Emerging China as a Strategic and Economic Super Power

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Introduction

China's double-digit increase in defence spending over the last 15 years has raised hackles across the world on at least two concerns. First, is the force modernisation and second, the objectives of its military strategy. This is particularly true in the context of an external environment in which older conflicts still fester while a new set of challenges emerge almost every five years.

The international environment has become unstable since the watershed events of the 1990s; many major and rising states in Asia have been reviewing their strategic choices. The extent and scope of China's military modernisation has become a critical factor in the choices these states will make. China is proceeding rapidly in projecting its military capabilities to 'major' levels by 2020, to engage with its adversaries.1

China is being heralded as the next biggest emerging economy of the world followed by India. Witness the stunning economic growth, massive modernisation programmes and the rising standard of living in the cities of China.

Military Modernisation

Since 1978 the big story from China has been its economic growth and the defence modernisation. Focussed military modernisation, the fourth and the last of Deng Xiaoping's four modernisations, took a back seat to economic concerns while China's Gross Domestic Product (GDP) was sustained at an average growth rate of 9-11 per cent per annum. China has viewed the military modernisation of science and technology, of agriculture and industry, and the assumption that it is primarily the national economic strength that translates itself into greater influence in world affairs.2

China's strategies changed after the major Cold War confrontations broke down, as the world was emerging in a period of peace and stability with conventional notions of large scale land based world war unlikely in the near future. China therefore evolved a new security concept of downsizing military until 1980s. However, the United States emerged as the world hegemon which made the Chinese to carry out strategic analysis that led to nation's comprehensive national power.3 Military modernisation assumed a new significance, especially given the lessons to be learnt from the revolution in military affairs (RMA) in evidence during the first Gulf War.

Chinese Military Strategy

By mid-1990s the People's Liberation Army (PLA) had changed its national defence strategy from Deng's people's war under modern conditions to 'regional limited war under high-tech conditions.4 More recently, the national defence strategy mentions fighting future wars under 'conditions of information' involving the development of a military equipped with advanced technology, enabling to fight an adversary beyond its borders. Its five defence White Papers since 1998, have given the world a glimpse of its military planning and the context of its military modernisation.

Three events have prompted changes in China's military: the end of the Cold War, the imperative of China's economic growth and the RMA. The first two events have been viewed as an opportunity enabling to pursue its own 'peaceful rise' and peaceful development. The RMA is one of the drivers of change in the PLA and the challenge to be met if China is to achieve its strategic objectives. Thus, even as China characterises the strategic environment as peaceful with few threats; its national defence White Papers, as well as the national defence doctrine as articulated in Jiang Zemin's influential Military Strategic guidelines for the New Period, have oriented military modernisation to the current and future 'challenges'.

The chief security challenge is presented by Taiwan, where efforts towards unification have been queered by the US commitments to protect Taiwan under the Taiwan Relations Act as well as by Taiwan's domestic pro-democracy political opinion. Other challenges are territorial disputes along China's periphery, the security of maritime interests, the potential for regional instability and domestic unrest. However, the sub-themes in all the White papers since 1998 has been that China's greatest challenge is the hegemonic structure of global and regional power. In China's real politic assessment of challenges and opportunities, the presence of hegemon curtails its opportunity to rise 'peacefully'. A conflict with a hegemon and its supporters is likely, given its current assessment of the strategic situation. It is in this sense that China is likely to win a high-technology war by 2051.

Therefore, its view of its 'major capabilities' by 2020 need to be understood in relation to America's preponderant military power by India and other states in the region. This is especially so as the direction of strategic action has shifted in recent years to a concern with stability on China's periphery including its border regions and the domestic stability in its minority provinces such as Xingjian and Tibet.

PLA Changes

China's military set-up has undergone a revolutionary transformation. The PLA of 2008 has few similarities with the PLA of 1980s. It is now better equipped, operationally better trained, better educated and better organised. It uses a set of strategies and tactics that has little relation to the large land based forces of the past. The combination of changes in technology, organisation, and doctrines has meant that the PLA has also dramatically extended its combat effectiveness. The importance of its 2nd Artillery, for example, has been enhanced with the stress on asymmetric warfare, the ability to inflict shock, use access denial strategies and new concepts of deterrence based on using long range, precision, and conventional missiles.

Its space programme is an important part of its comprehensive military modernisation. The use of advanced technology and satellite communications were dramatically demonstrated in January 2007 when in its first anti-satellite test (AST), China brought down its own satellite as an exercise in denying access to intelligence-gathering reconnaissance satellites in space.

Under Jiang Zemin and now under Hu Jintao, as heads of the Party and as chairman of the influential Military Affairs Commission of the Chinese Communist Party (CCP), the PLA has received dedicated attention of China's top policy makers enabling effective changes and course corrections. China has now cast its military strategy of 'active, in a defensive framework' as it says in its recent White Paper (2006), it would employ a strategy of 'active defence' for which the capabilities of the navy and air force will be to protect its territory beyond its borders and enable its army in 'trans-regional mobility'.

Defence Spending

After about 25 years of high economic growth, China now has the means to invest in indigenous production of sophisticated military technology and to purchase dual-use technology worldwide, despite the embargo on the sale of sensitive technology by the USA and the EU.

China's military budget, low until 1988, began to show increases in 1990s. Between 1995-2006, according to the Chinese sources, the PRC's defence budget in RMB terms increased to slightly over two and a half times the amount in 1995. As a percentage of GDP, it remained between 2.8 to 3.7 per cent till 2006-07, which translates into US $ 75 billion.

Increase in the defence budget has translated into purchases of weapon systems largely from Russia, development of indigenous naval systems, development of its missiles and space programme and radical reorganisation of the PLA.

The Economic Strategy

China's economic engine has really been in overdrive for much of the last two decades - the payoff of the 1978 decision by Deng Xiaoping to adopt free-market reforms. But it is only in recent years that the public at large has taken notice.

Its GDP is growing by 10 per cent a year. Industrial production is galloping ahead at an annual rate of 17 per cent. Its economy is now the second biggest in the world, behind only the USA, and there are predictions it will assume the top spot as early as 2020.

China's integration into the world economy has been astonishingly rapid. Since its adoption of the "Four Modernisations" a generation ago (agriculture, industry, science and technology, and defence) China's share of world economic output has grown from 3.4 per cent to almost 12 per cent in 2000.

Its admission into the World Trade Organisation in late 2001 has only served to accelerate that growth. The World Bank now estimates that exports represent a quarter of China's GDP, five times the level of 1978.

China and India: Economic Powers

For decades, China and India plodded along under ideologies that favoured visible hand of the government over the invisible hand of markets. Their economic systems stifled growth and left both countries poor. In 1980, real per capita income stood at $ 556 in China and $ 917 in India 1.

To jump-start their economies, China and India shifted strategies, letting private enterprise flourish and opening markets to trade 'and investment. The new policies have led to rapid economic development. China's real per capita income has grown at an average of 8.4 percent a year since 1995, climbing to $ 4,766. India's 5 percent average annual growth has raised per capita income to $ 2,534.

Both China and India have unleashed pent-up economic energy, but they're not traveling the same development path. China has followed the traditional route, becoming a centre for low-wage manufacturing and exporting clothing, toys, electronics and other goods. India has emphasised services, using its large English-speaking labour force for call centres, data processing operations and the like.

Growth rates give China's goods-dominated strategy a better track record so far. But India's approach may payoff better in the long term. A look at per capita incomes around the world shows that the wealth of nations eventually depends more on services than on industry.

On Different Paths

China’s strides in industrial production have been phenomenal. Since 1978, when early reforms began loosening communism’s yoke, the country has made great leaps forward in producing such inputs as cloth, electricity, steel and cement. Gains have been just as impressive in finished products such as air conditioners, colour televisions, microcomputers and mobile phones. The bulk of the production increases have occurred since 1990, suggesting that the Chinese economy performed better as reforms took root and spread.

This development path forged an economy skewed toward producing goods, a broad category that encompasses manufacturing, construction and agriculture. China’s goods output as a share of gross domestic product exceeds the average for nations at its per capita income level by about 12 percentage points. The country lags the worldwide average in services as a share of GDP by the same amount.

India has not matched China’s breakneck industrial build-up. For its per capita income level, India lags the global average of goods output as a share of GDP by about 8 percentage points. It tilts towards services by an equal amount. India shares an above-average reliance on services with dozens of wealthier nations. Panama, with its namesake canal, has carved out footholds in international trade and banking. France, Greece and other economies with thriving tourism industries–and the USA, with its globalised business services–also lean toward services.

China sold more than 60 per cent of its goods abroad in 2006, up from just 12 per cent in the early 1980s. Its exports of goods relative to total production are nearly double India’s (Chart 1A). India passed China a decade ago in the share of services going overseas and in 2006 exported nearly 17 per cent of its services, double China’s share (Chart 1B).

All told, 20 percentage points separate goods and services as a share of GDP in the Chinese and Indian economies–a gap that confirms the two countries are on different development paths. Goods production includes agriculture, a backward sector in both China and India. Narrowing the focus to manufacturing, however, reveals a similar dichotomy, with factory output accounting for 48 per cent of GDP in China but just 28 per cent in India.

As its economy took off, India made strides in goods production and trade. Its goods exports, for example, grew 11.4 per cent a year from 1996 to 2006–strong but less than China’s 17.8 per cent. At the same time, China made headway selling services on global markets, posting a healthy 13.6 per cent export growth rate, compared with India’s 23.7 per cent.

Chart 1

Despite their different development paths, both countries have reaped the same reward: rapid and sustained economic growth. Their rapid progress evokes comparison to Germany and Japan, which became economic miracles with their quick recoveries after World War II, and South Korea, whose rapid ascent began in the 1960s. Following some variation of a free enterprise model, these countries prospered and narrowed their income gaps with the USA (Chart 2).

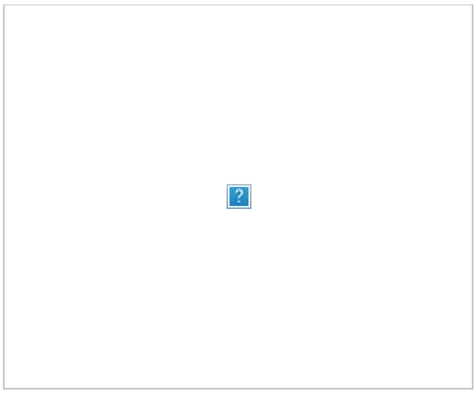

Chart 2

Today, sheer size gives greater weight to the economic miracles taking place in China and India. The two nations' combined population of nearly 2.5 billion is 10 times the 260 million total of Germany, Japan and South Korea. Never before has the world seen an economic development story of such epic proportions.

The Services Strategy

Japan and South Korea launched their economic transformations by using abundant, low-wage labour to establish manufacturing-for-export industries. China has followed a similar path, becoming the world's low-cost producer of goods and a daunting competitor for global market share.

India possesses advantages that bolster a services strategy. Two are legacies of British rule: large numbers of English-speaking workers and familiarity with the West. India also offers an ample supply of educated workers, many of them college graduates available at a fraction of what they could earn in the USA and other advanced economies. China's labour force includes larger numbers of educated workers, but the country has long way to go before matching India's advantages in language, cultural compatibility and communications technology.5

India also had the blessing of good timing. Services trade has surged in recent decades, providing new opportunities in the global market-place. Two factors are at work. First, the Internet and other technologies have made international communications faster and cheaper, lowering barriers to marketing and delivering services over vast distances. Second, rising incomes have shifted consumers' spending from goods, boosting demand for services and making it an engine for economic growth.6

India's fastest-growing services exports are linked to offshoring business services, which make up a quarter of the country's services exports, shot up 107 per cent in 2006 and 138 per cent in 2007. Software services, two-fifths of the services exports, rose about 33 per cent each of the past two years. Financial services exports may be relatively small, but they grew roughly 140 per cent in both 2006 and 2007.

These recent gains build on earlier ones. In the past decade, India's services sales have risen from 18 per cent to 38 per cent of all exports, topping the 30 per cent of the USA, the largest seller of services in the global marketplace (Chart 3).7

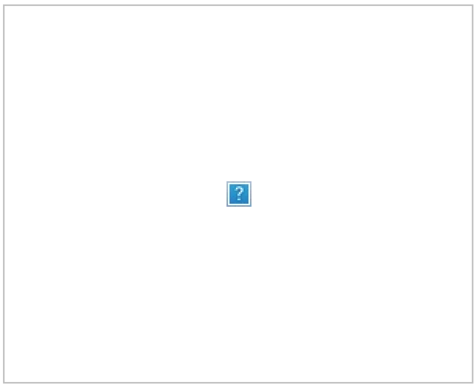

Chart 3

Conclusion

The steady growth of its military and its modernisation, with the strategy of outer space success and anti-satellite warfare capabilities, remains a worry in the region and globally, as does its growing insistence on blocking Taiwan's independence aspirations.

China has the second-largest economy in the world with a GDP of over $ 6.9 trillion (2007) when measured on a purchasing power parity (PPP) basis. In November 2007, it became the third largest in the world after the USA and Japan with a nominal GDP of $ 3.42 trillion (2007), when measured in exchange-rate terms. Since free market reforms in 1978 China's GDP has grown an average 9.9 per cent a year. China's per capita income has grown at an average annual rate of more than 8 per cent over the last three decades, drastically reducing poverty, but this rapid growth has been accompanied by rising income inequalities. The country's per capita income is classified as low by world standards, at about $ 2,000 (nominal, 107th of 179 countries/economies), and $ 7,800 (PPP, 82nd of 179 countries/economies) in 2006, according to the International Monetary Fund.

The concept of sustainable development has proven to be a fleeting goal in China. Environmental concerns take a distant back seat to growth. Air pollution is among the worst in the world. The World Bank estimates that 16 of the world's 20 most-polluted cities are in China - fallout from the country's heavy use of coal-fired generating stations. Things are not all bleak, to be sure. China's fashion, arts and cultural community has enjoyed somewhat of a renaissance of late. You no longer see the Mao suits that once dominated urban streetscapes. Chinese artists, with some exceptions, are enjoying unprecedented freedoms. Chinese authorities, again with some exceptions, are even allowing their citizens to access the Internet.

Still, the challenges facing the modern China remain daunting. How do you keep 1.3 billion people happy while engineering an economic and social revolution? But it seems determined to press ahead with its "great revival." The world is already watching.

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Journal of the United Service Institution of India, Vol. CXXXVIII, No. 574, October-December 2008.