has changed and the impact both on and from the world inevitably will cause turbulence. While the turbulence can be expected to continue in the near term, in the longer term I am reasonably confident that the momentum generated since the reforms of thirty years ago will be resumed. Admittedly, anything could happen and there are a number of potential powder kegs. On balance, however, the evidence still seems to point to the fact that China's engagement with globalization is robust and will endure. The paradox is that while the West drove globalization in the modern era, increasingly Western countries are tangling themselves around isolationist and protectionist policies. Anxiety, fear, and a misunderstanding about China are key motives. The uncertain times are also reflected in the volatility of markets. We are clearly in a new world, one increasingly oriented towards China. Understanding where China has come from is vital in being able to adjust to the globalization challenge of the 21st century.

From roughly the 2nd century BCE to the 15th CE, about 1700 years, "globalization" – the integration of markets through cross-border flows of goods, capital (in whatever form), people and learning – was dominated by the overland Silk Road, extending from East China to the Western Mediterranean, subsequently complemented by the Spice Route, from Java across the Indian Ocean to Venice and down the African coast to Somalia. The agents of globalization included Chinese, Indians, Mongolians, Central Asians, Persians, Arabs, Egyptians and Europeans who were mainly at the receiving end.

With the passage of time and scientific inventions, cartography, shipbuilding and navigation improved considerably. By the early 15th century ostensibly the Chinese seemed in command and a priori slated to be the lords of the universe. The great admiral Zheng He carried out voyages in the period 1405-1433 in which he navigated across the South China Sea, the Java Sea, the Indian Ocean, up the Bay of Bengal, across the Arabian Sea, up the Persian Gulf as well as the Red Sea and down the coast of Africa as far as Mombasa. Some believe he reached as far as the Americas. In what remains a remarkable turnabout, just as the Chinese had the wherewithal to expand across the seas the Ming Emperors decided to halt the expeditions, to prohibit sailing the seas and to that end the ships of Zheng He's fleet were destroyed and all further naval construction of big sea-faring ships prohibited.

As China withdrew into itself, Europe surged. The Portuguese Seaborne empire emerged stretching across the Atlantic (with the discovery of the Americas and the colonization of Brazil in 1500) and across the Indian and Pacific Oceans including outposts in Malacca, Goa and Macau. Thus began the inexorable rise of the West to global dominance. Individual European powers may have risen and fallen – as was the case with both the Portuguese and Spanish seaborne empires – but then others, the Dutch, the British and the French took over with global dominance remaining securely in the hands of the "West"; when Europe tired the baton, so to speak, passed on to the United States. The really big narrative from the early 16th to the early 21st centuries has been the transfer of wealth and power from Asia to the West. In 1500 and 1600 Asia accounted for more than 65% of global GDP¹; by 1700 as the impact of the rise of the great Dutch and British East Asian companies began to be felt, it began to decline, though still close to 60%. At the beginning of the 19th century Asia still seemed to be holding more or less on to its own, indeed China alone corresponded to 33% of global GDP. Then the dams of Western industrialism and imperialism burst. By 1950 Asia's share of global population accounted for 60%, while its share of GDP was 17%. Asia was poor, really poor. A quarter of a century later, by 1975, it had increased its share to 22%, though half of that was accounted for by the "Japanese miracle"; at the time of the death of Mao Zedong (1976) China's share of global GDP stood at 4%.

At the beginning of the 21st century we are witnessing as profound a change as occurred half-a-millennium ago with the rise of the Portuguese Seaborne Empire. Because of contemporary technologies, however, this transformative era in which we live is happening in highly compressed time; things are changing at a hallucinating speed – so much so that many, especially in the West, don't see it!

What is this "new world"? For one very important thing it is one that is no longer dominated by the West. Twenty years ago the developing world's share of GDP stood at 35%; today it is 50% and rising. Twenty years ago the OECD countries were the hub of the world economy with other regions

passive spokes. Today most growth in global trade and investment flows occurs within or between the erstwhile outlying regions of the world. Trade between China and Brazil has multiplied by more than 20 times in the decade 2000 to 2010. From being marginal in the economic relations of most countries of the developing world, China has today surpassed the US and the EU to become Brazil's biggest trading partner. A similar trend can be found in China's economic ties with countries around Asia, Africa and Latin America. Chinese ties and influence are not limited to developing countries. Beijing has some \$1.8 trillion invested in US treasury bonds; China is, as Hilary Clinton recently acknowledged, the US's banker. China has recently surpassed France as Germany's leading trade partner.

The new world is increasingly Sinocentric. China has become the global center of manufacturing, the hub of the global supply chain. It has surpassed the US and Germany as the world's leading trade power. It has overtaken Japan to become the world's second biggest economy and is almost certain to overtake the US in aggregate GDP probably before the end of this decade. Of course in GDP *per capita* terms China still remains relatively poor; according to the IMF in nominal terms China ranked 88th (out of 183). Still, China has seen 600 million persons lifted out of poverty in these last twenty years, growing urbanization (with now more Chinese living in cities than in rural areas), the meteoric rise of a "middle income" class, currently estimated at about 350 million, with some projecting it will reach one-billion within the next couple of decades. China has become the world's biggest luxury market and is a rapidly growing source of revenues in outbound foreign tourism. Though China twenty years ago was mainly in the business of assembling low-value added goods – toys, textiles, Christmas decorations, footwear, etc – it has been moving up the value-added chain quite rapidly and now boasts leading players in a number of high-tech industries. The 12th 5 Year Plan aims to bolster both greater green growth and innovation.

From the abandonment of Zheng He's sailing expeditions until recently China looked inward. It failed (unlike Japan) to adapt to the challenges of industrialization and imperialism emanating from the West in the 19th century. Though Mao gained political independence for China, his regime followed a policy of economic autarky. This was interspersed with economic experiments, such as the Great Leap Forward, which were apocalyptically catastrophic – some 60 million are believed to have died from the famine that ensued.

It was two years after Mao died that China took as momentous a decision as it had in 1435 when it opted to close itself off from the world. In 1978 the Chinese leadership under Deng Xiaoping decided, in the words of the economist Zheng Bijian, to embrace globalization. The rest, as they say, has been the history of the last three decades and is pretty certain to mark the next few decades. The Sinocentric global revolution is really only at its beginning.

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¹ Angus Maddison, *The World Economy : a Millennial Perspective*

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