

## ***World in Transition: China***

By the year 2012 the 32 turbines of the Three Gorges Dam will work at their full capacity, and the great wall (1.3 miles-long and 610 feet-high) will finally contain the waters of the Yangtze River, at the heart of China. The Three Gorges Dam is the largest hydraulic project in history and another demonstration of China's ability to undertake long and sizeable projects. For almost 18 years of construction works, more than a million people have been relocated, and by the time the dam will be completed 13 cities, 140 towns and over 1,300 villages will have been submerged under the 330 sq-miles artificial lake of the Three Gorges Reservoir.

This project has made true the dream of Sun Yat-sen, the emperor who gave birth to the Republic in 1911, and who included the dam among his list of visionary projects for the Great China. Moreover, the dam will confirm China's world leadership in the field of hydroelectric energy, and will become an illustrative metaphor of the challenges that this country is facing in the medium-run.

China aims to become the hegemonic power of the 21<sup>st</sup> Century, in the same way that the United States were in the 20<sup>th</sup> Century, and the United Kingdom was in the 19<sup>th</sup>. To make this dream become real, China will have to redesign its own internal economic and political projects, to solve its

numerous conflicts with its neighbors, and to deal with the fears and rivalries of its competitors.

The constructors of the dam in the narrowest part of the Yangtze river also had to revise their calculations dozens of times, and had to learn how to incorporate the latest materials and techniques that emerged during two decades of hard work; they also suffered a fierce criticism and the conflict with the villages of the northern part of the dam, most of which were later flooded by the river; and they also coped since the beginning with the mistrust and the scrutiny of the engineers and constructing companies of the rest of the world. The challenges that China will face in the coming decade are much larger, but they are of similar nature. I will explain them, one by one.

First, China has to confront an economic and political transition of a great magnitude. The economic transition is necessary because it responds to the evolution of its own productive model, and the political transition is desirable due to the benefits that it would bring to the majority of the Chinese people, and the security that it would bring to the rest of the world.

Not much has been written about the needed economic transition of China, at least not in a straightforward way. In recent years we have only heard about its impressive growth rates (close to 10% per year), the increase in the income per capita

(which has been multiplied in the last two decades), and the amazing expansion of investment and exports. In a relatively short period of time, China has been able to flood world markets with low-cost manufactured products; with the subsequent benefits it has accumulated reserves; and it has also acquired sovereign debt from western countries (especially US Treasury bills). On the other hand, China has also disembarked in Latin America and Africa and has bought these continent's natural resources in order to guarantee its constant development, and by doing all this it has finally become a key economic player in the world. Despite all these achievements, China is still a middle-income country, and sooner or later it will face the typical problems of every middle-income economy that tries to become an advanced one. Its income per capita is still less than half of the US one, and subsequently it will have to cope with the complications associated to becoming a fully modernized service-economy. As noted by Martin Wolf in *Financial Times* (June 15<sup>th</sup>, 2011, page 11), the Chinese economy has to change its growth model from investment into consumption, from the manufacturing sector to the service sector.

This transition is not easy at all. Other Asian countries like Japan, South Korea, Taiwan, or Hong Kong had to do a similar transition before, and they did it with different rhythms and got different degrees of success. The problem of China is that its economic model is much more unbalanced towards fixed

capital investment (not always in viable projects without public support), and the Chinese people cannot increase internal consumption easily because wages have been stagnated for a long time.

If China wants to change its growth pattern and rely more heavily on household consumption, the authorities must be willing to assume the political risks associated to an increase of personal well-being linked to an increase of individual consumption. When large sections of the population see their basic needs satisfied and the size of the middle class grows, the probability of additional democratic demands increases sharply. Historic evidence in other parts of the world is strong in this respect, and even if economic and political culture in China might be different, human motivations are basically the same in every civilization. For the time being, there are no significant changes in that direction: salaries are not growing, factory strikes have been "silenced" and democratic guaranties are as absent as before. (The only signs of political change are the internal semi-democratic fight that is taking place in the Communist Party to renovate its leadership, and the historic opening of talks between China and the US over human rights).

Together with the internal economic and political challenges China must, in the second place, face the mistrust that it generates among its neighbors. Smaller Asian countries fear Chinese power as much as they are willing to profit from the

benefits that the Great Dragon's expansion is generating in the region. Those countries try to maintain a difficult equilibrium based on the maximization of commerce with China, while at the same time they rely on the US for everything related to their security concerns; this deal seems reasonable because they fear that without the support of the US, China may cede to the well known nationalistic temptations of territorial expansion.

China has made significant efforts in order to demonstrate that these fears have no ground and that it wants to be a peaceful regional leader. Its achievements in this field are far greater than in the domestic front. For example, in the last decade, China has signed 17 agreements over 23 territorial disputes with its neighbors. According to Taylor Fravel, from MIT (*The Economist*, December 4<sup>th</sup>, 2010, page 11), these agreements have shown China's generosity because in most cases it has conceded more than half of the land under dispute. At the same time, China has engaged actively in all regional forums with all its neighbors at an equal level, despite the differences in size and power between China and the rest. As a consequence, China has stopped being an isolated power and is now present in more than 50 multilateral organizations (with a strong role in the two most important regional ones: ASEAN and APEC), it has signed free-trade agreements with all its neighbors and has also become an active player in more than 1,000 international NGO's. This

friendly neighboring policy has so long calmed down the most irrational fears, but China will still have to make additional efforts if it wants its neighbors to stop having the US as a security watchdog, and naturally accept China's peaceful leadership.

Finally, and in relation with the above mentioned factors, the last and biggest challenge that China will have to face in the coming decade will be the consolidation of its bilateral relationship with the US. Many experts in international relations are working on this subject. Some of them remember that the historical transitions from one hegemonic power to the successor one have taken place after an armed conflict between the aspiring power (in this case it would be China) and the shrinking power (the US). Nevertheless, other experts point out that the transition of the world hegemonic power from the British Empire to the American leadership occurred in the 20<sup>th</sup> Century among allies; this is a clear example that peaceful and cooperative transitions, based on strong economic linkages, are plausible.

The truth is that the US already assumes the inevitability of China's leadership in the 21<sup>st</sup> Century, but it wants to shape it first, and transform it into a Western style leadership, a source of positive strength and not of negative confrontation. In this context, China needs to be sure that the US will never use its nuclear superiority against it, and the US needs to be sure that China will be a constructive leader engaged in the

resolution of world problems. As Obama highlighted in their last bilateral summit, *world leadership implies responsibilities*, and if China acts as a responsible player in the areas where the world has its future at stake (like the fight against climate change, extreme poverty, international terrorism, piracy, financial instability and health problems) it will find much less American opposition than it would otherwise.

Most analysts think that China will most likely be the great power of reference in the 21<sup>st</sup> Century. But before this actually happens, the country has to overcome strategic difficulties that will test its transformative capacity and its willingness to cope with change. There is enough evidence that the people of China and its political elites have these abilities, but now they will have to apply them in a wider context, because the challenges ahead go well beyond the organization of the best Olympic Games ever or the construction of the biggest dam of the world. It will therefore be crucial China's internal and external transformation of its economic and political status quo in the coming years. The future of the world as we know it today depends heavily on the relative success of this set of transformations.

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